By
Dr. Hans Sennholz
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INFLATION OR GOLD STANDARD

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by

Hans F. Sennholz

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As Old as Civilization

At the Democratic Party Convention, in July 1896, William Jennings Bryan made a famous speech on the gold standard. "You shall not press down upon the brow of labor this crown of thorns," he orated. "You shall not crucify mankind upon a cross of gold."

Is the gold standard really such a cross? Or is it a crown of public honesty and monetary stability?

Actually, *the gold standard is a monetary system in which gold is proper money and all paper moneys are merely substitutes that are payable in gold.* Under the gold standard the U.S. dollar is a piece of gold of a certain weight and fineness.

The gold standard is as old as man's civilization. Throughout the ages it emerged again and again because man needed a dependable medium of exchange. And gold provided such a medium. It was the most marketable good that gradually gained universal employment — and thus became money. Its natural qualities, i.e. its use for the manufacture of ornaments and jewelry, its easy divisability, great durability, storability and transportability, elevated this precious metal over all other commodities as money.

Where gold coins were the accepted media of exchange, circulating by weight rather than name, money substitutes were also payable in gold. Paper notes and clay tablets promising to pay cash on demand were well known to the ancient world. The ancient Chinese used gold coins some 3,000 years ago. The merchants of ancient Greece made payments in gold and silver coins over 2500 years ago.

During the Middle Ages, when economic relations disintegrated and great poverty spread over the Western world, the silver standard generally replaced the gold standard. In Great Britain silver coins formed the basis of the monetary system until the middle of the eighteenth century. The U.S. had a de facto silver standard until the 1830's.

Freedom Gives Birth to Gold Standard

When trade and production expanded during the eighteenth and nineteenth centuries, the gold standard re-emerged. English merchants and goldsmiths found gold coins very useful and therefore began to mint them. It is significant that the government did not establish the standard by any conscious and deliberate act. In fact, *the gold standard needs neither rules nor regulations, no legislation or government control, merely the individual freedom to own gold.* Of course, this freedom of gold ownership embodies the freedom not only to buy and sell gold for use in industrial production, but also to employ it in exchange.

Restoration of monetary freedom means return to the gold standard. During and after the Civil War when U.S. greenbacks were the only legal money in the Union, there nevertheless was monetary freedom in California. Consequently, the people of the state preferred gold over greenbacks and continued to use gold as their money. Business transactions were conducted in gold, and money substitutes, such as bank notes and deposits, were payable in gold. If the people are free to choose between paper money and gold currency they naturally turn to gold. And this choice then forces all issuers of paper money also to make payments in gold lest their paper falls in utter disrepute and ceases to function as money.

Failure of the Bimetallic Standard

It is significant, however, that it was not monetary freedom that gave birth to the nineteenth century gold standards of the Western nations. There was no laissez-faire in monetary matters even during this century of individual freedom and enterprise. To regulate the people's money at least in matters of size and fineness was considered a proper function of government. And since governments were generally biased in favor of the largest possible money supply, which was thought to generate national wealth and prosperity, they favored a double standard in which both gold and silver were legal money. But instead of letting both metals circulate side by side at ratios that were freely determined in the money market in accordance with demand and supply, governments felt called upon to regulate their mutual exchange ratios. And this regulation, which was price-fixing of the metals in terms of each other, then gave birth to a single standard. In other words, the inevitable failure of the bimetallic standard due to the operation of Gresham's Law led to either the gold standard or silver standard. The fixed ratio between the two determined the outcome.

