Randall R. Rader

The Gold Room, New York City, 1869

Remonetizing Gold, Again

SINCE 1933 when President F. D. Roosevelt prohibited private ownership of gold, United States money has been completely in government hands. Monetary instability has, consequently, been institutionalized. Inflation has followed wave of inflation. Just consider some figures: From 1967 to 1978, the consumer price index doubled. In 1979, the index rose by 14 per cent—a pace that would double the CPI again in only 5 years. Yet the first months of 1980 have shown the CPI increasing at an annual rate of around 20 per cent. These figures speak for themselves. Government has lost control of inflation. Anticipating two centuries ago that the federal government would not have the restraint to avoid the temptation to inflate, the Constitutional Convention carefully circumscribed the government's monetary authority.

"The congress shall have power to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures." (Article I, Section 8.)

The framers of the Constitution gave Congress authority to "coin money," but specifically withheld authority to create money. By carefully choosing the verb "coin," they wisely designed to limit the government to stamping metal into money. The Articles of Confederation, from which was derived the idea to give the government power to "coin" metal, granted as well only

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the specific power to "strike coin." At the time of the Constitution's ratification, it was clearly understood that the Congress should only have authority to strike coin and regulate its alloy and value:

The *Federalist Papers,* Number 44, clarify:

> The right of coining money, which is here taken from the States, was left in their hands by the Confederation, as a concurrent right with that of Congress, under an exception in favor of the exclusive right of Congress to regulate the alloy and value. In this instance, also, the new provision is an improvement on the old. Whilst the alloy and value depended on the general authority, a right of coinage in the particular States could have no other effect than to multiply expensive mints, and diversify the forms and weights of the circulating pieces.[1]

Fixing the Weight

The framers of the Constitution knew the dangers of irredeemable paper currency. They had experienced the uncertainty and disappointment of an unbacked currency during their struggle for independence. Therefore, they placed the coining authority in the same sentence with the authority to set weights and measures. They were only giving the central government the power to decide what weight of metal each coin would contain. This allowed Congress to mandate uniform denominations nationwide. Thus, as explained in *Federalist Paper* 44, Congress would provide for harmony and smooth commerce amongst the states. But Congress could no more debase its coinage than it could reduce its fixed standard of twelve inches to the foot down to seven inches. Just as it could "fix" a permanent standard of measurement, Congress could "coin" a permanent standard of money.

The Constitutional "coining" clause needs only one further explanation. The "power to regulate the value thereof" did not imply anything more than the right to add, if necessary, new standard coins. In the words of the Supreme Court, "This power of regulation is a power to determine the weight, purity, form, impression and denomination of the several coins, and their relation to each other, and the relations of foreign coins to the monetary unit of the United States."[2]

The framers in an earlier clause allowing Congress to "borrow money" expressly avoided stating the Congress could "regulate the value" of the money it borrowed. The framers were wary that borrowing would be the means of debasing the nation's money. Moreover, if they had meant to give Congress the right to debase the nation's coinage with the "regulate" language, they would have extended that regulating power to borrowed money as well. Perhaps the Constitution's view of money is best expressed in summary by this Supreme Court pronouncement:

> The power of coining money and regulating its value was delegated to the Congress by the Constitution for the very purpose, as assigned by the Framers of that instrument, of creating and preserving the uniformity and purity of such a standard of value.[3]

Thus, under the Constitution, the Congress launched the gold standard. The dollar was simply a name for a specified weight of gold, one-twentieth of a gold ounce. Because the rest of the world also used gold as money, the world enjoyed the economic blessing of a universal currency. One money worldwide facilitated freedom of commerce, travel, and investment across national borders. Without force or external governmental constraint, workers specialized and cooperated internationally. No wonder the nineteenth century saw unprecedented economic growth. Indeed, much of our current progress must be attributed to the accumulation of capital that occurred during the "golden" economic decades.

The result of leaving the gold standard in 1933 has been clear. The Consumer Price Index in 1933 was 38.8 (1967 dollar equals 100) on all items. In 1979, that index has soared to 217.4—nearly a six-fold increase. The index only failed to rise in three of the 46 years since the gold standard was abandoned.[4] The government has demonstrated its inability to maintain price stability. Once before, the United States left the gold standard only to learn that it must return. A review of that history reveals some instructive parallels with our current plight.

