

## Gold and Economic Freedom

by Alan Greenspan

Accessed at <http://www.usagold.com/gildedopinion/greenspan.html>.

[Editor's note - It may surprise more than a few gold devotees to learn they have an ideological friend in none other than Federal Reserve Board chairman Alan Greenspan. Starting in the 1950s, in fact, Greenspan was a stalwart member of Ayn Rand's intellectual inner circle. A self-designated "objectivist", Rand preached a strongly libertarian view, applying it to politics and economics, as well as to religion and popular culture. Under her influence, Greenspan wrote for the first issue of what was to become the widely-circulated *Objectivist Newsletter*. When Gerald Ford appointed him to the Council of Economic Advisors, Greenspan invited Rand to his swearing-in ceremony. He even attended her funeral in 1982.

In 1967, Rand published her non-fiction book, *Capitalism, the Unknown Ideal*. In it, she included *Gold and Economic Freedom*, the essay by Alan Greenspan which appears below. Drawing heavily from Murray Rothbard's much longer *The Mystery of Banking*, Greenspan argues persuasively in favor of a gold standard and against the concept of a central bank.

Can this be the same Alan Greenspan who today chairs the most important central bank of them all? Again, you might be surprised. R.W. Bradford writes in *Liberty* magazine that, as Fed chairman, "Greenspan (once) recommended to a Senate committee that all economic regulations should have fixed lifespans. Senator Paul Sarbanes (D-Md.) accused him of 'playing with fire, or indeed throwing gasoline on the fire,' and asked him whether he favored a similar provision in the Fed's authorization. Greenspan coolly answered that he did. Do you actually mean, demanded the senator, that the Fed 'should cease to function unless affirmatively continued?' 'That is correct, sir,' Greenspan responded."

Bradford continues, "The Senator could scarcely believe his ears. 'Now my next question is, is it your intention that the report of this hearing should be that Greenspan recommends a return to the gold standard?' Greenspan responded, 'I've been recommending that for years, there's nothing new about that. It would probably mean there is only one vote in the Federal Open Market Committee for that, but it is mine.'" -- Editor, *The Gilded Opinion* ]

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### GOLD AND ECONOMIC FREEDOM

An almost hysterical antagonism toward the gold standard is one issue which unites statist of all persuasions. They seem to sense-perhaps more clearly and subtly than many consistent defenders of laissez-faire -- that gold and economic freedom are inseparable, that the gold standard is an instrument of laissez-faire and that each implies and requires the other.

In order to understand the source of their antagonism, it is necessary first to understand the specific role of gold in a free society.

Money is the common denominator of all economic transactions. It is that commodity which serves as a medium of exchange, is universally acceptable to all participants in an exchange economy as payment for their goods or services, and can, therefore, be used as a standard of market value and as a store of value, i.e., as a means of saving.

The existence of such a commodity is a precondition of a division of labor economy. If men did not have some commodity of objective value which was generally acceptable as money, they would have to resort to primitive barter or be forced to live on self-sufficient farms and forgo the inestimable advantages of specialization. If men had no means to store value, i.e., to save, neither long-range planning nor exchange would be possible.

What medium of exchange will be acceptable to all participants in an economy is not determined arbitrarily. First, the medium of exchange should be durable. In a primitive society of meager wealth, wheat might be sufficiently durable to serve as a medium, since all exchanges would occur only during and immediately after the harvest, leaving no value-surplus to store. But where store-of-value considerations are important, as they are in richer, more civilized societies, the medium of exchange must be a durable commodity, usually a metal. A metal is generally chosen because it is homogeneous and divisible: every unit is the same as every other and it can be blended or formed in any quantity. Precious jewels, for example, are neither homogeneous nor divisible. More important, the commodity chosen as a medium must be a luxury. Human desires for luxuries are unlimited and, therefore, luxury goods are always in demand and will always be acceptable. Wheat is a luxury in underfed civilizations, but not in a prosperous society. Cigarettes ordinarily would not serve as money, but they did in post-World War II Europe where they were considered a luxury. The term "luxury good" implies scarcity and high unit value. Having a high unit value, such a good is easily portable; for instance, an ounce of gold is worth a half-ton of pig iron.

In the early stages of a developing money economy, several media of exchange might be used, since a wide variety of commodities would fulfill the foregoing conditions. However, one of the commodities will gradually displace all others, by being more widely acceptable. Preferences on what to hold as a store of value, will shift to the most widely acceptable commodity, which, in turn, will make it still more acceptable. The shift is progressive until that commodity becomes the sole medium of exchange. The use of a single medium is highly advantageous for the same reasons that a money economy is superior to a barter economy: it makes exchanges possible on an incalculably wider scale.