The early history of American currency clearly illustrates this circuitous road to the gold standard. With the establishment of the federal government a bimetallic standard was adopted, and the coinage ratio of gold and silver was fixed at 15 to 1. But this ratio overvalued silver and thus drove full-weight gold coins out of circulation. When Congress became cognizant of the disequilibrium in the specie currency, it endeavored to bring the country back to the bimetallic basis. An Act passed on June 28, 1834, reduced the gold content of the dollar from 24.75 grains pure gold to 23.2 grains, but left the bullion content of the silver dollar unchanged. The reduction of the bullion content of the gold dollar changed the coinage ratio from 15 to 1 to approximately 16 to 1. But just as the earlier ratio had overvalued silver, so did the new ratio overvalue gold. Consequently, in time gold began to replace silver as the standard money. True weight silver coins and silver bullion disappeared from circulation, the banks substituted gold reserves for silver specie, and a *de facto* gold standard emerged.

Substituting Gold for Fiat or Silver

Several European nations, such as Germany, Austria-Hungary, and Russia, travelled yet another road to the gold standard. Since Great Britain, the leader in world trade and finance, had a gold standard, many others aimed to follow. They achieved a transition from other standards, such as silver or irredeemable fiat, through substitution. In the case of Germany the government began to pay gold and claims to gold in exchange for the silver money and claims to silver money held by its citizens. The government, through the operations of its central bank, provided the necessary quantity of the new metal and exchanged it for the old currency. In other countries the transition was achieved with rather small quantities of gold by permitting the old money to remain in circulation. But the latter was changed into claims that were convertible into the new gold money made available by government.

In recent decades most governments have worked fervently in the opposite direction: to sabotage and destroy the gold standard. They have, in fact, been so successful that the gold standard is now practically extinct. Governments have seized complete control over the monetary systems, and government paper money has become the fiat standard money. It is true, governments still make limited gold payments to each other. But they neither publicly redeem their paper notes in gold, nor tolerate the monetary use of gold by their citizens.

Three Variations

The decline of the gold standard in recent decades produced several variations.

The unadulterated standard which was later called the orthodox or classical gold standard was a *gold-coin standard*. Gold coins were actually in the cash holdings of the people in addition to bank notes, check book money, and fractional coins. The latter were money substitutes payable on demand in gold coins. It was immaterial that some notes were endowed with legal-tender power, that is, the legal power to settle all debts public and private. As long as they were redeemable on demand they represented definite quantities of the metal gold.

Since the beginning of this century governments began to restrict the actual circulation of gold. They gradually established the *gold-bullion standard,* which affords greater leeway for inflation and familiarizes the people with paper money. Under this standard the government is managing the bullion. Gold coins are no longer in circulation, having been accumulated in the vaults of central banks. The national currency is no longer redeemable in gold coins, but only in large, expensive gold bars. This, in effect, prevents redemption by most citizens and limits it to a few specialists in international trade and finance. During the 1920's several European countries had standards of this type.

The gold standard system was undermined even more by the *gold-exchange standard*. Governments now began holding their country's gold reserves not in actual gold, but in foreign claims to gold. They were selling foreign currency that actually was redeemable in gold coin or gold bullion at rates that reflected the legal parity. The world's monetary gold thus was gradually accumulated in a few central banks that became the reserve banks of the world.

After World War II the Bank of England and the U.S. Federal Reserve System controlled most of the world's stock of monetary gold. More than 60 nations were holding their reserves in pound sterling claims to gold, forming the sterling area. Some twenty nations, mainly in Latin America, belonged to the dollar area. But the Bank of England in turn was holding most of its reserves in dollar claims to gold, which made the Federal Reserve System the ultimate reserve bank of the world and the gold-exchange standard a *de facto* dollar-exchange standard.

During the 1960's, the decade of the New Frontier and Great Society, the U.S. dollar gradually fell from this position of predominance. Several monetary crises and runs from the British pound, which triggered world-wide demands for dollar redemption, greatly depleted the American stock of gold and created precarious payment situations. Therefore, in March 1968, most governments joined the U.S. Government in halting gold redemption of their currencies. Thus ended the gold-exchange standard and began the fiat standard. The gates were flung wide open for inflation.