The Civil War Era

The Civil War demanded that the federal government immediately produce wealth it did not have. This led to a sad experience with fiat currency.

As the clouds of war began to gather (South Carolina seceded in December, 1860), the Treasury—already weakened by three years of deficits—began to experience great difficulty in borrowing money. Into this tenuous atmosphere stepped the new Secretary of Treasury, Salmon P. Chase. Already the national debt stood at $75 million, of which $18 million had been incurred in the few months since the secession.[5]

Supposing that the impending war would be won in a few weeks (a common miscalculation), Secretary Chase decided to finance the conflict by issuing more debt. Chase did not anticipate how much he would have to borrow. Throughout 1861, the Treasury was incurring obligations at an alarming rate, faster than it could finance them. In a vain attempt to meet these obligations, the Treasury issued bonds, i.e., borrowed, so swiftly that gold was pouring out of the banks. Confidence that the banks could redeem in specie began to waver. The banks feared a run on their remaining specie reserves.

At this juncture, Chase made a grievous mistake which turned the state banks against him. Chase had been using the banks as temporary depositories for the proceeds of the loans. Many of the loans came from the banks themselves. The banks expected to hold the specie until the government needed it. But Chase required the specie to be transferred, without delay, to the Treasury. The banks thus saw the depletion of their gold reserves accelerate.

In July of 1861, the North lost the First Battle of Bull Run. The financial community realized that the war would not soon be over. In mid-December, Chase's financial report to the nation increased an earlier 1862 budget by $200 million. The federal government's borrowing would grow even more. Already banks saw their gold stocks disappearing daily. In New York City alone, the banks were losing $7 million of specie a week. Finally, on December 16th, the British demanded return of two Southern emissaries forcibly removed from the British steamer *Trent*. Great Britain seemed to be siding with the South. Panic spread in the financial community. On December 30th, the private banks suspended specie payments. The government suspended specie payments the next day.

Greenbacks

Chase still had to meet obligations that were approaching $2 million a day. The people were not prepared to absorb such enormous loans, and the banks could not invest all their funds in government loans. Accordingly, voluntary domestic loans were not coming in fast enough to fund the war effort. Nor could loans be obtained overseas due to an unfavorable balance of trade and uncertainty about the outcome of the war. The pressure on the government to meet its financial promises mounted.

Chase continued to issue notes, but now they were not redeemable. No one would accept them as payment. Seven weeks after suspension of specie payment, at Chase's request, Congress passed a law making the notes legal tender. The greenbacks were born. The first "temporary" issue was set at $150 million. In July 1862, another $150 million was allowed. Later, yet another $150 million was authorized. These were the infamous Legal Tender Acts. In essence, Congress decided to impose involuntary debt upon the nation.

In retrospect, Chase was later to admit that this was a great error. He said to Congress in 1863 that it was not too much, and perhaps hardly enough, to say that every dollar raised by taxation for extraordinary purposes or reduction of debt is worth two in the increased value of national securities. He learned too late that a nation, like any individual, must live within its means, that current taxes must at least cover current expenses.

Overt Taxation Preferred to Hidden Tax of Inflation

Taxes are always undesirable because they deprive individuals of the capital and incentive to continue to produce, especially when they reach confiscatory rates. Nonetheless, overt taxation is preferable to the covert tax of inflation because it is more easily monitored. The representatives of the people in Congress must vote unambiguously to deprive their constituents of wealth when approving an overt tax. The covert tax of inflation also deprives the constituents of wealth, but the representatives escape the consequences. The constituents do not file an "inflation tax" return every year to acquaint them with the extent of their losses. Thus the representatives are tempted to perpetually inflate the currency to raise revenue which they can spend.

An economist Chase never encountered, John Maynard Keynes, offered a concise, though somewhat ironic, appraisal of inflation. He cautioned that inflation "engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."[6] Chase apparently sensed, too late, the ultimate evil of inflation: it circumvents the citizen's ability to hold his government accountable.

