

SILVER CHARADE, GOLD CHARADE

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Not practicing what one preaches

I inadvertently opened a can of worms in writing the essay "[Myth of the American Gold Standard](#)." I suggested that the reason the dollar has remained the world's reserve currency in spite of horrendous trade deficits, and in the face of increasing reluctance of foreign central banks to absorb more of it, is Mr. Greenspan's steadfast refusal to authorize the sale of U.S. gold. I went on prophesying that as soon as Mr. Bernanke does authorize it, the dollar will ignominiously fall from its high perch.

My critics fall into two broad categories: First, those readers who think that the Fed cannot authorize the sale in any manner, shape, or form as title to the gold is vested in the Treasury. Second, those readers who think that the gold stored at Fort Knox is long since gone: it has been sold or leased clandestinely. In answering the first group I can point out that, while it is true that the title belongs to the Treasury, the gold is encumbered by gold certificates held as an asset in the balance sheet of the Fed. The Fed was given them in exchange for gold fraudulently and unconstitutionally confiscated in 1933. To this extent the gold cannot be disposed of without explicit concurrence of the Fed. Mr. Greenspan demurred. He even went public with his demurral saying that the U.S. would be foolish to give up gold, hypocrisy of not practicing what it preaches notwithstanding.

Pulling the rug out from under the dollar

The Treasury would not comment on rumors about the sale of gold in use as backing for Federal Reserve notes. Such a clandestine way of disposing of the patrimony of the American people would be a disgraceful piece of business. It would show the moral bankruptcy of the government that lacks courage to inform the electorate about plans to pull the rug out from under the value of the dollar in selling the monetary asset securing it, the only asset which is not at the same time a liability in the balance sheet of others, and is therefore not subject to default and debasement: gold.

Not as if it would be unprecedented. It wouldn't. During World War II silver was sold from under silver certificates. Because of this precedent it is not unthinkable that gold has been sold from under gold certificates in the balance sheet of the Federal Reserve banks. Gold may have been used to bribe governments to join American military adventures on foreign soil, for example. Such duplicity may be justified by a new twist in the interpretation of the word "globalization" to cover both military and monetary mischief.

Silver charade

Let me relate the little-known episode of the Treasury Department lending silver to the War Department under Lend-Lease during World War II. The silver was promptly built into warships and sent into harm's way. The upshot was that silver certificates were backed by unrecoverable silver in the form of bearing and wiring aboard warships exposed to enemy fire. (At that time all the \$1 and \$5 bills in circulation were silver certificates, to the exclusion of Federal Reserve

notes.) Nobody in authority batted an eyelid upon turning the legend into a cruel joke on the face of every one dollar bill, sporting a portrait of George Washington: "This certifies that there is on deposit in the Treasury of the United States of America one dollar in silver payable to bearer on demand." Come to think of it, what better way could there be in wartime to protect silver belonging to the creditors of the U.S. government than "storing" it aboard fully armed aircraft carriers? Creditors might sleep undisturbed: the value of the dollar was safe, the silver backing of the dollar was safe, regardless of the war. If the "storehouse" came under enemy fire and the silver was sent to the bottom of the ocean before the Treasury could perform on its promise to pay it to bearer on demand, well, that's too bad. At any rate, excuse would be readily available: "war is no picnic, you know."

No matter how you torture the facts, the truth of the matter remains: the silver backing the dollar was deliberately exposed to annihilation, rendering the legend on paper money utterly mendacious and dishonest.

"Quod licet Iovi, non licet bovi"

The Latin proverb translates into English as saying: "What Jupiter May, Oxen May Not" Lest my story of the silver charade be dismissed as a product of fantasy, I wish to document it. For background I turn to an editorial in the August 4, 1942, issue of *The New York Times*.

"One of the strangest episodes of the war is government hoarding of silver. That metal has suddenly come into great demand. It is needed as a substitute for copper, zinc, and nickel. It is also needed for a wide variety of new war purposes. The use of silver bearings in airplanes, for example, makes possible increased speed and greater ability to withstand shock and vibration. Silver and its alloys go into the manufacture of shells, bombs, tanks, torpedoes, trucks, and ships. So great is the present demand for the metal that the War Production Board has just issued orders severely rationing the amount of silver available for industrial purposes. And all this time the Government of the U.S. has in its vaults more than 3 billion ounces of unused silver - sixty times an average year's production - of which it is making no use whatsoever.

"This remarkable situation is the result of the adoption by Congress of the Silver Purchase Act of 1934, which compelled the Treasury to buy silver - both domestic and foreign - until the monetary stocks of the U.S. consisted of one-third silver and two-thirds gold. The theoretical purpose of this law was "to provide a wider backing" for American currency. Its actual purpose was, of course, to line the pockets of the Silver States. For eight years - and in recent years over its own protest - the Treasury has been forced to buy and store underground gigantic quantities of an unneeded metal at prices far above the current market price. Now the unneeded metal suddenly has become immensely useful - not as a "backing" for our currency but for purposes of war. And the obviously sensible thing to do would be to release from the Treasury the vast stocks of metal held for "monetary" purposes which is a sham. But the Silver Senators say no.

"So we arrive at a situation in which the same government that urges a patriotic public not to hoard sugar, not to hoard rubber, not to hoard gasoline, not to hoard useful goods of any kind, itself hoards a metal which is needed for planes and shells and tanks and ships. It is a fantastic situation. . ."

