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The "Golden Rule" and the Role of Gold

Some advocates of gold as the monetary unit base their position on moral principle: "gold is honest money." But morality – like religious faith – often rests primarily on "belief," not scientific procedures. This moral argument for gold may be persuasive only to other believers. Yet, the scientific basis for gold as money is not inconsistent with the moral basis. Insofar as moral or ethical principles and religious beliefs promote harmony among people, they are practical solutions to one of mankind's most fundamental problems. Moreover, their degree of effectiveness is observable, and the observed results provide a basis for preserving or revising the "principles." Gold money facilitates voluntary economic transactions and thus promotes social cohesiveness and progress. Some might argue that this is the sense in which they mean that gold money is morally defensible. We see it as scientifically warranted.

In recent years, archaeological studies of the fossil relics and artifacts of earlier human activities have placed the presence of humans farther back in prehistoric times than had been believed. Now it appears that humans were living in social groups as long ago as 14,000,000 years.

The earliest artifacts found do not provide any written records about aspects of the political and economic order, or varieties of order, that first were developed. Only for the last few thousand years are records available that enable us to describe the progressions and retrogessions in what may be called the cultural evolution or the development of social order.

During those recent thousands of years, no evidence has been found that humans have evolved in the sense of having changed markedly in their physical aspects. Winners in the Olympic games today exceed the feats of those who won in the Olympic games thousands of years ago, but not by so much that their achievements suggest a radical change in humans' physical form. In height, weight, muscular development, and such qualities as endurance of physical effort under prolonged stress, present-day humans clearly are not greatly different from their predecessors who lived thousands of years ago.

What about capacity for what frequently is labeled "mental ability"? Can it be demonstrated that philosophers of recent decades have exhibited marked improvement in mental ability over that evidenced by the Greek philosophers? This is doubtful.

Has human capacity for religious experience or the development of religious views evolved (in the sense of changed markedly) during the course of recorded history? The 1981 Encyclopaedia Britannica *Book of the Year* reports the membership figures for the larger religious groups of the world in round figures as is shown in the table nearby.

Clearly, the principal changes in the last few thousand years were development of the Christian and Muslim religions nearly 2,000 and 1,400 years ago, respectively. The Buddhist and Confucian religions began even earlier, from about 800 B.C., nearly 3,000 years ago. Human capacity for religious experience seems not to have changed markedly. why?

Religions can be discussed from various points of view, but our purpose is not to provide a comparative analysis of them as such. Our purpose is to focus on one aspect of the function that the leading religions have played in developing social order.

Many variations in wording of the "Golden Rule" can be found. The following frequently appears in translations of the Bible: "Therefore, all things whatsoever ye would that men should do to you, do you even so to them." Clearly this is a prescription for human behavior in a social context.

For each of us, the earliest social group was the family into which we were born. Those who have had children know how frequently parents find it useful to stress the Golden Rule in dealing with the quarrels of children. Perhaps most people have not reflected on the extent to which the Golden Rule for human behavior has become embodied in our customs and laws intended to preserve social order; in short, to maintain civilized society.

Ever since groups of humans exceeded the numbers of one family, or at most one tribe under a patriarchal head, preservation of social order has become an increasingly complex problem. The means of achieving social order have undergone what may be called evolutionary development. During the past few thousand years of recorded history, as was mentioned earlier, neither the physical nor the so-called mental abilities of humans appear to have advanced or evolved substantially, although many believe that such evolution did occur much earlier. However, human culture or social order has greatly advanced among some humans in some localities.

The Golden Rule

What part was played by the Golden Rule in that evolutionary development? The Golden Rule is part of the ethical teachings found in all five principal religions. Muslims are told to give "to kinsmen, and orphans, the

Religious Group	*Millions of Members*
Muslim	589
Roman Catholic	580
Hindu	478
Protestant	341
Buddhist	255
Confucian	156
	2,399
Numerous smaller groups	180
No religion or religion unknown	1,836

What is the purpose of this chart?

needy, the traveler, beggars." The Hindu is to judge by "looking on his neighbor as himself." The Buddhist is taught to have "boundless heart toward all beings." Confucians are urged "Do not do to others what you would not want others to do to you."*

The Golden Rule attained advanced application in the social order that evolved in England nearly 900 years ago. Perhaps this was because industry and commerce developed more rapidly there, or perhaps that development fostered more effective application of the Golden Rule.