Many representatives arose in Congress to criticize the Legal Tender Acts. Nonetheless they were approved by wide margins because of the temporary emergency. (Isn't every fatal poison administered as a serum to alleviate some "temporary emergency"?) Everyone, including President Lincoln, swore that the nation would soon mend its erroneous ways. In December 1862, Lincoln thus addressed the Congress:

> The suspension of specie payments by the banks, soon after the commencement of your last session, made large issues of United States notes unavoidable. In no other way could the payment of the troops, and the satisfaction of other just demands, be so economically or so well provided for. . . . A return to specie payments, however, at the earliest period compatible with due regard to all interests concerned, should ever be kept in view. Fluctuations in the value of currency are always injurious. Convertibility, prompt and certain convertibility into coin, is generally acknowledged to be the best and surest safeguard against them.[7]

The greenbacks began to depreciate in terms of specie almost as soon as they were issued. On the New York gold market (conversion to specie was allowed in this single location to facilitate international trade), gold could be purchased at a premium with greenbacks. In 1864, greenbacks depreciated to their all-time low: $1 of gold equal to $2.85 of paper or $1 of paper worth only 35¢ of gold.[8]

The Post-War Era

After the war, Federal expenditures dropped sharply. While the government was spending $37 per capita in 1865 to finance the war, spending was only $14 per capita the following year.[9] Due to tax revenues, the government already had a surplus in 1866.

In 1865, Congress voted (with only a single dissenter) to begin retiring the greenback debt. McCulloch, the new Secretary of Treasury, implemented that policy with revenue surpluses.

At that point, however, sentiment began to grow in favor of retaining the greenbacks as non-interest-bearing debt. The masses (primarily in the agrarian states) mistakenly believed that retiring greenbacks was depriving them of money. Some debtors, however, knowingly advocated inflation to escape the full consequences of their borrowing. They urged the government to use "cheap tender" to pay off its war debts. Greenbackism began to take hold.

The Democratic party took up the cause of greenbackism. Many of the leaders who had stood on the floor of the House and declared paper "money" unconstitutional now argued that gold-convertible bonds be paid in greenbacks. Only two years after all the fervor to retire the debt, a Republican congress enacted a bill halting contraction of the debt. This measure was intended to allow the people to escape debt and cope with high prices. Instead, prices remained high; debt multiplied; depression spread. The greenbacks were in fact causing the problems they were supposed to cure. Throughout the next few years, Congress would occasionally consider a measure to replace the non-interest-bearing debt (greenbacks) with interest-bearing debt (bonds). These were defeated.

Supreme Court Rulings

The Supreme Court entered the debate over the integrity of our money in 1870. Chief Justice Chase issued in 1870 a finding that the Legal Tender Acts were unconstitutional as applied to pre-existing contracts. Speaking for the Court, he stated:

> For no one will question that the United States notes, which the act makes a legal tender in payment, are essentially unlike in nature, and, being

> irredeemable in coin, are necessarily unlike in value, to the lawful money intending by the parties to contracts for the payment of money made before its passage.[10]

This is the same Chase who as Secretary of the Treasury issued the paper nine years earlier. He pronounced this judgment upon his own action:

> And there is abundant evidence, that whatever benefit is possible from that compulsion to some individuals or to the government, is far more than outweighed by the losses of property, the derangement of business, the fluctuations of currency and the values, and the increase of prices to the people and the government, and the long train of evils which flow from the use of irredeemable paper money.[11]

This statement now echoes as a grim prophecy about the current age of inflation. He did not base his decision merely on the effects of inflation, however, but went on to substantiate his decision with reasoning based on the "coining" clause of the Constitution and the Fifth Amendment which prohibits the government from impairing private contracts or depriving citizens of property without due process of law. He concluded that his own action as Secretary of Treasury violated both the letter and the spirit of the nation's most sacred document.