Three months later, on October 31, in another editorial the same paper noted that President Roosevelt has expressed his displeasure over the existence of very large hoards of critical material that owners refuse to sell at fair prices. The paper continued:

"We know there is a very large hoard, virtually a monopoly, of an important metal needed in war work. This hoard amounts all told to nearly 3 billion ounces. The owner acquired it at average

prices of less than 50 cents an ounce, but will not sell it for less than \$1.29 an ounce, although the market price until recently has been only 35 cents an ounce. Meanwhile this metal is needed in the manufacture of ships, airplanes, tanks, trucks, guns, shells, bombs, torpedoes, and other war equipment. It is needed as a substitute for copper, tin, and other metals now scarce. It is used to make airplane bearings, photographic films, surgical materials, and pharmaceutical products.

"This metal is silver. The hoarder is the United States Government."

Yes, indeed. *Quod licet Iovi, non licet bovi.*

The miracle of silver present at two different places at the same time

No fewer than eleven bills dealing with silver, and how Treasury stocks of it might be made available to help the war effort, had been introduced in Congress. The lucky one that eventually made it after the Senate passed it on June 18, the House on July 5, and the president signed it into law on July 12, 1943, was the Green Silver bill S. 35. It did not provide for retirement of any silver certificates as silver held or owned by the U.S. was being released for war purposes. It was designed to let the same silver to be present in two different places at the same time. The actual wording, somewhat ambiguous, was that "at all times the ownership and the possession or control of an amount of silver of a monetary value equal to the face amount of all outstanding silver certificates heretofore or hereafter issued by the Secretary of the Treasury shall be maintained by the Treasury." Senator Green, in answering questions about the meaning of these and other words in the bill, said that "under the provisions of the bill it will be possible for the Treasury to take silver now retained for silver certificates, and which cannot be used for any other purpose, and use it for non-consumptive purposes." (*Hearings* of October 14, 1942, as reported in the Minutes, p. 11.) Senator Green went on to say that "It will make it possible to use silver now buried and used solely as security for silver certificates, and to transfer it from underground, where it serves no other purpose, to places where it will serve non-consumptive purposes. . . I cannot see where it would be any less security for the silver dollar if it is in a government-controlled electrical establishment than if it is underground at West Point." (*Ibid.* p 14.)

Dishonest and phony promises

It seems clear from this that the Green Bill proposed the use of the silver held against silver certificates for non-consumptive purposes and at the same time for "security" behind silver certificates. Under this arrangement the silver certificates were not redeemable into silver. They became dishonest and "phony" in every respect. If silver busbars in electrical plants (used as conductors to withstand very great electrical current) can serve as reserves of silver certificates, then so can unmined silver in the mines, including mines in the Moon. So can silver held in vaults abroad. For good measure, so can silver that has been sold to foreign governments. Since the government has engaged in this type of currency manipulation, to issue paper money carrying promises that cannot possibly be fulfilled, it has created a precedent which can be used in the future to issue obligations that the Treasury has neither the means nor the intention to fulfill. Legislators have sunk to a new low level of degradation in dealing with the public.

The manner in which the issue of dishonesty was avoided in passing the Green Bill was peculiar and disturbing. It suggested that there was an intent "to put over a fast one" on the American people. It has since become a regular feature of monetary legislation in the United States. As a result, the once mighty dollar was reduced from a definite promise to pay a definite quantity of monetary metal of definite quality, first, to a phony promise that was impossible to fulfill. From there it was only a short step to reduce the dollar further to a scrap of paper promising, as a

Federal Reserve note does, to pay nothing. And this is exactly what it will be worth in the fullness of times.

Moral bankruptcy

We must see the Green Silver Act for what it is: the first step on the way to hell. It is a disgraceful piece of legislation, opening the way toward moral bankruptcy in the administration of the nation's currency. This lack of respect for the importance of maintaining the integrity of government promises where the people's money is concerned fully exhausts the meaning of dishonesty, fraud, and chicanery. It is tantamount to the rape of the American Constitution.

Not a single voice was raised in Congress or in Administration circles against this sorry piece of business. When a government begins to write false promises on the people's money it is notifying the world in unmistakable terms of the extent to which it is marked by the rot of moral bankruptcy. Soon enough, financial bankruptcy may follow.

For over sixty years after the Green Silver Act, America has been fortunate enough to escape that fate. This should not give it comfort. America has never been closer to fully-fledged financial bankruptcy than it is right now, an event for which the banks, businesses, and the people at large are ill prepared, making the coming shock even more devastating. The economists' and financial journalists' profession bears responsibility for failure to forewarn and forearm the public. Short of a miracle, America cannot avoid its fate: credit collapse, the vanishing of the value of dollar and all dollar-denominated assets such as bank notes, deposits, bonds, insurance policies, and pension rights.

"Help yourself to fire and brimstone"

My critics set great store by the openness in the administration of the currency. They point out that the debates about the wisdom of selling or leasing silver encumbered by silver certificates in support of the war effort was carried out in the light of full publicity. Opponents were given full opportunity to argue their case against the measure.

Unfortunately, soon enough, currency management was to become top secret. I close my essay with another quotation, this one from the October 28, 1945, issue of *The New York Herald Tribune*.

"In making the atomic bomb, the Army needed silver for giant current carriers known as busbars. The Treasury had a lot of silver it wasn't using, so the Army borrowed 400 million troy ounces.

"The Treasury puts out a daily statement about where its silver is, and prides itself on its honesty. The necessity for Army secrecy posed a problem. Fortunately, silver also was being leased to the Office of Defense Plants and other agencies. So the daily Treasury report stated the number of ounces 'held by the Office of Defense Plants, the Reconstruction Finance Corporation, etc.'

"The little word 'etc.' was big enough to cover the atomic bomb. Luckily, nobody asked the Treasury what it meant."

Fancy bearers of silver certificates turning up at the Treasury and demanding delivery of silver. Fancy they being taken to Los Alamos, shown a pile of radioactive debris, and told: "Help yourself!"