

CHAPTER IV

Sound Money is Gold

The most significant political event of the twentieth century has been the loss of the concept of individual rights in the United States.

It is now commonplace to totally ignore what the Constitution says about individual rights while concentrating on a distorted interpretation of the general-welfare clause that prompts thousands of laws mandating economic equality, quota systems, hiring practices, pay scales, insurance rules, and a lot of other nonsense. (Chapter 1)

Running a close second in harm done has been our interventionist foreign policy pursued throughout most of this century. It's this policy of meddling overseas and entering carelessly into "entangling alliances," against which George Washington so rightly warned, that has caused so many unnecessary military casualties and greatly jeopardized America's security. (Chapter 2)

The most important economic event in this century has been the rejection of the gold standard, along with the establishment of a powerful central bank. The United States has led the world to the brink of financial collapse by ignoring the Founding Fathers' directive to avoid paper money. The establishment of the Federal Reserve System, our central bank, in 1913, and subsequent deliberate elimination of the gold standard, has permitted the accumulation of debt around the world on a scale never known in the history of man.

The irredeemable dollar, used as the reserve currency of the world since 1945, has allowed all nations of the world to live with inflation

and deficits of gigantic proportions. Although the size of today's problem is overwhelming, the seeds of destruction were planted early in this century when the special interests, who are served by paper money, established the Federal Reserve System.

America is destined to pay a price for our extravagant living through a depression of gigantic proportions. The issues of individual rights, foreign policy, and monetary policy are not separate entities. When the crisis hits, we will be forced to reassess all our values and once again restate them as the Founding Fathers did 200 years ago. Careful study and understanding of monetary policy is crucial if we hope to effect positive changes during the next decade.

The Constitution and Money

The Constitution allows for a silver or gold standard, prohibits paper money, and does not authorize a central bank. Congress is explicitly given power to coin money in Article 1, Section A, but no similar power was given to print fiat money.

The low respect for constitutionally guaranteed individual rights is precisely the same reason we as a nation have totally ignored the admonitions and directives of the Founding Fathers regarding money.

The debates at the Constitutional Convention clearly indicate a rejection of the proposal to "emit bills of credit" (irredeemable paper money). Even without the Convention's specific vote rejecting paper money, a specific authorization is required if paper money is to be issued, since the Tenth Amendment prevents Congress from assuming power to create money and credit out of thin air as it does today.

In Article 1, Section 10, the Constitution explicitly prohibits states from emitting bills of credit and directs all states to use only gold and silver coins as legal tender in the payment of debts.

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and directives of the Founding Fathers regarding money.

The Founding Fathers were well-informed and were recovering from a currency crisis with the continental dollar when they met in Philadelphia to draft the Constitution. "Not worth a continental" was an ongoing reality for all of the attendees. Interstate trade barriers and runaway inflation with the continental dollar were the two main reasons the convention was convened. Some today would distort the intention of the framers of the Constitution with regard to money, but that is only to serve the interests of those who benefit from inflation.

It is interesting and important that, within the same sentence that Congress is given the power to coin money, it is also given the power to fix the standard of weights and measures. Clearly it was intended that the monetary unit be fixed in a precise weight of gold or silver. The phrase to "regulate the value thereof" has been grossly misinterpreted in the twentieth century.

Our leaders and courts have chosen to misinterpret this phrase to regulate the value of paper money by perpetual inflation -- a mockery of the Founder's intentions. The phrase permits Congress to designate the national coinage, prescribe the weight and fineness, and guarantee its authenticity. Instead of guaranteeing an honest unit of account (an absolute necessity for a healthy economy) Congress, with help from the Federal Reserve, has guaranteed its destruction through official counterfeiting. George Read, representing Delaware at the Constitutional Convention, wanted the power to "emit bills of credit" to be stricken from the document. He thought the words, if not removed, would be as alarming as "the mark of the beast" in Revelations.

John Langdon of New Hampshire felt equally as strong about the issue, saying he would rather reject the whole plan than retain the power to create paper money.

The strong motivation of the framers of the Constitution, in limiting money to gold and silver coinage, was to restore confidence in American money after the tragic events associated with the continental dollar.

In 1792, the Coinage Act defined the dollar as 371-1/4 grains of fine silver. Mistakenly, the Act also fixed the price of gold to silver at 15-to-1. This concept, called bimetallism, plus fractional reserve banking, played havoc with the monetary system throughout the nineteenth century.

In 1834 the ratio of gold to silver was changed to 16-to-1. But this kind of price-fixing between two commodities cannot work. Depending on the market, either gold or silver will be overvalued and tend to

disappear from circulation. And that is exactly what happened periodically.

Today the free market places the ratio much higher. A sound system needs only to define the unit of account in one of the precious metals, preferably gold, and the market can adjust the ratio of one to the other on a daily basis.

Early Challenges to Gold-the Transition

The argument that gold is not practical due to the problems of the nineteenth century is not legitimate. Bimetallism and state and private bank inflation were responsible for the problem. Twice we saw attempts at establishing a central bank, the First and Second Banks of the United States. Thomas Jefferson ended the First Bank of the United States and Andrew Jackson ended the Second, and up until 1913, we did quite well without one.

We must remember it was the government's abuse of the gold standard and bank privilege that gave us our booms and busts on which the anti-gold people of today blame capitalism and gold. Frequently during war, governments abandon the gold standard in order to inflate the currency to pay the bills. This was certainly true during our Civil War, even though the Constitution gives no authority to inflate and strictly prohibits anything but gold and silver from being used as money. This Civil War suspension was the first time since the adoption of the Constitution that our government had tried to make paper legal tender, and it prompted the historic legal tender cases.

Chief justice Salmon Chase in one of the legal tender cases said:

Most unquestionably there is no legal tender and there can be no legal tender in this country under the authority of this government of any other but gold and silver, either the coinage of our mints or foreign coins at rates regulated by Congress. This is a constitutional principle perfectly plain and of the very highest importance. The states are prohibited from making anything but gold and silver a tender in payments of debt, and although no such expressed prohibition to Congress, as yet Congress has no power granted to it in this respect but to coin money and regulate the value of foreign coin. Congress

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has no power to substitute paper or anything else for a coin as a tender in payment of debts and in discharge of contracts.

Since Congress has no power other than that which is authorized by the Constitution, it's obvious that it has neither power nor authority to make paper legal tender as it has done for the last seventy-five years.

Throughout the nineteenth century, the U.S. maintained a gold standard, although imperfectly. Anytime the system was abused, cooler minds prevailed and we returned to gold. This always involved a cost, and panics and crashes occurred periodically. However, the government followed a hands-off economic policy during the nineteenth century and the corrections were swift.

Even the major changes after the Civil War, with the return to gold convertibility on January 1, 1879, were done smoothly. The philosophy of runaway deficits had not yet been accepted by the people, and the people trusted their elected officials.

Finally, the Panic of 1907 was instrumental in getting the U.S. Congress to pass the Federal Reserve Act of 1913. Instead of the swift correction characteristic of the nineteenth century, the Federal Reserve Act ushered in the age of great depressions, rapid inflation, and massive government interventionism in the marketplace.

After the Wall Street panic of October 1907, there was a cry for reform of the monetary system. The financial manipulators saw their chance to establish a central bank whose control would be "private" and uninhibited by congressional action. The deal was struck that if the central bank accommodated congressional spending, Congress would leave the bank alone in its control of the money. Public pressure prevented total control over money and credit all at once, but the plans were laid for the disintegration of the gold standard which was finalized in August 1971, fifty-eight years after the passage of the Federal Reserve Act.

The Monetary Control Act of 1980 codified the powers that the Fed assumed over the years and filled the vacuum created by gold's dethronement. This law greatly enhanced the powers of the Federal Reserve and made the problems of central banking worse.

It's more than a coincidence that the money supply, as measured by M1 (cash and checking account deposits), has more than tripled since 1971; gold has gone up more than tenfold. And yet the most serious problems inherent in central banking have only begun in the United States.

The Origins of the Fed

The Federal Reserve cartelizes the banking industry, allowing individual banks to inflate together, earning them and the government enormous profits, while making sure that they are never held accountable for their fraudulent practices.

The Federal Reserve cartelizes the banking industry

Here's how we got saddled with this monstrosity: In the early 1900s -- during the so-called Progressive Era -- the U.S. government began a radical program of intervention into the economy. Pundits hailed this as fostering a new "spirit of cooperation" between business and government. In fact, the new system was a precursor of socialism and fascism.

Government-business cooperation took several forms, all of which conferred special privileges on favored firms, insulating them from the competition of the free market. Individual businesses and whole industries lobbied and bribed government officials for laws that benefited them at the expense of the consumer, and the whole operation was sold to the public as anti-monopoly measures. This illegitimate and unconstitutional process happened time and time again, and government intervention became a permanent part of manufacturing, railroads, agriculture, and many other industries in the U.S.

This was the era when the U.S. free market received a beating and, for lovers of liberty, its effect was much worse than the New Deal's.

In the free market, opportunity is granted to all and privilege to none. Laws affect all equally, businesses seek to meet the needs of the people, and the consumer is king. But in a system of government intervention, industries are no longer accountable to the needs of the people. They receive special privilege and status from the State. They are guaranteed profits, prices, and sales. Liberated from the dictates of the people, businesses are free to indulge themselves in plundering consumers. These were the years of many evils: the income tax, "making the world safe for democracy" through World War I, centralization through direct election of Senators, the imperial Presidency, Prohibition, and the Federal Reserve System. Academics, as is still the case, provided intellectual cover for these

crimes. Thornton Cooke, writing in the pro-big-government *American Economic Review* in 1911, explained why banking needs to be centralized: "American banking has made little use of the principle of cooperation, yet for a generation that principle has been the greatest single factor in American economics." The railroads have their "community of interest arrangements" and manufacturing "has been integrated" so now, he said, it's time to consolidate banking.

But in a system of government intervention, industries are no longer accountable to the needs of the people.

Cooke was arguing for a government-enforced banking cartel, similar to the railroad industry's. The new "collective spirit" of the American economy naturally leads to centralizing money and credit to argue for bank cartelization:

American banks, however, remain independent, almost isolated units. The effect of isolation has been heightened by the lack of power in any of the 2,300 units to issue a credit note. It is unnecessary to rehearse the arguments showing that our bank note currency is absolutely inelastic ... There is not one country bank, however small, that has assurance that any correspondent, however large, is powerful enough to save it if it needs saving in a general panic.

Cooke's arguments were typical, repeated again and again, by promoters of the Fed. They said: the current system was inadequate, it was out-of-step with the times, it caused banker isolation, and most importantly, bankers needed stronger guarantees of monetary inflation when it was needed; i.e. they wanted bailouts and guaranteed profits.

