Aurophobia: or, Free Banking on What Standard?

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Gold, Greenbacks, and the Constitution. By Richard H. Timberlake. Berryville, Virginia: The George Edward Durrell Foundation, 1991.

In recent years, disillusionment with the record of central banking has led a number of economists to return to the nineteenth-century concept of "free banking": [t]hat is, free and unregulated banking without a central bank. Unfortunately, this return has not been toward the Currency Principle/Mises tradition of free banking *within* a firm matrix of demand liabilities (notes or deposits) grounded in 100 percent reserves in specie (gold or silver). Instead, this new movement has harked back to the contrasting inflationary credit generated by what used to be known as "wildcat banking." In lauding free banking as akin to a free market in any other good or service, these new free bankers have overlooked two vital defects. First, that a genuine free market must be based on an absence of fraud or theft, whereas issuing demand liabilities in excess of assets is equivalent to a warehouse issuing fraudulent receipts to non-existing assets, and is therefore a species of fraud or embezzlement. And second, the free bankers neglect the insight of Currency Principle men from Ricardo down, that all quantities of money are optimal, and that therefore—in stark contrast to all other goods—increased supplies of money can only be redistributive and can confer no social benefit.[1]

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[1]With the exception, of course, of increased *non*-monetary benefit from an increase in gold or silver, a gain that cannot accrue from an increase in fiat paper or in fractional-reserve bank credit.

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On the first point, we contend that bank notes or deposits are bailments and not debt, and that therefore an issue of fractional reserve liabilities can only be a violation of the bailment contract. In addition to the pressure of bankers on the law, one of the reasons why the critical court decisions in the nineteenth century ruled the other way is that bailment law was then in an undeveloped state. In the late nineteenth century, and even in the 1930s in the United States, grain warehouses, which, as in the case of banks, issue warehouse receipts to fungible goods, were able to issue, unchecked and unpunished, fraudulent receipts to non-existent wheat, which they loaned out to speculators in the Chicago wheat market. Interestingly enough, this fractional-reserve process generated a local boom-bust cycle in Chicago wheat.[2] In a genuinely free market, absent force or fraud, bank loans or investments would reflect only their own equity or their genuine debt (e.g., bonds or certificates of deposit), which would constitute genuine credit transactions—exchange of a present good (e.g., money) for a future good (e.g., money at a future date). Free marketeers are sometimes in danger of forgetting that fraud or robbery can be committed by private organizations as well as by government. As Mises favorably quoted Thomas Tooke, "free trade in banking is free trade in swindling."[3]

On the second, more narrowly economic point, from Ricardo to Mises and his followers it has been demonstrated that an increase in the money supply can only dilute the effectiveness of each existing money unit, and therefore must be "inflationary" in the sense of raising prices beyond what they would have been otherwise. In addition, we know from Mises's theory of the business cycle that such inflationary bank credit can only lead to a destructive boom-bust business cycle. And it is not true, on Misesian theory, that central banking is necessary in order to generate this cyclical process. Any bank credit expansion in commercial loans is sufficient to generate the business cycle, whether a central bank exists or not. In the Misesian view, however, there will tend to be far more room for bank credit expansion whenever a central bank, with its privileging by

[2]Ours is the view of the losing counsel in the 1816 English case of *Devaynes v. Noble*, who argued that "a banker is rather a bailee of his customer's funds than his debtor . . . because the money in . . . [his] hands is rather a deposit than a debt, and may therefore be instantly demanded and taken up." See J. Milnes Holden, *The Law and Practice of Banking, Vol. 1: Banker and Customer* (London: Pitman, 1970), p. 31; Murray N. Rothbard, *The Mystery of Banking* (New York: Richardson & Snyder, 1983), pp. 87–95.

[3]Ludwig von Mises, *Human Action*, 3rd rev. ed. (Chicago: Henry Regnery, 1963), p. 446.

government and its role as a lender of last resort, is active in the economy.