A Standard Without Government

The gold-coin standard means sound money; it makes the value of money independent of government. It is true, it cannot achieve the unattainable ideal of an absolutely stable currency. There is no such thing as stability and unchangeability of purchasing power. But the gold standard protects the monetary system from the influence of governments as the quantity of gold in existence is utterly independent of the wishes and manipulations of government officials and politicians, parties and pressure groups. There are no "rules of the game," no arbitrary rules which people must learn to observe. It is a social institution that is controlled by inexorable economic law.

The issuers of money substitutes, whether private or public, keep their currencies at par with gold through unconditional redemption. Where there is a central bank it buys any amount of gold against its currency or deposits at the parity rate, and sells indiscriminately and on demand any amount of gold against its notes or deposits. It thereby renders no national service, nor "defends" or "protects" the national currency. It merely fulfills the contract it made when it issued the money substitutes.

Under the gold-coin standard inflationary policies are not rendered impossible, but rather made difficult. Redemption demands and the threat of drains of their gold reserves would restrain the issuer of money substitutes from inflationary expansion. For any such expansion would alarm the owners of substitutes and cause them to demand redemption in gold coin, which would spell ruin to the issuer.

An International Standard

The international gold standard evolved without intergovernmental treaties and institutions. No one had to make the gold standard work as an international system. When the leading nations of the world had adopted gold as their currency the world had an international money. True, the coins bore different names and had different weights. But this hardly mattered as long as they consisted of gold and could be exchanged freely. After all, an ounce of gold is an ounce of gold whether minted in eagles or sovereigns.

The gold standard united the world as international payments ceased to be a problem. It facilitated international trade and finance, and thereby promoted world-wide division of labor. Countries specialized in those internationally traded commodities in which they enjoyed the greatest advantage. But above all, the gold standard encouraged exportation of capital from the industrial countries to the backward areas. Without the fears of devaluation losses or transfer restrictions European capital eagerly sought profitable employment opportunities on all continents. It developed commerce and industry and thus improved the living conditions of millions of natives.

Economic Stability

Inasmuch as the gold standard makes inflationary policies rather difficult, it avoids the wide fluctuations of economic activity, known as the business cycle. As it forces the issuers of money substitutes not to exceed very narrow limits, it is an efficient check on credit expansion. But it is this credit expansion that generates the economic boom and bust cycle.

When a central bank operating without the restraints of the gold standard creates new reserves for banks, which in turn extend credit to business, the entrepreneurs begin to expand production. But this expansion is based merely on banknotes and deposits. It lacks the real supply of capital goods, and therefore must finally collapse. When the prices of production factors begin to soar and business becomes unprofitable, when the central bank finally halts its inflation out of fear of runaway prices, the boom must come to a sudden end. It is followed by a recession which is a time of readjustment and correction.

Professor William Graham Sumner, the great Yale economist of the pre-Federal Reserve era, summarized several American experiences with irredeemable paper currency as follows: "Scheme after scheme has been proposed and tried for realizing the gain which it was believed that cheap money could produce for the public; that is, for those who buy and use currency. This gain has been pursued as the alchemists pursued the philosopher's stone, by trial and failure. Whether there be any such gain or not, our attempts to win it have all failed, and they have cost us, in each generation, more than a purely specie currency would have cost, if each generation had had to buy it anew. . . . The revulsions to which the system was subject overwhelmed us in every decade. The notions on which the system was based are proved to have been delusions, Ardent opposition to the gold standard is voiced by the *nationalists* in all countries. Favoring national autarky in all matters they resent their monetary dependence on gold. The fiat standard is their system.

The American representative resents the gold standard for two particular reasons. It puts gold into the center of the system to which all national currencies including the U.S. dollar must adjust. Without the standard that makes national currencies just money substitutes, the U.S. dollar would take the place of gold in the currency systems of most countries. At least, this is what our nationalists believe. American preponderance in the world capital markets and international trade, they say, would afford the dollar such an eminent position.

