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FOR YEARS the world has been plagued by continuing international monetary crises. The international monetary system since 1944 has endured dollar shortages and dollar gluts; chronic deficits and chronic surpluses; perpetual parity disequilibria and currency realignments; disruptive "hot money" flights of capital, and numerous controls on the exchange of money and goods.

In 1968 a "two-tier" gold market was established in the midst of a run on U.S. Treasury gold reserves. In 1971 the two-tier experiment failed in the face of new foreign government demands for dollar convertibility. The U.S embargoed gold and allowed the dollar to seek its own level on the free market.

The making of an international monetary crisis

In December of 1971, a new agreement was reached – the Smithsonian Agreement – which consisted of multilateral revaluations of most major foreign currencies and a *de facto* devaluation of the dollar. In 1972 the dollar was officially devalued yet remained nonconvertible into gold.

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Further Devaluation

Meanwhile, only fourteen months after the Smithsonian Agreement was reached, the dollar was brought under new selling pressure and was again forced to devalue (a total of almost 20 per cent in under two years), and the free market price of gold soared to nearly $100 an ounce, making the official price and the now mythical "two-tier" system look embarrassingly unrealistic.

The most immediate and visible cause of the 1971 international monetary crisis can be traced directly to an excess supply of dollars which have been accumulating in foreign central banks. These dollars, some $60 billion, were at one time theoretically claims on U. S. gold. But over the years, U. S. gold reserves (now about $10 billion) have become conspicuously inadequate to meet foreign demand for gold convertibility.

At present, the major problem confronting economic and monetary Policy Makers is: "What is to be done with the approximately $60 billion held by the central banks of the western world?"

Policy Makers have instituted one stop-gap measure after another in order to buy the time necessary to solve this problem and to reach agreement on long-term monetary reform. Agreement on monetary reform will be the basis for the development of a new international monetary system, tentatively scheduled to be established by the International Monetary Fund (IMF) in the near future.

But before one can determine which reforms are necessary for a successful future monetary system, one must know what monetary policies caused the past system to fail.

Today's Policy Makers have refused to identify the most fundamental cause of the 1971 international monetary crisis; they have never wanted to know which monetary theories and policies led to the excessive and disruptive amounts of dollars that now flood the world, for the answer is: their own monetary theories and domestic policies of artificial money and credit expansion. If one wishes to project the kinds of policies that will be employed internationally and the effects they will produce in the future, one need only to look at the monetary theories held by today's Policy Makers and their effects when implemented in the past.

Monetary Theory: Past

During the nineteenth century the free world was on what was called the classical gold standard. It was a century of unprecedented production. More wealth and a greater standard of living was achieved and enjoyed by more people than in all the previous history of the world. The two conditions most responsible for the great increase in wealth during the nineteenth century were competitive capitalism and the gold standard: Capitalism because it provided a social system where men were free to *produce* and *own* the results of their labor; the gold standard because it provided a monetary system by which men could more readily *exchange* and *save* the results of their labor.

While capitalism afforded men the opportunity to trade in the open market which led to economic *prosperity*, the gold standard provided a market-originated medium of exchange and means of saving which led to monetary *stability*.

But because neither competitive capitalism nor the gold standard were ever fully understood or practiced, there existed a paradox during the nineteenth century: a series of disruptive economic and monetary crises in the midst of a century of prosperity.

These crises can all be traced to excessive supplies of money and credit. The U.S. panics of 1814, 1819, 1837, 1857, 1873, 1893, 1907 and the international monetary crises of 1933 and 1971 all have one thing in common: excessive supplies of money and credit. The fact is that no monetary crisis in history has ever resulted from a *lack* of money and credit. *Every* monetary crisis can be traced to excessive supplies of money and credit. Where does this money and credit come from?

Under a gold standard, the amount of money in circulation is the amount of gold circulating among individuals or held in trust by banks. All claims to gold (e.g. dollars) are receipts for gold and are fully convertible into a specific amount of gold. If the claims to gold are circulating, the gold cannot. The money supply is determined in the open market — by the same factors that determine the production of any and all commodities — the factors of supply, demand, and the costs of production. Thus the only way to increase wealth under such a market-originated monetary and economic system is through the production of goods or services.

No Curb on Governments

But the world never achieved a pure gold standard. While individuals operated under a classical gold standard with the conviction that production was the only way to gain wealth, they allowed their government to become the exception to this rule.