In any event, rapid development of trade and industry necessitated a vast web of contracts of short and long duration. Essential for their effective use was a growing body of law as successive judges over the years and decades were confronted with new problems in human relationships. This law was not created by legislative enactment, but largely by legal decisions resting on and interpreting earlier decisions based for the most part on principles reflected in the Golden Rule. These evolving or emerging principles of justice became known as the Common Law.

By 1787, when the Constitutional Convention was meeting in Philadelphia to draft the Constitution of the United States, many basic principles of Common Law had been incorporated in the constitutions of some of the States as Bills of Rights. Mutual agreement was reached that the first ten amendments of the U.S. Constitution would embody what is now known as the Bill of Rights. Other aspects of the Common Law had been written into the Constitution itself. These (1) provided that the writ of habeas corpus should not be suspended except in emergencies to protect the public safety, (2) prohibited any bill of attainder or ex post facto law, and (3) prescribed trial of all crimes by jury.

Thus it happened that, of all the different governments that have been devised by humans since the historical record began, only that of the United States can properly be described as founded in large part, on the Golden Rule. As one of the many successive experiments in organizing human societies, the United States has proven to be the most successful in achieving for its citizens the highest degree of liberty, freedom, and justice found to date in the many millenia of human experience.

Perhaps because the Golden Rule was a basic feature of all the principal religions, the United States could accommodate large-scale immigration from nearly all countries of the world. Even the peoples of Asia, where Buddhism and Confucianism predominated, found social conditions in the United States generally congenial, or at least not harshly opposed, to their cherished religious views.

Gold's Support of the Golden Rule

Relatively great freedom to explore and to initiate new procedures, coupled with liberty and a closer approximation to justice, fostered economic development in the United States at a rate never before seen in the history of mankind. As that development proceeded from the stage of predominately family farming to the modern manufacturing and trading processes, more and more exchanges required a satisfactory purchasing medium, and a rapidly increasing multitude of long-term and short-term contracts required a stable accounting unit for the recording of promises for future performance.

Of all the purchasing media and accounting units experimented with during hundreds of years, gold was found, by repeated trial and error, to be the most useful. By the latter part of the 1800's, gold of specified weight and fineness had become the basic accounting unit and purchasing medium for all of Western civilization. We should note that this was an evolutionary development, not the invention of one or more individual geniuses. It was the outgrowth of experience among practical humans confronted with the problem of fulfilling their reciprocal promises of short-term and long-term duration in accordance with the Golden Rule. One can say that, in the business aspects of life, gold was used to support and enforce the Golden Rule.

That gold could be important in fostering a stable social order had been discovered much earlier. In the relatively simple society of the Eastern Roman Empire, which had only a small fraction of the commercial contracts found today, a stable social order was preserved for nearly 8 centuries after the decline and fall of Rome. Severe penalties for bankers and others who "clipped" coins or even attempted to pass defective coins permitted gold to fulfill its role of enforcing the Golden Rule in business transactions.

On the other hand, periodic debasement of the coinage occurred throughout the more than 300 years during the decline and fall of the Western Roman Empire. To what extent this interference with the role of gold as enforcer of the Golden Rule contributed to the breakdown of social order in the Roman Empire of the West, we cannot measure with precision. That it was a significant destabilizing feature seems highly probable, especially in view of subsequent experiences with attempts to make irredeemable paper replace gold as the medium of exchange and accounting unit.

