Written by Luis Miguel on August 19, 2019
Published in the August 19, 2019 issue of the New American magazine. Vol. 35, No. 16

Sound Money The Bedrock of Liberty

On July 22, President Trump announced a deal with Democrats that will suspend the debt limit until the end of July 2021 — well after the 2020 election.

Each of the two major parties got something they wanted from the deal. A $50 billion hike in U.S. discretionary spending will go toward Democrats' welfare programs and Republicans' defense programs. Moreover, each side gets to save face with the public by avoiding a government shutdown, across-the-board spending cuts, and the messy job of dealing with a potential federal debt default as the government runs out of cash.

While the media focuses on the "victory for pragmatism" (though not for fiscal responsibility), no attention is given to why the U.S. debt has spiraled out of control in the first place.

In 1913, when America was nearly a century-and-a-half old and had seen numerous wars and crises, the national debt was $3 billion. Little more than 100 years later, the debt stands at $22 trillion.

What happened to cause this explosion of U.S. debt? It was the establishment of the Federal Reserve in 1913.

The Fed monetizes the debt, creating money out of thin air. This not only makes it easier for the government to spend outside its means, but also hurts the economy by imposing a hidden tax in the form of inflation.

American money today is anything but sound. Our nation's future does not bode well if we remain on the current course. A return to sound money is necessary not only to protect our economic interests, but to safeguard liberty itself.

What Makes Money Sound?

"Sound money" is money that is not prone to sudden appreciation or deprecation. It is reliable and dependable, its value remaining steady in the long term.

At the foundation of sound money is the principle that money should not be artificially created, nor its value arbitrarily determined. Rather, it should be backed by a commodity of real value in the market, such as precious metals.

When people first began trading with one another, they initially did so through barter — exchanging goods in kind for other goods or services. But the impracticality of barter in a developed society is readily apparent. Societies rapidly began using money, experimenting with all manner of universally valued commodities as currency.

Cattle has served as money, for example. The problem with cattle, however, is that it is not divisible (if you divide it, you kill your money), and it must be fed.

In Colonial America, the people of Virginia, Maryland, and North Carolina used tobacco as currency. Among the many drawbacks of this system, however, was that tobacco would rot.

Salt has also been used as money. Unlike cattle, salt is easily divisible. And unlike tobacco, it can be stored without fears of rotting. But the drawback is that salt is easy to find — making it easy to inflate.

Because people needed a commodity that was durable, divisible, transportable, and scarce, gold and silver emerged as the preferred choices for money. Gold is scarce. It can be divided into bars and coins of different weights. Gold coins can be conveniently stored in a purse. And above all, gold will never spoil.

Gold and silver have stood the test of time and retained their desirability, making them ideal for use as coin that resists drastic appreciation and depreciation.

Although gold and silver discoveries affect the metals' prices in the short term, these shifts level out, making for long-term price stability.

That's why, when the free market is allowed to operate without government interference, people naturally choose gold and silver for their money.

The Founding Fathers on Fiat Money

There are three types of money:

Commodity Money. Commodity money is what it sounds like, a real commodity with market value that has been adopted as a medium of exchange. Gold and silver fall into this category.

Fiduciary Money. "Fiduciary" comes from the Latin word for "trust." Thus, fiduciary money, such as the U.S. gold certificates used from 1863 to 1933, has no inherent value, but can be exchanged for commodity money and thus has a value based on trust.

Fiat Money. "Fiat" in Latin refers to an edict or decree. Fiat money has no intrinsic value and cannot be exchanged for a commodity or fiduciary money. It becomes money by government mandate, just as the U.S. government has declared Federal Reserve notes "legal tender for all debts, public and private."

The United States has used each of these three forms of money at some point in its history, but the Founding Fathers were vocal about where their preferences lay.

America's Founders understood the advantages of gold and silver — as well as the dangers of fiat money.

In an 1813 letter, Thomas Jefferson wrote: "Specie [money in the form of coins] is the most perfect medium, because it will preserve its own level; because having intrinsic and universal value, it can never die in our hands."

He went on to warn that paper money has the potential of being abused by becoming unbacked fiat money.

"The trifling economy of paper, as a cheaper medium, or its convenience for transmission, weighs nothing in opposition to the advantages of the precious metals.… It is liable to be abused, has been, is, and forever will be abused, in every country in which it is permitted."

James Madison maintained that any paper money must be backed by gold: "The only adequate guarantee for the uniform and stable value of a paper currency is its convertibility into specie — the least fluctuating and the only universal currency."

George Washington, acknowledging that the Continental Congress and state governments issued paper money during the War for Independence, causing runaway inflation, wrote in a 1787 letter that the fledgling United States would be ill-advised to fall again into the same trap: "If in the pursuit of the means we should unfortunately stumble again on unfunded paper money or any similar species of fraud, we shall assuredly give a fatal stab to our national credit in its infancy. Paper money will invariably operate in the body of politics as spirit liquors on the human body."