The recent free bankers have consisted of a coalition of ex-Misesians (White, Selgin, Glasner), English subjectivists (Dowd), and neo-monetarists or neo-Friedmanites (Yeager, Timberlake). Friedman himself, while not totally committed to free banking, has been indicating his disillusion with the Fed's failure to follow his famed Money Rule (in addition to the increasing monetarist difficulty in figuring out which of the various Ms should be subject to that Rule). Hayek may be added to that list, except that he was never a Misesian on this question, at least since the 1930s.

I do not propose here to rehash the substantial controversy between the modern free bankers and the modern Misesians (Rothbard, Salerno, Hoppe, Skousen, North), much less discuss the older 100 percent tradition (most eighteenth-century British economists, including Hume, except Adam Smith; the Currency school; the Jeffersonians and Jacksonians), or the 100 percent fiat paper reserve tradition of the Chicago school (Fisher, Knight, Simons, Hart, and the early Friedman). What I want to do here is to focus on another vitally important, but neglected, area of the free-banking controversy. Assuming for the sake of argument that banks will be free without restrictions to issue demand liabilities to standard money, *what*, in the view of the free bankers, is that standard money supposed to be? In a sense, this problem is more important and fundamental than the question of the reserve ratio: What is money, and what is going to be the "standard" money, in which these liabilities are supposed to be redeemable on demand?[4]

Oddly enough, the answer to this vital question by the free bankers have been vague, murky, and inconsistent answers that reveal deep and unexamined flaws in the free-banking camp. The recent booklet by Professor Timberlake—in the same vague and murky tradition—provides us with an opportunity to examine the views of modern free bankers on the monetary standard, and on what exactly would constitute the "cash" upon which the banks would be allowed to pyramid as many demand liabilities as they could get away with.[5]

[4]In 1975, at least, Hans F. Sennholz, a former Mises student, had no doubt on the proper answer to this question, as note the title of the book he then edited: *Gold I$ Money* (Westport, Conn.: Greenwood Press, 1975). Since then, however, Sennholz has apparently become an ex-Misesian and joined the free-banking camp.

[5]Hayek's proposal, which can only be considered grotesque, can be dismissed quickly. For Hayek would solve this problem by having each bank create its own fiat paper currency. In short, a Rothbard Bank could issue notes or deposits in 50, 100, and

Professor Timberlake's work is a curious performance. Ostensibly, it is a brief history of the greenbacks and of the judicial controversy over the constitutionality of the greenbacks and of their legal tender powers. Much of Timberlake's discussion of the Legal Tender Cases is indeed illuminating, since Timberlake is squarely opposed to the constitutionality of fiat money. And yet there are curious distortions and overtones, which build to a climax in the concluding chapters when Timberlake reveals his own positive monetary proposals. For one thing, his attack on greenbacks would seem to imply a pro-gold standard position, and yet throughout his analysis there is a subtle but continuing disparagement of gold which becomes evident when he unrolls his own inflationist, fiat money program. Thus, Timberlake states that the gold standard only existed for four decades in the nineteenth century, omitting the crucial point that from time immemorial only two standard moneys existed, gold and silver, with confusion only emerging from the co-existence either of parallel standards, in which gold or silver were free to fluctuate, or bimetallic standards, in which governments attempted to fix the gold/silver at a ratio varying from the market. The fact that gold monometallism existed for only a few decades is beside the point, which is the well-deserved monetary longevity of both gold and silver.

Furthermore, while critically analyzing the judicial defenders of greenbacks, Timberlake manages to focus the issue almost exclusively on the illegitimacy of government power to make greenbacks, or fiat paper, legal tender for private contracts. But the power to make paper legal tender for payments *to government* is left unscathed by Timberlake, which as we shall see seems to fit into his ultimate monetary agenda. This omission contrasts starkly with the magnificently hard-money Jacksonians, who endeavored to end the federal government's power to receive paper or deposits in taxes or fees. The Jacksonians tried, and partially