It is true, the gold-exchange standard has made our Federal Reserve System the world central banker administering the world gold reserves. But the prominent position of the System was derived from its prominent holdings of gold. Without this gold the dollar standard would inevitably succumb to the gold standard, which emerges from inexorable economic law wherever there is freedom.

The nationalists also resent the gold standard because it places the U.S. in a most embarrassing light. U.S. liquid liabilities to foreigners presently exceed \$35 billion in gold, which is some \$25 billion more than the U.S. Treasury can muster. If we cannot *dom — and succumbs to laws and regulations. Its implacable enemy is government in search of revenue.*

The economic problem of government differs radically from that of its subjects. Individuals produce goods and services in order to earn their livelihood. Government expropriates individual income and wealth in order to cover its expenses. While individuals must produce more in order to earn more, governments must find new methods of expropriation. The tax levies must be raised, or new taxes imposed. But taxation is often unpopular, and may precipitate the downfall of governments. *This is why inflation, which is the creation of new money by the authorities, is such a convenient source of revenue.*

Although inflation is a vicious form of taxation it may even be popular because its effects are rarely understood. There are the beneficiaries of inflation who sing loud praises of "easy money" and "credit expansion." The government and its economists even invent intricate theories and doctrines in support of inflationary policies. For inflation boosts government revenue and permits politicians to spend more money than they can raise by taxes. Inflation also repudiates government debt as it reduces its purchasing power. In this respect it is a silent tax on all creditors and money holders.

It is rarely understood that inflation generates a vast redistribution process. It shifts wealth and income from the pockets of creditors to those of debtors. It reduces the standards of living of people with fixed incomes, in particular, the aged and handicapped. And it diminishes the value of savings bonds and savings accounts, mortgages and life insurance policies, pensions and other savings. It causes the economic instabilities of the trade cycle. And, above all, the losses which inflation inflicts on millions of people breed a political and economic radicalism that tends to destroy our private property order.

In March 1933, the Roosevelt Administration expropriated the monetary gold owned by Americans and thus forcibly abolished the gold-coin standard. We entered a new era of government spending and inflating. In 1933 Federal Administrative Budget receipts amounted to \$1.9 billion; in 1969 they are estimated at \$135.6 billion. Expenditures rose from \$4.6 billion to \$147.4 billion.

An ever-growing part of federal activity is financed by taxes that are not even shown in the traditional Administrative Budget. They provide the "Trust Fund" revenues that finance more than two-thirds of gross expenditures on health, education and welfare. The largest single trust fund operation among more than 130 such operations is the Old Age and Survivors Insurance. Medicare is following rapidly. From a modest beginning of \$265 million in 1937 total trust fund revenues have risen to an estimated \$53.839 billion in 1969.

The quantity of money has grown phenomenally and its value deteriorated drastically. From March 1933 to January 1969 the quantity of currency held by the public rose from \$5.5 billion to \$42.7 billion, demand deposits from \$13.5 billion to \$146.7 billion, time deposits from \$21.8 billion to \$265.6 billion. During this period the purchasing power of the U.S. dollar fell to 37c of the 1933 dollar.

These are government statistics. Private research organizations which undertook to measure the decline of the dollar's purchasing power in their particular fields arrived at much greater rates of depreciation. In construction, for instance, the American Appraisal Co., Associated General Contractors, and the Engineering News-Record found that the 1969 dollar has fallen to less than 16c of the 1933 dollars.

The Enemies of the Gold Standard

For some 200 years governments have tried to manipulate and regulate the people's choice of money. Since the gold standard was least amenable to government control it was systematically assaulted. It was suspended at government convenience, gradually deprived of its substance, and finally replaced by the fiat standard. The stage thus was set for an age of inflation.

Early opposition to the gold standard was voiced by the *classical economists.* They looked upon the costs of a metallic currency as a waste, which the gold-exchange standard was said to reduce. They blithely assumed that no government of a civilized nation would exploit the gold exchange standard for inflationary objectives. David Ricardo put it this way: "In a free country, with an enlightened legislature, the power of issuing paper money, under the requisite checks of convertibility at the will of the holder, might be safely lodged in the hands of commissioners appointed for that special purpose, and they might be made totally independent of the control of ministers."

