

## Gold by Alice Roth

### Reagan's remonetization policy

*The GOP platform's plank hinting at a return to a gold standard sounds like the 1871 Specie Resumption Act—a prescription for disaster.*

In a July 28 editorial entitled "The Standard Bearers," the *Wall Street Journal* offered its tentative endorsement of a little-publicized Republican Party platform plank that calls for a return to the gold standard without mentioning the word "gold," but with phrases such as "dependable monetary standard."

The gold plank was written by Michigan Congressman David Stockman, of the Kemp-Laffer wing of the Reagan campaign, the product of a compromise with Reagan adviser Milton Friedman, who played an important role in delinking the dollar from gold during the early 1970s. The *Journal* interprets the move as entirely coherent with Mr. Friedman's advocacy of a contractionary monetary policy.

According to the *Journal*, the Federal Reserve would buy and sell gold at a specified dollar price and, if upward pressure materialized against this target price, the Fed would reduce the supply of dollars.

A very similar type of gold standard was instituted in the U.S. during the 1870s under the Specie Resumption Act, recently cited by *Fortune* magazine as having achieved a "smooth and triumphant" return to gold. The actual story of the Specie Resumption Act was presented by my fellow columnist, historian Richard Freeman, in the Aug. 1 issue of the newspaper *New Solidarity*. The following are excerpts from Freeman's article.

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"The Specie Resumption Act was a direct attack on the Lincoln banking reforms. Lincoln had given America a national currency to build its industry. He had made credit cheap and plentiful to feed the emerging railroad, steel, iron, nascent machine tool, clothing and shoe manufacture, agricultural implements, chemical and other infant industries that were starting to make America great.

"During the war, \$450 million worth of greenback dollars had been created. . . . to feed, house and arm the Union Army and build the industrial infrastructure that would lead the Union to victory.

"The Specie Resumption Act provided that the U.S. maintain strict convertibility between greenbacks and other U.S. notes and . . . gold. This meant that a reserve of gold had to be set aside, in some multiple, for each greenback in existence. The creation of new greenbacks was to be strictly limited. Reinforcing the contractionary intent of the measures, the Grant administration actually retired greenbacks and thus took needed currency out of circulation in the name of 'halting inflation.'

"Under the gold system of the Specie Resumption Act, only credit and currency restriction and industrial contraction were envisaged. Since the British controlled the world gold standard and the

world's supply of gold in the 19th century, any country forced onto that standard was put under Britain's control.

"Developing industrial nations which ran trade deficits, such as the United States, had to settle their imbalances in gold. If they didn't have it, they could only obtain it by going hat in hand to a British bank. Britain used this to impose austerity programs on countries and force contraction of currencies or equally devastating devaluations.

"By joining the British-run gold standard, America joined the British credit system. Each new collapse in the British credit system meant a new American collapse. In large measure, this accounts for the frequent U.S. recessions, depressions, and panics of the 19th and 20th centuries.

"By collapsing U.S. internal sources of credit, the Specie Resumption Act allowed the British-Hapsburg-run New York and Boston money centers to gobble up the assets of smaller banks and concentrate credit into their own hands. By the late 1800s, New York banks had 53 percent of the nation's currency and credit."

In 1980, thousands of regional banks and savings institutions are faced with the near prospect of either bankruptcy or takeover as Volcker's tight money policies and recent regulatory "reforms" hasten the advent of nationwide banking, in which six or seven of the largest banks will own all the rest. A similar reorganization is occurring elsewhere, as the recession pushes many consumer-based industries, to the brink. Could there be a parallel between the Specie Resumption Act and what may occur under a Reagan administration?