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1,000 Rothbards, which would be redeemable in . . . the same amount of paper Rothbard tickets! Such a bank could of course never fail, but it is doubtful if anyone save close friends and relatives could ever be induced to use and hold these notes and deposits, regardless of what grandiose promises about "price stability" Rothbard might wave in front of potential customers. In addition, Hayek's proposal is absurdly "constructivist" on his own methodological terms. It is doubtful that anyone not a Nobel Laureate making such a proposal would be taken seriously. Thus, see F. A. Hayek, *Denationalisation of Money* (2nd ed., 1976; London: Institute of Economic Affairs, 1978). For a critique, see Murray N. Rothbard, "The Case for a Genuine Gold Dollar," in Llewellyn H. Rockwell, Jr., ed., *The Gold Standard: An Austrian Perspective* (Lexington, Mass.: D. C. Heath/Lexington Books, 1985), pp. 2–6.

succeeded, in limiting the government to accepting only specie in payments.[6]

Once curious aspect of Timberlake's anti-gold stance is to embrace Milton Friedman's new-found attachment to bimetallism. Timberlake actually refers to Gresham's Law as demonstrating the gently stablizing effects of bimetallism (pp. 8–9). And yet one of the more valuable insights of monetarism was to demonstrate that fixing of exchange rates inevitably causes distortions by creating shortages of the undervalued, and surpluses of the overvalued, money. From the fourteenth-century French scholastic Nicole Oresme to Ludwig von Mises, Gresham's Law has been seen as the inevitable and unfortunate consequence of maximum price control for the undervalued money and of minimum price control for the overvalued. And yet in pursuit of his lifelong hatred of gold, Milton Friedman seems willing to embrace virtually any alternative, including bimetallism, and Timberlake is willing to follow suit.

Part of Timberlake's problem here is thinness of scholarship. Thus, he discusses the central role of Civil War Secretary of Treasury (and later Chief Justice) Salmon P. Chase, without bothering to mention the national banking system, or Chase's intimate corruptionist connection with the investment banker Jay Cooke. He mentions Chase's ambition, and notes with surprise that Chase wanted to run on the Democratic ticket in 1868, without realizing that Chase was an old Jacksonian Democract, and with slavery defeated there was every reason for him to return to the Democracy. More important, Jay Cooke was an old friend and literal patron of Chase, and Cooke and his influential Ohio journalist brother Henry lobbied the Lincoln Administration heavily and effectively to make their client Chase Secretary of the Treasury. As soon as Chase gained the post, Cooke easily persuaded Chase to grant him the unprecendented power of monopoly underwriter of all government bonds—a monopoly Cooke was able to retain, almost unbroken, until he went bankrupt in the Panic of 1873. Then, Chase went along with Cooke's plan to destroy the decentralized pre-Civil War banking system and to replace it with a quasi-monopoly National Banking System, a system in which the federally chartered national banks

[6]The Jacksonian Democrats, under Van Buren and Polk, were able to impose the Independent Treasury sytem, in which the federal government kept its money only in its own Treasury vaults, and not in any banks. They did not succeed, however, in requiring the government to accept taxes and fees only in specie. See Major L. Wilson, *The Presidency of Martin Van Buren* (Lawrence, Kans.: University Press of Kansas, 1984), pp. 61–121.

had a monopoly privilege to issue notes, and their note issue was based *pro rata* on how many government bonds they might purchase. The bonds, of course, had to be purchased from Jay Cooke, who also managed to have himself granted several national bank charters. And so, when Timberlake refers crossly to Chase's "patent . . . anti-bank prejudice" (p. 21), he neither seems to understand that that "prejudice" stemmed from Jacksonian hard-money principle, nor that Chase stood ready to violate that principle in behalf of his corruptionist patron Cooke and so created the national banking system.