Government produces nothing. During the nineteenth century it operated mostly on money it taxed from its citizens. As government's role increased, so did its need for money.

The Policy Makers knew that gold stood in the way of government spending, that direct confiscation of wealth via taxation was unpopular. So Policy Makers advocated a way of indirectly taxing productive men in order to finance both government programs and the increasing government bureaucracy necessary to implement those programs.

The method was to increase the money supply. Since government officials were not about to go out and mine gold, they had to rely on an artificial increase. Although the methods of artificial monetary expansion varied, the net effect remained the same: an increase in the claims to goods in circulation and a general rise in commodity prices. The layman called this phenomenon "inflation." This resulted invariably in monetary crises and economic depressions.

Capitalism and gold got the blame for these crises, but the blame was undeserved.

Why then were capitalism and the gold standard not exonerated from this unearned guilt? Why were these two great institutions tried and sentenced to death by the slow strangulation of government laws? The verdict must read: "Found guilty due to inadequate defense."

The few whispers of defense from a handful of scholars were easily drowned out by every politician who argued for more government controls and regulations over the economy; by every professor who argued for the redistribution of private wealth and for government to provide for the welfare of some group at the expense of another; by every businessman and his lobbyist who argued for government to subsidize his business or industry while protecting him from foreign competitors; by every economist who advocated that government should "stimulate" the economy; and by every media spokesman who argued that the public should vote for policies of government intervention. These, and men like them, made up an army of educators.

The Policy Makers

They were the "intellectuals" who promoted theories that could not exist without the governmental expropriation of private funds; who sponsored, advocated, or encouraged government policies that would victimize men (taxation), deceive and defraud men (inflation), and turn men against one another (the redistribution of private wealth). They were the men who provided government with the theoretical ammunition necessary to disarm men of their rights. They educated the public on the "blessings" of government intervention, and were the ones directly or indirectly responsible for all the subsequent coercive government actions and all of their economically disruptive effects.

They were (and still are) the Policy Makers.

Policy Makers damned capitalism and the gold standard as being inherently unstable. They attributed capitalism's productive booms to government's intervention into the economy, and the government-made busts to the gold standard and the "greed of man."

Such distortions of truth could not be sold to the public easily. A united attack on common sense was necessary in order to obscure the virtues of freedom and the meaning of money.

The Process of Confusion

The Policy Maker led that attack. Armed with the slogans of a con man, he slowly obscured the obvious and concealed the sensible, cloaking monetary and economic theories in graphs, charts, and statistics, until men doubted their own ability to deal with the now esoteric problems of economy and state.

But the American public had great confidence in the integrity of their public leaders and trusted the knowledge of experts in the fields of higher learning, and so they accepted the conclusions of their Policy Makers.

The Policy Maker had made his first and most important move toward institutionalizing government intervention and his theories of artificial monetary expansion into the American way of life: he convinced the American public that men needed government protection from the "natural" depressions of capitalism and the monetary crises "inherent" in the gold standard.

Policy Makers had to do a lot of talking to convince men that the most productive system ever known to them was the cause of depressions. They had to do even more talking to convince men that the precious metal freely chosen and held as money was the cause of monetary depreciation and the source of bank insolvency. It took a lot of talking, but when they had finished, men were convinced. They were convinced that their minds — their own eyes — had been deceiving them. They were convinced that the way to freedom was through greater controls and more restrictions, and that paper was as good as gold.

While the attack on capitalism was subtle and implicit, condemnation of the gold standard was open and explicit.

Condemnation of Gold

The reason for the Policy Maker's condemnation is that, even though governments never really adhered to it, the gold standard placed limits on the amount of artificial money and credit a government could create. Money and credit expansion was always brought to a quick end because banks and governments had to redeem their notes in gold. Redemption was the major obstacle in the way of the Policy Maker's dream of unlimited artificial money creation, unlimited spending.

The Policy Maker learned how to obtain in a matter of minutes the purchasing power of 50 productive men working 50 weeks. He learned of the plunder and loot that a button on a printing press would provide. But it would not be until the twentieth century that he would convince the government to eliminate gold and convince men of the "virtues" of legal counterfeiting. The Policy Maker had to destroy man's idea of property in order to entice men with dreams of unearned wealth. He had to persuade men of the "merits" of monetary redistribution and government handouts.

If there was a monetary rule of conduct among men during the days of the semi-gold standard it was: the man who desires to gain wealth must earn it, by producing goods or their equivalent in gold.

