The Free Market

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First Step Back to Gold

by Murray N. Rothbard

September 1986 is an historic month in the history of United States monetary policy. For it is the first month in over fifty years—thanks to the heroic leadership of Ron Paul during his four terms in Congress—that the United States Treasury has minted a genuine gold coin.

Gold coins were the standard money in the United States until Franklin Roosevelt repudiated the gold standard and confiscated the gold coins Americans possessed in 1933. Not only were these gold coins confiscated, under cover of the depression emergency, but possession not only of gold coins but of all gold (with the exception of designated amounts grudgingly allowed to collectors, dentists, jewelers, and industrial users) was prohibited.

During the 1970s, Congress made possession of gold by Americans legal, and now the Treasury itself acknowledges at least some monetary use by minting its own gold coins. We have come a long way, in only a decade, from total outlawry to Treasury minting.

It is true that the political motives for the new coin were not all of the purest. Some of it was a way of trying to attract the gold coin business from the South African krugerrands, which somehow have acquired a taint of apartheid by their mere production in South Africa. But the important thing is that gold is at least partially back in monetary use, and also that the public will have a chance to see, look at, and invest in gold coins.

One of the ways by which government was able to weaken the gold standard, even before 1933, was to discourage its broad circulation as coins, and to convince the public that all the gold should be safely tucked away in the banks, in the form of bullion, rather than in general use as money in the form of coins. Since Americans were not using coins directly as money by 1933, it was relatively easy for the government to confiscate their coins without raising very much of an opposition.

The new American Eagle coin is a very convenient one for possible widespread use in the future. It usefully weighs exactly one troy ounce, and the front of the coin bears the familiar Saint-Gaudens design for the goddess Liberty that

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Graduate students Mark Thornton and Sven Thommesen, and Professor Roger Garrison (the seminar's director), were among the faculty at the Institute's "Introduction to Austrian Economics."

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Need Tax Counsel on Giving?

Tax counsel on the benefits of charitable and deferred giving to the Mises Institute is available at no charge from J. Richard Duke, Esq., the Institute's counsel (and a dedicated Member). Please call him at 205-328-2200.

From the President

ew Austrian Journal Makes Debut

by Llewellyn H. Rockwell, Jr.

After years of hard work, lead by Murray N. Rothbard and Walter Block, the world's first scholarly journal of Austrian economics makes its debut. And Volume I of the Institute's hardbound annual *Review of Austrian Economics* is a blockbuster.

Included are important scholarly contributions by Professors Leland B. Yeager (Auburn University), Richard Timberlake (University of Georgia), Lowell Gallaway and Richard Vedder (Ohio University), Murray N. Rothbard (University of Nevada, Las Vegas), Charles Baird (California State University, Northridge), William Keizer (University of Amsterdam), E.C. Pasour (North Carolina State), Gene Smiley (Marquette University), and Robert Batemarco (Manhattan College), as well as a host of book reviews and review essays, and a stirring editorial by the great Henry Hazlitt.

Both the Institute and the publisher (Lexington Books) would like to see the *Review* develop into a biannual and then a quarterly journal, as the existence of the journal ·'ls forth new Austrian scholarship, giving young sesian faculty an outlet for their research.

The establishment of this major academic journal will play a major role in the Austrian renaissance now underway. And the credit, as for so much else, goes to polymath Murray N. Rothbard and his strong right arm, Walter Block. ■

Special Price on the New Austrian Journal

Lexington Books will be selling the massive new hardbound *Review of Austrian Economics* to libraries and universities for $30. But it is available through the Institute to Members at only $19, a 30⅔% savings, which includes postage and handling. If you would like a copy of this historic first issue, just write RAE on the enclosed form, and send it with $19 plus any tax deductible contribution to help the Institute's bring out future issues.

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had been used on American gold coins from 1907 until 1933.

