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GOLD AND MONEY

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Gold is one of the most prominent words in all spoken and written languages. "The Golden Rule", "The Golden Age", "The Golden Apple", "The Golden Horde", "Good as Gold" --- the recitation could go on and on and on! What is this remarkable metal that so captures the minds and imaginations of men?

Gold is a dense, bright yellow, and lustrous metallic element. It is extremely malleable and ductile. A grain of gold (.002 of an ounce) can be drawn into a wire 500 feet long. It can be beaten into leaves 0.0003 inch thick. A cubic foot of gold weighs almost 3/4 ton (1464 pounds troy). It has an extreme resistance to corrosion and is virtually indestructible.

Gold is far more than a remarkable metal. Its history is unequalled by that of any other metal because of its value in the minds of men from the earliest times. In Upper Egypt and in the Sudan ancient mining tools have been found, and gold recovery processes appear in Egyptian inscriptions. There is good reason to believe that some of these inscriptions predate 4000 B. C.. The washing of gold ores is depicted on Egyptian monuments of the First Dynasty (2900 B. C.). The famous legend of the Golden Fleece was based on an expedition (about 1200 B. C.) to seize gold that was washed out of the river sands with the aid of sheep skins, in the region later known as Armenia.

The story of the Golden Calf was told in the Old Testament, the Book of Exodus. You may remember the Golden Calf was a bigger-than-life idol made of gold melted from the errings of the Israelites. You simply can't go far into any ancient history or literature without confronting stories, legends and facts about gold -- implicit evidence of man's high, even mystical, regard for the metal.

Given man's preoccupation with and fascination for gold throughout the ages, it is not surprising that, for thousands of years, gold has been used as a monetary media. Cattle, shells, bright bird feathers, stone wheels, salt, and the like have been used as monetary media, but only by the least advanced peoples. An Egyptian mural painting dated about 1500 B. C. features gold coins. The Boston Museum has in its possession electrum coins that pre-date 500 B. C. (Electrum is a natural mixture of gold and silver that was mined in Western Turkey.) We know that gold coinage was being used in quantity in Rome in the first century B. C..

For thousands of years, with relatively few and brief exceptions, nearly all nations in the mainstream of human progress have enjoyed the advantages of the use of gold as a money. As systems envolved out of the primitive, men learned that gold was the one material that other men would accept in exchange for goods and services. Upon this fact was founded the system of using gold as the backing for modern world finances.

Monetary gold served the United States well during its first 158 years, from the birth of the country until 1934. In colonial days foreign coins, especially British and Spanish, circulated side by side. In 1782 the dollar was adopted as our monetary unit. The Mint Act of 1792 provided for a bi-metallic system, for coinage of the dollar in both silver and gold. The rate of 24.75 fine grains, or $22.03 per ounce, was prescribed for gold. There was an adjustment in 1834 when the content of the gold dollar was reduced to 23.20 grains, or $20.65/ounce (in 1837 it was slightly increased to $20.67/ounce). For the next 100 years the dollar remained unchanged.

There was a brief flurry of trouble during the Civil war, when "greenbacks", irredeemable Federal currency, were issued. It didn't take long for Gresham's law to assert itself -- gold and silver disappeared and the "greenbacks" depreciated. After considerable controversy the government started redeeming "greenbacks", and our money was back on track.

For all practical purposes the United States was solidly on the gold standard for more than a century and a half, during which time our country became known as the land of freedom, opportunity, and progress. During these years it grew from a puny weakling to the mightiest of all nations. But in 1934, in the wake of the world wide business collapse of 1930-32, the President acting under the authority conferred on him by Congress in the Gold Reserve Act of 1934, devalued the dollar 59% - from $20.67/ounce to $35.00/ounce.

Under the 1934 Act the government also seized all monetary gold in the country; it withdrew gold coins from circulation; it provided that no gold should be coined, it should be unlawful for banks and the general public to hold gold and gold certificates, and that no currency of the United States should be redeemable in gold. The government refused to redeem gold bonds maturing after 1934, perhaps the greatest breach of faith that had been committed by our government up to then. The exact wording on gold bonds dated May 9, 1918 contains the following clause: "The principle and interest hereof are payable in United States gold coin of the present standard of value". ~~Although the bankrupcy of a nation,~~ The failure to redeem national obligations certainly parallels dishonesty of an individual.

Twenty-one years earlier, in 1913, the Congress established the Federal Reserve System. The purpose of the Federal Reserve Act was to provide the country with a currency that would change in amount as the public's demand for it changed. In effect the Federal Reserve Banks were authorized to create money. But there was a very important limitation to the authorization; the Federal Reserve was required to hold a gold reserve against the money it supplied, and to pledge a gold collateral (or cover) against all paper currency issued. Before 1934 a citizen could present his currency at a Federal Reserve Bank, demand, and receive gold coins for the paper, dollar for dollar. This ended in 1934; the paper dollar became just that - a piece of paper. Previously a dollar bill had been a legal document that, in effect, bore the pledge, "I promise to pay you one dollar, 26 grains of gold". The new dollar bill pledges, "I owe you nothing."

1934 was the year Pandora's box was opened. The devaluation that year resulted in a bookkeeping profit to the government of $2.8 billion. (Another way of putting it, the government collected a one time tax of $2.8 billion from its creditors and from everyone holding dollars.) Following quickly came the Banking Act of 1935, giving the Federal Reserve system power to vary member bank reserve requirements -- to raise or to lower the amount that each bank has to keep in legal reserves in relation to deposits outstanding. This might be considered a first step in converting the Federal Reserve System from its original purpose of providing money for commerce and business to an "engine of inflation".

