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## **Roosevelt's Crusade against Gold**

**by Jim Powell**

Early in the New Deal, Franklin Roosevelt became convinced that to get America out of the Great Depression, the federal government must gain total control over money. The Federal Reserve seemed to have been powerless during the contraction, so Roosevelt asserted the power of the presidency. He began demonizing gold.

Why gold? For centuries, people have viewed gold as the ultimate store of value, something to buy that can help preserve savings when governments depreciate coins and currency. Gold is a beautiful, lustrous metal. It's durable. It doesn't break, burn, or corrode. Brilliant gold coins have been recovered from sunken treasure ships after several hundred years beneath the sea. Gold is malleable, and ever since ancient Egypt, people have shaped it into splendid coins, jewelry, and sculpture. Because gold is rare, it has been a far more reliable store of value than paper money, which can be inflated at the whims of politicians.

The *maravedi* gold coin remained the standard of value in the Arab world for more than 400 years. Florence began issuing the gold florin in 1252, and it was a standard of value for 300 years. Perhaps the world's most widely recognized gold coin is the British gold sovereign, which, first issued in 1489, has been minted in Australia, India, and South Africa as well as Britain; and basically the same reverse design (St. George slaying a dragon) has continued for almost 200 years. Throughout history, when people have felt threatened by inflation, devaluation, and monetary crises, they turned to gold.

Roosevelt was under considerable pressure to pursue inflation, especially from farmers who wanted higher agricultural prices. But inflation was difficult as long as the United States remained on the gold standard. The U.S. Treasury was obligated to give anybody as much gold as he wished at \$20.67 per ounce. If the federal government began inflating the supply of paper dollars, people would naturally anticipate devaluation and begin turning in dollars, hoping to get as much gold as possible before the price went up.

In his Presidential Proclamation 2039, March 6, 1933, which declared the national "bank holiday," Roosevelt blamed the banking crisis on gold hoarding. His proclamation cited the legal

authority of the Trading with the Enemy Act (October 6, 1917), which provided fines of \$10,000 or as many as 10 years in prison for anyone convicted of doing business with an “enemy” of the United States. A subsection of the Trading with the Enemy Act authorized the president to ban transactions involving gold. Presidential Proclamation 2039 made it against the law until March 9, 1933, for any bank to sell gold.

Roosevelt understood that he must apply the full force of federal power to suppress the natural desire for gold in troubled times. The Emergency Banking Act, signed into law March 9, amended the Federal Reserve Act by adding a new subsection (n), which empowered the secretary of the Treasury to demand that all Americans surrender their gold and receive paper money. The following day, Roosevelt issued Executive Order 6073, which made it illegal for Americans to take gold out of the country.

In his first “fireside chat,” delivered on March 12, Roosevelt didn’t say a word about his backstage maneuvering to seize gold. He remarked that “hoarding during the past week has become an exceedingly unfashionable pastime.”

Less than a month later, on April 5, 1933, Roosevelt issued Executive Order 6012, which expropriated privately owned gold. He ordered Americans to surrender their gold to the government by May 1, 1933. Violators would be subject to a \$10,000 fine or as many as 10 years in prison.

In his May 7 “fireside chat,” he claimed that if Americans were free to buy gold, there soon wouldn’t be any left, and therefore in the interest of fairness he denied gold to everybody. That was a silly thing to say, since gold markets had flourished around the world for thousands of years. Gold endlessly changed hands. People have obtained gold during the worst wartime conditions when it was forbidden. Resourceful smugglers have defied the death penalty to deliver gold. Journalist Timothy Green reported that a favorite smuggling technique involved “a thin canvas or nylon corset, bearing thirty or more one-kilo bars of gold slotted neatly into rows all around the garment, strapped to the torso.”

Green went on to say that

gold travels amid a clutter of goats and pilgrims on Arab dhows in the Arabian gulf, or hidden in the engine casing of freighters outward bound from Hong Kong. One shipment of movie projectors into India was ingeniously filled with canapé-sized bars of gold, while 560 cans of motor grease swung ashore in Yokohama docks were laced with over one million dollars in gold. Tins of condensed milk make an excellent hideaway because the thick white goo of the milk stops the gold from rattling. Best of all are golden nuggets shaped like a pigeon’s egg, which can be carried internally. Women, they hasten to explain in smuggling circles, can carry twice as many of these eggs as men.

So much for Roosevelt's professed concern that free people wouldn't be able to buy gold.