But while the minting of the new American Eagle coin is an excellent first step on the road back to sound money, much more needs to be done. It is important not to rest on our laurels.

For one thing, even though gold coins are now legal, the U.S. government has never relinquished its possession of the confiscated coins, nor given it back to its rightful owners, the possessors of U.S. dollars. So it is vitally important to denationalize the U.S. gold stock by returning it to private hands.

Secondly, there is what can only be considered a grisly ·e perpetrated on us by the U.S. Treasury. The one-ounce gold coin is designated, like the pre-1933 coins, as "legal tender," but only at $50. In other words, if you owe someone $500, you can legally pay your creditor in ten one-ounce coins. But of course you would only do so if you were an idiot, since on the market gold is now worth approximately $420 an ounce. At the designated rate, who would choose to pay their creditors in $4,200 of gold to discharge a $500 debt?

The phony, artificially low gold price, is of course so designed by the U.S. Treasury so as to make sure that no one would use these gold coins as money, that is, to make payments and discharge debt. Suppose, for example, that the government designated the one-ounce coin at a bit higher than the market price, say at $500. Then, everyone would rush to exchange their dollars for gold coins, and gold would swiftly replace dollars in circulation.

All this is a pleasant fantasy, of course, but even thi superior system would not solve the major problem: what to do about the Federal Reserve and the banking system.

To solve that problem, it would not be enough merely to find a way to get the gold out of the hands of the Treasury. For that gold is technically owned by the Federal Reserve Banks, although kept in trust for the Fed by the Treasury at Fort Knox and other depositories. Furthermore, the Federal Reserve has the absolute monopoly on the printing of dollars, and that monopoly would remain even if people began to trade in dollars for Treasury gold coins.

It is indeed important to denationalize gold—to get it out of Fort Knox and into the hands of the people. But it is just as, if not more, important to denationalize the dollar—that is, to tie the name "dollar" firmly and irretrievably to a fixed weight of gold. Every piece of gold at Fort Knox would be tied to the dollar, and then, and only then, the Federal Reserve System could be swiftly abolished, and the gold poured back into the hands of the public at the fixed dollar weights. To accomplish this task, those who wish to return the gold of the nation and the dollar from the government to the people will have to agree on the fixed weight.

It is best to pick the initial definition of the gold dollar at the most convenient rate. Certainly $50 an ounce of gold is not it. There are good arguments for the current market price, for higher than the current price, and for a price sufficiently high (or a dollar weight sufficiently low) so as to enable the Fed, upon liquidation, to pay off not only its own debts but also all bank demand deposits one-for-one in gold (which would require a gold price of approximately $1,600 per ounce). But within those parameters, it almost doesn't matter what price is chosen, so long as these reforms are effected as soon as possible, and the country returns to sound money. ■

Dr. Rothbard—S.J. Hall Distinguished Professor of Economics at the University of Nevada, Las Vegas—is vice president for academic affairs of the Ludwig von Mises Institute.

The Austrian Entrepreneur: An Interview with Albert D. Friedberg

This month we inaugurate a series of interviews with successful entrepreneurs who have been influenced by Austrian economics. Our first is with Albert D. Friedberg, one of the world's most respected commodity and currency market analysts. Jeffrey A. Tucker, a Mises Institute Fellow at George Mason University, talks to him.

Q: Where did you go to school?

A: I have a BA from Johns Hopkins in business economics and an MBA from Columbia in international banking.

Q: Did you learn Austrian economics at either university?

A: No. But in my own reading I came across the Austrians, and then I read Mises' *Theory of Money and Credit*, which had a great influence on me. I went on to read Hayek and Rothbard, and to understand why the Great Depression occurred and why we have business cycles. So I owe my understanding of economics to Ludwig von Mises, F.A. Hayek, Murray Rothbard, and the whole Austrian school.

Q: You found them more persuasive than your professors?