It was in this spirit and by this *golden* rule of conduct that men could and did operate in the monetary and economic spheres of society. Consequently, they achieved the most productive and beneficial era that mankind had ever known.

But what they never identified or challenged was the opposing monetary rule of conduct advocated by their Policy Makers: the government that aims to acquire wealth must confiscate it – or counterfeit its equivalent in paper claims.

Evolution of the Theory

The gold standard limited artificial *monetary* expansion and in doing so, it limited artificial *economic* expansion. The Policy Maker considered this great virtue of the gold standard to be its major vice.

The Policy Maker saw that artificial monetary expansion had led to economic booms. He also saw that at the end of every artificial boom there occurred a financial panic and depression.

The Policy Maker ignored the cause of financial panics, he saw only their effects – bank runs and the demand for gold redemption. He ignored the cause of economic depressions, he saw only that the boom had ended. Reversing cause and effect, the Policy Maker concluded: eliminate gold redemption and the financial panics would stop; eliminate the gold standard and the boom would never end.

The Policy Maker had to make another major move toward institutionalizing government intervention and his theories of artificial monetary expansion into the American way of life: he had to divorce the idea of *national* production from the idea of *individual* productivity.

Ignoring the fact that the individual was the source of production, he convinced men that in the name of "social prosperity," government could and should "stimulate" the economy and "encourage" national production; while at the same time he advocated income taxation to penalize individuals for being productive. Implicit in this doctrine is the idea that production is a gift of state, the result of government guidance; and that individual productivity is a sin, the result of human greed.

Men were subtly offered a false alternative: the "permission" to produce and be taxed directly through government confiscation; or the "luxury" of an artificial boom, to be taxed indirectly through inflation.

The American people rejected both alternatives (and still do today) yet saw no other acceptable course of action – the intellectual opposition was still too weak to provide them with one. Thus, by default, they accepted both alternatives "to a limited degree." An income tax should be levied "only on those who could afford it," while the government "should steer the economy on a prosperous course."

How was the economy to be "steered"? By supplying unending paper reserves to a regimented banking system and compelling bankers to keep interest rates artificially low. But in 1913 it was too early to sell the public on the "virtues" of the direct confiscation of gold. But the time was "right" for the takeover of the banking system. A monetary revolution was in store for America.

Fractional Reserve Banking

In the name of "economizing" gold (which allegedly was not in sufficient supply to be used as money), Policy Makers advocated a fractional reserve system. A fractional reserve system would *by law* set a ratio at which gold must be held to back legal tender notes. While fractional reserve banking had always been practiced by banks and condoned by governments, the Policy Maker formalized and legitimized it through the Federal Reserve System domestically and the gold exchange standard internationally.

What the Federal Reserve System and the gold exchange standard had in common was a central banking system that used as reserves both gold and money substitutes (such as demand deposits, fractionally backed Federal Reserve notes, commercial paper theoretically convertible into various commodities, and government securities backed by the taxing power of the government). These reserves – gold and the money substitutes – served as a *base* for monetary expansion.

Gold was no longer the sole reserve asset: it was now supplemented by paper reserves. The government exercising a monopoly on the issuance of paper money could designate what should comprise the monetary reserves. Hence, redemption was now not only in gold, but also in money substitutes. In this way a pyramiding of money and credit expansion could take place without the automatic limitations imposed by the gold standard.

By the 1920's the Federal Reserve System had grown and increased its power and controls, which enabled it to increase the money supply and reduce interest rates for longer periods of time. The Federal Reserve Board succeeded in implementing its easy money policies. The problem now was that money and credit became so easy to obtain that it spilled over into the stock market and other investment areas.

The government became alarmed over this wild speculation, raised interest rates sharply, and slammed on the monetary brakes – but it was too late. The day came (that inevitable day) in October 1929 when the Law of Causality presented its bill.

Men found that their profits were merely paper profits, that their prosperity was an illusion. The stock market crashed. Men suddenly realized that on the other side of the coin of credit there existed debt. Industries fought to become "liquid"; everyone tried to get hard cash. But the hard cash – the gold – was insufficient to cover the outstanding claims.

The Great Depression

The Policy Maker succeeded in implementing his theories, yet all of the consequences that his theories were to have eliminated confronted him once again – this time to a far greater degree. This was the *Great* Depression; this was the monetary crisis that not only forced an entire national banking system to close its doors, but was of *international* dimensions. The dollar was in trouble not only at home, but also abroad. What to do?