About the then-current National Banking System (NBS), Cooke was lying. In fact a true gold standard monetary system with almost-free banking had not existed since two decades before the Civil War. The NBS actually represented a halfway point between free banking and central banking. And it did have problems, but these existed because of the government.

Chiefly responsible for passing the National Banking Act of 1863 was

Ohio investment banker Jay Cooks, who gained a government-granted monopoly on public debt underwriting. His success in the bond business gained him enormous influence with the Republican Administrations during the Civil War and after, and especially with Salmon Chase, Secretary of the Treasury from Ohio and Senator John Sherman from Ohio. Together they were able to push through Congress and past the public the National Banking Acts, all of which would benefit banking tremendously. Fractional reserve banking was guaranteed by the government at 15 and 25 percent reserves. A 10 percent annual tax on state bank note issues was required, to force state banks into the NBS. Legal tender status was imposed on the National bank notes.

There was plenty of government intervention in the banking system already. The banks were not "isolated" and independent, as the advocates of the Federal Reserve Act suggested.

Because of a general dissatisfaction with the NBS, banking reform movements began to emerge in the 1890s. Most historical accounts tend to concentrate on the political movements for reform, like the pro-inflation free-silver position of Bryanite populism and the arguments for the "correct" gold/silver ratio. The future, though, did not lie with these political movements. The reform to follow was more far-reaching and more fundamental.

Most of these vocal political movements had died out and were rejected by both parties by 1914. From the beginning of the debate, the business and banking community who wanted cartelization opposed the agenda of the political movements without any equivocation. Bankers wanted reform of the banking system, but of their own kind, for their own ends.

Many proposals for monetary reform were presented to Congress after the NBS-generated monetary panic of 1893, all of them designed by elements within the banking community. There was ignorance concerning the complexities of banking from virtually every other sector. Typical was Theodore Roosevelt who, like many politicians, bragged of his ignorance saying: "I do not intend to speak ... on the financial question -because I am not clear what to say..." Among the first to call for a modern totally centralized bank was Lyman J. Gage, President McKinley's Secretary of the Treasury and former president of the American Bankers Association.

The central banking movement began to grow a year before the Panic of 1907 in New York. Jacob H. Schiff, an investment banker, persuaded the New York Chamber of Commerce to advocate banking reform.

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A committee was established, led by the most powerful investment and commercial bankers in New York, which concluded that the solution lay in establishing a central bank "similar to the Bank of Germany." The Chairman of the Board of Chase National Bank (now Chase Manhattan), A. Barton Hepburn, came next with his plan. He did not openly advocate a central bank; he urged creating regional clearing-houses that would issue bond-secured currency in varying amounts. These would be guaranteed by a common fund built up by taxes on the notes.

The Panic of 1907 brought about a sudden loss of confidence in the banking system, and the bankers seized the moment. Not everyone, however, wanted further centralization. *The New York Times*, standing alone, concluded that government intervention in the economy at all levels was responsible for the loss of confidence. Their opposition to a central bank was snuffed out. They were, of course, speaking against the desires of the Establishment of powerful businessmen and bankers.

The Times polled Congress and found that they were either thoroughly confused, had a limited understanding over monetary affairs, or that their proposals were too vague to characterize. *The Times* did find, though, there was a consensus that any changes should be in the direction of an "intimate connection between the currency and legitimate trade." They wanted "elasticity," the ability to inflate on demand. Into this vacuum stepped influential bankers.

In 1908 Congress passed a bill similar to Hepburn's plan called the Aldrich-Vreeland Act. (Senator Nelson Aldrich [R-RI] was the son-in-law of John D. Rockefeller.) It was established as a temporary measure to provide liquidity during emergencies. It wasn't used until after the Federal Reserve was established six years later, so the measure was relatively insignificant. But it did contain a clause that would prove to be highly significant. It called for a National Monetary Commission to study the National Banking System and make recommendations for future monetary reform.

The National Monetary Commission (NMC) was comprised of nine senators and nine representatives. Heading up the commission, holding the seat as chairman was Nelson Aldrich, Rockefeller's "man" in the Senate. As with most congressional commissions, much of the work was done by intellectuals and powerful figures from outside Congress who came in to help with research and writing. Among these were Henry P. Davison, a J. P. Morgan-partner, and George M. Reynolds, president of the American Bankers Association.

Also associated directly or indirectly with the NMC were the most

vocal advocates of centralized banking reform: O.M.W. Sprague of Harvard, Edwin W. Kemmerer of Princeton, M.L. Muhleman, James Laurence Laughlin of the University of Chicago, H. Parker Willis of Washington & Lee University, Thornton Cooke, William A. Scott and many others.

The Commission produced a huge pro-central-bank document, assumed to be definitive, though really a boring monetary history under the National Banking System. The document's real function was to serve as the unanswerable critique of the status quo. Today, the Federal Reserve's own Purposes and Functions of the Federal Reserve System identifies the Commission's research as the primary historical case for establishing the Federal Reserve.

The Commission was given an unlimited budget and broad investigative power, and they used them in part to travel to Europe to observe their central banking systems. It was during these travels that Senator Aldrich educated himself about the intricacies of central banking and became an open advocate of central banking.

The bankers themselves were not unified on the precise nature of the reform they wanted. And by 1909, as an issue, banking reform discussion was limited to a small segment of the banking community. The bankers searched the whole year for a unified plan which they could support, and by the end of that year, they emerged unified. Their communications were generally aired through the *Banking Law Journal*.

Several ingredients tied all reform plans together: central banking, the ability to inflate, and regional banking centers of the type endorsed by the American Banking Association. Also important among the bankers was avoiding the appearance of a banking system controlled by Wall Street. This was a strategic move designed to avoid the strong anti-Wall Street sentiment in America at that time. During 1910 the issue would have been dormant were it not for the influence of Paul M. Warburg, who played a primary role in establishing the Fed. He emigrated from Germany and became a member of the distinguished banking house of Kuhn, Loeb and Co. Long an advocate of central banking, his behind-the-scenes work propelled the NMC toward the direction of the German banking experience.

Warburg argued, as do current advocates of central banking, that certain sectors of the economy are unnecessarily strained during some seasons but not in others. For example, he argued, certain crops like wheat are harvested seasonally, and merchants and buyers are strained for sufficient cash to purchase what they might need for supplying the commodity

during the upcoming months. The farmers then sell the wheat for below market prices, "dumping" it, which ultimately causes cyclical price fluctuations within the market for crucial commodities. These market fluctuations cause losses in all sectors, producers and sellers, and provide a disincentive to produce.

***Inflating the money supply benefits the banker
who is in charge of distributing credit***

Would an emergency currency help solve the problem? As Warburg says in his 1907 pamphlet "A Plan for a Modified Central Bank," it would not because during a crisis "the run of the depositors would have been carried into the ranks of the note holders, to the disaster of the entire money system. The answer, he says, lies in patterning the American banking system after the European model, in which money as credit is centralized and circulating notes are issued against sound commercial paper. These notes would meet the additional demand during seasonal changes, and the amount would naturally contract as the obligations are paid off.

As Warburg explained:

Most of the paper taken by the American banks still consists of simple promissory notes, which rest only on the credit of the merchant who makes the notes, and which are kept until maturity by the bank or corporation that discounts them. If discounted at all they are generally passed on without endorsement, and the possibility of selling any note depends on the chance of finding another bank which may be willing to give the credit. The consequence is that while in Europe the liquid assets of the banks consist chiefly of bills receivable, long and short, which thus constitute their quickest assets, the American bank capital invested in commercial notes is virtually immobilized.

The proposal was then for a modified central bank, with shares to be owned half by the U.S. government and half by the national banks, and a capital base of \$50-100 million (\$1 billion in real terms). The bank would be a depository for the Treasury and also be a bank's bank. It

would be able to issue notes of legal tender status. These notes would circulate the process of banks' exchanging them for commercial paper endorsed by a member bank-limiting the number that could circulate at any given time. The commercial paper itself could also serve as money, if doubly and triply secured by the endorsement of the bank. It would do so by the individual bank itself issuing a note verifying the holding of such commercial paper. This eventually became the foundation of the Federal Reserve System.

The bankers, by now more properly called Banksters, wanted the ability to inflate together uniformly. Why inflate? In the same way counterfeiting benefits the counterfeiter, so inflating the money supply benefits the banker who is in charge of distributing credit.

Warburg as much as admitted that was their goal:

We need some centralized power to protect us against others and to protect us from ourselves-some power able to provide for the legitimate needs of the country and able at the same time to apply the brakes when the car is moving too fast.

Under his system, he assures us, banking crises would be minimized, if noticed at all.

Whatever causes may have precipitated the ... crisis [Panic of 1907], it is certain that they never could have brought about the outrageous conditions, which fill us with horror and shame, if we had had a modern bank and currency system.

Further, he argued, America was way behind, and to keep up with modern" banking methods, the National Banking System put America "at the same point that had been reached by Europe at the time of the Medicis, and by Asia, in all likelihood, at the time of Hammurabi."

Warburg always insisted his plan did not provide for a central bank, but rather a "modified" version. His plan, though, contained the elements considered to be part of centralization: all reserves would be controlled by central authority, enforced through governmental, i.e., coercive, means.

Warburg's brother-in-law became the chief advocate of the plan, Edwin R. A. Seligman of the investment banking family J. & W. Seligman and Company. Seligman was chiefly responsible for assuring the public

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that Warburg's plan did not involve total bank centralization and that his modified version would not be controlled by Wall Street. (A poll recently showed 59 percent of the bankers wanted a system that appeared to be free from "Wall Street or any monopolistic Interest.")

During the year 1910, the NMC was releasing its proposals for monetary reform. Their plan bore remarkable resemblance to Warburg's. It called for substantial backing of notes with commercial paper rather than public or private bonds, and banks would obtain money through sale or rediscount of "notes and bills of exchange drawn for agricultural, industrial, or commercial purposes, and not including notes or bills issued or drawn for the purpose of carrying stocks, bonds, or other investment purposes. "

The new bank, the National Reserve Association, was to issue notes secured by one-half gold, and a technical provision would allow banks to back currency with U.S. Government bonds at par value to the extent of half their value. This little-noticed provision would later become the basis of open market operations in the Federal Reserve System.

The authority over the quality maintenance of notes would rest entirely with the NRA. On the issue of the quantity of notes in circulation, the Commission again adopted the view of Warburg: market demand for money would determine that by member banks' rediscounting their commercial paper with the National Reserve Association and issuing notes on that basis. The paper would mature and the notes expire after demand returned to normal.

***The only disagreement that occurred between
the conferees at Jeckyll Island was over the
issue of partial or total centralization***

The Commission offered a seventeen-point criticism-with alternatives-of the then-current banking system. They complained, for example, that the current system "has no provision for the concentration of cash reserves of the banks and for their mobilization and use wherever needed in time of trouble." What they tried to make appear as a shortcoming was actually a blessing, as we now know.