In the last 4 centuries there have been so many interferences with the stabilizing role of gold, so many attempts to substitute irredeemable paper for it, that a detailed description of each would be a tedious recital of human folly and disastrous consequences. Simply listing some of them provides an example of the aphorism, "The principal lesson we derive from human history is that humans rarely learn anything from their history." Included among the attempts to supplant gold with paper were:

- Numerous paper money experiments in the American colonies,
- Mississippi Bubble in France,
- South Sea Bubble in England,
- French Assignats,
- Continental "shin plasters" of the American Revolution,
- "Wildcat" banking of the early to mid-1800's,
- Confederate currency during the Civil War,
- Greenbacks issued by the North,
- Many currencies of South American nations,
- Monetizing of their debts by the nations involved in WW I,
- Degradation of the Russian ruble,
- Destruction of the German mark in 1923 and a similar experience during WW II,
- And many more.

In all the history of humanity, no instance is found of an irredeemable paper currency supporting a stable social order. Every such experiment has culminated in times of great economic distress that on some occasions even accompanied a breakdown of social order so severe that it marked the end of a civilization.

Perhaps many highly religious persons among the

* All quotations from *Great Religions of the World,* Story of Man Library, National Geographic Book Service, 1971.

earth's four billion would assert that this experience of mankind with irredeemable paper proves the validity of their respective religions. Inasmuch as the Golden Rule is a significant aspect of all the leading religions, all would have at least some justification for their claims to validity. However, the religions vary so greatly in other aspects, that we prefer to focus on the facts of universal experience for the purposes of this discussion rather than on the comparative claims of the several religions.

The evidence clearly suggests that a cohesive social order can be achieved and maintained only by general acceptance and practical application of the Golden Rule. Furthermore, the evidence also suggests that in a complex social order such as the principal nations have today, using gold as money, i.e., as the exchange medium and accounting unit, is the most effective disciplinary device available for supporting and enforcing the Golden Rule in the economic aspects of life. If gold were not available, we should have to invent something to serve this purpose. But it is available, and it would serve us well if we applied it soundly.

MONETARY RESERVES AND AGGREGATES

As in 1980, the public again is confounding the Federal Reserve's attempts to achieve targeted rates of growth in the monetary aggregates, and once again the Fed is being urged by many to increase the rate of reserve aggregate growth in order to foster faster monetary aggregate growth and thus to stem the incipient recession. If the Fed relents to this pressure, the additional reserves could fuel another "take-off" in the monetary aggregates sometime in the future when the public again decides to hold more of its assets as transactions balances and less as time and savings balances. It seems clear to us that the Fed's control over the economy through monetary policy is "weak" both in the short run and the long run.

From time to time (most recently in *Research Reports* dated February 23, 1981), we have stressed that the link between rates of growth in reserve aggregates (the series: Federal Reserve credit, bank reserves, and the monetary base) and rates of growth in monetary aggregates (the various measures of "money," such as M-1B, M-2, etc.) is somewhat "loose" over spans of only a few months. Because this situation is not widely recognized or not kept in mind, critics of Federal Reserve policies often are too quick to recommend an expansion of reserve aggregate growth when, over a short span, any given rate of such growth fosters a rate of monetary growth less than the Fed's own targets for those series.

This happened in the spring of 1980, when the M-1B and M-2 money stocks decreased while the reserve aggregates continued to expand at near their earlier rates of growth. Seeing the money stock decreases, Milton Friedman said the Fed's policy was "incredibly restrictive" and was responsible for the economic recession then underway. He urged the Fed to expand reserve aggregate growth forthwith.

We reported (in *Research Reports* dated June 16, 1980) that the M-1B decrease was attributable not to a change in the Fed's policy but to a change in the financial assets preferences of the public. In particular, as part of the recession process, the public was choosing to hold more of its funds in time and savings deposits and less in demand (or transactions) deposits. More of the reserve growth thus was used to meet reserve requirements for the additional time and savings deposits (which are not counted in M-1B), leaving less to support demand deposits (which are in M-1B). We warned that if the Fed took Friedman's advice and accelerated reserve aggregate growth in an attempt to offset the effects of the public's preferences, the faster reserve growth might fuel a sharp rise in M-1B growth and inflating when the public's preferences reverted to the former pattern.

