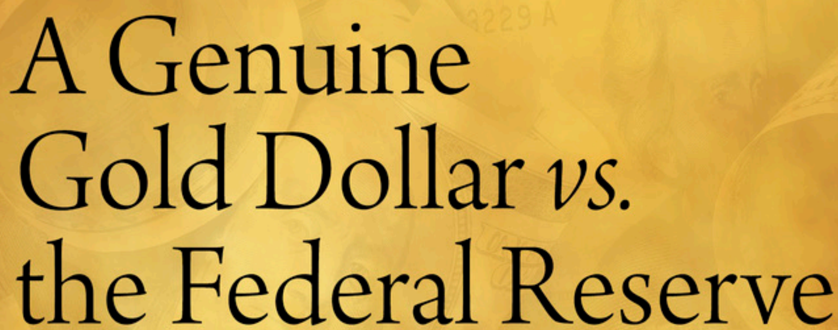

A Genuine Gold Dollar *vs.* the Federal Reserve

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"A Geuine Gold Dollar" is an excerpt from the chapter "The Case for a Genuine Gold Dollar" that first appeared in *The Gold Standard: Perspectives in the Austrian School*, edited by Llewellyn H. Rockwell Jr. and published in 1992. "Alan Greenspan: A Minority Report" first appeared in *The Free Market* 5, no. 8 (August 1987).

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A Genuine Gold Dollar

In recent years an increasing number of economists have understandably become disillusioned by the inflationary record of fiat currencies. They have therefore concluded that leaving the government and its central bank power to fine tune the money supply, but abjuring them to use that power wisely in accordance with various rules, is simply leaving the fox in charge of the proverbial henhouse. They have come to the conclusion that only radical measures can remedy the problem, in essence the problem of the inherent tendency of government to inflate a money supply that it monopolizes and creates. That remedy is no less than the strict separation of money and its supply from the state.

The best known proposal to separate money from the state is that of F.A. Hayek and his followers. Hayek's "denationalization of money" would eliminate legal tender laws, and allow every individual and organization to issue its own currency, as paper tickets with its own names and marks attached. The central government would retain its monopoly over the dollar, or franc, but other institutions would be

allowed to compete in the money creation business by offering their own brand name currencies.

Thus, Hayek would be able to print Hayeks, the present author to issue Rothbards, and so on. Mixed in with Hayek's suggested legal change is an entrepreneurial scheme by which a Hayek-inspired bank would issue "ducats," which would be issued in such a way as to keep prices in terms of ducats constant. Hayek is confident that his ducat would easily outcompete the inflated dollar, pound, mark, or whatever.

Hayek's plan would have merit if the thing—the commodity—we call "money" were similar to all other goods and services. One way, for example, to get rid of the inefficient, backward, and sometimes despotic US Postal Service is simply to abolish it; but other free-market advocates propose the less radical plan of keeping the post office intact but allowing any and all organizations to compete with it. These economists are confident that private firms would soon be able to out-compete the post office. In the past decade, economists have become more sympathetic to deregulation and free competition, so that superficially denationalizing or allowing free competition in currencies would seem viable in analogy with postal services or fire-fighting or private schools.

There is a crucial difference, however, between money and all other goods and services. All other goods, whether they be postal services or candy bars or personal computers, are desired for their own sake, for the utility and value that they yield to consumers.

Consumers are therefore able to weigh these utilities against one another on their own personal scales of value. Money, however, is desired not for its own sake, but precisely because it already functions as money, so that everyone is confident that the money commodity will be readily accepted by any and all in exchange. People eagerly accept paper tickets marked "dollars" not for their aesthetic value, but because they are sure that they will be able to sell those tickets for the goods and services they desire. They can only be sure in that way when the particular name, "dollar," is already in use as money.

Hayek is surely correct that a free-market economy and a devotion to the right of private property requires that everyone be permitted to issue whatever proposed currency names and tickets they wish. Hayek should be free to issue Hayeks or ducats, and I to issue Rothbards or whatever. But issuance and *acceptance* are two very different matters. No one will accept new currency tickets, as they well might new postal organizations or new computers. These names will not be chosen as currencies precisely because they have not been used as money, or for any other purpose, before.

One crucial problem with the Hayekian ducat, then, is that no one will take it. New names on tickets cannot hope to compete with dollars or pounds which originated as units of weight of gold or silver and have now been used for centuries on the market as the currency unit, the medium of exchange, and the instrument of monetary calculation and reckoning.

Hayek's plan for the denationalization of money is Utopian in the worst sense: not because it is radical, but because

it would not and could not work. Print different names on paper all one wishes, and these new tickets still would not be accepted or function as money; the dollar (or pound or mark) would still reign unchecked. Even the removal of the legal tender privilege would not work, for the new names would not have emerged out of useful commodities on the free market, as the regression theorem demonstrates they must. And since the government's own currency, the dollar and the like, would continue to reign unchallenged as money, money would not have been denationalized at all. Money would still be nationalized and a creature of the state; there would still be no separation of money and the state. In short, even though hopelessly Utopian, the Hayek plan would scarcely be radical enough, since the current inflationary and state-run system would be left intact.