Rockefeller and Warburg played a greater role in the drafting of the Commission's actual bill than providing passive intellectual influence. Just before the release of NMC's final legislative recommendations,

someone associated with Aldrich (no one knows who) proposed getting all leading big bankers and advocates of banking reform together for a secret meeting and drafting a bill. The super-secret meeting was to be held at the Jeckyll Island Club in Georgia. The press reported only that they were going there for a duck-hunting expedition. The members all assumed names and traveled on a private railroad. During that week at the luxury resort, the bill that the Commission would release (what would later become the Federal Reserve Act) was drafted. Among the shady participants at the important Jeckyll Island meeting were:

Senator Nelson W. Aldrich (Rockefeller in-law) Henry P. Davison
(Morgan partner)
Paul M. Warburg (Kuhn Loeb & Co.)
Frank A. Vanderlip (VP of Rockefeller's National City Bank)
Charles D. Norton (president of Morgan's First National Bank of
New York)
A. Piatt Andrew (Harvard economist, assistant to Aldrich on the
National Monetary Commission, and banking expert)

The result of this meeting was the Commission's bill, the Aldrich Plan, the basis of the Federal Reserve Act. The only disagreement that occurred between the conferees at Jeckyll Island was over the issue of partial or total centralization. All wanted total centralization, but some were more politically astute than others and knew that Congress would never approve of a totally banker-controlled central bank.

Senator Aldrich, who strangely did not understand why centralization could not be presented outright, was overridden by the more politically astute Warburg, who endorsed the Morawetz version of regional banking centers under the cover of decentralization. The board of directors in the original Aldrich plan was to be chosen solely by bankers, but that was later changed in the spirit of decentralization to make half of them appointed by the President of the United States.

The bill was delayed for one year and finally presented before the Congress in January 1912 so that support for the bill could be consolidated. This was done by means of a conference in Atlantic City during February 1911 where 22 top bankers met to discuss the Aldrich Plan. It was warmly endorsed with the resolution written by Paul Warburg. As Gabriel Kolko says: "Indeed, the plan was endorsed at the outset. The real purpose

of the conference was to discuss winning the banking community over to government control directed the bankers for their own ends."

There was still the stigma of the bill's being the product of Wall Street, Rockefeller interests, and Senator Aldrich. To solve the problem, Warburg and other New York bankers created the National Citizens' League for the Promotion of a Sound Banking System. This would be a "grassroots" lobbying group headed up by economist J. Laurence Laughlin of the University of Chicago. Its purpose was "to carry on an active campaign for monetary reform on the general principles of the Aldrich Plan without endorsing every detail. "This, of course, wasn't a "grassroots" movement. It was a get-rich-quick scheme promoted by the top-brass bankers in the country.

For the first time, during the year 1911, academic, economic, and banking journals were overflowing with praise for the Aldrich Plan. In June, William Scott of the University of Wisconsin wrote that the Aldrich Plan would solve the "most fundamental defects in our currency system, namely: its lack of elasticity; the uneconomical use of banking reserves, their connection with the stock market, and their control by Wall Street." The Plan would "...greatly increase the efficiency of our banking reserves" and would eliminate the "evil effects of our present independent Treasury system."

According to Scott:

Persons who suspect that any measure proposed by Senator Aldrich must necessarily be designed to play into the hands of 'the interests' will look for a joker in his plan. They will have considerable difficulty, however, in finding it.

Further:

Wall Street could control the new institution only by absolutely controlling a majority of the banks that will purchase stock in the new institution, and even then its control would be tempered by the influence of the Federal Government ... which will be great.

So the plan should be adopted because it would "complete and perfect our present national banking system. It is, therefore, clear that the articles contained all the information thought most important by the League, Rockefeller, and Warburg.

Strange, isn't it, that an academic journal wouldn't concentrate primarily on debating the economic virtues and vices of the Fed, but would concentrate on selling it to the public?

In the same issue, Harvard economist O.M.W. Sprague, closely aligned with the Commission, called the Plan an "equitable means of banking reform" that reflects "the skillful handiwork of its experienced author." Every specific objection or fear which has been expressed ... has been successfully met. " The rest of the article was spent arguing for the placement of some regional banks in the West to insure that Wall Street would not control the new institution, once again reflecting what Warburg and Aldrich saw as the main obstacle to bank cartelization: the public's fear of Wall Street.

Thorton Cooke's echo argued for the plan in the same manner. He had glowing praise for the plan and assured the reader that "Wall Street cannot 'make money' out of the activities of the Association. " The bank will only "furnish sufficient reserve of credit for ordinary seasonal needs," just as Warburg argued. In May of that year, the American Bankers Association approved the Aldrich Plan and endorsed a broader number of notes eligible for rediscounting.

Only later in the year did a split occur within the ranks. The split was not over the goals of cartelizing the banking industry, of course, but again over political tactics of doing so. President of the Citizen's League J. Laurence Laughlin was a political realist and knew that Aldrich's name had to be removed from the bill. H. Parker Willis, his good friend and close aide, had warned him about this earlier and now Laughlin was convinced. Even Warburg later separated himself in public from the name Aldrich but, of course, this had no bearing on the facts.

The Aldrich plan was presented to Congress in January of 1912, but with Aldrich about to retire and the Democrats about to win a victory later in the year, the bill never came to a vote; and banking reform was a dead issue for awhile. The Citizens League continued, though, to function as a powerful and large-scale propagandist for banking reform, issuing pamphlets and brochures all over the country, especially in the South and West, educating people on the evils of the National Banking System and the benefits of centralized banking reform and a conglomerate banking cartel.

The League's periodical "banking reform" was made into a book with 23 chapters dealing with all aspects of banking reform, but 11 were written by H. Parker Willis, a student of Laughlin's, who received \$1,000

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(over \$9,100 in real terms). Willis had taught at Washington and Lee University, and two of his ex-students recommended Parker to their father to be his administrative assistant. Their father was Carter Glass of Virginia, ranking member of the House Committee on Banking and Currency. Willis accepted. Glass needed an assistant for two reasons: first he had no technical knowledge of the banking business, and secondly, he was given responsibility of considering monetary reform and working against the efforts of Arsene P. Pujo to assign the problem of banking reform to the Pujo Subcommittee who was soon to hold hearings on the "Money Trust. "

In June of 1912, Willis drew up a bill for Glass and reported to Laughlin in a letter: "After a good deal of talk with Mr. Glass, I drew up a bill along the lines of which you and I spoke, and turned it into him." The Pujo committee swung into high gear with its investigation into alleged abuse of power emanating from Wall Street. The result, though inconclusive, was to stir the public into a frenzy over Wall Street.

Through some remarkable "spin control," the new Glass legislation (the Fed bill) was promoted as an anti-Wall Street bill, building on a foundation established earlier with the Aldrich Bill. The Pujo Committee never won the legislative control from the Glass Committee, which still left Glass (i.e., Willis, Laughlin, and ultimately Warburg) in charge of the bill.

A final bill setting up the Federal Reserve was passed in December 1913 by a large majority in the House (the Aldrich Plan and the Glass bill were virtually identical). As Kolko says:

The entire banking reform movement, at all crucial stages, was centralized in the hands of a few men who for years were linked, ideologically and personally, with one another ... the major function, inspiration, and direction of the measure was to serve the banking community in general, and large bankers specifically.

Who authored the bill? No one knows. The controversy sprang up immediately but was never resolved.

H. Parker Willis later denounced the institution of the Federal Reserve and its inflationary policies and became extremely critical just prior to the great depression. Laughlin also attacked the Fed during his later years, although like Willis, not to the extent of repudiating his own role in its establishment.

There is one reason why we have a Federal Reserve System today, and it has nothing to do with what the Fed's publications say. The Federal Reserve exists to give a special privilege to the banking industry. And

they have profited greatly from it. But at what expense? The banksters have deluded the value of the 1914 dollar to about eight cents. And its value is still shrinking.

As the Federal Reserve expands the money supply, it reduces the value of all existing dollars. The process happens, though, unevenly because not all prices rise at the same time. The first party to get the new money can spend it at its old purchasing power. Only after filtering through the economy does the money bid up prices for goods.

The Federal Reserve exists to give a special privilege to the banking industry

But who gets the new money first? Who experiences the boon from the credit injection? The bankers and insiders, of course. They wouldn't have it any other way.

As Ludwig von Mises has shown, the Federal Reserve is responsible for the business cycle as we know it today. With credit injections, the Fed lowers interest rates causing businessmen to invest in new capital equipment. They produce goods that consumers can't afford, and they eventually find that their plans don't pan out. This process spreads throughout the entire economy and creates ever-growing waves of booms and busts. A gold standard economy wouldn't have such a problem. There is no economic, constitutional, or moral justification for giving special privilege to big bankers over the rest of business or industry. They should be subject to competition in the free market, and the legal constraints against fraud, like everyone else.

The Nature of Money

According to Ludwig von Mises:

The gold standard makes the determination of money's purchasing power independent of the changing ambitions and doctrines of political parties and pressure groups. This is not a defect of the gold standard, it is its main excellence ... What governments call international monetary cooperation is concerted action for the sake of credit expansion.

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The most important role money plays is that of a medium of exchange. It also serves as a measurement and storage of value. Money, according to Mises, must originate in the market as a useful commodity in order to function properly.

The most acceptable liquid commodity always becomes money. The particular commodity has varied from culture to culture, but gold has been overwhelmingly chosen as the favorite with silver a close second. Even today in an age of official gold hatred, we find gold is held in huge amounts by the central banks of the world as well as by the International Monetary Fund.

Whenever I proposed the public sale of the treasury gold or the return of the IMF gold to the United States, the paper-money advocates correctly retorted that they could not give up the gold because it was the government's only asset. Politicians may warp a monetary system to their liking but they cannot repeal economic laws that determine the nature of money. Truth about money cannot be changed by legislative shenanigans. Distortion and corruption through monopoly control can benefit the few at the expense of many for long periods of time, but eventually the irrefutable laws of nature will win. In the process of monetary debasement and the subsequent resurgence of commodity money, tragically, a great price must be paid by many innocent people. If we fail to recognize the serious importance of money, the reforms needed will be delayed and the suffering prolonged. However, an opportunity is presenting itself since the system no longer can endure, and the necessity of monetary reform is upon us.

Commodity money is precisely defined and has real value. This makes economic calculation and modern commerce possible. When money is depreciated and its value deliberately destroyed by increasing its supply, we have inflation, and prices go up. This creates conditions which are not as bad as if we had no money at all, but much worse than if we had a commodity money. Continued inflation will eventually reach a stage, if policies are not changed, where the dollar will not function and we will be forced back to bartering regardless of our desires. Then the conditions will become worse.

Money, when its value varies dramatically due to government manipulation of its supply, fails in its key role as a medium of exchange and as the common denominator in economic calculations. The more severe the inflation, the greater the difficulty encountered.