As events turned out, the Fed did increase growth of the reserve aggregates. After increasing at an annual rate of a little less than 6 percent during the first 5 months of 1980, monetary base growth accelerated to an annual rate of about 11 percent during the succeeding 5 months. Over the same spans, M-1B went from being virtually unchanged during the first 5 months to increasing at an annual rate of 15 percent during the second 5 months. The recession ended in July 1980, and the public again increased its demand for transactions balances.

Once again the situation has changed. As the accompanying table shows, a discrepancy has developed in the rates of growth of two reserve aggregate series: (1) adjusted monetary base* and (2) adjusted bank reserves.† Although monetary base growth has slowed only marginally, adjusted bank reserves have changed from decreasing at an annual rate of 1.2 percent from May to July to increasing at an annual rate of 7.6 percent from July to September. The slower growth of currency held by the public accounts for the more rapid rate of growth in bank reserves during the more recent 2-month period, given that the monetary base growth changed little from the first to the second period shown.

With more reserves available during the latter period, commercial banks have been able to support more rapid growth in deposit liabilities – both transactions deposits (reflected in M-1B) and savings plus small time deposits. However, because growth of savings plus small time deposits accelerated during the latter period, the "swing" in adjusted bank reserve changes of 8.8 percentage points (from –1.2 percent to +7.6 percent) was not equaled by the "swing" in M-1B, which was 7.8 percentage points (from –4.1 percent to +3.7 percent). Again, as in 1980, some of the more rapid growth in reserves was used to meet additional required reserves for the more rapid growth in time and savings deposits. That in turn reflected the public's somewhat greater preference to hold more of its deposits as time and savings deposits, a preference again associated with a developing recession.

Also once again, some analysts – including some members of the Reagan administration – are recommending that the Fed accelerate reserve aggregate expansion in order to

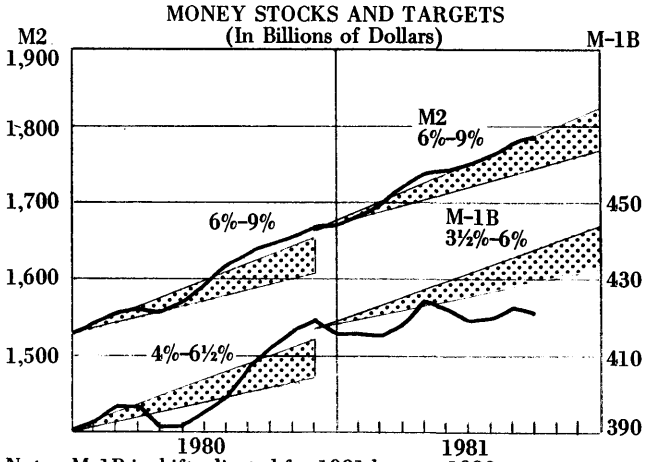
* Adjusted monetary base consists of: (1) member bank reserves at Federal Reserve banks, (2) currency held by the public and in commercial bank vaults, and (3) an adjustment for reserve requirement changes made by the Federal Reserve Bank of St. Louis. The major source of the monetary base is Federal Reserve credit.

† Adjusted bank reserves equals the adjusted monetary base less currency held by the nonbank public.

GROWTH RATES OF ADJUSTED MONETARY BASE AND BANK RESERVES AND SELECTED COMPONENTS OF MONEY STOCK MEASURES

Period	*Adjusted monetary base*	*Adjusted bank reserves*	*Currency held by non-bank public*	*M-1B*	*Savings plus small time deposits at commercial banks*
5/20/81-7/22/81	4.2%	–1.2%	5.9%	–4.1%	5.9%
7/22/81-9/23/81	3.9	7.6	2.9	3.7	9.2

Source: Federal Reserve Bank of St. Louis.



Note: M-1B is shift-adjusted for 1981 but not 1980.

promote more rapid monetary aggregate growth. Milton Friedman is not among them yet, however, because the growth rate of his favored monetary aggregate, M-2, has been near the upper boundary of the Fed's target range of 6 to 9 percent. Shift-adjusted M-1B* is the monetary aggregate that is substantially below the lower boundary of the Fed's target range, as the accompanying chart shows.

