

The Confiscation Threat

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By a so-called Executive Order, President Roosevelt declared on April 5, 1933 that:

"All persons are hereby required to deliver on or before May 1, 1933, to a Federal Reserve Bank or a branch or agency thereof or to any member bank of the Federal Reserve System all gold coin, gold bullion and gold certificates now owned by them."

The story told today is that citizens in the 1930's were 'law abiding' and willingly lined up to turn in their gold, but the facts from back then tell a different story. Here is an interesting table based on data for circulating gold coins reported by Milton Friedman and Anna Schwartz in their book, "A Monetary History of the United States, 1867-1960".

Monetary Gold in the United States				
	Circulating Gold Coin (million oz)	Gold Stock (million oz)	\$/oz	\$ Value of Gold Stock (millions)
Dec-32	27.6	204.5	\$20.67	\$4,226
Mar-33	17.8	193.3	\$20.67	\$3,995
Jan-34	13.9	195.1	\$35.00	\$6,829

There are two observations to be made from the above table.

1. The total quantity of monetary gold (i.e., gold bullion/coin in bank vaults and circulating gold coin) in the US was declining before FDR announced the confiscation on April 5th. The gold stock in banks, the Federal Reserve and the US Treasury fell by 5.5%. Circulating gold coin fell a staggering 35.5% in the three months prior to FDR's announcement. What was the reason for these declines? There was a lot of speculation before FDR's April 5th announcement that he would confiscate everyone's gold. I think it is reasonable to assume that some people chose to get their gold to safety

- just in case the confiscation rumors turned out to be true - so that their gold would not be taken from them. Such action would suggest that people were not so law abiding after all, which is also confirmed by the next observation.

2. After the confiscation announcement, only 3.9 million ounces of gold coin - approximately 21.9% of the gold coin then in circulation - were turned in. Subsequently, the government no longer reported this statistic as it assumed, according to Friedman and Schwartz, that these gold coins were "*lost, destroyed, exported without record, or...in numismatic collections*". After analyzing in some detail each possibility noted in the government's contention that ostensibly explained why all these gold coins remained outstanding after the confiscation, Friedman and Schwartz go on to say: "*We therefore concluded that in Jan. 1934 the bulk of the [13.9 million ounces] was retained illegally in private hands.*"

So people were not so law abiding in 1933, and who can blame them? The Constitution was written to restrain federal authority to 17 enumerated powers, none of which allow the federal government to confiscate gold - or any asset for that matter - even if that claim were made by a duly enacted law, let alone where the confiscation is supposedly authorized by an unconstitutional decree called an Executive Order. In other words, there is no provision in the Constitution for that type of dictatorial power. But the above table is interesting for another reason, and it is one that I think causes any reasonable person to ask, what was FDR's true objective?

It has been argued that the gold confiscation was necessary in order to build up the total weight of the US gold reserve to increase the amount of gold that was backing the US dollar. The argument goes that by increasing this gold backing, confidence in the US monetary and banking system would be restored. Let's assume that this argument is accurate. There are two ways to increase the amount of backing - either increase the weight of gold and/or increase its dollar value.

My point is that this table shows the gold confiscation was totally unnecessary. The backing could have been increased simply by devaluing the dollar. This point needs explanation.

FDR devalued the dollar by 69.3%. Before this devaluation, it took 20.67 dollars to exchange for one ounce of gold. After the devaluation, it took 35 dollars in exchange for that same ounce. The table shows that the total US gold stock rose from 193.3 million ounces before the confiscation to 195.1 million ounces after. At \$35 per ounce, the gold stock's dollar value in January 1934 was revalued to \$6,829 million. But this equation can also be solved another way.

Let's assume that this \$6,829 million total provided the right amount of gold-backing needed to restore confidence in the dollar. This value for the gold stock can be achieved without the gold confiscation simply by devaluing the dollar by 70.9% to \$35.33 per ounce. In other words, multiply the 193.3 million ounces in the gold stock before the confiscation by \$35.33, and you still get this same \$6,829 valuation for the gold stock.

Further, the dollar's devaluation would have only needed to be 61.5% if FDR had made clear that any confiscation was not on the agenda, ending the rumors about it and thereby avoiding the decline in the available gold. In other words, the 204.5 million ounces in the gold stock at December 1932 equals \$6,829 million at \$33.39 per ounce. So why did FDR confiscate the gold?

Evidently it was not to increase the weight of gold that was backing the dollar. It seems clear that he had some other objective. What was FDR's other objective?

I'm sure the records of his thinking - if they exist at all - will never see the light of day. But only one thing seems plausible to me. I think FDR's real objective is explained in a 1966 essay entitled "*Gold and Economic Freedom*" written by Alan Greenspan. "*The abandonment of the gold standard made it possible for the welfare statists to use the banking system as a means to an unlimited expansion of credit.*"

Greenspan then goes on to say: "*The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves. This is the shabby secret of the welfare statists' tirades against gold. Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statists' antagonism toward the gold standard.*"

It is of course exceedingly ironic that Mr. Greenspan now presides over this inequitable monetary system of fiat dollars and unlimited credit expansion that he so severely rebuked four decades ago. Nevertheless, we have to ask ourselves, has anything changed? Have the welfare statists completely transformed themselves so that they now fight for the protection of everyone's property rights and the restoration of a sound Constitutional dollar?