Man's ingenuity is remarkable for adjusting to the changing value of

money in the short run. In the long run it gets more difficult. If inflation is getting out of control and the monetary managers refuse, as they usually do, to stop the inflation, politicians inevitably resort to wage and price controls, the worst thing they can do. The conditions that result from controls are similar to those existing as if we had no money at all. Bartering then will be resorted to and black markets will arise, since money's function of serving as the medium of exchange has been removed.

The nature of money must be understood. Just as the press cannot operate without freedom of speech, the economy cannot operate without a sound monetary system.

Even though today's price inflation is still considered moderate, more and more citizens are resorting to bartering services and goods domestically and internationally. Our tax code and IRS harassment encourages this activity, but the difficulty in calculating business transactions with an unstable money and an international-floating-exchange rate accelerates this trend.

Money must be part of a whole concept of freedom and consistent with it; it cannot be separate. When prevailing political and economic attitudes promote deficit financing on a grand scale, along with government economic planning, sound honest money is impossible.

Sound money is characteristic of a free society and a market economy. Under a dictatorship and socialism, government force backed by a gun can pretend to dictate production, regulate distribution, set prices, and force its citizens to use anything it wants--even pieces of paper for money.

When a society accepts irredeemable fiat money, one can be sure the fundamentals of freedom itself are being threatened, and it's only a matter of time before an abusive dictatorship emerges that controls all aspects of our lives if the concept of fiat money is not rejected.

Under the chaotic conditions that result from inflation of the money supply, government force substitutes for the practical and peaceful method of setting prices in distributing goods. All decisions become political, not economic, and reason and justice are both rejected.

Ludwig Von Mises was the first to show that socialism cannot achieve the very complex calculation required to establish a market price. Free choice in the market is the only way economic calculation can come about. The market is remarkable and can overcome great obstacles placed in its way by government manipulation of the money supply, but it cannot do this indefinitely.

F. A. Hayek, another great Austrian economist and student of Mises

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was asked if he thought the United States would experience runaway inflation as seen in Europe in the past:

Oh, I believe I can assure you that you'll never get hyperinflation in the sense in which the Germans experienced it. You'll probably get something much worse. You see, an open inflation in which prices are allowed to adjust themselves to an increase in the quantity of money, is a very great nuisance and very disturbing. But so long as the market is allowed to determine prices, the economy can still function.

There is something much worse than an open inflation and I'm afraid that's what you're headed for, a continued increase in the quantity of money with government prohibitions against price rises-repressed inflation" as I like to call it. This is a situation in which the process of monetary expansion continues, but government clamps down on one price after another, believing that it can disguise inflation by not allowing prices to rise.

Hitler followed this practice throughout his regime. Despite the colossal monetary expansion, prices remain constant because people were shot if they raised prices. As a result the whole self-ordering system of the market was suspended. Instead of having to pay higher prices, people had to submit to a rationing system. It meant not getting things at all rather than having to pay higher prices for them. You are probably marching into such a system of wage and price controls, where prices and wages cease to be appropriate guides for economic activity; where scarcities no longer manifest themselves in high prices but in nonavailability of what you want. It will be rationing by ration tickets instead of cash in your pockets.

We already see this happening in the United States with the distribution of government-paid hospital care.

Even though the market adjusts to government increases in the money supply, it cannot do so indefinitely, nor can it do so fairly. Although current market mechanics permit the economy to function, avoiding complete economic collapse, these adjustments cannot prevent distortion and unfair transfer of wealth that continually gnaws away at the social fabric. With a sound currency and market economy, everyone who is honestly seeking a living benefits and only those looking for a shortcut to riches

suffer.

If tampering with the money supply affected everyone equally -- as was supposed before Mises demonstrated differently -- and if price controls were never imposed, the detrimental effects would be limited indeed. However, this is not the case, for one group always benefits at the expense of another under the condition of inflation. It never serves the general welfare to inflate a currency, but it does benefit power. Even though this is the case, exact predictions as to who and to what degree each group will benefit or suffer are not possible.

Money had always been thought to be "neutral" and the price of a product depended only on the supply and the demand of the goods sold. The supply of money was not thought to be critical in determining the specific price. This was even tacitly accepted by the early Austrian economists, but it took Mises to prove the non-neutrality of money. It was thought that if money were neutral and the money supply changed, all prices changed simultaneously. This is the current monetarist view.

This very important fact is critical because it explains why inflation becomes a tool of the special interest and is so unfair. It also tells why it is so destructive and yet so persistent. Mises explains:

A change in purchasing power of money causes prices of different commodities and services to change neither simultaneously nor evenly, in that it is incorrect to maintain the changes in the quantity of money brings about simultaneous and proportional changes in the level of prices.

Expanding on this in his great book *Human Action*, Mises says:

As money can never be neutral and stable in purchasing power, a government's plan concerning the determination of the quantity can never be impartial and fair to all members of society. Whatever a government does in the pursuit of aims to influence the height of purchasing power depends necessarily upon the ruler's personal value judgments. It always furthers the interest of some groups of peoples at the expense of other groups. It never serves what is called the common wheel or the public welfare.

When money is manipulated at will by the politicians, it always leads to chaos, unemployment, and political upheaval. For this reason it is

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imperative that we identify a money that cannot be abused, that prohibits inflation, and allows responsible working citizens to prosper, not the deceitful.

Dr. Murray Rothbard says that one of the world's most important lessons to learn is the simple fact that, "Money is a commodity," and this commodity is unique in that it is demanded mainly as a "medium of exchange. "

Either the money managers in Washington today have never learned this basic fact or they think they can defy the economic imperative that says we must have a commodity for money or face inflationary chaos.

It is generally said that money must also measure and store value; yet these are simple functions supporting the one essential function of money-acting as a medium of exchange. Prices are expressed in money and not measured by it. Money's essential attribute is that it facilitates trade by acting as a medium of exchange, and if it is an honest money, it will convey trust and confidence and allow price adjustments of various goods and services in relationship to each other to occur smoothly, efficiently, and fairly.

With sound money, the unit of account is stable and precisely defined; the goal is not to seek rigid prices. Ironically, all monetary managers seek stable prices with their policies and they give us instability, where sound money ignores the goal of stable prices and yet it gives us great stability with growth.

The main purpose of money is not to measure and store value, but to act as a medium of exchange. When fiat money circulates, as it does today, gold helps individuals to survive by storing value. However, if an honest currency circulated, there would be no need for gold to be hoarded. It would be more advantageous to invest this capital than to hide it.

To tamper with a nation's money is to tamper with every economic aspect of every citizen's life: how one gets paid, how much one saves, and what one pays in nominal terms for every purchase made. The business cycle is now understood, thanks to the work of the Austrian economists, to be due solely to the manipulation of the supply of money and credit by the central bank. Therefore, the availability of jobs, the rate of unemployment, the standard of living, are all a reflection in large part of the monetary policy a nation pursues,

Since inflation -- the deliberate depreciation of the money -- causes serious international trade problems, and protectionism is characteristic of an age of inflation, it can be said that sound money goes a long way toward

preventing international conflicts.

Inflation and nationalism have not yet gotten so serious as to provoke hostilities as occurred in the 1930s, but inflation is a common tool for the financing, in a deceitful way, of unpopular wars. War, when just and in the national interest, and supported by the people, will be paid for through legitimate borrowing from the people or through taxation, not through inflation. With sound money, it would be impossible to fight undeclared, unpopular wars such as Vietnam.

***In all free societies, or relatively free societies,
when the people are permitted a choice, they
always choose commodity money over paper.***

The question that must be answered in attempting to secure a sound monetary system for a nation: Is it essential that commodity money be used and fiat money be rejected? The overwhelming historic evidence says that the answer to this question is Yes.

In dictatorships, where there is no personal liberty, fiat money can be used. But under totalitarianism sound money serves no economic benefit because in non-market economies, economic calculations are impossible anyway. For this reason there is no practical reason for dictators to have a tool such as sound money for measuring economic value and acting as a medium of exchange. Yet, even under the most oppressive dictatorships, market prices can be found in the black market.

In all free societies, or relatively free societies, when the people are permitted a choice, they always choose commodity money over paper. The two, sound money and a free society, go together. Without the one you cannot have the other.

If a market economy tries to operate with an inflating fiat currency, productivity and capital investment become very difficult, if not impossible. As the money is destroyed, government power and interference in the market increase in an attempt to maintain order. Government officials refuse to admit that economic planning does not work until it's too late. And then it becomes obvious that the government's attempt to compensate for "printing too much money" only makes things worse.

Credit allocations, indirect or direct, never achieve that which is intended. For instance, if credit is created to build houses for the poor, a

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the number of poor without houses increases while the shrewd businessman gets wealthier in the process.

The bureaucrats certainly will thrive under these conditions. Deficits, run up for so-called humanitarian purposes, will be monetized with more printing-press money; the hungry will get hungrier, the poor, poorer. The subsequent unemployment and the high prices brought on by these unwise government actions will provoke many to demand more inflation, not realizing inflation was the cause of the problem in the first place.

The worst thing a government can impose on the economy after the politicians become concerned about the mess they have created, is wage and price controls. Controls eliminate the most important role the market plays-economic calculation in the voluntary setting of prices. Controls cannot substitute for the lack of trust in the money.

Money, Liberty, Morality

Sound money is closely related to liberty and morality. Sound money, it might be said, is only possible with liberty, and liberty is only possible with a high regard for morality.

S. Herbert Frankel, in his excellent essay, "Money and Liberty," credits John Locke as being, "the first to set out the basic moral issues raised by money," by showing that money helps to transfer subsistence economics, and in the process releases man from a narrow dependence on nature. Locke does not separate his views on money from his great interest in personal liberty. Frankel explains this clearly and places proper emphasis on the relationship:

A second strand in Locke's thought which has unfortunately been largely neglected, is his treatment of money as an essential element in the protection of the free personality of the individual. For Locke, the right to possess, use, and to store up money is fundamental. Like the ownership of property, it is not conferred on the individual by society, but rather civil society has been established to protect this right.

This view is important for a proper understanding of our present monetary difficulties.

Defending individual liberty and money together was essential for Locke, for the two cannot be treated separately. A free society that can

not maintain a sound currency cannot achieve economic growth. Making and keeping contracts requires money of real value, money that can be trusted at home and abroad.

Frankel adds: "For Locke, the right to possess and use money is man's natural right just as it is his natural right to preserve his property, that is, his life, liberty and estate. "

Trust, or lack of it, in the money throughout the ages has been a reflection of the government's attitude toward liberty in general and money in particular. When government compels its citizens through legal-tender laws to use a depreciated currency in spite of the continuing erosion of its value, the people eventually catch on and lose trust in the money. When this trust is totally destroyed, economic and political chaos result.