Whether the single medium is gold, silver, seashells, cattle, or tobacco is optional, depending on the context and development of a given economy. In fact, all have been employed, at various times, as media of exchange. Even in the present century, two major commodities, gold and silver, have been used as international media of exchange, with gold becoming the predominant one. Gold, having both artistic and functional uses and being relatively scarce, has significant advantages over all other media of exchange. Since the beginning of World War I, it has been virtually the sole international standard of exchange. If all goods and services were to be paid for in gold, large payments would be difficult to execute and this would tend to limit the extent of a society's divisions of labor and specialization. Thus a logical extension of the creation of a

medium of exchange is the development of a banking system and credit instruments (bank notes and deposits) which act as a substitute for, but are convertible into, gold.

A free banking system based on gold is able to extend credit and thus to create bank notes (currency) and deposits, according to the production requirements of the economy. Individual owners of gold are induced, by payments of interest, to deposit their gold in a bank (against which they can draw checks). But since it is rarely the case that all depositors want to withdraw all their gold at the same time, the banker need keep only a fraction of his total deposits in gold as reserves. This enables the banker to loan out more than the amount of his gold deposits (which means that he holds claims to gold rather than gold as security of his deposits). But the amount of loans which he can afford to make is not arbitrary: he has to gauge it in relation to his reserves and to the status of his investments.

When banks loan money to finance productive and profitable endeavors, the loans are paid off rapidly and bank credit continues to be generally available. But when the business ventures financed by bank credit are less profitable and slow to pay off, bankers soon find that their loans outstanding are excessive relative to their gold reserves, and they begin to curtail new lending, usually by charging higher interest rates. This tends to restrict the financing of new ventures and requires the existing borrowers to improve their profitability before they can obtain credit for further expansion. Thus, under the gold standard, a free banking system stands as the protector of an economy's stability and balanced growth.

When gold is accepted as the medium of exchange by most or all nations, an unhampered free international gold standard serves to foster a world-wide division of labor and the broadest international trade. Even though the units of exchange (the dollar, the pound, the franc, etc.) differ from country to country, when all are defined in terms of gold the economies of the different countries act as one -- so long as there are no restraints on trade or on the movement of capital. Credit, interest rates, and prices tend to follow similar patterns in all countries. For example, if banks in one country extend credit too liberally, interest rates in that country will tend to fall, inducing depositors to shift their gold to higher-interest paying banks in other countries. This will immediately cause a shortage of bank reserves in the "easy money" country, inducing tighter credit standards and a return to competitively higher interest rates again.

**A fully free banking system and fully consistent gold standard have not as yet been achieved.** But prior to World War I, the banking system in the United States (and in most of the world) was based on gold and even though governments intervened occasionally, banking was more free than controlled. Periodically, as a result of overly rapid credit expansion, banks became loaned up to the limit of their gold reserves, interest rates rose sharply, new credit was cut off, and the economy went into a sharp, but short-lived recession. (Compared with the depressions of 1920 and 1932, the pre-World War I business declines were mild indeed.) It was limited gold reserves that stopped the unbalanced expansions of business activity, before they could develop into the post-World War I type of disaster. The readjustment periods were short and the economies quickly reestablished a sound basis to resume expansion.

But the process of cure was misdiagnosed as the disease: if shortage of bank reserves was causing a business decline-argued economic interventionists -- why not find a way of supplying

increased reserves to the banks so they never need be short! If banks can continue to loan money indefinitely -- it was claimed -- there need never be any slumps in business. And so the Federal Reserve System was organized in 1913. It consisted of twelve regional Federal Reserve banks nominally owned by private bankers, but in fact government sponsored, controlled, and supported. Credit extended by these banks is in practice (though not legally) backed by the taxing power of the federal government. Technically, we remained on the gold standard; individuals were still free to own gold, and gold continued to be used as bank reserves. But now, in addition to gold, credit extended by the Federal Reserve banks ("paper reserves") could serve as legal tender to pay depositors.