And while Timberlake correctly notes that the Republicans in this era were inflationist while the Democrats favored gold and hard money, he fails to link up these positions with economic interests. One of the major forces in favor of greenback inflation was the iron and steel industry, centered in Pennsylvania. Under the leadership of the Pennsylvania economist and ironmaster Henry C. Carey, the Radical Republicans and iron and steel interests were instructed that falling dollar rates caused by greenback inflation acted as a temporary but welcome extra tariff, discouraging iron and steel imports and encouraging their export. The other major inflationist interest was the big railroads, the major big businesses and incorporated enterprises in the country. Heavily indebted to their bondholders, the railroads saw that inflation would lower the real value of their outstanding debts. Thus, Timberlake correctly notes the significance of the action of the Grant Administration in appointing two Supreme Court Justices to fill vacancies. The Administration was sure these judges would quickly reverse the Legel Tender Cases and declare greenbacks and fiat money constitutional. Timberlake notes that these two swing justices were William Strong and Joseph P. Bradley, but fails to make the important point that Strong had been a top attorney for the Philadelphia and Reading Railroad, and a director of the Lebanon Valley Railroad; and as for Bradley, his connections with the railroad interests were almost as great, having been a director of the Camden and Amboy Railroad and of the Morris and Essex Railroad, both in New Jersey.[7]

One pervading problem is that Timberlake's scholarship is spotty. Thus, on the post-Civil War monetary situation, there is reference to Irwin Unger's *The Greenback Era*, but no mention whatever of the equally important Robert P. Sharkey, *Money, Class and Party: An*

[7]Ron Paul, *The Ron Paul Money Book* (Clute, Texas: Plantation Publishing, 1991), pp. 115–16. On the railroad ties of Strong and Bradley, see Philip H. Burch, Jr., *Elites in American History, Vol. II: The Civil War to the New Deal* (New York: Holmes & Meier, 1981), pp. 44–45.

Economic Study of Civil War and Reconstruction (Baltimore: Johns Hopkins University Press, 1959). Timberlake mentions Bray Hammond's classic *Banks and Politics in America*, but overlooks Hammond's important *Sovereignty and an Empty Purse: Banks and Politics in the Civil War* (Princeton: Princeton University Press, 1970). He uses the splendidly hard-money Don C. Barrett's article in the *Quarterly Journal of Economics* (May 1902), but omits Barrett's fully developed book, *Greenbacks and the Resumption of Specie Payments, 1862–1879* (Cambridge: Harvard University Press, 1931). And how can anyone, as Timberlake does, deal with silver and bimetallism without so much as mentioning the famed revisionist article by Paul M. O'Leary, "The Scene of the Crime of 1873 Revisited: A Note," (*Journal of Political Economy* 68 [1960]: 388–92), or the splendid work by Allen Weinstein, *Prelude to Populism: Origins of the Silver Issue 1867–1878* (Yale University Press, 1970)?

Perhaps the problem is that Professor Timberlake, or his Durrell Foundation editor, John W. Robbins, was anxious to rush past the history to get to the policy conclusions, the monetary agenda which is only loosely based on the preceding historical discussion. In his conclusion, Timberlake brusquely dismisses the gold standard. Gold, he says, has been subject to government manipulation by central banks. Very true, but how about the gold standard that also abolished the central bank? This Misesian solution is not mentioned, nor indeed is the extensive Jacksonian literature to the same effect. Timberlake states as if a new point that under the gold standard government need not have minted gold coins, a theme that has long been part of the Misesian literature. He need scarcely rely for reference on a forthcoming article by J. Huston McCulloch. Timberlake only bothers making two other negative references to justify his dismissal of gold. One, that gold might "shut out technically more efficient systems" (p. 52), whatever they might be, but without pointing out that efficient clearing systems can be and have been based on standard metallic money. His other point is the disingenuous one that even Ludwig von Mises, a champion of gold, admits that gold "introduces an incalculable factor into economic activity" (p. 47). But Timberlake fails to note Mises's very next point: that this incalculable factor, stemming from variations in the supply of gold, has been minuscule compared to the volatility introduced by government and by bank manipulations of the supply of money.[8]

[8]Ludwig von Mises, *The Theory of Money and Credit* (1934; Indianapolis, Ind.: Liberty*Classics*, 1980), p. 27.

