Got Gold?

America's Reaction to the Reform of the Gold Standard

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Despite repeated governmental interference with gold, the precious metal is still a crucial part of the international monetary system. There have been significant reforms on gold and the gold standard particularly since the Great Depression. The reactions to these reforms have had an impact on the economy and on the value of the dollar for generations, and are still affecting us today. Counterproductive legislation regarding gold, especially during and after President Franklin D. Roosevelt's term in office, has kept America's economy on a path of volatility.

The gold standard has been defined as "a monetary standard under which the basic unit of currency is defined by a stated quantity of gold and which is usually characterized by the coinage and circulation of gold and unrestricted convertibility of other money into gold."[1] America followed suit with most of Europe by adopting the gold standard with the Coinage Act of 1873. This measure was taken for the purpose of establishing preeminence as a world power[2]; the U.S. would now be able to control trade and regulate currency value, giving a boost to the already flourishing economy. "It was… a period of unprecedented economic growth with relatively free trade in goods, labor, and capital," says economist Michael D. Bordo. "…when the United States was on the 'classical gold standard,' inflation averaged only 0.1 percent per year."[3] The gold standard was one of the major contributing factors of the tremendous economic growth that characterized America through most of the 19th and early 20th centuries.

The classical gold standard, which had been able to implement limitations on economic policies all over the world, began to fall apart in 1914 because of the dwindling currency supply to satisfy trade. As a result, there was a reformation of the gold standard that brought about the Federal Reserve in the United States. The new monetary structure was controlled by central

[1] "Gold Standard," Merriam-Webster, 28 Dec 2011.
[2] "Committee on Banking and Currency," The Knoxville Tribune 14 March, 1900: 3.
[3] Michael D. Bordo, "Gold Standard," The Concise Encyclopedia of Economics, 2008.

bankers and lacked gold and silver coin circulation and domestic convertibility. Nevertheless, with The Roaring 20's came a surge of economic prosperity due to the Industrial Revolution. It seemed as though nothing could bring down this fiscal high, until the devastation of World War I ushered in the first signs of a major economic downfall.

With the failings of the stimulus packages that the Federal Reserve and Congress had attempted, newly inaugurated President Franklin D. Roosevelt, on the heels of former President Hoover, began testing the waters of power. Economist and writer Emily Shlaes says, "Regarding monetary policy, it is clear that there wasn't enough money in the early 1930s. So Roosevelt was not wrong in trying to reflate."[4] In the midst of the Great Depression, America's economy had declined for its fourth consecutive year,[5] the stock market had lost 90% of its value with the crash of 1929, and thirteen million people were out of work.[6] On day five of what became known as the Hundred Days, the first period of Roosevelt's presidency, he experimented with the economy by amending the Trading with the Enemy Act of 1917. This was the beginning of the legislation that came to be known as the New Deal, and gold was on the front line of his plan.

World War I had prompted the Trading with the Enemy Act, mainly purposed to illegalize all transactions between Americans and enemies of the United States. However, nestled within Section 5 was a paragraph giving the President the power to "investigate, regulate, or prohibit, under such rules and regulations as he may prescribe … any transactions in foreign

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[4]Emily Shlaes, "The Rules of the Game and Economic Recovery," Imprimis, Sep 2010: 1-7.
[5]David L. Ganz, "Seizure Report of '33 Increases Likelihood of 21st Century Governmental Gold Bullion Heist," American Advisor, 2010: 8-12.
[6]Robert VanGeizan and Albert E. Schwenk, "Compensation from before World War I Through the Great Depression," U.S. Bureau of Labor Statistics, 30 Jan 2003.

exchange, export or earmarkings of gold or silver coin or bullion or currency … by any person within the United States."[7]