The Policy Maker had the "answer." He viciously condemned gold and capitalism for causing the crisis and advocated even greater policies of money and credit expansion in order to "stimulate" the economy; more government controls, more government regulations, more and higher taxes were the "answer." Men were asked to patriotically give up their gold in order to save the nation's credit. It was a time of emergency, so Americans complied. They did not know that they would never see their gold again, that taxes would continue to rise higher and higher, and that inflation would become a way of life.

The Policy Maker had to do a lot of talking to convince men of the "evils" of gold and capitalism. He had to do a lot of talking, but when he was finished, men were convinced. They were convinced that nothing less than the direct confiscation of wealth and a vigorous credit expansion could save the nation.

Devaluation in 1934

In 1934, Franklin D. Roosevelt with one stroke of the pen confiscated the entire gold stock of America. When government held the gold and the citizens held only paper, the government reduced the value of the paper by over 40 per cent, raising the official dollar "price" of its gold holdings. (The Policy Maker had learned that credit expansion meant debt creation, but showed governments how to default on their debts by devaluing the monetary unit in relation to gold and other currencies.)

The U. S. was now on a fiat standard domestically, and again in the name of "economizing" gold, the government printed new money against its total stock of newly acquired gold. Deficit spending became a way of life and government borrowing became so insatiable that any mention of paying off the national debt was smeared as unrealistic and regressive in light of the "virtues" of continued monetary expansion. (The Policy Maker had learned that borrowing meant debt accumulation, but showed the government how to "*amortize*" its debts by charging its citizens in direct and hidden taxes.)

Domestically the fiat standard has failed miserably. It was designed to "economize" gold and provide a stable dollar. Since 1913, the dollar has lost approximately 75 per cent of its purchasing power. The fractional gold cover has been progressively reduced, and transferred to cover obligations abroad. That gold reserve has been reduced from $25 billion to $10 billion through demands for redemption by foreign governments which finally forced the U.S. to close the doors of its central bank. (The central bank was supposed to be a bank of last resort. The run on the

Treasury's gold amounts to the largest and most prolonged bank run in the history of any nation.)

Bretton Woods

Meanwhile, internationally, in 1944 a "new" system was established – the Bretton Woods system. During the Bretton Woods era Policy Makers adopted policies of vigorous credit expansion as a panacea for the world's problems. The instrument of credit used was the dollar. In its role as reserve currency, the dollar was considered "as good as gold" and served as a supplement to world gold reserves. In the name of world liquidity, dollars would be furnished as needed to replenish and build up world reserves. The dollar was envisioned as a stable yet ever-expanding reserve currency.

In this spirit, dollars poured forth on demand via U.S. deficits in the form of foreign aid, loans, and military expenditures. Foreign demand for dollars never ceased, nor did the expansion of money and credit, until the world found itself in the midst of an inflationary spiral which turned to recession and ended in an international monetary crisis: the dollar inconvertible, dropping in value, an undesirable credit instrument and ineffective reserve currency.

The dollar was again devalued, while gold soared in value, reaching new highs. And through all this, Policy Makers have been screaming the same old theories: "Gold is a barbarous relic! It ought to be eliminated completely! What we need is *more* liquidity . . . *more* money and credit!"

What more can the Policy Maker do?

The Theory Projected

There is a causal link between history and future events – the link is theory.

A theory is a policy or set of ideas proposed as the basis for human action. To the extent that a theory furthers man's life it is a practical basis for human action and therefore a good theory. To the extent that a theory destroys man's life it is impractical, self-defeating, and therefore a bad theory.

A sound monetary theory, if employed, will facilitate trade and economic growth, while an unsound monetary theory will lead to monetary crises and economic disruptions.

The Policy Maker has been charged with providing theoretical ammunition to government. To the Policy Maker's great discredit he has learned nothing about monetary theory in the last two centuries, save how to employ more sophisticated techniques of credit expansion. He has rejected the lessons of history through self-induced blindness and has made himself deaf and dumb to rational economic analysis. He sees nothing except his precious theories of artificial monetary expansion.

Today's Policy Maker sees himself as participating in an evolution of the international monetary system comparable in "importance" to the role his intellectual ancestor played in evolving the gold standard into the gold exchange standard. And if by evolution the Policy Maker means a series of changes in a given direction, this is a correct description of his role. But it is the *wrong* direction. And it has been the wrong direction for over a century.