### **Roosevelt's decrees on gold**

What about existing contracts which people voluntarily agreed to, specifying payment in gold? Roosevelt persuaded Congress to overturn those contracts and wipe out the gold clauses. The Joint Resolution of June 5, 1933, declared that gold clauses were "against public policy" and further payments must be in paper dollars.

Those were an extraordinary succession of commands, by whatever name. There weren't any congressional hearings, even though the issue was one of fundamental importance, namely the seizure of private property from peaceful people who hadn't done anything wrong. Congressional debate was perfunctory, and when congressmen were asked to vote, they often didn't have a printed copy of the law they were voting on. Roosevelt's display of arbitrary power and his brazen disregard of contractual obligations undoubtedly made investors less willing to fund growth and jobs, making recovery from the Depression more difficult.

Meanwhile, Roosevelt shocked many of his advisors by signing an amendment to the Agricultural Adjustment Act, proposed by Sen. Elmer Thomas of Oklahoma, authorizing the Treasury to issue more paper dollars and empowering the president to fix the price of gold.

The dollar plunged on currency markets. Officials in Britain, France, and other countries were alarmed, since their currencies became more expensive in terms of dollars, making their goods more expensive for Americans to buy, to the extent Americans were buying much at all from overseas. Farm commodity prices rose as the dollar depreciated on world markets in May and June 1933.

But in July, gold prices rose, and stock prices and farm commodity prices fell. Farm prices continued in a general downtrend for several months. "If we don't keep the price of wheat and cotton moving up, we shall have marching farmers," Roosevelt is reported to have told banker James Warburg, a presidential advisor.

It became increasingly apparent that two of the most important measures from Roosevelt's fabled Hundred Days of legislative mania were duds: the National Recovery Administration was failing to revive industrial production and employment, and the Agricultural Adjustment Administration wasn't raising farm incomes. Cutting the dollar loose from gold didn't seem to be working, either.

Desperate, Roosevelt began pursuing a Cornell professor's ideas for raising farm incomes. The professor was agricultural economist George Frederick Warren. "He was a stocky, smooth-faced man approaching sixty," journalist John Brooks wrote, "who peered through round spectacles with narrow black rims with a steady, vacuous gaze slightly reminiscent of Calvin Coolidge's, and, invariably, carried a clutch of pencils with the ends sticking out of the breast

pocket of his coat. He was given to careless dress, homely witticisms, and pithy, irrefutable sentences like ‘Here is a farm, here is a farmer, and here are the facts.’”

Warren had written *Alfalfa* and *Some Suggestions for City Persons Who Desire to Farm*, but it was his book *Prices*, with his Cornell colleague Frank A. Pearson, that caught Roosevelt’s attention. Warren had noticed that when gold prices go up, the prices of other commodities tend to go up, too, and he concluded that rising gold prices *caused* higher farm prices. Warren became one of Roosevelt’s close advisors, and Roosevelt arranged to have him use an office at the Department of Commerce.

Most economists seemed to agree with Warren that the prices of gold and farm commodities often rise together, but they denied that gold was the *cause*. Warburg called Warren’s doctrine “almost ridiculous.” As Warburg recalled a White House presentation,

The meaning of Warren’s charts and graphs — to Warren — was that the price of commodities went up and down automatically with the price of gold. Therefore all one had to do to control the price of commodities was to control the price of gold.... I pointed out that Warren’s graphs represented only the prices of commodities with an international market. They did not show that milk or eggs or beef were affected by the ups and downs of the dollar in terms of gold.... I asked Warren whether, in his opinion, it was the domestic price for gold or the world price that governed domestic commodity prices. He said it was the domestic price — that each country could regulate its commodity price level by regulating its gold price.... I said to the President that ... the domestic price of gold would not influence anything except the position of the domestic gold miners.

### **Roosevelt’s gold manipulations**

In August, Roosevelt told Henry Morgenthau, then head of the Farm Credit Administration, that he wanted the Treasury Department to buy gold, generating upward pressures on the price. Amidst his haste to take away the right of Americans to own gold, however, Roosevelt had forgotten to officially proclaim a state of emergency, which his own Emergency Banking Act had said was necessary. So on August 28, 1933, he issued Executive Order 6260, which revoked his Executive Order of April 5 (seizing privately owned gold). Then the Executive Order declared a state of emergency and reissued all the gold prohibitions. The next day, Roosevelt issued Executive Order 6261, which required U.S. gold producers to sell all their output to the secretary of the Treasury, at a price determined by the secretary. On Sunday, October 22, Roosevelt delivered a “fireside chat” to the nation, announcing his gold-buying binge.