Even the variant on Hayek whereby private citizens or firms issue gold coins denominated in grams or ounces would not work, and this is true even though the dollar and other fiat currencies originated centuries ago as names of units of weight of gold or silver. Americans have been used to using and reckoning in "dollars" for two centuries, and they will cling to the dollar for the foreseeable future. They will simply not shift away from the dollar to the gold ounce or gram as a currency unit. People will cling doggedly to their customary names for currency; even during runaway inflation and virtual destruction of the currency, the German people clung to the "mark" in 1923 and the Chinese to the "yen" in the 1940s. Even drastic revaluations of the runaway currencies which helped end the inflation kept the original "mark" or other currency name.

If people love and will cling to their dollars or francs, then there is only one way to separate money from the state, to truly denationalize a nation's money. And that is to denationalize the dollar (or the mark or franc) itself. Only privatization of the dollar can end the government's inflationary dominance of the nation's money supply.

How, then, can the dollar be privatized or denationalized? Obviously not by making counterfeiting legal. There is only one way: to link the dollar once again to a useful market commodity. Only by changing the definition of the dollar from fiat paper tickets issued by the government to a unit of weight of some market commodity, can the function of issuing money be permanently and totally shifted from government to private hands.

If it is imperative that the dollar be defined once again as a weight of a market commodity, then what commodity (or commodities) should it be defined as, and what should be the particular weight in which it is set? In reply, I propose that the dollar be defined as a weight of a single commodity, and that that commodity be gold.

Many economists, beginning with Irving Fisher at the turn of the twentieth century, and including Benjamin Graham and an earlier F.A. Hayek, have hankered after some form of "commodity dollar," in which the dollar is defined, not as a weight of a single commodity, but in terms of a "market basket" of two or many more commodities.

There are many deep-seated flaws in this approach. In the first place, such a market-basket currency has never

emerged spontaneously from the workings of the market. It would have to be imposed (to use a derogatory term from Hayek himself) as a "constructivist" scheme from the top, from government to be inflicted upon the market.

Second, and as a corollary, the government would be obviously in charge, since a market-basket currency does not, unlike the use of units of weight in exchange, arise from the free market itself. The government could and would, then, alter the ratios of weights, adjust the various fixed terms, and so forth.

Third, the hankering for a fixed market basket is an outgrowth of a strong desire for the government to regulate the economy so as to keep the "price level" constant. As we have seen, the natural tendency of the free market is to lower prices over time, in accordance with growing productivity and increased supplies of goods. There is no good reason for the government to interfere. Indeed, if it does so, it can only create a boom-and-bust business cycle by expanding credit to keep prices artificially higher than they would be on the free market.

Furthermore, there are other grave problems with the commodity-basket approach. There is, for one thing, no such unitary entity as "the price level" which would be kept constant. The entire concept of price level is an artificial construction masking the fact that it can only consist of individual prices, each varying continually in relation to each other.

Irving Fisher's intense desire for a constant price level stemmed from his own fallacious philosophic notion that,

just as science is based upon measurable standards (such as a yard comprising 36 inches), so money is supposed to be a measure of values and prices. But since there is no single price level, his very idea, far from being scientific, is a hopeless chimera. The only scientific measurement that properly applies is the currency unit as a true measure of weight of the money commodity. Furthermore, the only scientific measure is a definition which, once selected, remains eternally the same: "the pound," or "the yard." Juggling definitions of weight within a market basket violates any proper concept of definition or of measure.

A final and vital flaw in a market-basket dollar is that Gresham's law would result in perpetual shortages and surpluses of different commodities within the market basket. Gresham's law states that any money overvalued by the government (in relation to its market value) will drive out of circulation money undervalued by the government. In short, control of exchange rates has consequences like any other price control: A maximum rate below the free market causes a shortage; a minimum rate set above the market will cause a surplus.

From the origin of the United States, the currency was in continuing trouble because the United States was on a bimetallic rather than a gold standard, in short a market basket of two commodities, gold and silver. As is well known, the system never worked, because at one time or another, one or the other precious metal was above or below its world market valuations, and hence one or the other coin or bullion was flowing into the country while the other would disappear. In

1873 partisans of the monometallic gold standard, seeing that silver was soon to be overvalued and hence on the point of driving out gold, put the United States on a virtual single gold standard, a system that was ratified officially in 1900.

We conclude, then, that the dollar must be redefined in terms of a single commodity, rather than in terms of an artificial market basket of two or more commodities. Which commodity, then, should be chosen? In the first place, precious metals, gold and silver, have always been preferred to all other commodities as mediums of exchange where they have been available. It is no accident that this has been the invariable success story of precious metals, which can be partly explained by their superior stable nonmonetary demand, their high value per unit weight, durability, divisibility cognizability, and the other virtues described at length in the first chapter of all money and banking textbooks published before the US government abandoned the gold standard in 1933.

