

THE SIGNIFICANCE OF THE GOLD STANDARD

Antal E. Fekete

San Francisco School of Economics

aefekete@hotmail.com

This is a freely edited version of an article by the monetary economist Walter E. Spahr (1891-1970), Head, Department of Economics, New York University, that appeared in the quarterly review *Modern Age*, Summer, 1960.

An instrumentality of human freedom

Of all institutions the gold standard occupies a paramount position as an instrumentality of human freedom, private property, private enterprise, and responsible government. The nature of the gold standard should reveal something as to why it is a necessary and natural companion of human freedom.

After specifying the standard gold coin and opening the Mint to its free and unlimited coinage on private account, the government must stand aside and let the gold standard perform its functions in accordance with the desires of the people. The right to private property in gold is established and respected. The government shall not interfere with the hoarding, importing or exporting of gold, or with the redemption of non-gold currency into standard gold coin by the banks. An individual may put none, little, much, or all of his property into gold. He may convert all of his property into gold and ship it out of the country without hindrance from the government.

Checkrein on the government and banks

If a person living under a degree of freedom inherent in a gold standard is disturbed by, or disapproves of, the policies of his government or the practices of banks, he may protect his property by presenting non-gold currency for redemption. If a sufficient number of people do this, then the government and the banks are forced to respect the fears or disapproval of the citizens. The govern-

ment and the banks are thus placed in a position in which they must be careful not to disturb unduly, or to incur the disapproval of, people with property to protect.

Thus do a people with a gold standard at their disposal have the power to keep a checkrein on the fiscal policies of their government. Thus do they force the banks not to pursue reckless credit practices. Thus do they obtain and maintain a responsible government and a responsible banking system.

The people may utilize that power wisely or unwisely; but it is a power they must have if they are to be able to protect themselves from improper government encroachment or tyranny, and against irresponsible banking.

The experience of England

In international relations, all individuals are free under a gold standard to utilize gold as they desire. If their non-gold dollars are not acceptable abroad, they can remit the equivalent in gold. Since gold is the most universally acceptable money known to mankind, the individual is given the widest possible freedom in utilizing his wealth anywhere in the world.

This freedom and these practices were illustrated by England's use of the gold standard for nearly one hundred years from 1816 to 1914. Her people traded, invested, and traveled so widely that it was often said that 'the sun never sets on British possessions'. The pound sterling became the dominant international currency and London the principal inter-national

banking center of the world. Respect for and protection of private property and freedom to trade, travel, and invest reached heights never attained before or since.

Irredeemable currency – an instrumentality of servitude

When a government inflicts irredeemable currency on the people, the great rights and freedoms inherent in a gold standard disappear. The government becomes their dictator free from effective control; it curbs their rights and freedom as it sees fit. Constitutional government is subverted in an endless number of ways, and made to conform to the desire of the government to restrict human freedom.

The ability of people to put pressure on the banks and the government through demanding gold is destroyed. With the destruction of that individual right the power of the purse passes from ultimate control by the people to unrestrainable control by the government. Such an arrangement allows, nay, invites, the government to indulge in a spending orgy.

Grabbing the public purse

Once the government grabs the public purse, its power becomes uncontrollable. Combined with the loss by the people of the freedom and rights inherent in a gold standard, unscrupulous politicians can socialize the nation and undermine the republican system of government. The purchasing power of the currency is impaired. The banks are freed from the pressures of control which individuals have previously exercised over them. The quality of integrity in the currency is destroyed. Lacking that virtue, the monetary bloodstream contaminates the economic, political, and social system of the nation and fosters widespread corruption. In international relations, governments which employ irredeemable currency step in to regulate or control foreign trade, exchange rates, investment, travel,

the amount of currency that may be taken out of the country. The freedom of private property in international exchange is curbed; the equalizing and self-correcting influences, characteristic of a gold standard, are impaired or destroyed. Foreign trade reaches various degrees of chaos.

Economic distortions

Under a gold standard a prolonged unfavorable balance of payments, heavy and persistent losses of gold tend to correct themselves with promptness. But with government controls under the regime of an irredeemable currency economic distortions can long persist and become destructive. This is so because *government officials cannot possibly provide the same level of wisdom that millions of people, free to trade, travel, invest, and act in their own interest can.*

As problems in foreign trade mount, governments find excuses for more or different controls. A huge bureaucracy is developed to manage these international problems. There is no foreseeable end to these procedures until a nation regains the benefits of a gold standard which requires that the government retire to its proper position of umpire and relinquish its role as dominant participant and dictator.