On March 9, 1933, the Act was amended so that these powers could only be enforced in a national emergency. This reform was acted upon a month later on April 5, 1933, when Roosevelt issued Executive Order 6102. During President Roosevelt's announcement he declared a "national emergency in banking".[8]As an attempt to provide relief, this vague order banned citizens of the United States to "hoard" or own gold (except for jewelry or rare and unusual gold coins). With the confiscated gold in the hands of banking authorities, the Federal Reserve could now justify the printing of controlled currency.[9]The penalty for withholding the precious metal was up to ten years in prison, up to $10,000 in fines, or both.[10]

Roosevelt also nullified the gold clauses of every contract, whether federal or private, "in which payment was specified in gold." [11] Since the contracts would now be paid in paper money instead of gold, the invalidation caused the lender to be reimbursed only one-fifth of the original worth of the bond, adversely effecting financial establishments.[12]An additional measure of the New Deal was the institution of a 6-day banking holiday, for the purpose of sparking a "bank revival".

The American people were caught almost completely by surprise with this abrupt and unexpected prohibition of gold bullion. Political leaders across the country, including Tennessee Governor Hill McAlister[13], asked the people to support the President in his endeavors. Local merchants encouraged everyone to "spend a dollar and put the New Deal into quick

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[7]President Woodrow Wilson, "The Trading with the Enemy Act", United States Code §§ 106-5-5b, (1917).
[8]Exec. Order 6120, C.F.R. 31 (1933).
[9]"Federal Reserve Will Institute New Currency on Gold Basis," The Knoxville Journal9 March 1933: 1+.
[10]Bordo.
[11]Bordo.
[12]Jacob G. Hornberger, "The Federal War on Gold: Part 3," The Future of Freedom Foundation, 9 Jan 2007.
[13]"Governor Hill McAlister Asks for Support for Roosevelt," The Knoxville Journal 9 March 1933: 1.

operation,"even though prices were taking an upward swing.[14]Generally, Americans were cooperative and enthusiastic about the actions taken. However, despite the exchange of $20.67 for an ounce of gold turned in to the banks, many Southerners buried gold on their property in retaliation; some even filed lawsuits with the federal government for taking their 1933 double eagles, considered a rare collectable.[15] Those who sued lost, notwithstanding having paid a high price for a coin that met the law's "rare and unusual" requirement. Although this reaction was more prominent in the South, some Northerners also showed their disapproval. A man in Watertown, New York sent a note addressed to Roosevelt along with a shotgun shell, but it was intercepted by a postmaster in Washington D.C.[16]By 1938 the courts deemed many of the programs unconstitutional, and Roosevelt stopped moving forward with the New Deal legislation.[17]

The economy's ultimate response to the New Deal was not very favorable. Following the confiscation, the government sold its gold on the international market for $35 an ounce for an instantaneous $15 profit. This action was the opposite of the confiscation's original purpose—to provide more currency while maintaining the dollar's value by keeping it backed by gold. However, gold reserves began to disappear which in turn caused a 70% devaluation of the dollar.[18]There was a problem with balance between the amount of gold in the Federal Reserve and the number of dollars in circulation which only increased over time.Over the next thirty years, gold would remain at around $35, until the value began to jump in 1968.[19] Prof. Henry Mark Holzer, in his bold 1973 essay "How Americans Lost Their Right to Own Gold and

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[14]"'Let's Everybody Spend a Dollar' is Slogan of Knoxville Merchants,"The Knoxville Journal15 March1933: 1.
[15]Don Rhodes, Personal Interview, 4 Feb 2012.
[16]"Shotgun Shell and Note Sent to Roosevelt,"The Knoxville Journal 10 March 1933: 1.
[17]Alex Kingsbury, "Franklin D. Roosevelt's 'New Deal' Sealed the Deal in 1932," US News & World Report, 17 Jan 2008.
[18]Hornberger 3.
[19]Kingsbury.