Which metal should be the standard, then, silver or gold? There is, indeed, a case for silver, but the weight of argument holds with a return to gold. Silver's increasing relative abundance of supply has depreciated its value badly in terms of gold, and it has not been used as a general monetary metal since the nineteenth century. Gold was the monetary standard in most countries until 1914, or even until the 1930s. Furthermore, gold was the standard when the US government in 1933 confiscated the gold of all American citizens and abandoned gold redeemability of the dollar, supposedly only for the duration of the depression emergency. Still further, gold and not silver is still considered a monetary metal

everywhere, and governments and their central banks have managed to amass an enormous amount of gold not now in use, but which again could be used as a standard for the dollar, pound, or mark.

It is important to realize what a definition of the dollar in terms of gold would entail. The definition must be real and effective rather than nominal. Thus, the US statutes define the dollar as 1/42.22 gold ounce, but this definition is a mere formalistic accounting device. To be real, the definition of the dollar as a unit of weight of gold must imply that the dollar is interchangeable and therefore redeemable by its issuer in that weight, that the dollar is a demand claim for that weight in gold. Furthermore, once selected, the definition, whatever it is, must be fixed permanently. Once chosen, there is no more excuse for changing definitions than there is for altering the length of a standard yard or the weight of a standard pound.

Alan Greenspan: A Minority Report

The press is resounding with acclaim for the accession to Power of Alan Greenspan as chairman of the Fed; economists from right, left, and center weigh in with hosannas for Alan's greatness, acumen, and unparalleled insights into the "numbers." The only reservation seems to be that Alan might not enjoy the enormous power and reverence accorded to his predecessor, for he does not have the height of a basketball player, is not bald, and does not smoke imposing cigars.

The astute observer might feel that anyone accorded such unanimous applause from the Establishment couldn't be all good, and in this case he would be right on the mark. I knew Alan thirty years ago, and have followed his career with interest ever since.

I found particularly remarkable the recent statements in the press that Greenspan's economic consulting firm of Townsend-Greenspan might go under, because it turns out that what the firm really sells is not its econometric forecasting models, or its famous numbers, but Greenspan himself,

and his gift for saying absolutely nothing at great length and in rococo syntax with no clearcut position of any kind.

As to his eminence as a forecaster, he ruefully admitted that a pension-fund managing firm he founded a few years ago just folded for lack of ability to apply the forecasting where it counted — when investment funds were on the line.

Greenspan's real qualification is that he can be trusted never to rock the establishment's boat. He has long positioned himself in the very middle of the economic spectrum. He is, like most other long-time Republican economists, a conservative Keynesian, which in these days is almost indistinguishable from the liberal Keynesians in the Democratic camp. In fact, his views are virtually the same as Paul Volcker, also a conservative Keynesian. Which means that he wants moderate deficits and tax increases, and will loudly worry about inflation as he pours on increases in the money supply.

There is one thing, however, that makes Greenspan unique, and that sets him off from his Establishment buddies. And that is that he is a follower of Ayn Rand, and therefore "philosophically" believes in *laissez-faire* and even the gold standard. But as the *New York Times* and other important media hastened to assure us, Alan only believes in *laissez-faire* "on the high philosophical level." In practice, in the policies he advocates, he is a centrist like everyone else because he is a "pragmatist."

As an alleged "*laissez-faire* pragmatist," at no time in his prominent twenty-year career in politics has he ever advocated anything that even remotely smacks of *laissez-faire*, or

even any approach toward it. For Greenspan, *laissez-faire* is not a lodestar, a standard, and a guide by which to set one's course; instead, it is simply a curiosity kept in the closet, totally divorced from his concrete policy conclusions.

Thus, Greenspan is only in favor of the gold standard if all conditions are right: if the budget is balanced, trade is free, inflation is licked, everyone has the right philosophy, etc. In the same way, he might say he only favors free trade if all conditions are right: if the budget is balanced, unions are weak, we have a gold standard, the right philosophy, etc. In short, never are one's "high philosophical principles" applied to one's actions. It becomes almost piquant for the Establishment to have this man in its camp.

Over the years, Greenspan has, for example, supported President Ford's imbecilic Whip Inflation Now buttons when he was Chairman of the Council of Economic Advisers. Much worse is the fact that this "high philosophic" adherent of *laissez-faire* saved the racketeering Social Security program in 1982, just when the general public began to realize that the program was bankrupt and there was a good chance of finally slaughtering this great sacred cow of American politics. Greenspan stepped in as head of a "bipartisan" (i.e., conservative and liberal centrists) Social Security Commission, and "saved" the system from bankruptcy by slapping on higher Social Security taxes.

Alan is a long-time member of the famed Trilateral Commission, the Rockefeller-dominated pinnacle of the financial-political power elite in this country. And as he assumes his post as head of the Fed, he leaves his honored place on

the board of directors of J.P. Morgan & Co. and Morgan Guaranty Trust. Yes, the Establishment has good reason to sleep soundly with Greenspan at our monetary helm. And as icing on the cake, they know that Greenspan's "philosophical" Randianism will undoubtedly fool many free market advocates into thinking that a champion of their cause now perches high in the seats of power.

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