For orderly trade to occur, the monetary unit must have a precise definition in order to prevent wild fluctuations in prices and interest rates. Clearly, the change that the U.S. dollar has gone through in the last two decades certainly cannot be an example of stable money.

***From an historical viewpoint, whenever
the people had something to say about
it, they demanded commodity money.***

Trust in money cannot be achieved by hollow government promises to print less money, tax less, spend less, or fix exchange rates. It will require a money that the people control, not the government or the bankers. History proves that governments rarely fulfill their responsibility in maintaining the value of money, whether they gain this power legally or surreptitiously.

Even when gold was used, governments changed the rules and were not always disciplined by it. Even though the nineteenth century was our best example of a time when the world accepted the notion of real money, and governments followed the rules relatively well, our leaders violated this trust and tampered significantly with the money during the Civil War.

From an historical viewpoint, whenever the people had something to say about it, they demanded commodity money. If a government abuses a gold standard, the people react by taking possession of the gold itself,

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which places restraints on the monetary authorities and calls a halt to the fraud. However, governments knowing this, usually attack personal liberties (as they did in the United States in the 1930s) by prohibiting the private ownership of gold and reneging on its bad gold-clause promises-thus removing the real protection of a gold standard.

The most important characteristic of sound money is the trust associated with it. Even paper money works when the people unknowingly trust it. Lack of trust in the money is translated into what is called "inflationary expectations." This term directs one's thinking to the impending price hikes bound to come in the near and distant future. "Inflationary expectations" would be better called the anticipation that the money will be further destroyed by the arbitrary increase in its quantity by the government. As inflation worsens, more and more people become aware that irresponsible government spending and deficits are the reasons behind the increase in the money supply. Until the people understand and believe that government will mend its ways and live within its means, they will continue to "anticipate that the money will be further destroyed. "

When everyone loses trust in the money, the whole system breaks down and currency reform becomes necessary. There is a significant chance that this will happen by the 1990s.

Inflation and the Poor

Henry Hazlitt in Economics In One Lesson points out how unfair inflation is to the poor:

The poor are usually more heavily taxed in percentage terms than the rich, for they do not have the same means for protecting themselves by speculative purchases of real equities... The rate of the tax imposed by inflation is not a fixed one: it cannot be determined in advance...

Like every other tax, inflation acts to determine the individual and business policies we are forced to follow. It discourages all prudent thrift. It encourages squandering, gambling, and reckless waste of all kinds. It often makes it more profitable to speculate than to produce. It tears apart the whole fabric of stable economic relationships. Its inexcusable injustices drive men toward desperate remedies. It

plants the seeds of fascism and communism. It leads men to demand totalitarian control. It ends invariably in bitter disillusion and collapse.

Even if by some quirk paper money provided a net benefit to the economy, it would still have to be rejected for moral reasons. The power to create credit out of thin air is the moral equivalent to counterfeiting. Applying the Robin Hood ethic, robbing the rich to help the poor, cannot justify the process. Money creation dilutes the value of money already earned. It is a deceitful tax, unseen by all but a few and is equivalent to a farmer diluting his milk supply with water. Counterfeiting is a criminal offense when a private citizen attempts it, and the same rules of conduct should be applied to government or Federal Reserve officials. Inflation never helps the poor as is intended and enriches a special class until the collapse.

There are no-long term benefits to inflation so utilitarians should never be tempted to endorse the system. But since there are short-term benefits to inflation to some special interest groups, this makes the temptation irresistible for the politicians. The pain and suffering that comes from inflation are delayed and scattered, and the victims are rarely aware of what's happening to them—a policy to which politicians easily adapt.

Trust

Maintaining trust in the money is a must, and this can only be done when we have a government that is trustworthy and a money controlled, not by the politicians, but by the people. Trust in money usually lasts longer than one would predict. For instance, today the money has no guaranteed value, yet it functions rather well as money due to the residual trust placed in it. This trust exists out of ignorance, as well as out of false hopes that the government will eventually do something about the problem.

Claims are made that the productive capacity of the nation backs the dollar, but this is nothing more than wishful thinking. If prices soar, there is no way that the currency one holds can be redeemed in something of value. Even though there now is more trust placed in the money than it deserves, at some point, when the people panic, more confusion and chaos will result than would be expected. Prices then can rise even faster than the rate the government is increasing the money supply. In the

end the trust in the money is of the utmost importance in determining whether or not the money will function in a useful manner.

Of all symbols that are associated with government, money is one of the most important. Once total loss of this trust occurs, it is followed by economic upheaval and radical social change. Frankel addressed the potential danger:

For money symbolizes the very matrix of society-the trust or mistrust by which the personal and political interrelations of its members stand or fall. Once trust in money has been lost through whatever circumstances, the freedom of the men and women in society will be correspondingly diminished or ultimately destroyed.

The stakes are high-not only because the economic benefits we all receive are threatened by not having a sound currency with which to trade-but because of the close association between honest money and freedom. Our liberty can be lost as well.

***The magnificent feature of a true gold standard
is that the government can always be held in check
if the people begin to mistrust the government.***

In periods of significant inflation, the people are not only disturbed by the untrustworthiness of the system, they become angry at certain groups that benefit or appear to benefit from inflation. The unfairness of inflation's transfer of wealth from one group to another becomes more evident as the inflationary process worsens. The magnificent feature of a true gold standard is that the government can always be held in check if the people begin to mistrust the government.

John Maynard Keynes maintained that the average person should not be allowed to hold gold coins, for this locks up wealth and represents waste. He either never understood the benefits of the gold standard, or he believed power over the economy ought to be placed in the hands of bankers and government officials. Governments have a poor record in limiting the supply of money and are forever yielding to the temptation of financing debt by expanding the money supply. Keynes placed

His trust in government rather than in the people and the free-market choice for gold.

Need for Leadership

Another outstanding student of Mises, Hans Sennholz, in his book *The Age of Inflation*, states there are "few tasks, if any ... more important to the champion of freedom than the creation of a sound monetary system." There should be no doubt whatsoever of the need and urgency for establishing a sound monetary system in the United States and every other country claiming to be free.

Jacques Rueff, in a 1971 *Barron's* interview, agrees with Senholz and warns that chances of success are limited even if a political leader is available to us: "If political circumstances prevent him (the leader) from emerging, man's destruction is as inevitable as that of a man falling from the roof of a skyscraper. "

Leadership is critical and great changes in history have come about as a result of efforts made by certain individuals. Yet political circumstances and general understanding by the people cannot be ignored.

Today we have an unanswered question of whether or not the welfare ethic and interventionism that promote the inflation system (that so many have grown to love) will preclude making the necessary, and sometimes unpopular, decisions required to preserve freedom and establish sound money.

Motivation

A major reform of our monetary system must come. In order to plan for that reform, we must not only understand the nature of money, but we must understand the motivations of those who promote paper money and inflation.

There are four major reasons why governments and politicians reject gold's discipline and promote paper money:

1. The twentieth century economists have taught three generations of Americans that gold is a relic of the past and fiat money is modern and workable.
2. A gold standard limits government deficit financing and both liberals and conservatives, although for different reasons, need a central bank

to monetize debt.

3. The knowledgeable elite who are in charge of the affairs of state use control of the money to control the wealth of the nation.
4. Ignorance of what money is and how the Federal Reserve operates prompts many citizens and members of Congress to avoid getting involved in the issue.

Economic Reasons

Government intervention in the economy has been an accepted policy throughout most of the twentieth century. The degree of this acceptance was greatly increased during the Great Depression of the 1930s. For fifty years now, essentially all economists teaching at our major universities justified economic intervention, credit creation, and deficit financing. The result is what we have today: a Congress filled with members who know little else, staffers who spout their professor's cliches, and a press that regurgitates the same nonsense.

Interventionism clearly teaches that government programs are necessary to maintain full employment and prosperity. Although the people choose security over self-reliance, the evidence is clear that not only do government programs fail but they are the major source of our problems.

The liberal Keynesians have grabbed the moral high ground, and anyone concerned about his fellow man is made to feel guilty if government intervention is not wholeheartedly endorsed. Sincere, dedicated professors, members of Congress, staffers, and media people promote the nonsense with the best of intentions, believing that economic conditions can be improved through government spending and planning. Very few remember that the fifth plank of the Communist Manifesto advocates the monopoly control of money and credit with a powerful central bank.

Keynesian economic beliefs about money are based on the assumption that inflation of the money supply stimulates the economy and true economic growth results.

Even the conservative supply-siders promote similar foolishness, rationalizing in their own mind that balanced budgets are an old-fashioned concept, claiming inflation is not related to the Federal Reserve's monetary policy. Paper money managers are arrogant enough to believe that they can adjust interest rates and control supply and demand to such a degree that a healthy prosperous economy will result. Many who spout this fallacious economic theory sincerely believe it's the best policy to follow

for the greatest prosperity and do not do so for personal gain. Regardless of the motivation, however, if the theory is wrong, suffering results nonetheless.

Monetization of Debt

With an honest gold standard, politicians cannot create credit out of thin air to pay for deficit financing. This procedure -- when the Federal Reserve accommodates the politicians' spendthrift ways by buying the treasury bills or bonds with credit created out of thin air -- is called monetization of debt. History shows that any time this tool is available to politicians, they always abuse it by creating excessive amounts of debt and credit.

The supply-siders, led by Congressman Jack Kemp, are shrewd enough to know that the gold standard is a good political issue. However they are not anxious to use the gold standard in the way it was intended: to control spending, deficits, and credit creation along with the size of government. Supply-siders do not advocate elimination of the Federal Reserve nor its power to monetize debt. Deficits are not a concern of the supply-siders. A supply-side gold standard is correctly called a pseudo or fraudulent gold standard.

This distinction is of utmost importance, because when the time comes that monetary reform is seriously considered, it's crucial that the advocates of the fake gold standard are not in control of the reform.

Deficit financing is the friend of the politician. It permits political promises that assure constituent satisfaction and re-election for the representative. Championing every cause regardless of cost makes it easy for the incumbent to be re-elected. A recent survey of Texas members of Congress, including two Senators, asked them to evaluate their previous year's performance. Both conservative and liberal members bragged either of securing government jobs for the district or influencing policy enough to send more federal funds to their district.

Deficits under a gold standard would have to be paid for directly through borrowing or taxation, causing a more immediate burden on the economy, and would obviously be less popular. Monetizing the debt delays the ill effects of the expanded credit; the victims are not easily identified. The process is popular with both the politicians and their constituents who desire these expensive programs.

Conservatives and liberals both endorse the process of debt monetization

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even though they do not agree on particular programs. The coalition of the two, however, guarantees that the Fed's power and its willingness to manage the government deficits will not be challenged by those now representing us in Washington.

For public consumption though, Paul Volker as chairman of the Fed routinely chastised the Congress for running huge deficits. Members of Congress never hesitate to do a little Fed-bashing by blaming the central bank for high interest rates, inflation and recessions.