Became Criminals in the Process," argues the law's "unconstitutional arrogation" of federal power and explains the reaction of the gold price increase. "During the monetary crisis of the last several years, the price of gold soared in free world markets as more and more individuals around the world acquired gold as a hedge against actual and potential currency devaluations. Unfortunately, while others scrambled to protect themselves from the instability of paper money, Americans had to watch from the sidelines…The power which Congress delegated to the President enabled him to make criminals out of honest American citizens whose crime would consist only of trying to protect themselves from official debasement of their money. In more fundamental terms, Americans henceforth would be 'under the gun' for exercising a fundamental, inalienable right: the right to deal with their own property as they saw fit."[20]

Finally, in 1974, President Gerald Ford chose to restore liberty by revoking the gold hoarding ban in Executive Order 11825.[21]Americans saw this as an opportunity to protect themselves financially, and responded by purchasing and collecting gold and silver coins and bullion[22]; this caused a five-fold surge in gold value almost immediately.

By the time this order was revoked, however, America, through President Richard Nixon, had already abandoned the gold standard. 1969 and 1970 particularly had been hard years for the economy, with increasing inflation, plummeting recession, and a steady 6% unemployment rate.[23]In 1971, promising to "break the back of inflation,"[24] further reform was actively pursued by the government. The Fed's first idea was just to raise the gold price, but others within the Administration alleged that this would do nothing but further devalue the

[20]Mark Henry Holzer, "How Americans Lost Their Right to Own Gold and Became Criminals in the Process," Brooklyn Law Review, 1973.
[21]Exec. Order No. 11825, 3 C.F.R. (1974)
[22]Richard M. Salsman, "The Bank Runs of the Early 1930s and FDR's Ban on Gold,"Forbes 6 April 2011, 31 March 2012.
[23]Robert Lowenstein, "The Nixon Shock," Businessweek, 4 Aug 2011: 1-5.
[24]"Prices, Wages, Rents Frozen."The Knoxville Sentinel.16 Aug 1971: 1.

dollar, and encourage other countries to do the same to their currencies. Foreign monetary systems had been linked to the gold-backed dollar after World War II with the Bretton Woods system. Since 1944, the Bretton Woods system had assured the rest of the world that the U.S. dollar was dependable; however, the system was vulnerable to manipulation of international currency.[25] Nixon seized the opportunity to let the dollar find its own level without gold, thereby breaking the Bretton Woods system apart.

Roger Lowenstein, in his evaluative essay "The Nixon Shock", explains the reactions of Washington when a standstill of gold-dollar convertibility was discussed. "Nixon had to act, but his advisers were split. Severing the gold link would turn money into…paper. If the government no longer had to preserve the dollar's value in metal, how could the Administration claim, with any credibility, to be countering inflation?"[26] On August 13, President Nixon assembled a secret meeting at Camp David where newly appointed Treasury Secretary, John Connally, laid out a 3-point plan. The first point solidified what they had been contemplating—a cessation of converting dollars to gold. They knew this would cause a flux in inflation, so they forced it to decrease by freezing wages and prices for ninety days. The final endeavor was to increase import surcharge by 10%, to "use the surcharge as a cudgel, to pressure other countries to renegotiate their exchange rates."[27]

This change was put into action and announced to the country on August 15, 1971. The decision received a monstrous amount of favor from the media and political propaganda; the New York Times editorial cheered approvingly—"We unhesitatingly applaud the boldness with

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[25]M.J. Stephey, "A Brief History of the Bretton Woods System," TIME, 21 Oct 2008.
[26]Lowenstein 3.
[27]Lowenstein 4.

which the President has moved."[28] Not only did the people react positively, but so did the Dow, receiving the highest jump it ever had at that time. The future seemed to brighten.Nevertheless, it did not take long for the economy to take the blows that came with these drastic changes. Around the world, the U.S. dollar declined; some countries even refused the dollar as a form of payment.