Irredeemable currency – a tool of totalitarian governments

All socialist, communist, and totalitarian governments utilize it, because an irredeemable currency gives them the power that they need if they are to control the people and deprive them of the freedom inherent in private property and private enterprise. Having experienced these powers, the government is taking further steps into socialism and centrally managed economy. Those in charge reveal that they wish to retain the power acquired through the use of irredeemable currency and to continue the march toward more socialism

and more government control. Frequent official words to the contrary are designed to be reassuring or to allay fears; but they have no important effect in arresting the course being pursued.

A national habit-forming drug

A government can take unrestrainable control of the people either by the use of military force, or by the use of irredeemable currency. The former is readily understood; the latter is a subtle national drug that is not generally understood, and is readily embraced by its victims. It is, consequently, a favorite device of modern governments that desire to bring the people under thoroughgoing control, for it enables the government to succeed and, at the same time, to have the general, even vigorous, approval of the great mass of people.

The world is literally drugged with irredeemable currency, and with government management and dictatorship as consequences. Under this intoxication there is strong agitation for more and more national spending, more and more government controls, and more and more debt.

The fact that these are common reactions of the great majority of people who have been subjected to the use and effects of irredeemable currency provides no clue as to whether the nation is to be saved from the most serious disaster into which the present course is likely to lead. Most unfortunately, mainstream economists have been working aggressively for a governmentally managed economy, or riding quietly with the tide that is moving in that direction.

Detoxification

It is useless to expect a mass movement on behalf of a sound currency. The daily experiences of people are such that they confirm in their minds the alleged virtues and benefits of irredeemable currency.

Like drug addicts, they do not regard it as a dangerous or undermining narcotic. Even the loss of purchasing power does not disturb them to any great extent – their chief response is to try to get more and more of it. The bloating and distortions of business indexes are readily accepted as evidence of economic health. Heavy taxes and mountainous debt are not regarded with anxiety. A frequent or common agitation is for ever more national spending.

If we are to be saved from the ultimate evil consequences of using irredeemable currency, needed action should come from top national officials. Such reforms call for statesmanship. The President and Secretary of the Treasury must be statesmen, act as informed and tough monetary surgeons, men who can and will persuade Congress to re-instate redeemable currency.

Once that step is taken, the people should experience a breath of fresh air and be on the course leading to better days – to a better government that is willing to abide by the Constitution, to greater freedom for the people; in short, to more responsibility by the government and by the banks. Optimism should become wide-spread because the money of the nation would once more have the quality of integrity. The problem of credit-control should be easier to solve. Business enterprise should expand, domestically as well and internationally, and on a sounder basis. Gold should flow in from abroad. Imbalances in foreign trade should rectify themselves. The control of the public purse would be returned to the people *as individuals*, where it belongs if human freedom is to be preserved and responsible government is to be obtained. Then there would be good grounds for assurance that the republic will be preserved – at least as long as the gold standard is maintained.

April 17, 2009.

Calendar of Events

Instituto Juan de Mariana: Madrid, Spain, June 12-14, 2009

Seminar with Prof. Fekete on Money, Credit, and the Revisionist Theory of Depressions

For information, contact: gcalzada@juandemariana.org

OroY Finanzas & Portal Oro: Madrid, Spain, June 18, 2009

Gold and Silver Meeting Madrid 2009

For information, contact: preukschat_alex@hotmail.com or

gcalzada@juandemariana.org or

<http://www.portaloro.com/aemp.aspx> or

info@portaloro.com

San Francisco School of Economics: A Series of three Investment Seminars:

July 25; August 1; and August 8, 2009

The Gold and Silver Basis; Backwardation; Trading Gold in the Present Environment; Wealth Management under the Regime of Irredeemable Currency. Given by Professor Fekete and Mr. Sandeep Jaitly of Soditic Ltd., London, U.K. Enrolment is limited, first come first served. For more information, see: www.sfschoolofeconomics.com

San Francisco School of Economics: July 27-August 7, 2009

Money and Banking, a 20-lecture course given by Professor Fekete. Enrolment is limited; first come, first served. The Syllabus for this course can be seen on the website: www.professorfekete.com, see also: www.sfschoolofeconomics.com

University House, Australian National University, Canberra: first week of November, 2009

Peace and Progress through Prosperity: Gold Standard in the 21st Century

This is the first conference organized by the newly formed Gold Standard Institute.

For further information, e-mail: feketeaustralia@gmail.com ,

On the Gold Standard Institute, e-mail philipbarton@goldstandardinstitute.com

Professor Fekete on DVD: Professionally produced DVD recording of the address before the Economic Club of San Francisco on November 4, 2008, entitled *The Revisionist History of the Great Depression: Can It Happen Again?* plus an interview with Professor Fekete. It is available from www.Amazon.com and from the Club www.economicclubsf.com at \$14.95 each.