The truth is that they need each other. The Fed's continued existence and independence depends upon tacit congressional approval, and Congress needs the Fed to monetize the huge deficits.

Conservatives, especially the supply-side hawkish conservatives, need the Fed to finance, indirectly through credit expansion, the military-industrial complex, foreign aid to supposedly loyal allies, international bankers, privileged corporations, expenditures for the infrastructure – dams, highways, ports, bridges, etc.

Liberal programs are different, but nonetheless just as expensive. Their programs include: welfare spending, international assistance to left-wing dictators, social programs, federal subsidies to education, and many of the programs conservatives support as well.

The benefits to the politicians of the Federal Reserve's willingness to monetize debt makes it irresistible for them to use it. The fact that it serves both conservatives and liberals means that neither group will ever challenge the system on philosophic principle. It also means that the price we must eventually pay for our extravagance will be delayed.

For this reason we can expect the debt and credit bubble to expand until it bursts sometime in the near future. Understanding the political forces supporting such a system and understanding the economic consequences of such foolishness is crucial to our survival.

Power and Economic Control

The third major reason we have a powerful central bank that maintains monopoly control over credit is that those in charge of policy are granted overwhelming political and economic power. The individuals who, behind the scenes, pull the monetary strings are very much aware of the power they have.

Some have said that the Chairman of the Fed is the second most powerful man in the world, the President being the most powerful. A strong

case can be made for the Chairman of the Fed's being more powerful than even the President. The dollar is the reserve currency of the world, and the Chairman has more to say about the dollar than the President. Economic and political events can be endlessly manipulated by U.S. monetary policy. Since our policy is in the hands of dedicated internationalists and the dollar is the international unit of account, world events are totally dependent upon the dollar's value and interest rates.

Third-world debt, foreign aid programs, the IMF, the World Bank, and international trade are all closely related to Federal Reserve policy. Continued monetary inflation to keep the debt system afloat is the essential element of today's policy. Propping up illiquid debtors domestically and internationally by inflation is clearly a process penalizing the innocent middle-class Americans who are being victimized by the process.

Economic law will not permit endless inflation of the money supply without a subsequent increase in prices.

Since nothing in life is ever free, someone has to pay. In this case the middle class suffers through job losses and a lowered standard of living. Both the political and economic elite benefit by accumulation of more power and wealth. The inflationary process allows some to benefit at the expense of others. Since transferring wealth through inflation is more difficult to understand than a direct tax, it continues for long periods of time before it is rejected by the people (who must find new leadership to redirect events.)

Economic benefits accrue to those knowledgeable about Federal Reserve policy. Paul Volcker once admitted to me (to my surprise) before a banking committee hearing, that leaks did indeed occur regarding secret monetary policy. We also clearly know that appointments to the Fed require approval from the international bankers led by David Rockefeller. The key positions are always held by establishment-appointed bankers: the Federal Reserve chairmanship is the presidency of the New York Fed. The president of the New York Fed is always on the Federal Open Market Committee, while other regional presidents rotate their positions on the committee. Frequently, this position is a steppingstone to the chairmanship of the Fed.

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Monetary policy can be instrumental in presidential campaigns. The strength of the economy and the level of interest rates can make or break a President seeking reelection. There is clear evidence that monetary policy is frequently manipulated for presidential elections.

Since every transaction is measured in terms of the monetary unit, the power to artificially alter the unit's value literally allows the monetary authorities to control the economy. A free market is very sensitive to freely fluctuating prices and interest rates. The Fed, on an hourly basis, manipulates rates and yet follows an announced policy of stable prices. Of course their goals and their achievements are not always the same, but their efforts play havoc with those honestly trying to make a living without any benefit of inside information.

As powerful as the Fed is, the markets eventually win out. Economic law will not permit endless inflation of the money supply without a subsequent increase in prices. Since gold is the ultimate money of the people, currency depreciation always leads to higher nominal prices for gold and the other precious metals.

The breakdown of international trade eventually comes when enough people discover that the monetary policy is a charade and a fraud. A contest between market forces and government forces then erupts. The name of the game for the monetary authorities is maintaining power over the economy and political events. When paper is rejected by the market, governments inevitably retaliate by enforcing rules regarding currencies, flow of capital, financial privacy, and freedom to travel.

The conflict is already visible and we can expect it to get much worse (including a new paper currency) before it's all over.

The monetary crisis will end when one side is victorious. If paper wins, an authoritarian government will be required. If gold wins, a free society will prevail.

Ignorance and Innocence

Groups that support the Fed for economic reasons are related to those who support the Fed out of ignorance or complacency. Most members of Congress that I know do not have a real understanding of how the process of debt monetization and credit expansion work. The majority of the members do not support the Fed because of strongly held economic beliefs and they don't receive any direct economic or political benefits from it. But neither are they inclined to delve into the complex issue

of the Federal Reserve system. Subtly, they probably don't want to know, because the system seems to work and a vague understanding of the Fed still permits demagogic criticism of its policy if that is politically advantageous.

The so-called benefits of economic stimulation with credit creation and government spending programs can only come about through the transfer of wealth from productive individuals.

While I was in Congress, the issue of paper money versus gold was rarely discussed on the House floor. A politician can afford to be complacent with a subject as complex as our banking system. And for this reason most members and their staffs ignore the subject and are not interested in discussing needed reforms.

This ignorance can be used to our advantage because, once enough citizens are informed, they can exert pressure on the majority of the members of Congress who have neither emotional nor self-serving interests in maintaining a powerful central bank. Once the banking system weakens further, and it's clearly in the interest of members' constituents to reform the system, our efforts to restore integrity to the monetary system will receive political support.

Since the Federal Reserve System is poorly understood, our educational efforts are equally as important as political action. It is, however, not too early to persistently point out to our representatives in Congress the evils of unlimited credit creation as it exists today, and why \$200 billion annual deficits are not possible without such a system in place. Honest money must gain the moral highground and remove the corrupt political paper system. Although paper money is defended by high-minded people claiming prosperity for everyone, it leads instead to poverty and suffering for millions of innocent victims.

The inflation of the 1920s gave us the Great Depression of the 1930s; the monetary inflation of the late 1970s brought us the severe recession of 1980-1983; the inflation of 1982-1987 will give us the great depression of the late 1980s. The victims are those who lose their jobs and whose standards of living are continuously eroded with higher costs of living. The so-called benefits of economic stimulation with credit creation

and government spending programs can only come about through the transfer of wealth from productive individuals. This transfer of wealth, regardless of how complicated the process is, is no more moral than if the beneficiaries took a gun and robbed their neighbors.

Honest money must come into circulation through honest work and effort and be a commodity, voluntarily used by all the participants in the transactions. No legal-tender laws are needed to compel its use if an honest monetary system is in place.

Reforms

Control over money conveys great power to those managing the system and is not going to be given up easily. The people have been taught to believe that inflation is to their benefit, even if they do not fully understand the mechanism by which it comes about.

Mises said in *The Theory of Money and Credit*: "Inflation is the true opium of the people administered to them by anti-capitalistic governments and parties."

Opium can kill, yet initially it makes one feel good. The same is true of inflation. The whole misconception about inflation comes from assuming that credit or currency creation is synonymous with wealth creation. Yet the opposite is true, for inflation destroys wealth, misdirects the economy, and brings on social strife. The early stimulation and apparent benefits brought about by new money are always at the expense of someone else and rob rather than create.

Samuel Johnson in the *Rambler* said that this attempt to create wealth without effort was, "the reigning error of mankind." Attaining wealth and a decent standard of living by mysticism, deceit, or fraud cannot work in the future and never has worked in the past. Instead, the results of inflation have always been anger, loss of trust in the government, economic and social turmoil, and frequently war.

It is not difficult to get the average person to understand, with a brief explanation, why excessive money and credit is unwise. The bigger problem is to get a consensus on how to stop the federal deficits and to end the process of credit creation by the Federal Reserve System. The political problem of cutting any portion of the budget is overwhelming. The transition to sound money is feared even by some of its advocates, due to the magnitude of the problems we face.

Instituting sound money is fraught with problems, but in comparison

to the problems associated with runaway inflation, they are not nearly as dangerous. Fearing the pain of a lifesaving operation should never prompt one to reject it.

Is Monetarism a Solution?

The Monetarists claim the answer to our monetary problem is to increase the money supply at a slower rate; for example, between 3 percent and 5 percent a year. They correctly see the relationship between the money supply and the subsequent higher prices, the economic distortion, and the unemployment, yet they cling to the belief that a modest, steady monetary inflation will solve all the problems inherent in the unwise system of the past 50 years.

Monetarists fail to see that all prices do not go up symmetrically. With any inflation at all, economic distortion and malinvestment will take place.

Milton Friedman in *Free to Choose* claims money growth at ten percent a year, if steady, "would do no great harm," but disavows such a policy because it would then be too "tempting" for the money managers to inflate at a greater rate. Friedman adds:

All of these adjustments are set in motion by changes in the rates of monetary growth and inflation. If monetary growth were high and steady, so that, let us say, prices tended to rise year after year by 10 percent, the economy could adjust to it. Everybody would come to anticipate a 10% inflation; wages would rise at 10 percent a year more than they otherwise would; interest rates would be 10 percentage points higher than otherwise—in order to compensate the lender for inflation; taxes would be adjusted for inflation and so on and so on.

Such an inflation would do no great harm, but neither would it serve any function. It would simply introduce unnecessary complexities in arrangements. More important, in such a situation, if it is ever developed, would probably not be stable. If it were politically profitable and feasible to generate a 10 percent inflation, the temptation would be great when and if inflation ever settled there, to make the inflation 11 or 12 or 15 percent. Zero inflation is a politically feasible objective! A 10 percent inflation is not. That is the verdict of experience.

Friedman claims that if money is increased at five percent a year and productivity is five percent a year, prices remain stable and there is "no inflation." It is true that average prices may remain stable, but it's not true that there is no inflation or malinvestment.

The Austrian economists' view-that all prices, interest, and wages do not go up evenly is vitally important in understanding why even a four or five percent inflation in the money supply per year will still cause harmful and serious cumulative effects. When money is increased at five percent per year, someone or some group must benefit from this new money, so the political problems of favoritism exist, even if it's on a lower scale.

The value of money cannot be fictitious, it must be real, and not susceptible to manipulation by the politicians or bankers or even the monetarists

Since prices do not respond evenly across the board as the monetarists wish, the zero-percent price increase they desire is just wishful thinking. Some prices will go up, others may drop. Even if it were true, it is obvious that the same argument that Friedman uses for the probable abuse of a ten percent inflation rate, also applies to the lower rate.