Given the monetary theories held by today's Policy Makers who are concerned with international monetary reform, one can expect a change only in the method and degree of monetary expansion — not a change in direction.

Each time the Policy Maker has seen his monetary theories implemented he has blinded himself to their effects. Each time a monetary or economic crisis has occurred he has refused to identify the cause, blaming it on the so-called "business cycle" which he insists is an inherent weakness within capitalism and which invariably causes depressions. But there is no such thing as a "business cycle" that causes depressions — only a cycle of continuous government intervention into the economy, providing newly printed money that causes inflation, malinvestment, over-consumption, the misallocation of resources — distortions and mistakes that, when liquidated, are called depressions.

There is nothing in the nature of capitalism and the free market to cause such crises. If economic history has tended to repeat itself, it is because the Policy Maker has been guiding human action and government policies along a circular theoretical course that has been tried and has failed — again and again and again.

"If at first you don't succeed . . ."

The spectacle of billions of inconvertible dollars frozen in the vaults of central banks has brought on cries of condemnation over the dollar's credibility as a reserve currency.

The Policy Maker's theory of a stable yet artificially ever-expanding reserve currency has failed. Policy Makers are willing to admit this freely. The failure, of course, was not theirs — it was "all gold's fault." The Policy Maker avoids dealing with the problem by insisting that there is too little gold in existence instead of too many claims to gold outstanding.

The "solution" to the problem

(if the Policy Maker remains consistent) will be to evolve the international monetary system from a system in which an ever-expanding reserve *currency* provided the world with credit and liquidity, to a system in which an ever-expanding reserve *"asset"* will fill that role. Like the dollar, this reserve "asset" will amount to circulating debt, i.e. something owed rather than something owned. It will be a non-market instrument, deriving its acceptability from government cooperation and decree, "immune from the laws of the free market and outside the reach of greedy speculators."

Where will this "asset" come from? Under the Bretton Woods system, dollar reserves were furnished by the U.S. central bank. Both the bank and the "asset" failed. The next step is to create a *world* bank (a larger bank of last resort) controlled by an international organization (the IMF) with the power to create a new "asset," independent of any single government's monetary policy.

As a supplement to gold and like the dollar before it, this "asset" should be a credit instrument. Unlike the dollar, it would have the backing of an entire world of central banks. The "asset" should be ever-expanding and should provide both liquidity and stability. In short, "as good as gold."

The SDR: "as good as gold" again!

Special Drawing Rights (SDR's), or "paper gold" as it is sometimes referred to by those who can keep a straight face, was introduced to the international monetary system in 1967. It was a time when the dollar was under suspicion and gold was increasingly demanded.

In order to "economize" gold, the IMF issued a new reserve "asset" (SDR's) to supplement gold and take pressure off the dollar. The SDR is a bookkeeping entry, defined in gold yet non-convertible into gold. It serves the same function as gold since it is a reserve, but unlike gold, it can be created by a stroke of the pen.

U.S. Policy Makers have chosen the SDR as the reserve "asset" most likely to succeed in replacing gold. But just as the dollar was supposed to be as good as gold and was not, the SDR, even if made tangible and convertible into gold and/or other currencies, will suffer the same demise.

The Policy Maker has chosen to ignore the fact that there is no fundamental difference between an artificially ever-expanding reserve currency and an artificially ever-expanding reserve "asset" – both are inflationary and therefore self-destructive.

But the real threat is not that the SDR may fail as the dollar did in bringing monetary stability.

The threat is in the damage SDR's can do if developed within a formal system. Just as the dollar replaced gold as the primary asset, SDR's have a very real potential for further diminishing the role of gold, and in doing so changing the entire nature and inflationary potential of the IMF.

The most controversial question in monetary reform today centers around the respective roles of gold and SDR's. While the U.S. has taken an anti-gold position, France has been said to have taken a pro-gold position in opposition to U.S. proposals. But if one checks the theories held by the Policy Makers of the governments involved, the "pro-gold" opposition looks absurdly weak.

The Mythical Pro-gold Governments

The U.S. wants a lesser role for gold, holding that SDR's can serve as a measurement of currency value, act as a credit instrument, earn interest, and absorb dollars. In effect the U.S. position would eliminate gold's major role without eliminating gold. SDR's would not only become the standard of value for all currencies, they would replace gold as redemption instruments.