In view of the Federal Reserve's inability even to measure accurately the amount of purchasing media in use, or actual transactions balances, and in view of the loose link in the short run between reserve aggregate growth (determined primarily by Fed actions) and monetary aggregate growth (determined largely by the public), it plainly seems futile for the Fed to try to "fine-tune" the economy by means of short-term monetary policy changes. Indeed, as we pointed out before,† with a fiat no-thing dollar, with assured Government bailouts of any big financial institution, and with a trend toward financial conglomerations managed aggressively, the Fed now may have substantially less control over money-credit conditions and thus little influence on the economy in the long run as well as the short run.

* M-1B less shifts to the "other checkable deposits" portion of M-1B (largely NOW accounts) estimated by the Fed to have come from non-demand deposit sources and thus presumed not to be transactions balances.

† See "The Federal Reserve's Dilemma," *Research Reports*, August 31, 1981.

BOOK REVIEW

Ethnic America, by Thomas Sowell, published by Basic Books, New York, N.Y., 1981, 353 pp., $16.95.

Thomas Sowell's latest book profiles nine ethnic groups: blacks, Chinese, Germans, Irish, Italians, Japanese, Jews, Mexicans and Puerto Ricans. These profiles highlight certain similarities and differences in the experiences of new arrivals to this country. Similarities include beginning in America with below average incomes, education, and life expectancy and with above average family size (for immigrants who came as families or formed families here). For all ethnic groups described by the author these indicators have trended toward the U.S. averages. In many instances, ethnic groups now exceed the national averages in measures of economic well-being, but the degree of such progress has varied. This variation in progress is the particular interest of Professor Sowell.

He presents a wealth of evidence to support his contention that the different degrees of advancement are attributable to the skills, attitudes, and goals that immigrants brought to America as well as when, where, and why they settled here. He emphatically rejects the assertion that such differences are entirely or even significantly the result of past or present discrimination, bigotry, or degree of political activity and participation.

Some of Professor Sowell's evidence is incontrovertible. For example, he discusses immigrant groups that first came as "sojourners," such as Chinese, Japanese and Italians prior to World War I. These groups advanced slowly as long as substantial reverse migration continued, because with the reverse migration, such groups contained proportionally more single men and *recent* arrivals for longer periods than groups whose members by and large came and stayed as family units. At present, the data on "Hispanics" (mainly Puerto Ricans in the Northeast and Mexicans in the Southwest) are distorted because of the presence in the "group" of new arrivals who are replacing those who returned to Mexico or Puerto Rico, taking with them their improved economic circumstances. For this reason alone, the experience of "Hispanic" families who settle here permanently is better than that of the "group" as a whole.

Professor Sowell analyzes the data in other equally revealing ways. He demolishes stereotypes of ethnic groups by describing the vast differences within such groups, differences so vast that they often exceed those between a given ethnic group and all other Americans. Such differences exist between blacks who are the descendants of "free persons of color" (whose families "were years – or even generations – ahead of slaves in their acculturation to American society") and blacks descended from slaves, who in 1865 began with less physical or human capital than any other group in American history.

Other assertions by the author are more subjective, because they are based on descriptions of the cultural traditions and skills that various ethnic groups brought to America. However, even these insights long overdue are highly useful for expanding the scope of discussions about ethnicity.

Professor Sowell's findings are troubling to advocates of such programs as affirmative action or bilingual education, and to ethnic political activists who seek voter support primarily on the basis of their ethnicity. Some such actions may be well-intentioned, but experience indicates that they are useless at best and greatly destructive at worst. The author concludes: "The history of American ethnic groups – which is to say, ultimately, the history of the American people – is the history of a complex aggregate of complex groups and individuals. It cannot be a simple morality play."

Ethnic America is not light reading. But readers who would like some "ammunition" to use against simplistic notions about income inequality among minorities would do well to buy and read this most recent book by Prof. Sowell.

PRICE OF GOLD

	1980	*1981*	
	Oct. 30	*Oct. 22*	*Oct. 29*
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