When business in the United States underwent a mild contraction in 1927, the Federal Reserve created more paper reserves in the hope of forestalling any possible bank reserve shortage. More disastrous, however, was the Federal Reserve's attempt to assist Great Britain who had been losing gold to us because the Bank of England refused to allow interest rates to rise when market forces dictated (it was politically unpalatable). The reasoning of the authorities involved was as follows: if the Federal Reserve pumped excessive paper reserves into American banks, interest rates in the United States would fall to a level comparable with those in Great Britain; this would act to stop Britain's gold loss and avoid the political embarrassment of having to raise interest rates.

The "Fed" succeeded; it stopped the gold loss, but it nearly destroyed the economies of the world in the process. The excess credit which the Fed pumped into the economy spilled over into the stock market -- triggering a fantastic speculative boom. Belatedly, Federal Reserve officials attempted to sop up the excess reserves and finally succeeded in braking the boom. But it was too late: by 1929 the speculative imbalances had become so overwhelming that the attempt precipitated a sharp retrenching and a consequent demoralizing of business confidence. As a result, the American economy collapsed. Great Britain fared even worse, and rather than absorb the full consequences of her previous folly, she abandoned the gold standard completely in 1931, tearing asunder what remained of the fabric of confidence and inducing a world-wide series of bank failures. The world economies plunged into the Great Depression of the 1930's.

With a logic reminiscent of a generation earlier, statist argued that the gold standard was largely to blame for the credit debacle which led to the Great Depression. If the gold standard had not existed, they argued, Britain's abandonment of gold payments in 1931 would not have caused the failure of banks all over the world. (The irony was that since 1913, we had been, not on a gold standard, but on what may be termed "a mixed gold standard"; yet it is gold that took the blame.) But the opposition to the gold standard in any form -- from a growing number of welfare-state advocates -- was prompted by a much subtler insight: the realization that the gold standard is incompatible with chronic deficit spending (the hallmark of the welfare state). Stripped of its academic jargon, the welfare state is nothing more than a mechanism by which governments confiscate the wealth of the productive members of a society to support a wide variety of welfare schemes. A substantial part of the confiscation is effected by taxation. **But the welfare statist** were quick to recognize that if they wished to retain political power, the amount of taxation had to be limited and they had to resort to programs of massive deficit spending, i.e., they had to borrow money, by issuing government bonds, to finance welfare expenditures on a large scale.

Under a gold standard, the amount of credit that an economy can support is determined by the economy's tangible assets, since every credit instrument is ultimately a claim on some tangible asset. But government bonds are not backed by tangible wealth, only by the government's promise to pay out of future tax revenues, and cannot easily be absorbed by the financial markets. A large volume of new government bonds can be sold to the public only at progressively higher interest rates. Thus, government deficit spending under a gold standard is severely limited. The abandonment of the gold standard made it possible for the welfare statist to use the banking system as a means to an unlimited expansion of credit. They have created paper reserves in the form of government bonds which -- through a complex series of steps -- the banks accept in place of tangible assets and treat as if they were an actual deposit, i.e., as the equivalent of what was formerly a deposit of gold. The holder of a government bond or of a bank deposit created by paper reserves believes that he has a valid claim on a real asset. But the fact is that there are now more claims outstanding than real assets. The law of supply and demand is not to be conned. As the supply of money (of claims) increases relative to the supply of tangible assets in the economy, prices must eventually rise. Thus the earnings saved by the productive members of the society lose value in terms of goods. When the economy's books are finally balanced, one finds that this loss in value represents the goods purchased by the government for welfare or other purposes with the money proceeds of the government bonds financed by bank credit expansion.

In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case of gold. If everyone decided, for example, to convert all his bank deposits to silver or copper or any other good, and thereafter declined to accept checks as payment for goods, bank deposits would lose their purchasing power and government-created bank credit would be worthless as a claim on goods. The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.

This is the shabby secret of the welfare statist's tirades against gold. Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statist's antagonism toward the gold standard.

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**by Alan Greenspan**  
1967

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administration rather than the Arab-dominated central government in Baghdad. Iraqi police, meanwhile, raised the death toll to 27 in a suicide bombing Monday against a Kurdish funeral in Jalula, a northern town where Kurds and Arabs are competing for power.



Turkish Kurds flash V-signs around a bonfire as they attend a rally to mark the spring festival of Nowruz in the capital city of Ankara, Turkey, Sunday. Nowruz, the Farsi-language word for "new year," is an ancient Persian festival celebrated on the first day of spring in Central Asian republics, Iraq, Turkey, Afghanistan and Iran.