The "opposition" (mainly France) wants gold as the major reserve asset in which all currency values are measured. While the U.S. proposes that excess dollars be "absorbed" by an IMF issuance of SDR's, France proposes instead that the official "price" of gold be raised sufficiently high to convert excess dollars in central banks.

Superficially, it would appear that there are two opposing positions being taken: one anti-gold, one pro-gold. However, both positions are anti-gold standard, hence anti-gold as a reserve asset.

A gold standard requires that governments limit the currencies they print to the supply of gold they possess – and this is considered out of the question by today's government leaders. They insist on the "right" to inflate. "Pro-gold" European governments have, time and time again, inflated their currencies, then devalued. To advocate arbitrarily raising the "price" of gold is as much an attempt to use gold as a fiat reserve asset as is the U.S. position.

While the U.S. would increase reserves by printing "assets" to cover present and future money and credit needs, France would increase reserves by raising the "price" of gold to cover the artificial money and credit *previously* created. And this is the common denominator that links the two apparently opposing positions: their basic agreement, in principle, that the artificial creation of money and credit is essential to any monetary system. Disagreement only arises over the *method* to be used in dealing with excessive monetary expansion, i.e., *debt*.

There are no pro-gold governments in existence today, only pro-inflation governments. The difference between governments is only in the degree of monetary expansion and the freedom of gold ownership a government permits.

"Amortize" or Default: the False Alternative

So, basically, monetary reform boils down to the following two alternatives: the "pro-gold" countries advocate *defaulting* on foreign debts via devaluation; the "anti-gold" countries advocate *"amortizing"* foreign debts via artificial reserve expansion. (The kind of "amortization" that is consistent with the Policy Makers' theories amounts to a method of constantly refinancing government debt below the market rate of interest. Given the past record of government, the principal may never be repaid in full or in real money terms.)

The third alternative is simply to not *create* debts that governments are unable or unwilling to repay. The third alternative is for governments to stop arbitrarily creating debt instruments such as the dollar in its role as reserve currency, and the SDR. These instruments and the currencies printed against them invariably depreciate and cause monetary crises. The third alternative would mean returning to the gold standard which, in today's "enlightened" era and within our "evolving" economic structure, is considered "passe" and "old-fashioned."

Thus, in the present political context, monetary reform will consist of devaluation (and/or revaluation more recently) and default on debts, or artificial reserve expansion and the "amortization" of debts or, more probably, a combination of both.

What is the difference between default and "amortization?"

Consider the example of a man whose expenditures have for some time been exceeding his income. He has in effect been running a deficit. He finds himself with more short-term claims against him than he has liquid assets. If he refuses to liquidate assets and finds a way to default on his short-term claims, the loss falls directly on his creditors. (When governments default on *their* creditors, they call it devaluation.)

But what if the man refinances his short-term obligations by printing IOU's far in excess of his assets, and offers interest on this new "medium of exchange"? What if this new "medium of exchange" is then used as an "asset" by creditors who, in turn, print IOU's against it and distribute these as direct claims to goods?

Here the loss falls on all those who are in the domain of the counterfeiters, and who must suffer the effects of artificially rising prices. (When the government thus creates fiat money in this way, they call the process "amortization".)

From this example, the following conclusion can be drawn relative to governments: any form of debt default falls squarely on the shoulders of the creditors, i.e., on the citizens of creditor governments. Any form of debt "amortization", however, falls indiscriminately on the shoulders of all those individuals within the monetary sphere of those governments participating in an international monetary system of debt "amortization." No ring of international counterfeiters has ever been, or could ever be, more of a threat to individuals and their wealth than is the IMF in its move toward international monetary "reform."

The Frightening Prospect of an International Debt

In the past, devaluation and default on excessive debt has been the method most used to eliminate debt. But, given an international system of artificial reserve expansion, the issuance of credit and the "amortization" of debts may be expected to give rise to the specter of an *international* debt.

The possibility of an international debt is not a pleasant one to contemplate. Like a national debt that continues to grow without restraint through continuous refinancing, an international debt would soon become uncontrollable and self-perpetuating.

The victims of such debt "amortization" must ultimately be individuals: taxpayers to the degree that the debt is financed directly or repaid; consumers to the degree that the debt is refinanced indirectly through the inflationary method of money creation; or *creditors if and when (or to the* degree that) the debt is ultimately repudiated.

