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The Federal War on Gold, Part 1

by Jacob G. Hornberger

Given the rising price of gold and the fact that federal spending is totally out of control, the prospect of gold confiscation and criminalizing the private ownership of gold by federal authorities inevitably rears its ugly head.

There are few things that federal big spenders hate more than gold. Why? Because they know that, historically, gold has provided the best means by which people could protect themselves against the ravages of a rapidly depreciating currency.

The mainstream press often uses the term “inflation” to describe rising prices. That’s incorrect. Actually, when the general price level is rising, that’s a *result* of inflation, not inflation itself. Inflation is the process by which governments print up the money to pay for ever-increasing expenditures.

Why not instead simply increase taxes on people in order to get the money to pay for the soaring expenses? There’s an obvious reason: Taxes make people angry at government officials. It’s much easier and safer to simply print the money because then most people have absolutely no idea that the government is behind what is happening.

When prices of commodities, goods, and services start rising in response to the depreciating quality of the money, the average person is likely to blame those in the private sector, such as oil companies, speculators, and businessmen, for the woes.

Being unaware of economic principles, people will even demand that federal officials impose price controls and excess-profits taxes on the evil offenders, a demand that the authorities are often willing to oblige.

That’s why inflation has always been the best friend of big spenders in government. Although clearly a fraudulent way to finance government operations, history has proven that the possibility that such fraud will be figured out by an ignorant and trusting citizenry is minute.

Money and the Constitution

Such ignorance and such trust in government did not characterize our American forefathers. Having studied economics and monetary history and having experienced the ravages of inflation firsthand with the Continental currency, they decided to establish a monetary system based on gold and silver coin rather than paper money.

They knew that while the government could still debase the currency by “clipping” a bit of each gold coin it received before putting the coins back into circulation — a process of plunder that governments used before the printing press was invented — that was a relatively small danger, especially compared with paper money, which could be expanded at will through the printing press.

A close reading of the Constitution — the document whose purpose was to protect the American people from federal officials — leaves little room for doubt about the intentions of the Framers. As you read the following excerpts from the Constitution, ask yourself: Did the Framers intend for our country to have a monetary system based on gold and silver coins or on paper money?

Article 1, Section 8:

The Congress shall have Power . . . To coin Money, regulate the Value thereof, and of foreign Coin . . . ; To provide for the Punishment of counterfeiting the Securities and current Coin of the United States . . .

Article 1, Section 10:

No State shall . . . coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts....

The plain meaning of those words can lead but to one conclusion: The Framers rejected paper money in favor of money they could coin, which meant gold and silver coins. And that, in fact, is what happened. From the very inception of our nation and through most of the 1800s and early 1900s, the American people used gold and silver coin as their money.

While the system wasn’t perfect in that it still left the determination of money under government control rather than the free market, there were nevertheless two remarkable results of this system.

One, the gold standard eliminated the power of federal officials to do what governments had historically done to their citizenry — plunder and loot the people through the issuance of depreciating paper money.

Two, the gold standard had an enormously positive effect on capital markets, which was one of the major contributing factors for the tremendous economic expansion and prosperity that characterized the United States through most of the 19th and early 20th centuries.

Borrowing and paper money

Among the other powers given Congress in Article 1, Section 8, were the power “To lay and collect Taxes, Duties, Imposts and Excises” and the power “To borrow Money on the credit of the United States...”

These two powers were not inconsistent with a monetary system based on gold and silver coin. People paid their taxes with their money, which meant gold and silver coins. And if government wished to borrow money from the citizenry, it would issue a promissory note or “bill” promising to pay back the gold coin that it received from the lender. But everyone understood that the actual money was the gold or silver coins, not the promissory notes. The notes simply evidenced the promise to repay the money.

“Bills of credit,” which Article 1, Section 8, prohibited the states from “emitting,” were commonly understood to be paper money. That part of the Constitution expressly prohibited the states from issuing paper money.

Why isn't there a similar constitutional restriction for the federal government? The answer lies in the overall philosophy of the Constitution. In establishing the federal government, the Constitution made clear that the government's powers were limited to those enumerated in the Constitution. If a power wasn't enumerated, it was understood that it could not be exercised.

Thus, the relevant inquiry would be: Was the power to emit bills of credit (that is, issue paper money) among the express powers granted to Congress? The answer is “no.” The power that was given was “to coin money,” something that most everyone would concede is difficult to do out of paper. The power to “regulate the Value thereof” simply meant that the Congress would have the power, for example, to decide the exact weight and fineness of metal that would go into a gold coin or a silver coin.

The paper money of today still contains a hint of what it once represented — a promise to pay money, rather than money itself. Take a dollar bill out of your billfold. Notice that at the top it states, “Federal Reserve Note.” Why is it called a “note”? Because it represents, somewhat perversely, what such a note once constituted for our American ancestors — a promise to pay something, namely gold. Today, such notes are what is termed “irredeemable” — that is, they cannot be redeemed in gold or silver coin. They are promises to pay nothing.

Thus, while the federal government could borrow money (i.e., gold and silver) from the private sector, its bills and notes evidencing the debt did not — and could not — legally circulate as money.

However, there was one type of paper money that began circulating in the late 1800s and early 1900s, but it was totally different from promissory notes. This paper money consisted of what were called gold certificates and silver certificates. They worked like this: A person would deposit, say, \$5,000 in gold coins with the U.S. Treasury and receive in return a certificate certifying that \$5,000 had been deposited. Thus, the certificate was in the nature of a warehouse receipt rather than a loan. At first, the certificates were issued in the name of the depositor. Over time, they began to be issued in the name of “bearer,” which meant that the holder of the certificate could transfer it to another person, who could then go to the Treasury, present the certificate, and receive his gold.

A monetary revolution

So how did things change so dramatically? How did it come to be that the monetary system of the United States is now based on irredeemable paper money? Why are gold and silver coins and gold and silver certificates no longer used as our country’s money? Given that there was never a constitutional amendment changing America’s monetary system, how did things change so radically?

The answer lies with two presidents — Abraham Lincoln and Franklin D. Roosevelt. Their respective actions revolutionized our nation’s monetary system. Their actions culminated in a monetary system that has enabled federal authorities, decade after decade, to fraudulently plunder and loot the American people, even to the point of denying them the ideal means — ownership of gold — by which to protect themselves from the federal government’s immoral and insidious monetary behavior.

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This article was originally published in the August 2006 edition of *Freedom Daily*.