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The New Deal and Roosevelt's Seizure of Gold: A Legacy of Theft and Inflation, Part 1

by William L. Anderson

In a recent discussion on the economy with a faculty colleague, I reminded her of some of the absurdities of New Deal economic policies (many of which have been laid out in previous issues of *Freedom Daily* and elsewhere). She reminded me that Franklin D. Roosevelt is a "hero" to her and other Democrats, which, translated, means that the New Deal cannot be criticized in any form.

Indeed, in May the *New York Times* op-ed page paid homage to Roosevelt. Ted Widmer wrote that a book by *Newsweek's* Jonathan Alter, who he says "has nurtured a schoolboy crush on F.D.R.," reflects "on the way that Roosevelt reinvented the presidency during his first hundred days in office, through bold policy innovations, brilliant speeches and broadcasts and a personal connection with the American people that has not been equaled since."

Democrats today may think of themselves as belonging to a "modern" political party, but Roosevelt still is its central figure and any policy "innovations" that come forth from party intellectuals ultimately must be in line with the New Deal. The shocked Widmer writes that

> a recent spate of books from the right, including Jim Powell's *FDR's Folly* and Thomas E. Woods Jr.'s *Politically Incorrect Guide to American History,* have accused [Roosevelt] of prolonging the Great Depression and generally screwing up America.

Admirers of Roosevelt — including the editorialists at the *New York Times* — hold such thinking to be nonsense, especially the first part about the New Deal's prolonging the Great Depression instead of ending it. After all, has not the *Times's* favorite economist, Paul Krugman, himself said that capitalism had created conditions in which "inadequate" aggregate demand existed during the 1930s, leading Roosevelt to attempt to increase aggregate demand through government spending?

While most analyses of the New Deal look at the various programs and policies that expanded government bureaucracies, the New Deal as we know it would not have been possible without the issuance of Executive Order 6102 in 1933. With Roosevelt's signature, gold as legal money disappeared in the United States, paving the way for the government to engage in near-unconstrained debasement of the currency. Historians generally pass by EO 6102, but without it Roosevelt's economic programs never would have gained traction.

Understanding the New Deal

Most articles, books, and papers that cover the New Deal concentrate on the myriad of programs and policies of the Roosevelt administration, such as the National Industrial Recovery Act, the Agricultural Adjustment Act, and the Wagner Act, and the battles between Roosevelt and the U.S. Supreme Court, which had struck down some key elements of the New Deal in 1935. For the most part — and especially in those writings that are favorable to Roosevelt — authors tend to emphasize the vast unemployment and helplessness that gripped the United States (and much of the world) in 1933.

Certainly the horrifying numbers are there. In February 1933, a month before Roosevelt took office, the nation's overall rate of unemployment stood at 28.3 percent. Nearly half the banks in the United States had failed, millions of people were homeless, and the country's manufacturing facilities operated at perhaps two-thirds or less of their capacity. Farming communities were devastated, as commodity prices fell drastically, making it impossible for farmers to pay their debts and crippling the small rural banks that held the mortgages.

To right the economic ship, the Roosevelt administration proposed a set of programs that came to be known as the New Deal. The problem, however, was not with Roosevelt's desire to halt the Depression but rather in the misjudging of its causes and with implementing policies that ultimately would prolong it. It is not surprising, then, that Roosevelt and his "brain trust" of intellectual advisors (mostly from Columbia University) blamed free-market capitalism for the economic free fall and set about to ensure that government would set the agenda for the economy.

Progressives who dominated the Roosevelt administration held that the principal cause of the economic downturn was falling prices, along with falling wages. Furthermore, they believed that the cause of falling prices was "overproduction," so the "cure" was to find ways to limit the production of goods. Thus, in the minds of the New Dealers, the government needed to restrict production and force up prices. As prices rose, so would wages, and high wages would bring the country out of the Depression. For inspiration and direction, they used the economic programs of Italy's fascist dictator, Benito Mussolini, as their model.

If one applies even simple logic to such a plan, it is obvious that restricting output also would mean that less labor would be required, which would translate into more unemployment. Yet that is exactly opposite from what Roosevelt and his "brain trust" claimed: that restricting production somehow would mean that fewer businesses would fail, thus eliminating unemployment.

For example, his vaunted National Industrial Recovery Act attempted to organize the entire U.S. economy into a series of cartels that would restrict production, force up prices, and keep wages high. Ironically, the NIRA was a comprehensive plan of what Herbert Hoover's administration had tried to do in a piecemeal fashion — with disastrous results.

The Agricultural Adjustment Act, while aimed at keeping crop prices high, did so by ordering the mass destruction of crops, as well as animals such as pigs and chickens. In order to pay for the destruction of crops, the Roosevelt administration had Congress enact a tax on agricultural products. Thus, the economic ethos of the New Deal was that production was bad and nonproduction was good.

While many economists and astute journalists such as H.L. Mencken immediately pointed out the folly of such policies, the New Dealers believed that they had an ace in the hole: inflation. Yes, they reasoned, these are restrictive policies, but if the government could find a way to massively inflate the currency, then somehow people would start buying more goods as their dollars depreciated, and the ensuing spending spree would wipe out unemployment.

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