Given the choice between "amortization" and default as methods of dealing with the problem of debt, and given the inflationary policies that governments are determined to follow, it makes little difference what kind of monetary "reform" is implemented. Our monetary authorities are only haggling over who should be the victims of their debt creation – foreigners or nationals.

Rational and morally concerned individuals will not cheer their government for shifting the burden of their debt onto foreign citizens through the process of debt default and devaluation. On the other hand, given debt "amortization," the citizens of all countries will suffer the inevitable result of more taxation and more inflation.

Thus an individual will pay taxes, and on top of that the hidden tax of inflation for *domestic programs*, and on top of that an inflationary tax for *world expenditures*, and on top of that the inflationary tax for *interest* on all inflationary debts both domestic and international.

Toward an International Fiat Reserve System

It is not an easy thing to eliminate gold from a monetary system and replace it with the continuously depreciating promises of paper money and paper "assets." All such money substitutes at one time derived their value from and were dependent on the market or exchange value of commodities.

It takes a lot of time and a lot of talking to convince men to accept artificial values as distinguished from the market-determined values in exchange. In America, Policy Makers have had nearly two centuries in which to propagate their monetary theories and institutionalize them within the policies of state. The result has been a slow erosion and obscuring of gold's role in the monetary systems of man.

The monetary system that lies at the end of the Policy Maker's theories is an international fiat reserve system. The foot in the door that opens the way to this system is the SDR.

The U.S. proposal to replace gold with the SDR amounts to just such a proposal. (Whether or not "SDR" is the final name given to a fiat reserve asset is unimportant. What is important is simply whether that asset derives its value realistically or arbitrarily.) But the U.S. knows that governments will not simply give up their gold overnight. And while it is true the so-called "pro-gold" countries have no intention of giving up their gold, the role of gold can be so diminished within the future monetary system that it will no longer serve as a protection against artificial monetary expansion, even to the limited degree that it has in recent years. An "opposition" that is in basic agreement with U.S. theories of artificial credit expansion cannot be expected to properly defend gold's role in any future international monetary system.

If there is to be a "meeting of the minds" on international monetary reform, it will come through compromise – and that compromise must lessen gold's role in the future. Worse, if this compromise is achieved, it will establish an unprecedented potential for world inflation.

International Demonetization

What will be the nature of this compromise? Given the theories of world Policy Makers, the most probable compromise would be to issue, as "legal tender" notes, SDR's backed by a *fractional* amount of gold. The effect of such an agreement will concede to the IMF the power to create reserves and set in motion the unrestricted workings of an *international* fractional reserve system.

Just as gold was demonetized in the U.S. through the method of fractional reserve banking, the Policy Makers will attempt to demonetize gold internationally.

A sequence of events typical of what one might expect from Policy Makers would be for them to advocate the establishment of a central bank (the IMF) that has the power to create reserve assets, define the asset in gold to give it credibility (fractionally backing the asset with a percentage of gold) and, in the name of "economizing" gold, increase SDR allotments, thereby reducing and eventually eliminating the gold backing, thus facilitating the constant increase in fiat reserves.

Ultimately this system would eliminate any objective limitations on monetary expansion, thereby surrendering monetary policy into the collective hands of a world body the monetary heads of which would subjectively decide which nations will be given the "special right" to consume goods and at whose expense.

Simply Repetitious

This is not a prediction of coming events. It is simply an example of the methods Policy Makers would most likely advocate in order to achieve their goal. Notice that there is nothing innovative about the method of creating a fiat instrument, arbitrarily decreeing its value by force, then proceeding through fractional reserve banking and monetary expansion to systematically undermine the acceptability it had enjoyed by reason of its gold backing. It has all been done before.

These men are not innovators. They are simply repetitious! They would be laughable if they weren't so dangerous. But today's Policy Makers are dangerous. They have the power of government force behind all the theories they propagate. And at the end of their theories awaits chaos.

Given today's political context, an international fiat reserve system must ultimately add to massive world inflation as governments are inclined to spend more and more. This must lead to the eventual collapse of the international monetary system and with it the economies of the world.

The Real Meaning of Monetary Reform

Monetary crises are not born from nature, they are made – man-made.

As long as governments continue to adopt policies of inflationary finance, the monetary systems of the world will be in perpetual disintegration. This disintegration will lead to crises of greater scope and intensity, recurring at shorter intervals, while the meetings on monetary reform become a way of life as Policy Makers offer only variations of their destructive and futile theories.