A: Yes. My college classes were a joke. I will never forget my first semester at Columbia University in 1967. I attended a seminar on international banking and got in a fight with the professor on the first day. He had said that were America not a buyer of gold at $3 per ounce, the price would be $6, and that it was ridiculous to talk about the importance of gold.

I said there was a tremendous demand for gold, and that it had been underpriced by the government for forty years. Were the price free, I said, it would go much higher. He came up to me after class and said he didn't appreciate my comments.

The very next day we had a big tussle over the British pound. I said it would be devalued. He said no. Shortly afterwards, the pound went from $2.80 to $2.40, and I was a big hero in class.

Q: I wonder if that anti-gold professor feels silly now?

A: He should. But probably not. He worked for the government before he went into teaching. That explains a lot.

Q: What did you do after Columbia?

A: I moved to Canada because I liked Toronto and New York was just too hectic—and too dangerous—for me. I worked for a stock brokerage and then an investment banking firm, but since there wasn't much business, I was gently told to leave. I looked and looked for a job, but couldn't find one—fortunately. And in May 1971 I decided to go into business on my own in commodity futures.

Q: When did things start really taking off for you?

A: Right away. The commodity boom was in its early stages, and I timed it just right. My first deal was with silver coin bags on the New York Mercantile Exchange. They were trading at a very small premium ($500 over face value. I recommended this as a great opportunity to play the long side of the silver market with almost no risk, because the price could not drop below the face value. Later, I remember going long on sugar around eight cents and selling around 30 cents. On cocoa I went long around 30 cents and sold at around $2.00.

Q: You did great on the upside of the market. Did you catch the downside starting in 1980?

A: When gold hit $850, I wrote a famous—for me, anyway—article on how gold was going to drop to $350. That hit right on the money. However, I have been extremely bearish on oil since about 1982, thinking it would drop below $10. Buying shorts in those years was very trying. I was too soon on that one. I was watching the most tremendous explosion of debt I had ever witnessed, and thought it would take its effect much sooner. But it just kept going, with a lot of help from the Fed. But I made up for it on predicting currency trends.

Q: How did you know that gold had hit its top?

A: I was very involved in the gold and silver markets at the time, and I knew that $850 gold was a tremendous psychological bubble that had to break. I saw it. I felt it. People were coming in from off the street and lining up to buy gold. It wasn't even necessary for inflation to drop for the bubble to burst. All that was needed was a change in psychology.

Q: So you go beyond technical factors in analyzing markets and look to more subjective elements.

A: That's right. Technical analysis is necessary, with in-come figures, general price levels, debt, and many other yardsticks. Whatever measurements I took showed that gold looked too high. But timing is something else, and very difficult to measure. We should always remember that trade only takes place in markets thanks to the subjective valuations of the parties involved. That's what Mises taught.

Q: Much of your work involves calling business cycles. Does the Misesian theory of the business cycle fit your observations?