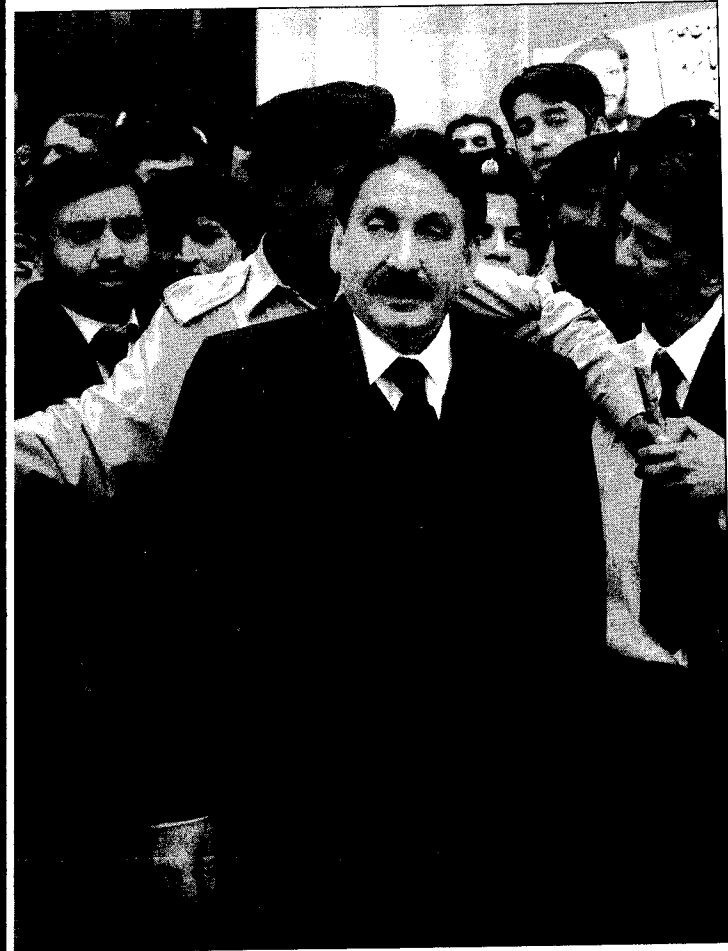
AP photo

EXHIBIT 2

DATE 3/25/09

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## nd judicial corruption



AP photo

ers escort the chief justice of Pakistan, Iftikhar Mohammed as he arrives at the Supreme Court compound in Islamabad, y.

national day Mon-factions to put ces. to work in the spir-ual accommodation sent and invite pate in the national reconciliation and ," Zardari said. e was one of sever-om the ruling party the opposition, ed that Chaudhry be er visited the home r Nawaz Sharif in a

The reconciliation attempts come amid wrangling over which political parties will join forces to control the most powerful province, Punjab. They could also be a way to raise support for Zardari, whose reluctance to bring back Chaudhry damaged his standing.

Zardari's aides had claimed the judge had become too politicized to return, but many believe the president is worried Chaudhry will examine a deal that has provided him protection from prosecution on corruption claims.

In his message, Zardari urged Pakistanis to uphold the "independence of the judiciary.

## China calls for new global currency

BEIJING (AP) — China is calling for a new global currency to replace the dominant dollar, showing a growing assertiveness on revamping the world economy ahead of next week's London summit on the financial crisis.

The surprise proposal by Beijing's central bank governor reflects unease about its vast holdings of U.S. government bonds and adds to Chinese pressure to overhaul a global financial system dominated by the dollar and Western governments.

The world economic crisis shows the "inherent vulnerabilities and systemic risks in the existing international monetary system," Gov. Zhou Xiaochuan said in an essay released Monday by the bank. He recommended creating a currency made

up a basket of global currencies and controlled by the International Monetary Fund and said it would help "to achieve the objective of safeguarding global economic and financial stability."

Zhou did not mention the dollar by name. But in an unusual step, the essay was published in both Chinese and English, making clear it was meant for a foreign audience.

China has long been uneasy about relying on the dollar for the bulk of its trade and to store foreign reserves. Premier Wen Jiabao publicly appealed to Washington this month to avoid any response to the crisis that might weaken the dollar and the value of Beijing's estimated \$1 trillion in Treasuries and other U.S. government debt.

## Officials: Guinea's junta detains former premier

CONAKRY, Guinea (AP) — Guinea's military junta has detained the country's former premier and two former Cabinet ministers, security officials and family members said Tuesday.

Prime Minister Ahmed Tidiane Souare was arrested Monday night and was being held at a military prison along with two other former mines ministers, said Lt. Bangoura Kaly, a member of the army's paramilitary police.