Today, America continues to print money with no backing of gold. With no connection between gold and the dollar, gold is forced to "float" in value like a stock, based on the circumstances of the times. "Because the value of gold has endured throughout time," explains local gold expert Bob Craig, "it makes sense for a government to establish the basis of its currency relative to it. People are constantly buying and selling gold in a defensive reaction to combat the deteriorating fiscal situation. Individuals are returning to gold as an investment to hedge against the devaluation of the dollar."[29]

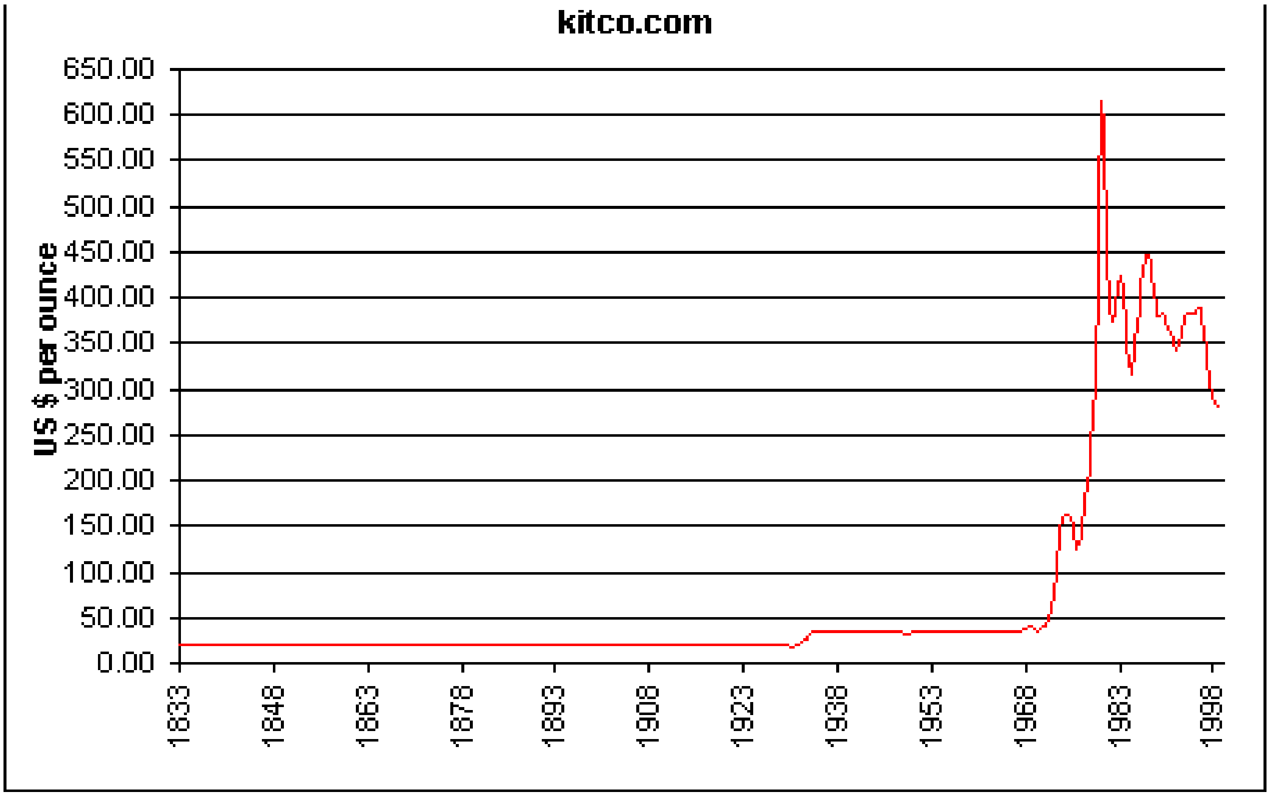
The reforms on gold that took place in the New Deal combined withsubsequent legislation have had an unsteadying impact on the economy and on the value of the dollar.The graphs in Appendixes 1 and 2 show the cost of gold versus the dollar evaluation, clearly illustrating the growing requirement of more dollars to purchase an ounce of gold. The removal of gold as the United States' monetary backbone has played its part in bringing about sluggish economic growth, a high average unemployment rate, a decreasing ability to rebound, and now, a threat of an entire currency collapse.Although these measures caused a temporary economicboost, they also caused unfavorable repercussions down the road. Our money has rusted, and its rust has consumed us.[30]

[28]David Zeiler, "U.S. Gold Standard Debate Heats Up on 40th Anniversary of 'Nixon Shock,'" Money Morning, 16 Aug 2011.

