Notes on a Return to the Gold Standard

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Within the monetary reform movement there is a raging controversy over whether we should return to the gold standard or whether an effective program of reform could be accomplished through other means.

While the author of this article does not support a return to the gold standard, he is sympathetic to those who want to do just that. When the U.S. went off the gold peg in 1971, it opened the door to the modern era of runaway inflation, dollar hegemony, and the unlimited creation of financial bubbles. Removal of gold altogether from the monetary system is certainly one of the key events which has exposed us to the danger of a major financial crash and worldwide depression.

But throughout history, a gold standard has generally acted as an artificial constriction on the ability of a currency to expand sufficiently to support economic growth. By making currency scarce, the gold standard facilitated the bankers' control of the economy. It was the bankers who got the governments of the world to go onto the gold standard after 1870 by undermining the utilization of silver. This allowed the bankers to control the world's monetary supply to the detriment of economic democracy until the 1930s, when gold became only a denominator of international trade, not a backing of domestic currencies.

One of the most destructive periods of U.S. economic history took place during the currency contractions, monetary deflations, and financial ruination of farmers and workers during the late 1800s, when the bankers ruled through gold. It was what led to the founding of the Greenback and Progressive parties and to William Jennings Bryan's famous speech at the 1900 Democratic national convention where he declared that we should not "crucify mankind on a cross of gold."

The situation was relieved by the discovery of gold in South Africa and the Yukon and by improved methods for the extraction of gold from ore. But these circumstances also showed that a gold standard favored those nations which controlled gold. A gold standard leads to hoarding, market manipulations, and ultimately warfare over its possession and control.

Also, gold may or may not prevent inflation, because there are many things bankers can do to inflate the currency if they wish to. This happened with the inflation during and after World War I. This was a financial crime by which the bankers deliberately destroyed the value of the remaining paper greenbacks and silver certificates from post-Civil War days.

During the 1920s and 30s, the U.S., acquired much of the world's gold through having lent bank-generated credit to the European allies so they could pay for having fought World War I. This policy impoverished much of Europe, including Germany, which had to pay war reparations, and contributed to the conditions leading to World War II.

It was the gold standard that led to the bankers wrecking the U.S. economy in 1932 by shipping Treasury gold as a bail-out to England, at the same time the U.S. was trying to recover from the crash of 1929. The 1932 gold and currency contraction was the real cause of the Great Depression. President Franklin Delano Roosevelt removed this danger by eliminating the domestic gold standard in 1933.

But even when paper currency was supposedly convertible to gold, or even gold and silver, the metallic standard always was a fiction. There never was and never could be enough for banks to hand over the requisite quantity to the "bearer on demand" if more than a fraction of the currency in circulation was presented for redemption at the same time.

In fact, during the state banking era prior to the Civil War, banks would destroy their rivals by showing up on their doorstep with quantities of the paper notes of the bank under attack and asking with a smirk for metallic reimbursement. The same thing happened during runs on the banks, resulting in frequent financial panics and bankruptcies.

Actually, those who favor a return to the gold standard tend to confuse the shaky redemption policy with the days when a miner or broker could walk into a U.S. Mint and have the government stamp his gold or silver into coins free of charge. Those really were the "good old days," but that time is gone forever.

Should we return to the time of a banker-controlled gold standard? Probably not. What should really control the monetary supply is the sovereign power of representative government which must be equipped with the knowledge and authority to balance purchasing power with economic production.

This could be done by a National Dividend system combined with reduced taxation and direct government spending of money into the economy. The system would be overseen by a Monetary Control Board as advocated by the American Monetary Institute in its draft monetary reform legislation. The author describes such a system in his recent article, "Monetary Reform and How A Nation's Monetary System Should Work."

At the same time, lending for speculation should be outlawed, as should fractional reserve banking. There would then be no reason why money could not be paper, coinage, or electronic ledger entries. The monetary supply could expand or contract according to the real needs of the producing economy, not a more or less accidental quantity of precious metal.

For this to work, control of money must be removed entirely from the banks and restored to the people, acting through Congress as the U.S. Constitution requires. And under such a system where the money supply served real human needs instead of bank profiteering, promise of gold redemption would be unnecessary.

Having said all this, the author certainly has no objection to the buying and selling of gold as a commodity. Under certain conditions it might serve as a store of value and a hedge against inflation. But you can't wear it, eat it, or live in it. What gives value to an economy is its ability to produce goods and services. That ability derives from the skills, education, and spirit of a nation's population. In the end, money really derives its value from the character of the people and the honesty of government. That is why we should not even try to go back to an era where the monetary system failed in large part because of the gold standard.

Richard C. Cook is the author of Challenger Revealed: An Insider's Account of How the Reagan Administration Caused the Greatest Tragedy of the Space Age. A retired federal analyst, his career included stints with the U.S. Civil Service Commission, the Food and Drug Administration, the Carter White House, and NASA, followed by twenty-one years with the U.S. Treasury Department. He is now a Washington, D.C.-based writer and consultant and will be speaking at the American Monetary Institute annual conference in Chicago, IL, in September 2007. His website is at www.richardccook.com .

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