There still remained the restraint of the 1913 requirement that deposit liabilities of the Federal Reserve Banks (primary member bank reserve balances) had to be backed by gold certificates.

In 1945, after the unprecedented World War II inflation, Congress lowered the original (1913) gold reserve requirement, from 40% for notes and 35% for deposits, to 25% combined note and deposit liabilities. One by one the remaining bars to uncontrolled inflation were coming down.

As the result of the accelerating export of depreciating dollars abroad, gold began to flow out of Fort Knox in payment of international debts. Of the almost $25 billion in gold we had in 1949, about $17 billion remained by 1964; our reserve exceeded the requirement against deposit liabilities by less than $2.5 billion. We were nearing bankrupcy. Congress simply solved this problem by passing a law eliminating completely the gold reserve requirement against deposit liabilities. The next to last bar to fiat money came down, it is doubtful that one out of fifty Americans heard the crash as it fell.

There remained the requirement that Federal Reserve Notes, our paper currency, be backed by dollar in gold for each four dollars in paper. By 1968 the Treasury held only

$12.5 billion in gold and the supply was sinking rapidly. We needed about $10 billion to back the paper money. We had to deflate the money supply or change the law. We were bankrupt again, there was no choice -- Congress changed the law, removing all gold backing for our paper money.

And so, in 1968 while our attention was fixed on a raging political and military misadventure in Southeast Asia, and on students tossing old professors down stairways at Harvard University, the last weak little bar to fiat money was quietly removed.

The process of dismantling our time proven monetary system began with great fanfare in 1934; it was completed 34 years later with scarcely a murmur. The August 1971 abandonment of the International Gold Standard was anti-climactic, a necessary and predictable consequence. The 1971 and 1973 dollar devaluations are only forced official acknowledgements of the weakening dollar.

Perhaps it can be argued fairly that each step taken by our elected officials (and by the bureaucrats installed by them) was taken with good intentions. Nevertheless, it can't be denied that we are now taking up residence in the "Hell" paved by those intentions.

The consequences of 30 years of continuous inflating become more evident with each successive international monetary crisis. During the past eight years the desparate efforts to make our dollar respectable are pathetic; Benjamin Franklin described it when he said "It is hard for an empty sack to stand upright". During the past few days you don't have to read past the headlines to appreciate the world wide loss of confidence brought about by the glut of our inflated dollars floating around overseas. All currencies have been affected; all have lost at least two thirds of their pre World War II buying power. In the United States alone nearly $850 billion have been eroded (embezzled is the impolite word) from the savings and life insurance values. Each of us can make his own estimate of how much of the buying power lost to savers and pensioners has been tossed away for largely ineffective foreign aid, wasted on ill advised social programs that seem to benefit only big government, or simply squandered by politicians buying votes. All of these evil things come about so innocently when politicians, often men of good intentions, have the power to spend money without facing the discipline of raising the money through taxation.

One has to wonder if it is a mere coincidence that since 1934, when the use of gold was prohibited to U. S. citizens, both public and private debt have climbed to levels that scarcely could have been imagined forty years ago, export trade has declined, the centers of large cities have been rotting, and a large segment of our population has lost its productivity and its pride.

If we are to avert a flight from the dollar at home similar to the one in progress overseas an upheaval far more traumatic than the depression of the thirties, we had better not delay in seeking a solution.

Why not put gold back into our monetary system? Of course it is true that practically all of our modern economists have a strong bias against the monetary use of gold. The bias is easily explained. They fear monetary gold because it strongly restricts governmental intervention in the economy and the redistribution of wealth from the productive to the improductive. Perhaps to some extent, too, the bias is simply based on ignorance about the present and past monetary roles of gold.

It should be relatively simple to make one first step toward a stabilized, "store-of-value" money. The United States could start minting gold again within the very short time required to prepare the dies. The argument that there is insufficient gold to do this is absurd. Large amounts of gold could be delivered from mines now kept idle by government restrictions. The newly minted gold coins would not necessarily have a dollar value imprinted on them; instead they would have the weights and fineness of the quarter eagles, half eagles, eagles and double eagles. For example, the double eagles would have the inscription "516 grains, 900 fine" instead of the inscription, "Twenty Dollars", on the old coins. The new coins could find their own balance with the heaps of paper money in circulation. The deliverers of gold to be minted would be charged a small fee for minting costs and the gold coins would have tender status. The coins would work well, both as a medium of exchange and a store of value.

Opponents of monetary gold like to point out that our wealth lies neither in the vaults at Fort Knox nor on the ledgers of our banks. Rather it lies all around us, in what we have produced in the past and what we are capable of producing in the future. True enough, but the lessons of monetary history are clear. Without a stable money system we will not be able to harvest the fruits of our past and future labors. Without a return of the gold coinage, or at least a free commerce in gold, inflation will go on and on, and on to some bitter conclusion. The mere tolerance of a free gold market would inhibit inflation.

With inflation really under control a lot of our ills, both real and imagined, would of themselves begin to disappear. Franklin Pierce Adams made the point when he stated,"There are plenty of good five-cent cigars. What the country really needs is a good five-cent nickel."

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