[29] Bob Craig, Personal Interview, 12 Feb. 2012.

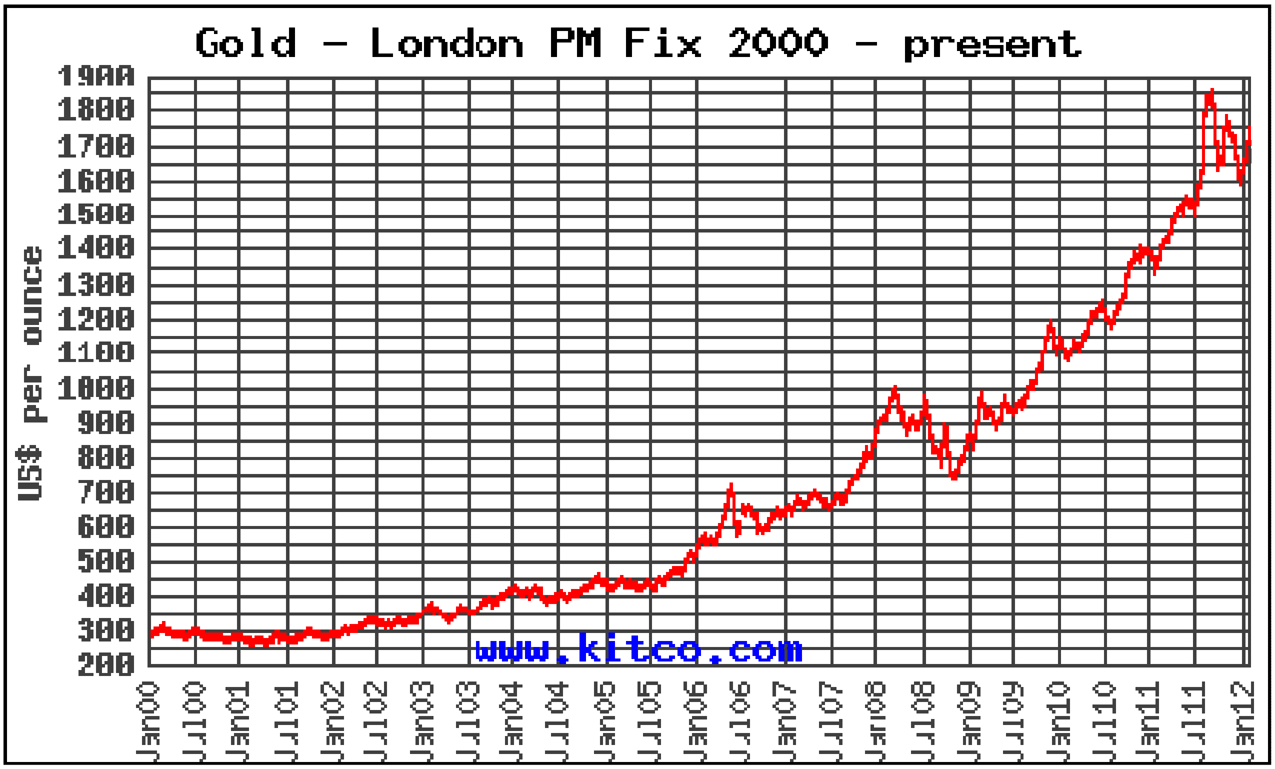
[30] James 5:3.

Appendix 1



A table presenting the price of gold from 1833 to 1999.From *kitco.com*.

Appendix 2



A chart recording the increasing price of gold from 2000 to the present, revealing the steady devaluation of the dollar and giving an understanding of the current economic reaction. Also from *kitco.com*.