His solution for inflation-increase the quantity of money less rapidly is like telling an alcoholic to drink only one pint of scotch per day instead of the usual two. Friedman fails to accept the Austrian explanation of the subjective theory of value for price setting, and endorses the mathematical explanation of prices.

Nevertheless Friedman tells us in his own words why we must have a hard currency, where the citizen is in charge, not government: "Since time immemorial, sovereigns-whether kings, emperors or parliaments have been tempted to resort to increasing the quantity of money to acquire resources to wage war, construct monuments, or for other purposes. "

Friedman accepts the Keynesian notion that money should not have intrinsic value, saying: "Though the value of money rests on a fiction, money serves extraordinarily useful economic functions. "

That is the problem; the value of money cannot be fictitious, it must be real, and not susceptible to manipulation by the politicians or bankers or even the Monetarists. Friedman claims that inflation only occurs "when the quantity of money rises appreciably, more rapidly than output," thus tying his definition of inflation to productivity and not limiting it to the money supply alone.

This is where he differs from the free-market Austrian economists. Although productivity -- if kept at the same level as the rate of monetary inflation he personally advocates -- would prevent generalized price inflation, it would not prevent malinvestment. Yet, he criticizes those who blame "low productivity" for inflation, while using "productivity" to hide monetarist mischief in the economy. How is he to guarantee five percent economic growth if he is already locked into a five percent money growth? Five percent new money can go into bidding of prices just as easily as ten percent. The subjective decisions made by consumers and businessmen together will tell us how the new money will be spent-no chart can predict the future, it can only tell us what was done in the past under previous circumstances.

Hayek, in his "Denationalization of Money," is critical of the monetarist approach as being "no more than a useful rough approximation to a really adequate explanation," pointing out that:

... a stable price level and a high and stable level of employment do not require or permit the total quantity of money to be kept constant or to change at a constant rate ... No authority can beforehand ascertain and only the market can discover the 'the optimal quantity of money.'

As to Friedman's reassurance that a legally fixed rate of money growth will insure stability and confidence, Hayek disagrees and predicts this very feature of monetarism would be the source of panic:

I can only say that I would not like to see what would happen if under such a provision it ever became known that the amount of cash in circulation was approaching the upper limits and therefore a need for increased liquidity could not be met.

Quoting Roger Bagehot, Hayek says, 'The near approach to the legal limits of reserves would be a sure incentive to panic.'

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Mises states that any amount of inflation of the money supply -- even, one percent -- will produce a boom and a subsequent bust, even though a one percent inflation causes a less severe recession. This, he claims, will occur regardless of whether or not prices rise, stay the same, or even drop, because of the distortion of interest rates and ensuing bad business decisions. The timing is unpredictable and the extent to which the money may go into one industry versus another is not predictable, making outcome unpredictable as well.

The question may arise as to why an increase in the money supply by three to five percent, as the monetarists advocate, is so much different from a three to five percent increase in the gold supply if we're on a gold standard. The most important difference is that under government management, history proves that three percent will soon be six percent and the six percent soon will be twelve percent. Under gold the three percent will be three percent, or two percent, or even less due to the effort required to mine gold and the incentives that are determined by the purchasing power of gold.

But for the sake of argument, let us assume the government controlled three percent money growth is achievable. Why is this less advantageous than a gold standard with a three percent growth in its supply? Let us even assume prices in general remain stable under both conditions. Under the conditions of government-induced money growth, the new money enters the market under the direction of the government, and banks and businesses are privileged to receive this new money first. Malinvestment will still occur and a correction will be necessary. When gold is produced by effort, this commodity, used as money, enters the markets by purchasing goods and services. Decisions are made for these purchases or investments through the market, not by non-market political decisions such as occur with government-created money.

Getting government out of the money management business completely is the only answer

Retaining dictatorial powers over the money supply as the monetarists advocate, even though the rest of the economy has been turned over to the market, will not suffice. It is bad economics and it won't stop the inflation. But worse yet it slashes into personal liberties to such a

degree that the defense of absolute natural rights becomes impossible, if it is conceded that government shall maintain this dictatorial power with a central bank. It will always be abused by the powerful at the expense of the weak.

The banker, the industrialist, the politician, and the welfare recipient will forever pressure the money managers to bend a bit and rationalize a need for monetary growth, always slightly more than originally intended. We must have a check on money growth with the people being able to prevent the continuous abuse of the money. Getting government out of the money management business completely is the only answer.

The Supply-Sider's Gold Standard

The supply-siders, as led by Jack Kemp and Arthur Laffer have advocated a type of gold standard, but in truth it is nothing more than a pseudo-gold standard. It is actually a gold price rule whereby the Federal Reserve adjusts monetary policy dependent on the gold price.

However, the supply-siders are much more vocal when the gold price is low or steady than when it is rising. When the gold price is low or steady they are always pressuring the Federal Reserve to expand credit much faster. The supply-siders do not understand the price system and, therefore, do not understand that inflation of the money supply may not have a significant effect on prices until a year or two later. The supply-siders never attack the omniscient power of the Federal Reserve. As a matter of fact, they are the Fed's best friends. Their main criticism has always been that credit expansion has been much too slow and advocate more rapid expansion of the money supply.

Taking the position that it is politically dangerous to criticize the federal deficit, the supply-siders must bear the responsibility for the massive deficits of the Reagan Administration. These deficits have prompted rapid inflation of the money supply in order to accommodate the spending.

History will show that great harm has been done by the supply-siders who, with conservative rhetoric, have actually championed deficit financing and massive monetary inflation. They have done this under the guise of friendship toward the gold standard; instead this has been nothing more than a charade. The supply-siders have actually pushed for a more rapid expansion of the money supply than the Keynesian liberals or the monetarists.

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Eventually, we will see the disastrous results of such a policy as it will be translated into higher interest rates, rapid price inflation, and certainly much higher prices for the monetary metals, gold and silver.

Reform of the monetary system is obviously crucial to our economic survival. However, it is desperately important that the supply-sider's pseudo-gold standard gets no consideration whatsoever and is recognized for its distortion of a very sound principal—the gold standard. If it is not recognized that the supply-sider's gold standard is a danger and will undermine true monetary reform, we will end up with a monetary system no better than what we have.

Today's problem clearly can be placed at the doorstep of those who advocate paper money. If we accept a pseudo-gold standard, to the supply-siders liking, any problems which evolve will be laid at the doorstep of the gold standard rather than at the doorstep of the supply-siders who have advocated deficit financing, massive monetary inflation, and a gold standard that is unworkable.

The answer to the monetary dilemma is to have a non-fraudulent, 100 percent reserve, gold-coin standard. A gold standard would eliminate all speculation about the political motivations of the monetary authorities in governing the supply of money. The great virtue of the gold standard is that it removes discretionary power of the money supply from any one agency, thus ending the most fertile source of speculation. The gold standard puts the power of the monetary system into the hands of the people and takes it away from the politicians and the bankers, thus removing a potential vehicle for establishing a tyranny.

Gold cannot be mined as cheaply as Federal Reserve Notes can be printed, nor can its supply be manipulated on a daily basis. There is a great dispersion of power with a gold standard.

That is the strength of the system, for it allows the people to check any monetary excesses of their political leaders and does not allow the leaders to exploit the people by debasing the money.

A particular virtue of the gold standard deserves our attention. The monetarists concede that the supply of money is of the utmost importance in understanding inflation and that its control is crucial. Even the most dedicated Keynesians do not advocate uncontrolled increase of the money supply, recognizing the obvious consequences of overly rapid monetary expansion, yet failing to see the problem with modest rates of monetary growth. With commodity money, the advantage is that the money supply is independent of the politicians, government bureaucrats, and the banks. Mises states:

This is its (the gold-standard's) advantage. It is a form of protection against spendthrift governments. If under the gold standard, a government is asked to spend money for something new, the Minister of Finance can say: 'And where do I get the money? Tell me first how I will find the money for this additional expenditure.'

The temptation on the part of the politicians to avoid asking "where do we get the money?" is so powerful that virtually all resort to the easy way out-financing debt through money creation. The problem is less economic than political.

Most of those involved, although they are not likely to admit it, know that financing government debt with inflation of the money supply cannot go on forever and is a deception that will eventually become known to everyone. It is just that the politician figures it will be later and not sooner and he will not have to bear the responsibility of the economic problems he has caused.

The belief by most that the corrective action needed to stop inflation will cause pain and suffering prompts the delay in making the needed exchanges. It must be realized that if inflation is stopped swiftly and completely, suffering will be minimal. But this suffering must be blamed on the inflation, and not on those making the difficult decisions to stop the fraud. We must also remember that we are not likely to restore soundness to our money as long as the people retain an insatiable appetite for government welfare programs for both rich and poor.

Those hostile to commodity money refer derogatorily to going "back" on the gold-standard. We need not be pushed into defending an old monetary system. Although gold has been used literally for thousands of years as money, its refinement as modern money, either government protected or free-market managed, has not been achieved. Its greatest success was reached in the nineteenth century and permitted the great economic growth of that time. Even then it was far from perfect and ultimately failed as government refused to abide by the rules, especially in times of war.

There is obviously a lot of room for modernization and sophistication of a gold standard. The best system has probably not even been thought of yet. Its modern features should be emphasized, not its antiquity. For instance, Hayek in advocating free-market money, is convinced that the market, not the government, can achieve the best monetary system, just as it solves all other problems in the most efficient manner. He even

questions whether or not the metals would be chosen as the most convenient form of money.

My interpretation of monetary history is that if the choice were completely left to the market, gold would be chosen as the foundation of the monetary system. Of course, in leaving it to the market to decide, the exact outcome is not predictable. Only a better solution than that proposed by governments throughout the ages would be found.

***We are not likely to restore soundness to our money
as long as the people retain an insatiable appetite
for government welfare programs for both rich and poor.***

Free-market money -- a very advanced idea of freedom--will not likely be achieved in the foreseeable future. But an improved government gold standard, better than any previously devised, certainly could be. It would not be difficult if prevailing attitudes were agreeable, to develop a 100 percent redeemable gold coin standard, and this would certainly be an improvement on the fractional reserve standards used in the past and always abused.

The two most common concerns expressed regarding a gold standard are:

1. Is there enough gold in the world for us to go on a gold standard?

Yes, there is certainly enough gold in the world to maintain a gold standard. The exact amount of gold is of little importance as long as all prices are allowed to adjust freely. The purchasing power of gold must be allowed to vary on a free market. If goods and services expand more rapidly than the gold supply, prices will fall and relatively speaking the money supply expands. The gold supply historically has expanded at a two-to-three percent annual rate. The incentive to mine more gold will be related to its purchasing power. When prices are low in terms of gold, mining expands; when the supply of gold rises and prices rise there is less incentive to mine gold. The market process adjusts the supply of money through mining incentives and price changes.