What then is Professor Timberlake's proferred alternative, one which he avows would "more effectively constrain the state" than the gold standard (p. 52)? What, in Timberlake's words, "is a market-directed monetary system completely free from any possible government intervention" (p. 62)? Or to return to our earlier question, in Timberlake's proposed world, in what thing would banks liabilities be redeemable? The one cogent note in Hayek's bizarre "denationalized currency" scheme is the pungent clarity of his answer: banks that issue Hayek, Rothbards, and ducats would redeem these paper tickets or open book liabilities in Hayeks, Rothbards, and ducats. Timberlake, unfortunately, is not nearly so clear. He does seem to realize that Americans are stuck with "dollars" as their currency unit and standard, just as Englishmen are stuck with pounds and Germans marks. He does not, however, explain why these countries are necessarily stuck with currency names. Instead, he becomes even murkier by adopting the curious—and grotesquely "constructivist"—plan of Greenfield and Yeager: that the monetary unit of account be totally and ineluctably sundered from the medium of exchange. The monetary unit would still be the dollar, but how then is the "dollar" to be defined? Originally, the dollar, along with every national currency, was simply defined as a definite unit of weight of gold or silver. Before 1933, for example, the "dollar," the monetary standard in the United States, was defined as 1/20 of an ounce of gold. Nowadays, of course, the "dollar" is fiat; it is simply a paper ticket issued by the Federal Reserve System that says, on its face, "one dollar" or "ten dollars."

What would Timberlake do about this; or, following Greenfield and Yeager, how would he proceed to "the practical purpose of getting the government [in the guise of the Federal Reserve System] out of any policy-making role" (p. 60)? By severing the dollar from the medium of exchange. The government would define the "dollar" as equal "to a market price index made up of a limited array of staple, conventional, basic commodities—items that would ideally mirror an all-markets average of prices." But if the government defines the dollar as an overall price index, wouldn't this definition be subjected to political pressure for continually redefining the index; and wouldn't the government almost automatically strive to stabilize the price level as gauged by its precious index? No, because incredibly, according to Timberlake, Greenfield and Yeager, the government would be sternly advised *not* to stabilize its own index. But does anyone in his right mind, anyone at all familiar with our political system, think for one moment that the government would thus keep its hands off its own index?[9]

[9]Professor Timberlake would have done well to heed Mises's insights about index numbers in the passage just before the sentence he yanked out of context: "If it should

And what, too, would be the medium of exchange in Timberlake's system, and would that medium be redeemable in the dollar-index? None of that is clear. If it is redeemable, then presumably people would not be walking around with index market-baskets; if instead, it is to be redeemable in the "purchasing power" of the index, then we are back to stabilizing the price level, and also in *what* would the medium be redeemed, and would that index then become the medium? If not, and if there is to be no redemption whatever, then who is to supply the medium of exchange, and what is to keep the "free" money suppliers from issuing money *ad infinitum*? (In the gold standard, of course, what keeps the banks at least partially in check is the necessity to redeem in gold.) Timberlake is of little help in supplying this crucial answer.[10] At one point he refers to the "medium of exchange [as] the Federal Reserve note" (p. 60)! *That's* getting the government and the Fed "out of any policymaking role?" At another point, he inconsistently "would leave this function [supply the quantity of money] to dealers and arbitrageurs in financial and commodity markets" (p. 60). What is all this supposed to mean? At another point, the confusion is even worse compounded by Timberlake's calling for "privatizing" the government's gold stockpile "and the twelve Federal Reserve Banks" (p. 62). Privatizing the Federal Reserve? What can this mean? In a profound sense, the Federal Reserve, as well as all previous central banks, are already "private"—a government-established and enforced cartel of the private banking

be thought that index numbers offer us an instrument for providing currency policy with a solid foundation and making it independent of the changing economic programs of governments and political parties, perhaps I may be permitted to refer to what I have said. . . . on the impossibility of singling out any particular method of calculating index numbers as the sole scientifically correct one. . . . There are many ways of calculating purchasing power by means of index numbers, and every single one of them is right, from certain tenable points of view; but every single one of them is also wrong. . . . Since each method of calculation will yield results that are different from those interests and injure others, it is obvious that each group of persons will declare for those methods that will best serve its own interests." Mises, *Theory of Money and Credit*, pp. 26–27. Also see Mises's scintillating critique of index numbers in ibid., pp. 215–23.

