

In brief

VOLUME 8

NUMBER 3

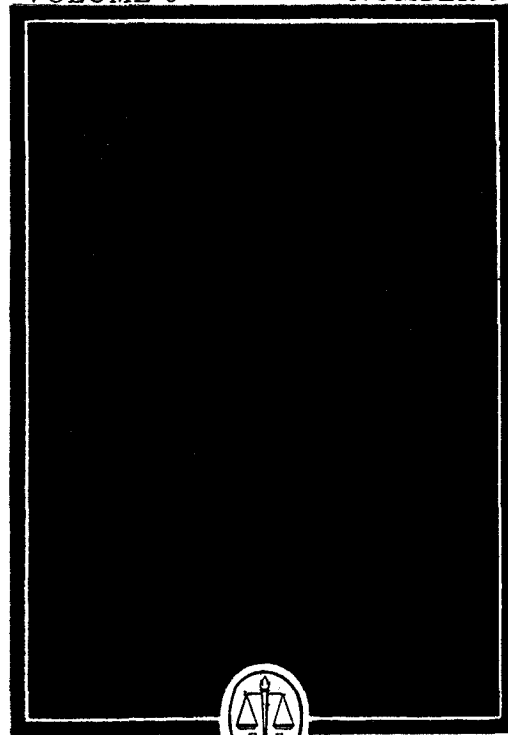
*"If, to please the people, we offer
what we ourselves disapprove,
how can we afterwards de-
fend our work? Let us raise
a standard to which the wise
and honest can repair. The
event is in the hand of God."*

Attributed to George Washington
during the Constitutional Convention

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SHACKLES OF GOLD



EDITOR'S NOTE

This is the text of an address before the Gold Standard League Convention, Washington, D. C., May 6, 1952.

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MONEY REFORM has long suffered from a disease common to all reforms — utopianism. Even before the Constitution was ratified, there were those who maintained that the need was not for a more perfect union but for a more perfect money. And during the latter part of the nineteenth century, long before socialism got top billing, the center of the reform stage was held by money. It was generally agreed among those whose hearts bled for mankind that the "perfect dollar" would unlock the door to the Perfect Society.

These reformers got going in dead earnest when I was a boy. That was when an orator of parts took the subject of money out of the classroom and threw it into the political arena. Up and down the country he went, explaining in ear-pleasing periods and tear-jerking perorations how the evil put on mankind in the Garden of Eden would be purged by a dose of the monetary medicine he had concocted. He labeled his bottle with the magical "16 to 1" formula, and the populace became so enthusiastic about his merchandise that they pushed

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him right up to the steps of the White House.

It was impossible for anyone with pretensions to intelligence to pass up the subject of money. The papers were full of it, and so were the intellectuals. No professor of economics considered himself complete unless he had definite views on money, and some professors of history were toying with the idea that a monetary theory was behind all the mass movements of mankind. It was simply *de rigueur* for a student to be able to talk about money. And, I was a student.

NO AGREEMENT

HOWEVER, the more I read—and talked—about money, the more confused I became. This was undoubtedly proof of an intellectual deficiency, and I might have developed a complex of some kind had it not been for the saving grace of a discovery. It occurred to me that no two of the recognized authorities were in full agreement on the composition of the “perfect money.” In fact, it seemed that each one had a formula of his own and was intent not only on proving its efficacy but on tearing down the formulae of all the other experts. About the only point of agreement among them was that the “perfect money”—when it was found—would prove to be a specific with miraculous curative powers. They were as Utopian as the Marxists.

Being somewhat skeptical of Utopias, I lost interest in the money question and might never have been bothered with it had it not been for Franklin Delano Roosevelt. When he freed money from the shackles of gold in 1934, he underlined something about money that the reformers never mentioned. It was this: While money might be, under ordinary circumstances, a means of exchange and a measure of value—as the classicists told us—it can also be used by the state as a police club. Indeed, money can be turned into an effective instrument for depriving men of their rights and robbing them of their property. Thus, the money question took on a new meaning; instead of being a problem in abstract economics, it became surcharged with politics and ethics.

THE ORIGIN OF MONEY

TO GET the full import of what the federal government did with our money in 1934, it is necessary to review briefly some of the fundamentals of money. In the first place, it must be remembered that there was money long before any government thought of monopolizing it. That is, government did not invent money; it was invented by traders as a facility in their business. Whenever human beings hit upon the idea of giving up what they had in abundance to get what they lacked,

the need for a third commodity to act as a measure of value appeared. This third commodity became money. How? Through an act of faith. It was faith in the ability of the third commodity to fetch something comparable in value to what had been given up to get it. That made it money.

So, then, the basis of money is faith, which is one of the enigmas of the human mind. When we speak of the government making money, we are talking only of superficials. The government cannot give us faith, and it is a matter of record that sometimes what a government chooses to call money does not function as money, simply because people have no faith in it.