Roosevelt imagined he could fix the world gold price from his bedroom. Morgenthau reported that when he visited Roosevelt on Friday, November 3, he suggested a 10- or 15-cent rise from the previous day, and Roosevelt decided on a 21-cent rise. Morgenthau asked the rationale for 21 cents, and Roosevelt is reported to have replied that “three times seven” is a lucky number. Raymond Moley, who became an opponent of the New Deal after being a part of it, remarked, “Roosevelt gravely marred his image as a responsible statesman, by the early-morning bedside guesses with Morgenthau about what the price of gold was to be ‘that day.’”

But farm commodity prices declined. Warburg observed, “By this time it was evident that marking up the gold price on a blackboard each day had little or no significance.” Roosevelt demanded answers from Warren. The professor replied that the government must buy more gold overseas! That would be done through the Federal Reserve Bank of New York. The first purchases were made on November 2. The New York Fed president, George Harrison, tried to convince central-bank officials in Britain and France that Roosevelt wasn’t engaged in monetary nationalism intended to harm their interests. But the continued rise in gold prices, and consequent fall in the dollar against major currencies, outraged the British and French who feared that with their currencies’ becoming more expensive, their producers would be priced out of world markets.

While Roosevelt’s gold-buying gambit cost the U.S. Treasury millions of dollars and impaired relations with other countries, it didn’t do much to raise U.S. farm commodity prices. Nonetheless, he seemed pleased because of reports that American farmers were less rebellious than they had been earlier in the year.

There was increasingly vocal opposition to the gold-buying, however. George Harrison warned that further depreciation of the dollar would impair the government’s ability to raise money by issuing bonds. Undersecretary of the Treasury Dean Acheson resigned in protest against Roosevelt’s efforts to depreciate the dollar. Bernard Baruch, a Roosevelt advisor, wrote an article for the *Saturday Evening Post* blasting Roosevelt’s policy. Al Smith, Roosevelt’s rival for the 1932 Democratic presidential nomination, declared that he supported “gold dollars as against baloney dollars.”

Warren’s gold-manipulation policy petered out in December. “During the whole month,” Warburg wrote, “the price was raised only once, from \$34.01 to \$34.06 on December 18. Commodities declined a little.”

Meanwhile, the first victim of Roosevelt’s gold prohibition was attorney Frederick Barber Campbell. Before Roosevelt had become president, Campbell had deposited 27 gold bars (worth about \$200,000) at Chase National Bank, which agreed to return the bars on demand. On September 13, 1933, Campbell wanted his gold bars, but Chase officials, citing Treasury regulations, told him they would have to report the existence of his gold by September 18. Campbell demanded his gold on September 16, but Chase refused, citing the succession of

executive orders. Ten days later, Campbell filed suit to enforce his contract with Chase, in the Southern District of New York. A grand jury returned a criminal indictment against him for failing to report his gold by September 18. In an effort to block that action, Campbell filed a lawsuit against the United States Attorney for the Southern District of New York. All this litigation came before Judge John Munro Woolsey, who upheld the gold seizures. On December 28, after the Campbell case had concluded, Secretary of the Treasury Henry Morgenthau Jr. issued a formal requisition order for most of the remaining privately owned gold in the United States.

When the time came to deliver his first State of the Union Address, in January 1934, Roosevelt offered a new spin. Gone was the claim that gold-buying would push up farm commodity prices, and instead he suggested his concern was stabilizing the value of the dollar.

On January 31, he signed into law the Gold Reserve Act, which sanctioned what he had already done by executive order, namely forbidding private ownership of gold money. The Gold Reserve Act also empowered him to devalue the dollar from \$20.67 per ounce of gold (the official mint price for a century) to \$35 per ounce, which he did by issuing a proclamation.

Even though his gold-buying scheme failed, the government kept all the gold it had taken from private individuals. Roosevelt ranks among history's biggest hoarders, with an estimated 190 million ounces of gold worth almost \$7 billion after the dollar devaluation. Roosevelt undoubtedly hoarded gold for the same reasons that the mercantilist kings of the 16th, 17th, and 18th centuries hoarded it: because it was the ultimate money, and for a ruler money meant power.

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