

**GARY NORTH'S**

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*Matt. 6:33-34*

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## **THE DESTRUCTION OF THE "HARMONY OF INTERESTS"**

There should be little doubt in anyone's mind that since 1964, the economy of the United States has been increasingly unstable. Silver coins have disappeared into private hoards, prices of all goods and services have climbed spectacularly, a series of international monetary crises have shaken the foundations of world trade, the Federal budget has been in deficit for all but one year, 1969 -- which produced the 1969-70 recession -- welfare costs at every level of government have doubled or tripled, and a general sense of foreboding among the citizens of virtually every industrial nation has become a reality. During the last two years, and especially in the last year, the news media have begun to take notice of a number of these developments, indicating the widespread nature of the pessimism. No one seems to have any answers any more -- not in England, France, Italy (but I repeat myself), Israel, Latin America, the Soviet Union, or the United States. To my knowledge, there is only one Western nation in which the national leader seems to have self-confidence: Spain. And it should be mentioned that General Franco is a man of the 1930's, not the 1970's. The only other man still exercising undisputed power and who can command domestic and international respect (sadly) is Chairman Mao, and Mao is a man of the 1920's. The only person I am aware of who is prominent in national politics anywhere in the world and who really does have the basic economic answers is England's Enoch Powell, and he recently resigned from Parliament in disgust.

When populations are distrustful of governments and pessimistic about the future, they tend to purchase gold. This has been true for about as long as we have historical records that deal with such data. As civil governments depart from an impersonal administration of the law, becoming highly personal and arbitrary in their interventions into people's lives, then people seek a more impersonal, predictable, steady foundation for their economic hopes, and gold traditionally has been the primary source of men's confidence. The rapid rise in the price of gold in recent years is in part the result of an international quest for a less arbitrary port of safety.

Even more revealing is the spectacular rise in the price of gold coins. Had the demand for gold been merely industrial or ornamental -- a reasonable expectation, incidentally, given the artificially induced 1934 price of \$35/oz. that prevailed until 1971 -- the coins would not have experienced such a remarkable jump in price. The numismatic premiums above the bullion content would not have manifested themselves. When men seek coins, they want an easily



recognizable means of economic exchange -- barter, in the initial conversion to a new monetary system -- and they are willing to pay a premium to take possession of coins. This is one reason why the numismatic premium may very well remain high, in spite of the legalization of gold ownership for American citizens. The public's demand for gold is not "simply" industrial; it is numismatic. The question which some men are asking themselves is this: what form of gold is most easily exchanged today, and what form will be most easily (least expensively) exchanged in the future? Some entrepreneurs -- those who predict the economic future and plan for it -- have decided that gold coins are the answer, even in countries where citizens may legally own gold bullion.

Gold bullion has climbed from an artificial price of \$35/oz, to about \$170/oz. But a gold American double eagle (about a one ounce coin) has shot up from \$48 in 1970 to \$350 today, a better than 7 to 1 ratio. Gold British sovereigns (the size of a nickel, with a quarter of an ounce of gold) have done almost as well: from under \$10 in 1970 to \$60 today. Economic and political reality is reflected in these price changes, a reality that is bleak in the short run. Gold is the pessimist's asset.

Consider some of the implications of a gold-related investment, especially coins or bullion (where legal). The man who places his money in any particular asset presumably researches his decision. He invests capital that would otherwise have been put to other uses. A hoard of gold coins does not contribute much, if anything, to the domestic economy. It does not build factories, create jobs, increase productivity, or improve technology. It does not, therefore, obtain an interest payment; the owner of the hoard forfeits income. One of the signs of a growing economy is investment per capita in capital equipment. Gold hoards do nothing to increase this figure. Yet today the appreciation on a hoard of gold coins has outdistanced any other capital investment normally available to the small investor, except, of course, gold mining stocks. Why should this be true?

What is gold's primary function? Economists disagree here, precisely because of opposing assessments of the nature of man and society. Gold's most important function, Prof. Ludwig von Mises argued for a lifetime, is to facilitate economic exchange. The more the political authorities interfere with the mechanism of voluntary exchange, the more important gold becomes. Gold, in other words, is the citizen's foremost economic defense against statist measures. Gold acts as a restraining barrier against the expansion of State power. Gold becomes an increasingly productive personal asset as the State expands into the operations of the aggregate market. Were it not for the vast increase in State power today, gold would be valued primarily as an industrial commodity -- an important one, by the way -- but not as a monetary hedge against price inflation.