Now, this third commodity may be sea shells or wampum or beaver skins — anything to which the mystical quality of faith has been attached by people. Or, it may be gold. For reasons which we need not go into at this time, gold — even raw gold without specific shape — became universal money through universal faith long before any monarch dug his seal into it and charged a fee for this useless service. A merchant with a bag of gold could do business anywhere, even where he was a stranger; to consummate a deal, it was only necessary for him to convince a willing seller that he had gold of the right texture and weight.

THERE ARE experts who tell us that this faith in gold is silly. In one of our college textbooks, in wide use, it is taught that there is no more reason for using gold as a standard of money than there is for using cheese. This is true, except for the fact that people have not yet worked up faith in cheese for anything but nutritive purposes.

There is no quarreling with faith — you have it or you don't, and there the matter must be dropped. Why, there are people who have faith in the ability of a government to make them healthy, wealthy, and wise, and they hold to that faith in the face of all evidence to the contrary. One can give all sorts of reasons why we should have faith in gold, but the reasons are supplied after the fact, not before. And those who decry this faith can argue astutely for its eradication, but the faith hangs on. One can say with certainty that almost from the time gold was first mined, it gained acceptance as money. That is a fact that any tinkering with the gold standard must face.

Indeed, no prince, chieftain, nor president who has tinkered with the gold standard — and many of them have tried it — ever attempted to shake people's faith in gold; they made use of it. When a monarch decided to enrich himself by clipping gold coins —

which was the original way of tinkering with the gold standard — he did so in the expectation that the people would accept the depreciated coins at their face value; if they had lost faith in gold, his clipping would have been waste effort.

PAPER MONEY

PAPER MONEY gained acceptance only because it carried the promise of convertibility into gold. Many of us can remember when, in some parts of the country, this paper was accepted as money with great reluctance. Somehow, the straight-thinking pioneer sensed that these pieces of paper could be manipulated to his disadvantage. And it was only when he was convinced that they represented money on deposit — which he could demand in exchange — that his resistance to paper money broke down. That is, paper money enjoys faith vicariously.

Likewise, the federal government's swindle of 1934 rested four-square on faith in gold; our officials could not have gotten away with their sleight of hand but for this faith. Taking advantage of it, they assured the citizens that the government still had a stock of gold, in some ratio to the amount of money proposed to be issued, and that all they intended by this change was to vacate the government's obligation to exchange the paper for gold on demand.

That was all. The federal government changed the character of the paper from *receipts* for gold into *representations* of gold. No monarch ever perpetrated a cleverer trick on his subjects, and one must admire it for all its dishonesty.

What was the government's purpose? Simply this: to remove the shackles of gold that restrained the government's inclination to counterfeit money at will. So long as the people who held paper could march up to the Treasury and demand gold in exchange, this counterfeiting business might backfire. The federal government determined to remove that danger. But, it must be kept in mind, it had to be done without violating the deep-rooted faith in gold. Our government gave us a gold standard that is not a gold standard.

GOVERNMENTS WANT GOLD

It is interesting to note that while most of the governments of the world have perpetrated similar frauds on their own subjects, they still insist on payments in gold from foreigners. Their faith in gold is unshaken, despite their repudiation of it internally. And that points up the fact that the abrogation or suspension of the gold standard is not an act of reason, but an act of force. If the government of the United States could compel France or Guatemala to

accept its unbacked paper in settlement of its debts, it would do so. What it calls legal tender is absolutely worthless where it cannot exercise police power.

That puts the money question into the field of politics — not economics — and makes the internecine quarrels among money theorists just so much play-acting. Their debates as to whether cheese could be substituted for gold, or how much gold the dollar should contain, or whether gold should be allowed to find its value in the world market — all their word battles over these questions are as futile as they are interminable. The fact is that money is not a reliable medium of exchange and measure of value when the government takes a hand in its management; money then becomes an instrument for regulating, controlling, and dominating the lives of the people. It is a police club.

FREEDOM IS THE ANSWER

THERE IS nothing wrong with money that freedom will not cure. This is another way of saying that the Good Society which many reformers have sought by way of monetary reform cannot be achieved that way; if it is ever to be achieved, it will be done by freedom. So, then, the fight for sound money, to have meaning, must be related to the broader fight

for freedom. It is only one of the several battles that must be fought.

Yes, we must insist on the return to convertibility. But, what does convertibility mean in fact? It means a restraint on the powers of the government. It does not mean an improvement in our money standard only; that is only *one* of its consequences. Far more important is the consequence of preventing the government from exercising its counterfeiting proclivities, from using money to rob us periodically of our property.

It is not enough to put shackles of gold on those who would deprive us of our freedom. If we would save our civilization from the fate of other civilizations, we must restore — besides convertibility — every restriction on the powers of government the founding fathers thought of, and perhaps a few more.