Kaly, as well as members of the military junta, declined to comment on why Souare was being held, but the move appeared to be part of a wider crackdown on corruption and the drugs trade led by coup leader Capt. Moussa "Dadis" Camara.

Aboubacar Akoumba Diallo, an independent journalist and mining industry expert, said authorities were interrogating Souare regarding possible corruption while he was mines minister from 2005 to 2006.

In December, Souare abruptly resigned along with dozens of other officials following a military coup triggered by the death of dictator-president Lansana Conte.

Guinea is the world's largest producer of bauxite, used to

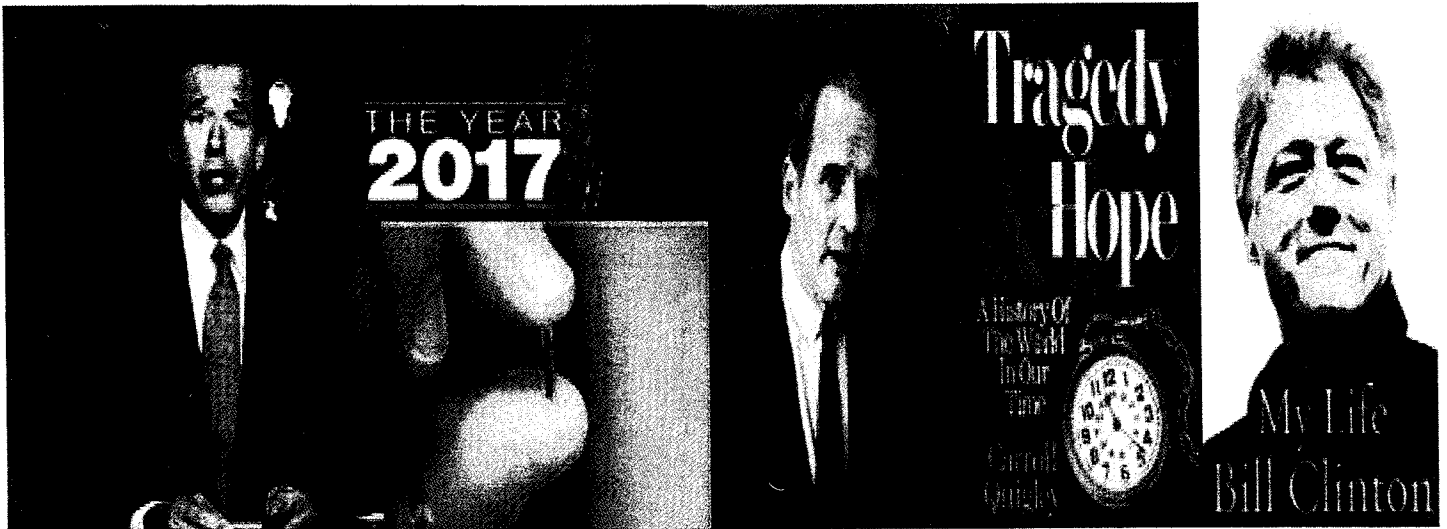
## Neo-Nazi fugitive in Italy

Exhibit Z  
Date 3/25/09  
HB 639

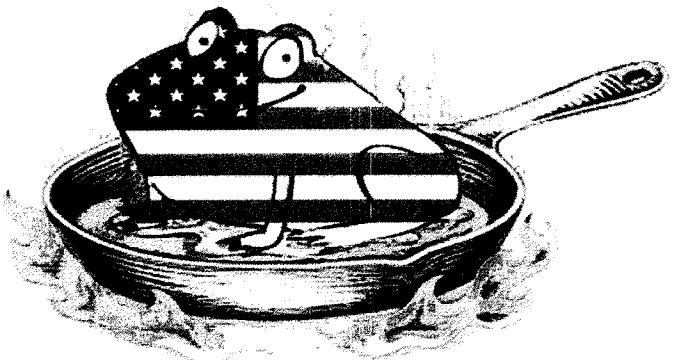
# EXECUTIVE ORDER 11110 SIGNED BY JOHN F. KENNEDY ABOLISHED THE FEDERAL RESERVE BANK



## HE THEN STARTED PRINTING COMPETING CURRENCY



Thomas Jefferson; I Fear Banks Far More Than Standing Armies



"LET ME ISSUE AND CONTROL A NATION'S MONEY, AND I CARE NOT WHO WRITES ITS LAWS" Meyer Rothschild