socialism. Rushton would seem to sense this, but adds that "an ideology that tacitly appeals to biological equality as a condition for human emancipation corrupts the idea of freedom." Liberty and individual differences are not mutually exclusive principles.

Decent men therefore must not tremble at the prospect of inconvenient findings emerging from scientific research—not even from studies of racial differences. This is perhaps the best reason one can find for defending the publication of controversial books such as his. Free societies have no option but to preserve science as a truly unfettered source of information. The unrestricted flow of facts is the lifeblood of their existence. □

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Gold and Liberty

by Richard M. Salsman

Great Barrington, Mass.: American Institute for Economic Research • 1995 • 145 pages • $8.00 paperback

Reviewed by Robert Batemarco

About five years ago, a young banker sat next to me on the commuter train I take home from work. Noticing that I was reading about central bank policies, he engaged me in conversation on that topic. He enthused about the Fed and the "great job" it was then doing fighting inflation. "You know," I said to him, "fighting inflation is the last thing the Fed, or any central bank, for that matter, is about." Just as I was getting started, the train arrived at my station. While he seemed open to my line of reasoning, I'll never know if my words made any impact.

The discussion I was barely able to initiate on that train is ably executed from start to finish by Richard Salsman in *Gold and Liberty*. He identifies gold as the only money consistent with the free market. Central banking, on the other hand, supported by the belief that free markets are incapable of adequately serving our monetary needs, is exposed by Salsman as "nothing but central planning applied to money and banking." He uses history to illustrate that central banks were established to put more resources in the hands of spendthrift governments. This, and not preventing inflation and business cycles, is the one activity at which they have ever had any modicum of success. Salsman lays low the old canard that the classical gold standard worked only because of the tender ministrations of the Bank of England, showing rather how its sterilization policies actually broke the rules necessary for the gold standard's survival.

Gold money is more to Salsman than the key to combatting inflation, however. He sees it as indispensable to any truly free society. He quotes Henry Hazlitt to the effect that, "the gold standard is not an isolated gadget, but an integral part of the system of free enterprise and limited government, of good faith and law, of promise-keeping and the sanctity of contract." This is a far cry from the "unpredictability, politicization, inflating, and cheating," that Salsman correctly characterizes as the hallmarks of central banking.

Salsman sees free banking as another element of the integrated system of which gold is a part. In his eagerness to defend that arrangement, he sometimes overstates his case. To deny, as he does early in the book, the existence of any credit expansion or panics under a free banking regime is to ignore the nature of fractional reserves as well as the relevant history. While fractional reserves may well do less harm under free banking than central, they cannot be as stable as a system based on 100 percent reserves. A comparison of these alternatives would have been enlightening.

Despite this and some objectivist swipes at religion, *Gold and Liberty* makes a solid case that the road to liberty is paved with gold. It shows central banking, on the other hand, to be not only a gross infringement on our liberty in its own right, but to open the door to many other forms of mischief. I certainly hope my young banker friend gets to read it. □

In addition to editing the book review section of The Freeman, *Robert Batemarco is a marketing research manager in New York City and teaches economics at Marymount College in Tarrytown, New York.*

The Case Against the Fed

by Murray N. Rothbard

Ludwig von Mises Institute • 1994 • 158 pages • $9.95

Reviewed by Douglas E. French

After 80-plus years of inflation and devastating booms and busts, how do we get rid of the cause of these economic cancers? "The only way to do *that* is to abolish legalized counterfeiting: that is, to abolish the Federal Reserve System, and return to the gold standard," answers Murray Rothbard in his book *The Case Against the Fed.*

For students who did not have the opportunity to take United States Economic History from the late Dr. Rothbard, this slim volume will give you an idea of what his classes were like.

Dr. Rothbard never bored his students with sterile graphs or convoluted equations. Neither does this book. This story of the Federal Reserve is about good guys, bad guys, and self-serving politicians helping their rich and famous friends. Also interesting is Rothbard's discussion of nineteenth-century British case law that paved the way for fractional reserve banking. Rothbard points out that, with bailment law undeveloped in the nineteenth century, bankers were able to win three important court cases culminating with the *Foley v. Hill and Others* case in 1848. In this case, the House of Lords decided that bankers contract for an amount of money, but not necessarily to keep that particular money on hand.

Rothbard lays to rest the myth that the Panic of 1907 led to the creation of the Fed. Bankers began scheming for a central bank after William McKinley defeated William Jennings Bryan in the 1896 presidential election. Long gone were the days of the hard-money Jacksonian Democratic party, and the populist Democrat Bryan pushed for monetizing silver to increase the supply of money. Wall Street's bankers supported McKinley, not wanting inflation that they couldn't control.

The Panic of 1907 was used to whip up support for a central bank. But, it was the meetings of the Indianapolis Monetary Convention that started the political wheels turning, culminating in the passage of the Federal Reserve Act in December of 1913.

With the system in place, all that was needed was the "right" man to control the money machine. In 1914, that man was Benjamin Strong, then president of J. P. Morgan-owned Bankers Trust and best friend of Morgan partners Harry P. Davison, Dwight Morrow, and Thomas W. Lamont.

Strong ruled the Fed until his death in 1928. During World War I, he engineered a doubling of the supply of money, financing the U.S. war effort.

The continuous Fed propaganda is that a zealous public clamors for more inflation, and only the Federal Reserve's cool heads are standing in the way of a hyper-inflation armageddon. Of course, just the opposite is true. As Rothbard points out, "The culprit solely responsible for inflation, the Federal Reserve, is continually engaged in raising a hue-and-cry about 'inflation,' for which virtually *everyone else* in society seems to be responsible. What we are seeing is the old ploy by the robber who starts shouting 'Stop, thief!' and runs down the street pointing ahead at others."

Rothbard saves the fun part of dismantling the Fed for last. Liberty lovers are always being told that, "your ideas sound good, but how are you going to get there from here?" Rothbard has given us simple directions for the Fed's liquidation.

With the Fed abolished, banks would be on their own; no more lender of last resort, or taxpayer bailouts. The inflation dragon would be slain. The boom-and-bust roller coaster ride leveled.

The Case Against the Fed is part history, part polemic, and part policy paper, succeeding with all three. Murray Rothbard has written another classic. □

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