[10]Greenfield and Yeager are not much more helpful either. In contrast to Timberlake's hint about "privatized" Federal Reserve notes still constituting the medium of exchange, Greenfield and Yeager avow the absence of "any dominant" medium of exchange, which seems close to calling for no general medium of exchange at all, and hence a return to some form of barter. Greenfield and Yeager also propose a convenient new criterion for the advance of science: that the burden of proof to clarify and persuade others of a totally new proposal, such as theirs, should rest on the readers bound in their old frameworks rather than on the authors themselves. R. Greenfield and L. Yeager, "Competitive Payment Systems: Comment," *American Economic Review* 76 (Spetember 1986): 848–49.

system. Are we then to be stuck forever with Federal Reserve notes as "dollars," whether or not they are officially defined as such? Privatizing the Fed is about as cogent, and about as genuinely free-market-oriented, as the idea of "privatizing" the Internal Revenue Service. No, it is important to realize that those government operations which supply or monopolize genuine goods and services should be privatized—e.g., carrying the mail, supplying streets and roads, putting out fires. But other government activities, which are counterproductive and destructive to the market—e.g., the IRS, government regulatory commissions, concentration camps for dissenters—should *not* be privatized but abolished. Surely, that massive monopolistic and inflationary engine of legalized and legitimated counterfeiting called the Federal Reserve System should be abolished rather than privatized.

In supporting the idea of sundering the unit of account from the medium of exchange, Timberlake fallaciously refers to the researches into medieval money of the great economic historian Luigi Einaudi.[11] But he fails to realize that in his historical cases, Einaudi was not writing about an abstract unit of account of "imaginary money" that came from the sky or from professors and was never used as a medium of exchange. On the contrary, in all cases, Einaudi was referring to the bimetallic or parallel metallic situation in which units of weight of gold (or silver) was the medium of exchange in a certain country, whereas units of weight of the other precious metal, silver (or gold) functioned as the unit of account. In this situation, both gold and silver originally emerged, on the market, as media of exchange and hence units of account. Not only do Einaudi's cases not constitute historical support for the Timberlake-Greenfield-Yeager scheme; they are precisely the reverse.[12]

[11]In addition to citing Einaudi's article in the Gayer *Festschrift* for Irving Fisher, Timberlake might have momentarily strengthened his case by referring to the impressive article by Luigi Einaudi, "The Theory of Imaginary Money from Charlemagne to the French Revolution," in F. C. Lane and J. C. Riemersma, eds., *Enterprise and Secular Change* (Homewood, Ill.: Richard D. Irwin, 1953), pp. 229–61. The Einaudi article was originally written in *Rivista de storia economica*, 1936, and its English translation by Giorgio Tagliacozzo was approved and added to by Einaudi.

[12]On the theory of parallel standards, see Mises, *The Theory of Money and Credit*, pp. 205–13. For historical examples of parallel standards, see also W. Stanley Jevons, *Money and the Mechanism of Exchange* (London: Kegan Paul, 1905), pp. 88–96. Robert S. Lopez points out that whereas gold coinage was introduced into modern Europe almost simultaneously in the mid-thirteenth century by Florence and Genoa, Florence instituted bimetallism, whereas "Genoa, on the contrary, in conformity to the principle of restricting state intervention as much as possible, did not try to enforce a fixed relation between coins of different metals." Robert S. Lopez, "Back to Gold, 1252," *Economic History Review* (December 1956): 224.