As long as governments continue their policies of artificial monetary expansion there can be no such thing as monetary reform. To reform means to abandon those policies which have proven to be unjust and incorrect. *Fundamental* monetary reform means that governments would have to abandon their policies of inflationary finance.

The *essence* of contemporary monetary policy is the employment of inflationary finance, which means injustice to individuals who must bear the brunt of the default and "amortization" of government debt, and the continuous depreciation in the value of their currencies. Further, it means that individuals will be forced to suffer the unnecessary and harmful effects of continuous recessions and depressions.

Until fundamental reform is achieved, the individual will remain the source of government financing. One can easily see that the source is being more and more exploited as governments resort to greater and more extensive policies of artificial monetary expansion.

If fundamental reform does not occur, it is only a matter of time until individuals and private property are squandered in an inflationary system of waste.

In the last analysis, real monetary reform must consist of returning to a gold standard. But there are preconditions to be met before a gold standard can be established as a lasting monetary system.

Men must understand what money is. They must rediscover *why* gold is the most effective medium of exchange and means of saving. And men must discover what money is *not*. They must understand that by accepting a monetary unit of value by decree, they are not only condoning theft, but are sanctioning the instrument of their own monetary and economic destruction.

When men have understood this, they will want to return to the gold standard.

But the gold standard cannot

survive in an economy mixed with socialist controls and vaguely defined individual freedoms. Men must rediscover the virtues of the gold standard; and men will not rediscover the virtues of the gold standard until they rediscover the virtues of capitalism. Men will not rediscover the virtues of capitalism until they identify the nature of man's rights and the injustices of government-initiated force and coercion.

If the gold standard is to return to this country, it will return on the wings of capitalism and not before.

If one wishes to fight for economic and monetary stability, one must also fight for capitalism. If one wishes to fight for capitalism, one must fight for man's rights. If one wishes to engage in this fight, the battle lines are clear: one must engage in an *intellectual* battle to displace the theories held by his intellectual adversaries – the advocates of policies based on coercion.

Benefits of Money

THE EMERGENCE of money was a great boon to the human race. Without money – without a general medium of exchange – there could be no real specialization, no advancement of the economy above a bare primitive level. With money, the problems of indivisibility and "coincidence of wants" that plagued the barter society all vanish.

IDEAS ON LIBERTY

The establishment of money conveys another great benefit. Since all exchanges are made in money, all the exchange-ratios are expressed in money, and so people can now compare the market worth of each good to that of every other good. If a TV set exchanges for 3 ounces of gold, and an automobile exchanges for 60 gold ounces, then everyone can see that 1 automobile is "worth" 20 TV sets on the market. These exchange-ratios are *prices*, and the money-commodity serves as a common denominator for all prices. Only the establishment of money-prices on the market allows the development of a civilized economy, for only they permit businessmen to *calculate* economically. . . . Such calculations guide businessmen, laborers, and landowners, in their search for monetary income on the market. Only such calculations can allocate resources to their most productive uses – to those uses that will most satisfy the demands of consumers.

MURRAY N. ROTHBARD, *What Has Government Done to Our Money?*

LAND USE WITHOUT ZONING

BERNARD H. SIEGAN'S *Land Use Without Zoning* (D. C. Heath and Co., Lexington Books, $10) is one of the most difficult compendiums of intensely analytical prose that this reader has ever encountered. To get past the detail to the generalizations entails hacking one's way with a machete through an undergrowth that offers briars, burrs and thorns on every branch. But when one has come out into the clear one has the feeling that Mr. Siegan has accomplished something that will stand as a landmark for the rest of our century.

Mr. Siegan got into his subject during years spent as an attorney specializing in real estate problems in Chicago. He was impressed with the fact that the land planners who have been responsible for the idea that you can zone a community for beauty and gracious living almost never succeed in acting as the disinterested judges which they fancy themselves to be. They are necessarily in politics up to their ears, with pressures beating in upon them from all sides. In suburbs where life styles have already been fixed they may not do badly, for in such circumstances they are merely called upon to endorse patterns that are part of an accepted status quo. But in big cities where life styles vary and the needs of commerce are many, there can be no standards by which every proposal can be measured.

Market surveys costing thousands of dollars may be necessary. Who has the wisdom to decide on priorities? There are questions of compatibility, property values, traffic, existing use, Utopian expectations, future growth, conservation, nuisances, the need for schools, and general economic feasibility. The whole thing becomes