



11350 Random Hills Road, Suite 800, Fairfax, Virginia 22030 Phone (703) 934-6101 Fax (703) 352-3678

[fff@fff.org](mailto:fff@fff.org) [www.fff.org](http://www.fff.org)

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## **The New Deal and Roosevelt's Seizure of Gold: A Legacy of Theft and Inflation, Part 2**

**by William L. Anderson**

The monetary system of the United States at the time of the Depression could not sustain inflation very long because the country was on a gold standard. If people sensed that the government was printing too many paper dollars, by law they could redeem those dollars from the government's store of gold. Moreover, gold coins circulated along with silver dollars, half-dollars, quarters, and dimes.

If people were exchanging their dollars for gold, then the government's own gold supply would be diminished. Since the gold standard included requirements that the country's money supply have at least a 40 percent gold backing, a drain on gold reserves would have forced the government to stop printing so many dollars. Therefore, the plans of the New Dealers ran headlong into the reality of the gold standard and its check on inflation.

Thus, early in his presidency, on April 5, 1933, Roosevelt signed Executive Order 6102, which ordered people to turn in their gold to the government at payment of \$20.67 per ounce. While there were some exceptions for dental use, jewelry, and artists and others who used gold in their jobs, most people were not covered. (Individuals could hold up to \$100 in gold coins, but the government confiscated the rest.) Furthermore, the president's order nullified all private contracts that called for payment in gold, something that led Sen. Carter Glass of Virginia to declare that the whole thing was "dishonor."

Roosevelt based his order on the 1917 Trading with the Enemy Act, which gave the president the power to prevent people from "hoarding gold" during a time of war. Of course, the United States was not at war in 1933, but Roosevelt claimed that it was a "national emergency" and Congress and the courts meekly bowed to the executive.

In earlier times, such an order would have been met with outrage, as freedom-loving Americans would have rebelled against such a confiscatory order from Washington. Certainly, no president before the Progressive Era would have ordered such action for fear of impeachment or being voted out of office at the next election. However, by the time Roosevelt took office in 1933,

the courts already had upheld government restrictions on freedom of speech (especially during World War I) and Congress had begun the unconstitutional delegation of some of its lawmaking powers to the executive branch.

Furthermore, given the economic calamity that prevailed when Roosevelt issued EO 6102, many Americans had become convinced that economic and political freedom meant freedom to starve and were willing to give the president whatever he wanted.

Roosevelt attempted to put “teeth” in his order by means of Section 9 of the order, which said that anyone who refused to comply could be fined as much as \$10,000 or be sentenced to a maximum of 10 years in prison. (Most Americans did not resist, although some simply hid their gold until the order was repealed 41 years later.) To understand the magnitude of Roosevelt’s actions against individuals, he was threatening serious fines and prison terms against anyone who held on to what historically had been the money of the American people.

Although Roosevelt made it illegal for Americans to redeem their dollars for gold, he also realized that he could not make the same threats against people from other countries. Therefore, representatives of foreign governments still could trade in their dollars for gold, although shortly after issuing his order, Roosevelt increased the price to \$35 an ounce. However, given the state of international trade at the time, foreign holdings of dollars were relatively small, something that would not be the case a half century later.

The small burst of inflation generated by Roosevelt’s move did create a bit of an economic boom, as usually occurs in the early stages of inflation, although unemployment remained at about 15 percent. However, Roosevelt’s twin pillars of what historians call the First New Deal were causing havoc among some producers and entrepreneurs, who realized that the NIRA and AAA were stifling entrepreneurship and productivity. In 1935, the U.S. Supreme Court declared both the NIRA and AAA unconstitutional, but by then the New Dealers had shifted from endorsing business cartels to promoting *labor* cartels through the unionization of workers.

When the U.S. Supreme Court in 1937 upheld the 1935 Fair Labor Standards Act (or Wagner Act), the inflation-induced “boom” ended soon afterward and the economy tumbled into a recession *within a depression*, a first for the U.S. economy, as unemployment climbed to nearly 20 percent. But while Roosevelt’s seizure of privately held American gold failed to regenerate the economy, it did lay the foundation for further economic deterioration.

### **The 1971 collapse of the dollar**

Following the Bretton Woods agreement of 1944, currencies were fixed against each other and the dollar still could be redeemed by foreign governments at \$35 an ounce. For about 20 years after World War II ended, the arrangement seemed to work. However, in order to pay for the vast expansion of government welfare programs associated with Lyndon Johnson’s Great Society and the escalating Vietnam War, the Federal Reserve System aggressively expanded the supply of

money, which not only depreciated the currency at home but also flooded the rest of the world with dollars.

France's government, under Charles de Gaulle, recognized the situation at hand and began to redeem its dollars in U.S. gold, which was stuck at its 1933 price. While U.S. representatives at first denied there was a problem, by mid 1971 U.S. gold reserves were disappearing quickly, leading Richard Nixon to close the gold window and impose wage and price controls. While some price controls were lifted within the year, oil and gasoline controls remained through the decade, causing untold havoc in the economy.

## **Conclusion**

The presidency of Franklin Roosevelt was characterized by arrogance and outright fraud. Unfortunately, much of the Roosevelt legacy stands. Many historians and economists continue to insist that his economic programs "saved capitalism" when, in fact, they were based on confiscation of property and on the false notion that inflation is the source of prosperity.

Today, the U.S. monetary system is adrift in inflated dollars. Gold prices at this writing are nearly \$650 an ounce and the dollar has been falling against other international currencies. The only constraints on the Federal Reserve System's determination to continue this inflation are political, and the vast majority of politicians and Americans have come to believe that the Fed creates prosperity when it creates new dollars.

Franklin Roosevelt in 1932 campaigned on a platform of restrained government spending and sound money. His legacy, however, is one of runaway spending, government intrusion into peaceful economic exchange, and the utter debasement of U.S. money. To this day, his successors in the executive branch have only extended the worst aspects of the New Deal presidency. Historians might regard his 1933 seizure of gold as a minor point in history, but in many ways it was every bit as significant as all the other New Deal measures put together.

*William L. Anderson teaches economics at Frostburg State University in Maryland.*

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