The problem with all these plans, from Greenfield and Yeager to Timberlake to Hayek, is that they ignore one of Ludwig von Mises's most original and profound contributions to monetary theory: the "regression theorem," which demonstrates that no money can originate in any society except as a medium of exchange, and as a medium that arose on the free market as a useful non-monetary commodity, e.g., gold or silver.[13] Hence, the regression theorem explains the fallacy and the dismal prospects for all such constructivist schemes as the magic index or the Hayekian ducat. The reason why we must start with the dollar as the money for Americans, the franc as the money for the French, etc., is that the people of these countries are used to those units of account, and since those units grew originally out of a unit of weight of gold or silver, they were useful non-monetary commodities on the market before they became employed as moneys.[14]

If we really wish, then to separate government from monetary policy or from monetary functions, we must totally divest government of those roles. We must therefore start with reality—the dollar defined as a government paper ticket or Fedeal Reserve note—and proceed to privatize the dollar precisely by ending its relationship to the note, and by redefining it as a unit of weight of gold. How is this to be done? By abolishing the Federal Reserve System. Abolishing that "corporation" means, as in the death of any corporation, liquidating its liabilities, and parcelling out the assets of the liquidated organization to its creditors. Since Federal Reserve notes are legally liabilities of the Fed, and since its assets are the Fed's accumulated gold stock kept in Fort Knox and other Treasury repositories, the gold should be parcelled out *pro rata* to the Fed's creditors (holders of

[13]On the regression theorem, see Mises, *The Theory of Money and Credit*, pp. 129–59; *Human Action*, pp. 408–16.

[14]Greenfield and Yeager, dismissing the relevance of the point that their monetary scheme could never emerge from the market, argue that "dismantling government domination of the existing system will require deliberate policy actions, and the positive actions taken will unavoidably condition the successor system." Greenfield and Yeager, "Competitive Payments Systems," p. 849. But it is precisely because economic history is path-dependent that we don't want to foist upon the future a system that will not work, and that will not work largely because such indices and media cannot emerge "organically" from individual actions on the market. Surely, the idea in dismantling the government and return (or advancing) to a free market is to be as consonant with the market as possible, and to eliminate government intervention with the greatest possible dispatch. Foisting upon the public a bizarre scheme at variance with the nature and functions of money and of the market, is precisely the kind of technocratic social engineering from which the world has suffered far too much in the twentieth century.

Federal Reserve notes and banks that keep demand deposits at the Fed). The dollar would be redefined in units of weight of gold to permit 100 percent liquidation as well as the exchange of gold assets for all liquidated notes and liabilities. As its last monetary function, the Treasury could mint the gold coins out of the deposited bullion to exchange for these notes and deposits. The money supply would then consist solely of gold coins, which could be deposited for warehouse receipts in commercial banks. Federal Reserve notes and deposits would then have disappeared.[15]

One of the few places where I agree with Professor Timberlake's prescription is to "privatize the government's stockpile of gold." But of course legally the gold is owned not by the government *per se* but by the Federal Reserve; and therefore the only way to privatize the gold stock, and at one and the same time to abolish the Federal Reserve and to return from a fiat to a gold standard, would be the plan I have described above: redefinition of the dollar as a unit of weight of gold, and abolition of the Fed and the disgorging of its gold stock, to be exchanged, one for one, for its liquidated liabilities, the Fed's notes and deposits.

I submit that we would then have a gold standard without a central bank, without fiat money, without Federal Reserve notes, and with none of the actualities or even possibilities of government intervention that Professor Timberlake professes to abhor. But for Timberlake, or for Greenfield or Yeager, to adopt such a plan, would require them to abandon once and for all, their flight from gold, that veritable phobia about gold, or "aurophobia," that has marked all respectable schools of economic thought, whether Keynesian or monetarist, for most of the inflationist twentieth century.

[15]What of the government securities that now constitute the bulk of the assets of the Federal Reserve System? An urge for genuine privatization and a decent respect for the taxpayer would require the immediate writing off of these bonds; why should the taxpayer be forced to pay interest and principal when one agency of the federal government owns the bonds of another?