Several modern economists still echo this particular objection against the gold standard. But while we may understand the naivete of classical economists, who had never experienced hyperinflations and devaluations in a free country, the modern economists cannot be exculpated so easily. They should know that, paraphrasing William Graham Sumner, a new gold-coin standard could be established every year out of the depreciation losses suffered by savers and creditors. And the needed gold could be purchased again and again from the losses suffered by the millions of victims of a depression. Indeed, the gold-coin standard is a bargain price for economic stability. In an age of inflation and currency crises to reiterate confidence in the monetary integrity of government is to be deaf and blind to reality.

disastrous to everybody concerned, including those who tried to profit by them."

The False Gold Standard

The gold-coin standard cannot be manipulated by government and, therefore, presents an insurmountable obstacle to all attempts at credit expansion and regulation through monetary policy. When it was gradually replaced by the gold-bullion standard and finally by the gold-exchange standard, governments assumed the power to manipulate their national currency systems.

The gold-exchange standard was a false gold standard. The monetary gold was absorbed by a few central banks that exerted a decisive influence over the price of gold. For many years the price substantially depended on the decisions of a single government, that of the United States. With governments in control the national currencies depreciated in every country. Dozens of currency devaluations occurred nearly every year.

Government Control Means Inflation

The gold standard never failed — it was mutilated and finally abolished. It springs eternally from free-

pay, the nationalist concludes, the fault must lie with the system. Let's abolish it rather than admit failure to "those international bankers."

It is indeed difficult to admit that the accumulated payments deficits of more than $35 billion resulted from our own inflation predilection. For many years the U.S. Government has been generating the international payments deficits with reckless deficit spending and money creation.

But the most implacable enemies of the gold standard are the *inflationists*. To them federal spending and easy money are the panacea for all social and economic ills. They are the chronic spenders who find it so difficult to live on tax revenue only. Year after year they prompt the federal government to incur budgetary deficits that are most conveniently covered by new money. Their opposition to the gold standard usually is depicted as a desire for "freedom for each country to pursue a monetary and fiscal policy of social welfare and justice."

There are also the apostles of credit expansion as a means for full employment and economic growth. They are convinced that newly created credit can lower interest rates, give employment and raise wages. And in recent years they even extended their boundless faith in easy money to economic expansion and development. Economic growth, they say, requires more money than the gold standard can possibly provide.

It is true, the gold standard does not afford supplementary revenue to governments. But the stated objectives, such as economic expansion and full employment, social welfare and justice, not only do not require inflation, but even presuppose its absence. Economic growth depends on the accumulation of capital through savings and profits. Full employment results from the proper adjustments of labor costs to labor productivity. And social welfare and justice depend on sound money — inflation merely compounds economic and social evils. This is why ages of inflation are also marked by social and political unrest, by strife and conflict, riots and revolutions.

The most consistent foes of the gold standard are the *socialists* and *communists*. Their very raison d'etre is government control and direction of all phases of economic life. How can they tolerate the gold standard, which springs from individual freedom and private property? Gold coins are a medium of exchange — but there is no free exchange in a command economy. To believe that Soviet Russia will ever tolerate gold markets and gold payments is to believe that she will abolish the Soviets and turn laissez-faire.

Popular Fallacies

The gold standard is the currency system of free people who exchange their goods and services for gold, their common medium of exchange. The actual use of gold coins affords a measure of protection from inflationary policies, which all kinds of government are so prone to practice. But, contrary to the shallow charges by many foes, no gold standard advocate expects it to protect man from his own follies. It is merely a manifestation of civil liberty, a phenomenon of the market economy, but no panacea for political, social and economic evils.