What we see before us, on an international scale, is the destruction of free markets by the policies of deficit financing and monetary expansion. These are government policies. Men who are future-oriented, and who otherwise would be devoting their ingenuity, capital, and hopes to the market's more conventional operations, are now forced to concentrate on personal survival in a time of economic disruption. Instead of fostering aggregate economic growth, they invest in assets that promise at least some hope for a time of turmoil. Those people who are so crucial to any economy, the risk-takers, responsibility-bearers, the



economic forecasters who try to subdue an uncertain future in the hope of making a profit, are increasingly side-tracked. Their talents are progressively removed from the industrial, technological, and commercial marketplaces, as their capital assets, including entrepreneurship, are consumed in the quest for a haven of relative safety outside of the conventional marketplace. As far as today's economy is concerned, the gold hoarder is a drop-out.

From a Christian point of view, should dropping out in this way be seen as an act of irresponsibility? The Christian ethic from Moses to the apostles to Thomas Aquinas to the Puritans has always been concerned with the public's good, self-sacrifice, and charity. Christians are not supposed to be drop-outs. Yet in today's world, personal profit can very often be enhanced by an investment strategy that appears to be drop-out oriented. What should be our attitude towards this kind of dropping out?

From the days of Adam Smith, free market advocates have argued that market processes have a strong tendency to equate public benefits and private profits. Smith adopted the argument of Mandeville's Fable of the Bees, that private vices are even converted into public benefits -- vices like greed, for example. There should be a harmony of interests between public and private spheres. But if private coin hoarding is profitable in comparison to capital investments that directly and immediately benefit the public, this ancient free market law seems to have been abrogated in modern times. Can we place any confidence in the law of the harmony of interests?

The answer is simple: the law of the harmony of interests is being violated, not abrogated. The assumption made by the classical economists was that a free market would be in operation, creating private incentives for individuals to meet public needs. What we have been witnessing throughout our lifetimes, and especially during the last decade, is a progressive destruction of that public-private harmony; the drastic expansion of State power has broken the link by breaking the operations of the market. The Federal government, through its monopoly of money creation (shared, of course, with the quasi-governmental banking system), has disrupted the very heart of economic exchange, the money supply. This intervention now threatens the very fabric of Western civilization, for the philosophy of radical interventionism is now the foundation of all industrial nations.

Private citizens all over the world are therefore taking rational action when they try to escape from the Establishment economic system through inflation-resisting investment programs. "Gold bugs" are the creation of the civil governments. Men do not pile up huge hoards of money in times of economic stability, personal responsibility, and limited government. Gold mania is a response to a specific set of inputs, all of them statist in origin. Misers are considered odd-balls, foolish, economically irrational in stable times. When significant portions of the world's population start acting like Scrooge McDuck, there has to be a reason.

Nevertheless, God's laws are not broken by States. They are only violated temporarily. There is a long-run harmony of men's interests, public and private. It will reassert itself in time. Short-run economic analysis is not sufficient. When critics of gold sing the song about gold's being a poor way to invest your



funds because it doesn't earn 8%, and then the State inflates the currency so that prices go up at 10%, and gold doubles in value, the gold bugs of the world refuse to listen to the self-proclaimed, mutually certified monetary experts. What the prudent man thinks about today is the long run, and in the long run, men must protect themselves against price inflation.

A man's first task culturally and economically is to protect his family. "But if any provide not for his own, and specially for those of his own house, he hath denied the faith, and is worse than an infidel" (I Tim. 5:8). Second, there is the question of Christian reconstruction after this pragmatic culture gets a good shot of future shock. Who will have the capital to rebuild his own future? Who will have extra funds to invest in his fellows' projects? Who will be in an economic position to use his leisure for productive social and cultural affairs? Who will be able to take positions of leadership in a community? The Christian who is able to weather the economic storms that appear to be on their way is a man who has taken care to consider the future. He is the one who best contributes to the long-run expansion of the Kingdom of God.

Therefore, in the short run, certain investments may not be beneficial to the prevailing economic order, but in the long run, the harmony of economic interests will be best preserved by just such investments today. The culture can do without some skills, hopes, and savings of Christians if in the future it will be able to reap the benefits of careful planning and principled investment on the part of the Christian community.

The early Christians dropped out of Jerusalem just before the Roman soldiers destroyed the city. They had been told to do so (Lk. 21:20-24). They dropped out in order to rebuild later. The same principle holds today. The moral law will have its day in court . . . from the bench. Civil governments that wage war against the free market are creating their own graves. They are alienating and debilitating the people who preserve society. When Atlas shrugs, or is bankrupted, or is locked up in jail, who will provide the operating capital? When America is socialist, where will the Soviets buy their wheat at bargain prices? The moral order supporting the free market, which in turn supports Atlas, is being eroded temporarily. It is our responsibility to avoid being eroded with it, both personally and financially.

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