No, of course not. So the risk of government confiscation remains a real threat, and not just for one's gold. All assets are at risk. After all, why just stop with gold, which is hard to collect, as the 1933 experience shows. Why not go after some easy pickings, like 401k's and other tax deferred programs? Using one of FDR's speeches announcing the gold confiscation, the offending future 'Executive Order' might read something like the following:

"The continued avoidance of tax by subjects of the United States in various tax-deferred programs poses a grave threat to the peace, equal justice, and well-being of the United States; and appropriate measures must be taken immediately to protect the interests of our people. Therefore, pursuant to my authority as president, I hereby proclaim that such tax-deferred programs are prohibited, and that all assets within such programs be tendered within fourteen days to agents of the Government of the United States. All tax-deferred programs in banks or financial institutions have been frozen. All sales or purchases or movements of assets in those programs within the borders of the United States and its territories, and all transactions or movements of such assets across the border are hereby prohibited. Your possession of these proscribed assets and/or your maintenance of a bank or brokerage account to manage them in a tax deferred program is known to the Government from bank and brokerage company records."

So your retirement plan assets are confiscated. But what about compensation, you ask. After all, when the gold was confiscated, everyone got \$20.67 for each ounce taken. You could argue that even though that compensation was 69% worse than if the gold holders had been able to keep their gold for a few more months until the dollar was formally devalued, it was something.

What I would expect is that you will be compensated for your stolen assets with a special issue US Treasury bond denominated in dollars "*for compensation in the legal tender of the Government*", which is what FDR declared gold holders would receive for their gold. And as readers of these letters know, that 'legal tender' is becoming worth less and less as inflation worsens and as the dollar falls on the foreign exchange markets due in large part to the federal government's deteriorating financial position. What's just as worrying, as the dollar continues to plummet, the confiscation threat grows.

In contrast to the virtuous circle of the 1990's - when a strong dollar led to more people wanting to hold the dollar, which thereby became stronger - a vicious circle has begun. A weak dollar is leading to more people fleeing the dollar, which leads to a weaker dollar.

This vicious circle describes the 'flight from the dollar' stampede about which I have been writing and warning everyone reading these letters. And as the dollar declines, the federal government as a result will find it evermore difficult to finance the \$2 billion of debt that it needs every day without debasing the dollar further. It therefore won't be long I suspect before the assets sitting in tax-deferred programs become a target.

The federal government is running amok. Its finances are a shambles. The prospects for improving its situation are bleak, and sadly, rather than seeking guidance from the wisdom of the Framers of the Constitution and the sound money provisions written into it, the federal government is moving even further

away from the principles enshrined in that document. So it is unlikely that reason will prevail. Governments invariably rely upon force, not reason. And asset confiscation is just one example of that force.

Here is some thoughtful guidance offered by Jay Taylor [See: www.miningstocks.com].

"I am concerned about civil disorder when the existing system breaks down. I am also concerned about the prospects for our government's making gold ownership illegal when a very tiny minority of gold investors ends up with virtually all the national wealth following the devastation of the dollar. With countless trillions of dollars currently being "dropped from helicopters," the notion of a multi-thousand-dollar gold price might in the end prove to be far too conservative. But if that is true, then we are likely to face a very badly mucked-up world. If nothing else, once the U.S. becomes an insolvent nation, you may very well count on a "tax the rich" scheme that effectively confiscates most if not all your wealth.

I certainly do not suggest or condone breaking our country's laws. But as of this point in time, it is not illegal to transfer wealth out of the U.S. My warning is you might begin doing that now, if you are blessed to have more than you need. Just as we suggest owning gold stocks with projects in geographically diverse areas of the world makes sense, we think owning gold in diverse locations, especially outside of the U.S., may be a very prudent policy, especially given our precedent of criminalizing gold ownership during the 1930s."

I think Jay's comments also answer an important question. As noted on the page 1 table, some 21 million ounces of gold 'disappeared' in the three months before FDR's gold confiscation. To where did it disappear? Much of it went to safer countries with less political risk than that prevailing in the US. And I think therein lays the answer to the confiscation risk.

I have found in my years of experience, that if there is any one right answer to managing money, it is diversification. This policy enables you to spread risk. Thus, while you might want to keep some gold in the US, it would be prudent to keep the bulk of your holdings in countries that do not have a history of confiscating assets.

In this regard, you may want to consider my company, www.goldmoney.com as one possible alternative to help you achieve diversification. Not only is your gold stored in England and insured by Lloyd's of London, GoldMoney's online purchases are convenient - you don't have to travel to London to open an account. And perhaps most importantly, because of its exceptionally attractive rates, you get more gold for your money.

In conclusion, it is a wise policy to plan for the worst. But that is no reason to not continue hoping for the best. We can hope that an asset confiscation will not

occur, but given the federal government's sorry track record and the bleak prospects for the once almighty dollar, that hope is probably misguided.