It would be extremely naive to believe that a government bent on spending and inflating would tolerate the gold standard, or that interventionists and socialists would willingly forego their power over money and credit. This would be as naive as to believe that war can be outlawed among nations bent on waging war, or that dictatorships can be made unconstitutional for people who want to be led. The gold standard presupposes individual freedom, private property, and free markets.

Some foes of the gold standard, who usually profess a preference for the market system, contend that the choice of monetary system is a purely technical question. The monetary arrangement that is most workable on technical grounds, whether fiat money or gold standard, is said to deserve our preference. It is significant that these economists then promptly conclude, "on purely scientific grounds," that the fiat standard is more "workable" and therefore more desirable.

It is undoubtedly true that the fiat standard is more workable for economic planners and money managers. But this is the very reason why we prefer the gold standard. Its excellence is its unmanageability by government. And we also deny that the fiat standard which is characterized by rapid self-destruction and has failed wherever it was tried, compares favorably on purely scientific grounds with the gold standard which is as old as man's civilization. Out of the ashes of fiat money the gold standard always springs anew because it is no technical creation of a few expert advisors, but a social institution that flows from economic freedom and economic law.

The most popular objection against the gold standard rests on the notion that there is just not enough gold in the world to accommodate the monetary needs of mankind. How can $42.7 billion in paper dollars held by the American public be redeemed by some $10 billion of gold held by the U.S. Treasury? And how can some $150 billion of demand deposits be payable in gold?

The answer is simple. The fiat money now in the cashholdings of the people must stay in circulation. It must not be replaced by gold, but be permitted to function as money side by side with gold. For hundreds of years both gold coins and silver coins served simultaneously as money. It is true, their exchange ratio varied greatly over the centuries. But one metal did not replace the other as long as eager governments did not fix their prices and set into operation Gresham's Law.

Return to the Gold Standard

How can a rebirth of the gold standard be achieved under present conditions? And how would it work?

No reasonable economist would want to revolutionize economic life through a radical monetary reform. He does not want to make gold the only money, forbidding government issue of any kind and suppressing banknotes and demand deposits used as media of exchange. Such a reform would require radical government intervention and greatly reduce the country's money supply. Prices and wages would have to be drastically cut, which no modern society could withstand in an orderly fashion.

The answer to our questions can be found in 3,000 years of experience with the gold standard. How did it emerge in the past? As described above, it arose from three different situations: unadulterated monetary freedom, failure of the bimetallic standard, and government substitution of gold for other monies.

The last avenue was chosen by a few nations who endeavored to imitate the financial success and progress of the gold standard nations. When the industrialized countries, such as England and France, prospered with the gold standard, others adopted it through quick substitution. Their approach was that of latecomers who for good reasons imitated the successful leader. It is obvious that in an age of fiat money this avenue to the gold standard is closed for lack of leader. And it is rather unrealistic to expect the U.S. Government to provide this leadership. It would have to renounce its inflationary ways and, at heavy expense, substitute gold coins for Federal Reserve notes while it owes more than $35 billion in gold to foreign creditors.

Most Western nations arrived at the gold standard via the bimetallic standard. Similarly, a double standard in which both gold and fiat money are legal money could be used to re-establish the gold standard. But it requires the cooperation of government which an administration indulging in deficit spending is unlikely to provide. It would have to abandon any further inflation and prevent any further expansion of money substitutes. At the same time all restrictions on gold trading would have to be repealed, which would permit a free market for gold to emerge.

A free American gold market would probably result in an inflow of considerable quantities of foreign gold as many Americans would want to own some gold. After some oscillation on the market the price of gold would stabilize. Let us assume it to be $100 per ounce.

If the government now decrees that both Federal Reserve money and gold are legal money we are on a double standard. If the government establishes a legal parity of the dollar to gold at any ratio other than 100 to 1 it brings into operation Gresham's Law. That is, artificially overvalued money tends to drive artificially undervalued money out of circulation. Let us say the government sets a ratio of 105 to 1, or even 110 to 1. It obviously overvalues the gold and thereby creates the gold standard. Gold gradually replaces government money in the people's cashholdings.