The fear of not having enough gold to support the system is unfounded. The real fear should be the excessive money and credit created by the Federal Reserve. Under a gold standard, credit created freely in the marketplace

is allowed to occur but it is measured in the gold unit of account and cannot be distorted by politicians or central bankers.

The often-repeated concern about a gold shortage under a gold standard is a reflection of Keynesian economic thought. For decades, American economic students have been taught that economic growth is totally dependent on stimulatory money growth, which is not true.

Real economic growth is dependent upon incentives to produce, the ability to control the wealth produced and a willingness to save on the part of the producers, the true source of capital. Capital and economic growth is not dependent upon an expanding money supply whether it be paper or gold. The answer to this concern is that any amount of gold will suffice as long as prices are allowed to adjust freely.

2. Won't a gold standard place too much power in the hands of the Soviet Union and South Africa, the key world producers of gold?

The concern that the gold standard would place too much power in the hands of South Africa and the Soviet Union is a "red" herring. At the rate the Soviet Union produces gold each year, it would take them one hundred years to double the world supply. Anyone who can control only one percent of the supply on an annual basis of a commodity has no practical control over its value.

In contrast, the Federal Reserve could double the money supply under today's circumstances any day of the year it desires. Even if the Soviet Union could affect the gold standard and do damage to our monetary system by either withholding or dumping gold onto the market, it would not serve their interest to do so. They certainly were not able to do so when the dollar was fixed at \$35 to an ounce. They have benefited more since the gold standard has been abandoned in 1971, with gold fluctuating, than when it was fixed at \$35. The ability to affect or destroy a gold market or a gold standard is no different than the Soviet's ability to fix the price of wheat with a controlled production. The only difference would be that it is much harder to manipulate the gold market because of the difficulty in producing large amounts of gold.

These two concerns are frequently expressed by those who detest the use of gold because it threatens the power they achieve with a paper money system. The truth is that we need not be concerned about the total supply of gold in the world nor should we worry about the Soviet Union threatening our monetary system if we restore the gold standard.

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The answer -- for those who challenge gold as archaic -- is that inflation is archaic. Throughout history kings have debased the metals in order to inflate. Fraud associated with money is an ancient tradition. A non-fraudulent commodity money is one of the most modern freedom ideas known to man. It is the fear of change and a clinging to the past that compels men to reject gold and endorse inflation.

Ultimately though, we will be compelled to make a change in the monetary system, whether we want to or not. Even then, the choice will be between another fraudulent system and a system demanding honesty, with the people in charge, and not the bankers or the government.

Some Positive Steps Toward Gold

Although our current economic and financial conditions are deteriorating, some positive monetary events have occurred over the past twelve years. The old Bretton-Woods, pseudo-gold standard breathed its last on August 15, 1971. Since then the U.S. economy has suffered from sharp swings of inflation and recession with a steady erosion of the average family's standard of living. Nevertheless it was not long after the collapse of the Bretton-Woods fixed exchange rate system that economic and political forces were put in motion, laying the foundation for an eventual return to gold.

Everyday, more and more Americans become aware of our fraudulent monetary system and seek refuge from it by owning hard assets

After forty years, the right of American citizens to own gold was once again restored in January 1975 (thanks to the work of Jim Blanchard and Congressman Phil Crane). In 1977 Senator Jesse Helms and his legislative assistant Howard Segemark were instrumental in legalizing gold clause contracts, a right taken from us by FDR and the liberal courts in the 1930's. Although these contracts are not yet commonly used, this legal step is of great importance to the hard money movement.

Today, as a consequence of the insidious government-caused inflation, there is a healthy and growing interest in gold, both as an investment and as money. The respect and understanding for gold is better now

than it was in the 1930's when the American people complacently allowed FDR and his cronies to confiscate the people's gold.

During the Great Depression, the people passively gave up their right to own gold out of fear and lack of understanding about gold. Also the paper dollar at that time was rising in value due to deflation of the money supply. None of these conditions exist today. Instead there is more determination than ever for gold owners not to relinquish their gold even if it were called in.

Since we are seeing no deflation, and paper money is continuing to lose its value, there exists a lot more incentive to keep the gold out of the hands of an untrustworthy government. And today's distrust of governments is understandably quite high. Everyday, more and more Americans become aware of our fraudulent monetary system and seek refuge from it by owning hard assets. This growing multitude will help hold back the aggressive hand of government while providing the nucleus of sound thinking necessary to lead us to a trustworthy monetary system.

A Major Event after 53 Years

Shortly after FDR was sworn into office, the Emergency Banking Act of 1933 was passed. Gold was soon confiscated from the people and gold coins ceased to circulate. Those who continued to hold gold other than numismatic coins became criminals. Other than the unsuccessful gold arts medallion program of the 1970's, US. gold coins were not minted again until 1986.

The ultimate hedge against monetary debasement is gold. It is essential for the average person to be able to hold gold in easily recognizable coins of assured quality. This ultimate hedge -- the gold coin -- is also the foundation on which a sound money is built. Authentic gold coinage, with full legal rights for citizens to own and transport them at will, is essential in rebuilding and maintaining a sound system of money.

Although a remnant of economists and freedom fighters argued for gold ownership and a gold standard for decades after Roosevelt confiscated the gold, it was not until the 1970s that serious thought was given to it. But the clear failure of the Bretton-Woods Agreement in 1971 offered an opportunity to the gold advocates. Monetary shambles encouraged them to work harder, and many antigold people convinced themselves that Federal Reserve Notes and Special Drawing Rights (SDRs) could serve as money, believing it was no longer

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necessary to oppose the pro-gold forces who were arguing for the right of gold ownership. Once gold ownership was made legal, many countries, especially South Africa, Canada, and Mexico, quickly started selling gold coins to the American people. This set the stage for the United States once again, after fifty-three years, to start minting legitimate gold coins.

My interest in monetary policy and the gold standard provided a strong incentive for me to enter politics. It was probably not a coincidence that my first congressional race occurred in 1974, the same year gold legalization was passed (ownership became legal January 1, 1975).

The tragic economic events associated with wage and price controls between 1971-1974 confirmed to me firsthand the assumptions made by the Austrian hard-money economists. The pro-gold, hard-money economists were the only ones who could explain the predicament in which we found ourselves. This prompted me to insist that I be placed on the Banking Committee once elected to Congress, so I could concentrate on promoting sound monetary policy.

Although a great deal of effort was exerted by my staff and me in pursuing this goal over the years, it wasn't until the fall of 1980 that a real breakthrough occurred. My amendment (Jesse Helms introduced the same amendment in the Senate) to the IMF bill to establish the Gold Commission was passed and signed into law by Jimmy Carter on October 7, 1980. Tip O'Neill, at the request of the Republican leadership, appointed me to one of the four House slots in the 17-member Commission.

For six months -- from the fall of 1981 until the spring of 1982 -- the Commission met at the Treasury Building to fulfill the congressional mandate "to study the role of gold in the domestic and international monetary systems." The Commission's report to Congress was submitted March 31, 1982. The minority report was published as *The Case For Gold* (authored by Lew Lehrman and me).

I believe that when the monetary history of this period is written, the much larger majority report will have little bearing and that it will be said that *The Case For Gold* was helpful in restoring sound money. Already, many more people have read *The Case For Gold* than have waded through the massive and rambling majority report.

The seventeen-member Commission was biased toward paper money and internationalism. The Establishment was well-represented with three members of the Federal Reserve Board, the Secretary of the Treasury, two members of the President's Council of Economic Advisors, four

House Members, three Senators, and four private citizens. Of the seven Members of Congress, I was the only one favorable to gold; two of the private citizens were also favorable. From the beginning, it was a foregone conclusion that there would be no recommendation from the Commission supporting a gold standard.

But all Washington activities are political. Although the large majority of the Commission were hostile to gold, the philosophic groundwork of the past several decades had an influence on popular opinion which did influence the Gold Commission members' thinking. It was the existence of a gold movement that prompted the Gold Commission to consider and recommend the resumption of gold-coin mintage after five decades.

This Commission recommendation was crucial because Congress does pay attention to a commission it creates. The feeling of the majority was that a concession would pacify those wanting a gold standard and yet not be construed as condoning or encouraging a gold standard. Though the anti-gold people believed they were merely "throwing us a bone," it was a major victory in our efforts to restore sound money in the United States.

As soon as the Commission made its report to Congress, I introduced a bill to satisfy the Commission's recommendation. A gold coin bill did not pass until 1985, and only after several revisions. My original intent was to get Congress to mint a gold coin capable of circulating as money parallel to the Federal Reserve Notes. This meant a coin denominated by weight and not by dollars and without legal tender status. My bill would have exempted the coin from capital gains and sales tax and would have had it minted from existing U.S. gold stocks. Final passage of the bill came with minimal opposition, since the support for it included a coalition of leftists who saw it as a slap at South Africa and a way to hinder the massive sale of Krugerrands in the United States.

By the time the coin bill was passed, my original was modified a great deal. Ridiculous dollar amounts were placed on each of the four coins (\$50 for the one ounce and \$10 for the quarter ounce, for example). They were made legal tender for values with no monetary significance, but this satisfied the Fed and the Treasury, as well as a vocal group of coin collectors. The coin was not made exempt from capital gains taxes, thus making it impossible for it to truly compete with Federal Reserve Notes not similarly handicapped.

In spite of all the coins' shortcomings, however, the resumption of one of the few constitutionally authorized functions of Congress (the

minting of gold coins) was truly a monumental event of historic significance. And along with the minting of the gold coins, a silver ounce coin was also authorized.

***To ensure the survival of a sound monetary system,
we can abolish the Federal Reserve and privatize its
one useful function-check-clearing***

Over the past fifteen years, the troy ounce has become the unit most associated with gold and silver coins. Nearly a dozen countries are now minting gold and silver ounce coins. The concept that money is a weight and not a piece of paper with zeros on it is crucial in our efforts to achieve sound money.

This step toward sound money was of great importance, but it is important that the momentum continues. The tragic economic conditions that paper money always bring will continue. Proper blame must be placed for our problems on our current monetary system.

We must also demand the establishment of a gold coin standard, the repeal of legal tender laws, an audit of the Fed, putting the Fed on budget, and elimination of power of the Fed to create credit (whether to stimulate the economy or monetize federal debt). To ensure the survival of a sound monetary system, we can abolish the Federal Reserve and privatize its one useful function-check-clearing.

Freedom and sound money go hand-in-hand. Freedom cannot survive without honest money. Honest money will never exist in a country with a non-market economy. Money cannot be isolated and thought of as separate from the concept of liberty.

A free society must incorporate a precise understanding of the nature of money. If we do not understand the close connection between liberty and money, we will help to perpetuate the greatest fraud in the history of man-today's worldwide debasement of the monetary system. Instituting a sound monetary system requires that we eliminate the oppressive hand of government in all areas of society.

No one should underestimate the potential calamity that we face if we do not address the subject of sound money and a free society.