No effort was made to conform to the 1870 decision. On the contrary, every effort was directed at changing the make-up of the Court to reverse the ruling. President Grant appointed two railroad lawyers to the bench who were sympathetic to the railroad's deep debt and desire to repay loans with inflated currency. The monumental *Hepburn v. Griswold* decision, which could have prevented the United States from ever suffering from wholesale inflation, was retried and fell, 5-4, the following year. The heart of the Court's reversing decision was an expediency argument:

> If it be held by this court that Congress has no constitutional power, under any circumstances, or in any emergency, to make treasury notes a legal tender for the payment of all debts, . . . the government is without those means of self-preservation which, all must admit, may, in certain contingencies, become indispensable even if they were not when the acts of Congress now called in question were enacted.[12]

Chief Justice Chase, now writing a bitter dissent to the majority decision, could only reiterate:

> We perceive no connection between the express power to coin money and the inference that the government may, in a contingency make its securities perform the functions of coined money, as a legal tender in the payment of debts.[13]

If one Supreme Court decision could be expunged to have the greatest altering effect on our current economic conditions, this would be the one. Inflation could have been pronounced dead and sealed in a tomb of law, instead it was reincarnated by this last Legal Tender Case.

The Legal Tender Cases did not quiet the constitutional debate, however. The Court had implied that the greenbacks were constitutional only because the war emergency warranted drastic action. The emergency was over and greenbackism persisted. Despite the doubts, Boutwell (another Treasury Secretary) began to issue more greenbacks.

Resumption

Specie coins continued to circulate throughout this period. The greenbacks were, of course, always worth less than the coins. In fact, the coin value of greenbacks varied with the amount of paper in circulation, the degree of uncertainty that the paper would ever be redeemed, and the strength of general consent to accept payment in paper. Early in 1873, the coin value of paper currency dipped significantly. Due to Gresham's law, "bad money drives out good," coins were held out of circulation. Moreover, lenders hesitated to extend credit, fearing payment in depreciating currency. Traders were reluctant to accept greenbacks. At harvest time, these inflationary pressures caused a scarcity of money. This developed into panic in 1874.

The treasury, of course, was asked to print more greenbacks. The nation's attention was focused on a bill to authorize more unbacked paper currency. It passed Congress and the debate shifted to the White House. The eastern establishment (primarily creditors) protested against this inflation bill and urged a veto. The agrarian debtors west of Ohio were arrayed in favor of the measure. The whole issue of greenbackism had reached a climax.

As long as the matter of the currency's integrity was only debated in the intellectual circles of Washington, D.C., no wave of popular fervor developed on either side of the question. This bill made the issue public. In the perspective of the bulk of the people, the nation's honor was at stake. Grant, sensing the public mood, vetoed the bill on April 22, 1874, reminding the nation that Congress had repeatedly passed resolutions promising to discharge the war debt and return to sound money:

> Among the evils growing out of the rebellion, and not yet referred to, is that of an irredeemable currency. It is an evil which I hope will receive your most earnest attention. It is a duty, and one of the highest duties, of Government to secure to the citizen a medium of exchange of fixed, unvarying value. This implies a return to a specie basis, and no substitute for it can be devised. It should be commenced now and reached at the earliest practicable moment consistent with

Debtors and Creditors

A poor man never gets to be a big debtor. Only a rich man, or a man with a reputation of being rich, can get into that situation. It is economic nonsense today to talk of a "debtor class" and a "creditor class" as if these represented separate groups necessarily at different economic levels. Each of us is to some extent debtor, to some extent creditor. Even if it were possible to work out a statistical average, based on the net position of each of us, it is more than doubtful that the "creditors" would prove on the average to be richer than the "debtors"; it is much more probable that the relationship would prove to be the other way around. Nothing but injustice, discouragement of work and thrift, encouragement of speculation and gambling, and economic disruption can follow from an effort to swindle creditors at the expense of debtors by a constant lowering of the purchasing power of the monetary unit.

HENRY HAZLITT, from his introduction to the 1959 edition of Andrew Dickson White's *Fiat Money Inflation in France.*

a fair regard for the interests of the debtor class . . . Fluctuation, however, in the paper value of the measure of all values (gold) is detrimental to the interests of trade. It makes the man of business an involuntary gambler, for in all sales where the future payment is to be made both parties speculate as to what will be the value of the currency to be paid and received.[14]

The issue, which had bubbled along beneath the nation's consciousness for years, was now in the open and decided. There was no turning back. Congress felt honor-bound to uphold its promises. A bill quickly passed to limit greenback distribution. Congressional elections in 1874 restored the Republicans to power in Congress and they immediately adopted the Resumption Act which effected specie payment by 1879. The conversion happened smoothly.