This road to the gold standard is rather circuitous. Nevertheless, as it makes few demands on government it has been the most travelled road during the last 200 years. The U.S. Government used it in 1834.

Ludwig von Mises, the great dean of monetary theory, would establish the gold standard without this circuitousness. He would, once the market price of gold has been found, adopt this price as the new legal parity of the U.S. dollar and secure its unconditional convertibility at this parity. A new "conversion agency" would sell gold bullion to the public against paper dollars, and buy any amount of gold offered at the legal parity. Finally, transition from this gold-bullion standard to the gold-coin standard would be achieved by the U.S. Treasury exchanging all five, ten, and perhaps also twenty dollar bills against newly minted gold coins.

This proposal for reform is most comprehensive and complete, as it envisions creation of a classical gold-coin standard by a single law. Of course, it assumes a state of economic and political enlightenment that surpasses by far the present state of economic and political thought.

Restoration of the gold standard may be a long and arduous task. As it was lost in a gradual erosion of monetary freedom we may have to retrieve it slowly and painstakingly on the road back to freedom, which gives it birth and meaning through inexorable economic law. This is why we seek no reform law, no restoration law, no conversion or parity, no government cooperation, merely freedom.

The road is short and direct. And yet, depending on the resistance offered by popular ignorance and prejudice, by government greed and lust of power, it may take us many years to traverse. For the weary traveller it has several intermediary stops that provide convenient targets for supreme effort.

The first objective must be *the freedom to trade and hold gold*. Everyone must be free to buy and to sell, to lend and to borrow, to import and to export any quantity of gold, to hold it at home or abroad, whether minted or unminted. There must be no government interference with the gold markets, no regulation or controls, no taxation or dictation that would sabotage the gold markets. Dozens of nations in all continents actually enjoy this rudimentary freedom. Americans lost it "temporarily" in 1933 when the Roosevelt Administration seized all private gold holdings.

The next objective must be *the individual freedom to use gold in all economic exchanges.* The people must be free to buy gold by selling their goods and services for it, and to sell gold when they buy goods and services, without the interaction of government money. That is to say, the legal tender law which decrees that government money must be accepted in payment of all debt, public and private, must exempt "gold contracts" and "gold clauses" that specifically call for payment of certain measures of gold. In short, the ordinary law of contract must be permitted to function.

At this point we have arrived at the "parallel standard." It would not in the least curtail government operations or impede government finance. The Federal Reserve System could continue its operations, its inflation and credit expansion, and the U.S. Treasury would receive taxes and make payments in Federal Reserve money. All contracts stated in U.S. dollars would have to be met in U.S. dollars; but contracts in ounces and grains of gold would have to be met in gold. Government money and gold would be circulating side by side. The relative supplies of and demands for the two monies would determine their exchange ratio, which would continually fluctuate in response to demand and supply.

The third objective on the road to the gold standard would be the *individual freedom to mint coins*. The first coins were minted by private individuals and goldsmiths. And private coins have circulated throughout history, in California as late as 1848. As these coins would not be endowed with "legal tender," no one would be obliged to accept them in payment of a debt. He who would deem them too much trouble to weigh or test, or would distrust the minter's stamp and guarantee, would be free to use Federal Reserve notes. After all, only Federal Reserve money would be legal tender except where gold payment is contractually required.

The fourth and final phase is not really vital for the restoration of the gold standard. An enlightened government may at this time decide to make its own money freely convertible into gold. It may adopt the going exchange ratio between the two as the legal parity and then secure unconditional *convertibility* of its money into gold. This phase, which does not materially enhance our monetary freedom, would merely legalize the gold standard that would gradually emerge on the road to freedom.

Step by step the federal government has assumed control over our monetary system. It thus captured a potent source of revenue and a vital command post over the economic lives of its people. This is why every friend of freedom is dedicated to the restoration of free money which is also sound money. It is the gold standard.

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