Annotated Bibliography

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"Bob Craig." Personal interview. 10 Feb. 2012. Yes, the last name is the same as mine! Bob Craig is my dad, but he is also a jeweler and metal expert. Due to the economic situation, my dad's jewelry business has not sold a lot of jewelry lately. As the price of gold and silver has continued to rise, he has purchased a lot of it. His input helped me tremendously on my paper.

"Committee on Banking and Currency." *The Knoxville Tribune.* 14 March 1900: 3. Print. This article, along with the others cited from *The Knoxville Tribune, The Knoxville Journal,* and *The Knoxville Sentinel* were found by searching through newspaper microfilm recorded by the Calvin M. McClung Historical Collection. It explains the influence of the classical gold standard America's international economic standing.

"Don Rhodes." Personal interview. 4 Feb. 2012. I met with coin expert Don Rhodes at the Knoxville Gold and Coin Show. He is associated with Smokey Mountain Coin Club. He was very knowledgeable of the double eagle seizure of 1933, being able to tell me information about lawsuits that individuals have had against the government over seizing their coins and how locals buried their gold during the Roosevelt years. This interview was thought provoking.

Exec. Order No. 11825, 3 C.F.R. (1974). Print. In Volume 3 of the Code of Regulations, Gerald Ford's Executive Order 11825 revoked Roosevelt's seizure of gold. This order made it legal once again for an American citizen to own gold bullion. This was a crucial component in both the history of gold and the maintaining of our freedom.

Exec. Order No. 6102, 3 C.F.R. (1933). Print. President Franklin D. Roosevelt instated this executive order in 1933. It gave him the power to seize gold bullion and gold certificates from any person within the U.S. This was a reform that caused much negative reaction, especially in the South.

"Federal Reserve Will Institute New Currency on Gold Basis." Associated Press. *The Knoxville Journal.* 9 March 1933: 1+. Print. This nationwide article explained Roosevelt's plan for the banking revival. It also revealed how gold hoarders were perceived during this time.

"Governor Hill McAlister Asks for Support for Roosevelt." *The Knoxville Journal.* 9 March 1933: 1. Print. This article showed the reaction of political authorities during Roosevelt's presidency. This was meant to encourage citizens to support the President's plan.

"'Let's Everybody Spend a Dollar' Is Slogan of Knoxville Merchants." *The Knoxville Journal.* 15 March 1933: 1+. Print. This local article was beneficial in showing Knoxville reaction to the New Deal. People were encouraged to buy what they wouldn't normally to improve the economic situation.

"Prices, Wages, Rents Frozen." Associated Press. *The Knoxville Sentinel.* 16 Aug 1971: 1+. Print. This national article from Washington D.C. included quotes from President Nixon. It also expounded upon the 90 day-freeze and its effect on the economy and the dollar.

"Shotgun Shell and Note Sent to Roosevelt." *The Knoxville Journal.* 10 March 1933: 1. Print. This brief article portrayed the reaction of a man in Watertown, New York. It showed the negative reaction of a Northerner, although most retaliation came from the South.

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<u>Secondary Sources</u>

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Ganz, David L. "Seizure Report of '33 Increases Likelihood of 21st Century Governmental Gold Bullion Heist." *American Advisor* 2 (2010): 8-12. Print. This informative article by legal expert David Ganz, also past president of the American Numismatic Association, explained why we are at risk of repeating the same bullion seizure of the 1930's. The economic figures mentioned in this article derived from the Federal Reserve Bank of Minneapolis 1929.

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9 Jan. 2007. Web. 12 Jan. 2012. <http://fff.org/>. This website gives a blunt opinion of the reaction to the gold seizure of 1933. It helped me to understand what happened to the dollar afterwards and the instant profit the government made on the confiscation.

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Zeiler, David. "U.S. Gold Standard Debate Heats Up on 40th Anniversary of 'Nixon Shock.'" *Money Morning.* Money Map Press, 16 Aug. 2011. Web. 10 Feb. 2012. This article gave me information on the reaction of America forty years after being removed from the gold standard. It also gave possible solutions to economic problems if we returned to the gold standard.