Results of 1879 Resumption

In 1861, when the U.S. abandoned the gold standard, the consumer price index rested at 27 (1967 dollar equals 100). By 1864, the index had soared to 47—almost a doubling. Prices remained high, between 36 and 46 on the index scale, until the Resumption Act was adopted in 1875. The value of the currency fluctuated wildly during this period. Indeed it lost one-tenth of its value in a single day. This decade provides some instructive lessons about the causes of our own age of inflation. The politicians of this period, in order to stay in power, were willing to sell the notion that more paper currency meant more wealth. Advocates of greenbackism thought they wanted more paper currency; they really needed more capital, a greater capacity to produce. Nonetheless, it took the nation a decade to learn that lesson.

The year 1879 brought the resumption of the redeemable currency. The consumer price index stabilized at 28 in that year. For more than three decades thereafter (World War I interrupted the price tranquility), the index never rose above 29 or dipped below 25. The index remained at 27 for a decade.[15] Never did it rise or fall more than a single point in a year. The gold standard worked throughout that entire period to keep prices remarkably stable.

The United States has been locked for years in a devastating cycle of inflation. Each flare up of inflation is followed by recession. But the bottom figure for inflation each time through the cycle is higher than the last bottom. The launching platform for the inflation take-off is always higher. If the cycle continues, our inflation may go over 50 per cent in the eighties. The current 20 per cent rate is already intolerable. America returned to the gold standard in 1879. A century later, it needs to return again. ⊕

—FOOTNOTES—

[1]*The Federalist Papers,* Alexander Hamilton, James Madison, John Jay; The New American Library of World Literature, 1961. Republication of original essays explaining and defending the Constitution.

[2]*Hepburn v. Griswold,* 8 Wallace 604, 616 (1869).

[3]*U.S. v. Marigold,* 9 Howard 567 (1850).

[4]*Handbook of Labor Statistics 1978,* U.S. Department of Labor, Bureau of Labor Statistics Bulletin 2000, 1979; Table 116, Page 369.

[5]*Financial History of the United States,* Paul Studenski and Herman E. Kroos, McGraw-Hill Book Company, Inc., 1952.

[6]Address delivered by John Maynard Keynes at 1919 Paris Peace Conference.

[7]*Messages of Presidents,* Volume VI, December 1862.

[8]*Financial History of the United States,* supra.

[9]*Financial History of the United States,* supra.

[10]*Hepburn v. Griswold,* supra at 607.

[11]*Hepburn v. Griswold,* supra at 621.

[12]Legal Tender Cases, *Knox v. Lee* and *Parker v. Davis,* 12 Wallace 457, 529 (1870).

[13]Legal Tender Cases, supra at 574.

[14]*Congressional Record,* 43rd Congress, First Session, 3270-3271 (April 22, 1874).

[15]*Handbook of Labor Statistics 1978,* supra.

Leslie Snyder

The Corruption of Language

JOHN LOCKE said "Language is the great bond that holds society together." Language is the common conduit whereby knowledge is conveyed from one man and one generation to another. It accomplishes this crucial task by enabling us to record our own thoughts and to communicate with others.

Today we are witnessing a corruption of our language, effectively destroying the bond that holds society together. There are several reasons for this, but all of them have a common goal—"to darken truth and unsettle people's rights," as Locke put it.

To appreciate the crucial and indispensable task that language performs, one needs only to understand what language is and how it functions; that is, language is primarily a tool of cognition. It provides us with a system of classifying and organizing knowledge. It enables us to acquire knowledge on an unlimited scale and to keep order in our minds, which means, enables us to think. The principal consequence of language is communication.

Thus it is by the retention of concepts, i.e., language, that man retains knowledge. And to the extent he files his knowledge efficiently, the easier it is to recall it, add to it, change it, discard it, and communicate it to others. Locke, who thoroughly appreciated this, encouraged mankind to think clearly and concisely, so that all should know what their rights are, that progress could take place, and mankind live in peace.

Why do some people choose to cor-

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