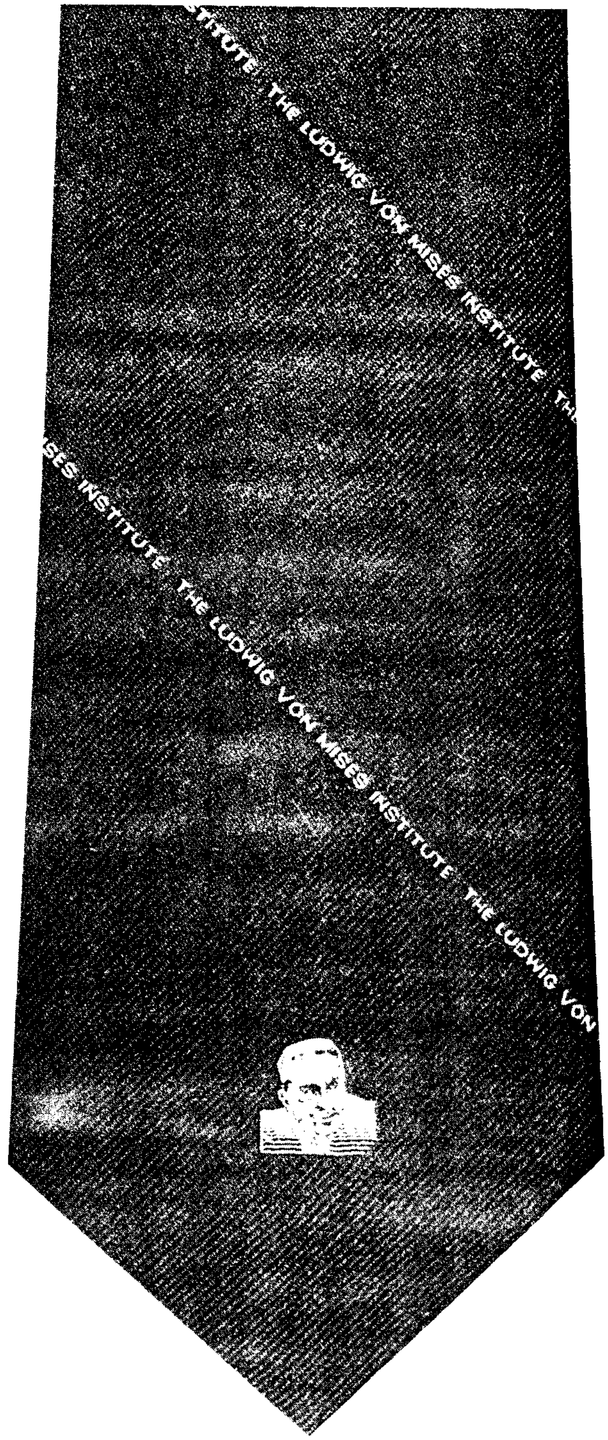
A: Definitely. Every business cycle is caused by malinvestments. Those malinvestments come from interest rates being lower than what they would otherwise be were it not for the Federal Reserve. These malinvestments have to be cleaned out from time to time to purify the system. Therefore the recessionary phase is an inevitable consequence of a credit-created boom.

As Mises says in *Money and Credit*, central bank money creation distorts the signals that guide investors and consumers. You'd think people would have learned that by now. Incredibly, even today you hear calls for the Fed to inflate more to keep the economy from dying. This is like injecting adrenalin in a guy after he's run a marathon. He needs a rest, but if you give him adrenalin, he is going to die. Credit creation by the central bank is a terrible, terrible thing.

Q: Politicians and media types must not read much history, because every time we enter the boom phase of the business cycle, they talk like it is going to last forever. It's as if they believe there is no economic law.

A: There most definitely is economic law. Tampering with prices is always a prescription for problems. Just as night follows day. Although governments and cartels try to fix prices, they can never do it indefinitely. A good example is the Middle Eastern oil cartel. We were watching Saudi Arabia very closely, and the gap between revenues and spending was large and getting larger. There was a point at which they couldn't possibly restrict output any longer. So prices and market-clearing levels are clearly economic law. Another would be that fiat credit creation leads to malinvestment. There you have 90% of economics in two laws. ■

Special for Institute Members: If you'd like a sample copy of Mr. Friedberg's market letter, write him at Friedberg Commodity Management, Inc., 347 Bay Street, Toronto, Ontario, Canada. *Next month's interview:* a U.S. star in commodities: Mr. William A. Dunn.



The Adam Smith tie is passe! For those who believe in a totally free market, individual liberty, and the gold standard, there is now only one cravat: the new Ludwig von Mises Institute Tie. Available in midnight blue 100% silk trimmed in gold (of course), the tie is $25. So good looking that Murray N. Rothbard—who for 30 years has worn nothing but a bowtie—immediately put one on. If you want to join Murray in looking great and doing good, write "tie" on your return form, and enclose $25 along with any tax-deductible contribution you can make to help the Institute's work.