Washington, Madison, Jefferson, and other early Americans were well-read in history. From the Roman Empire to the Byzantine Empire and the Spanish Habsburg Dynasty, currency devaluation and the debt it enabled have continually been the bane of civilizations.

The Founding Fathers also based their views on their own experiences in the War for Independence. During the war, both the Continental Congress and the states freely issued paper money.

These were, in effect, fiat currencies. The "Continentals" carried nothing more than a vague promise that they would be redeemed at an unspecified time in the future.

Although the surge of paper money initially brought prosperity and full employment, and was favored by the poor, it soon led to vast inflation and shortages of goods as governments attempted to control rising prices. Creditors ran from debtors like the plague to avoid payment with the depreciated money.

Of the situation, Washington observed that "a wagon load of money will scarcely purchase a wagon load of provisions."

All this is why the Framers specifically denied the power to emit paper money (called "bills of credit" in the Constitution) to the states by explicitly prohibiting it.

"No State shall … coin Money; emit Bills of Credit," (Art. I, S. 10).

The Constitution also denies the federal government the power of printing money by *not granting it*.

Proponents of paper money argue that the Constitution's lack of language explicitly prohibiting federal emission of bills of credit means the authority exists as an implied power.

But that was not the view of the Framers. George Mason admitted that striking out language allowing the federal government to print paper money was equivalent to prohibiting it.

As Alexander Hamilton explained in *The Federalist*, No. 84, specific prohibitions of government powers "are not only unnecessary in the proposed Constitution but would even be dangerous. They would contain various exceptions to powers which are not granted; and, on this very account, would afford a colorable pretext to claim more than were granted. For why declare that things shall not be done which there is no power to do."

In other words, explicitly stating what the federal government cannot do is dangerous because it can give the impression that the government possesses all powers not prohibited it.

The opposite is the case. As the 10th Amendment makes clear, "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

In short, the federal government has no powers save those explicitly granted in the Constitution. All others belong to the states (unless prohibited by the Constitution) and the people.

Photo credit: scanrail/iStock/GettyImagesPlus

This article appears in the August 19, 2019, issue of The New American.

What money powers *does* the Constitution grant the federal government?

Article 1, Section 8 states that Congress shall have power "to coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures."

Congress, then was charged with running the U.S. mint (where people would bring their gold and silver to have it stamped into coinage of a fixed size and purity), determining the value of foreign currencies, and making standards of measurement to facilitate transactions.

That is all the Constitution says the federal government may do. There's no mention of creating a national bank or confiscating citizens' gold.

If neither the federal government nor the states are authorized to print paper money, then to whom does that power belong? To the people.

Sound Money vs. Stable Money

While it may be a strange thought to a populace accustomed to fiat money, the creation of money is a right of the people and a function of the market.

Because money is a commodity, its value should be determined by the free market, not dictated by government. Thus, under a true sound money system, market action — not government — sets the price of gold and silver.

Detractors of specie, including Keynesian economists, who believe that governments should manipulate the money supply in order to boost the economy, put the focus not on achieving sound money, but on "stable money."

John Maynard Keynes was a British socialist whose ideas form the basis of much of today's mainstream economic theory.

Detractors argue that tying currency to gold makes it too volatile. The market is untrustworthy, they say. People will hoard their gold, causing deflation, panics, and recessions.

According to this crowd, the only way to achieve "stable" money is to take the power over it out of the hands of the market (and, thus, out of the hands of the people) and place it in the hands of a central bank.

Proponents of fiat currency say that putting government in charge of the money still gives the people control, since the government represents the popular will.

The problem, besides the loss of freedom and efficiency that results from the government usurpation of a market responsibility, is that the elected government is not really in charge at all. Like many central banks, America's Federal Reserve is an unelected, independent corporation whose inner policy deliberations are unaudited by the federal government.

Has this system achieved the "stability" so trumpeted by its proponents? Quite the opposite.

We still experience recessions (18 since the creation of the Federal Reserve, six since the United States fully abandoned the gold standard in 1971), panics, and deflation — the latter of which is supposed to be impossible in a stable money system.

And while the current program has failed to fulfill its promises, it *has fulfilled* the concerns of its critics, namely bringing about massive inflation. According to the Bureau of Labor Statistics, $1 of goods in 1776 cost roughly $1.14 in 1913 (the year the Federal Reserve Act was passed), making for an inflation rate of 13.79 percent over 137 years.

But a dollar's worth of goods in 1913 would be $25.87 today — 106 years later. Prices have gone up almost 2,500 percent since the Fed was established and the gold standard was undone.

Inflation will always occur under the fiat currency, central banking, and artificial expansion of the money supply favored by Keynes-inspired mainstream economists — because inflation is part of their program.

It is true of any commodity that if you increase the quantity, the value goes down. If something becomes scarce, its value goes up. Flooding the market with money, then, will bring down that money's worth — diluting the currency's purchasing power.

Under a free market, the money supply and economic output remain at a healthy equilibrium. Money is made when there's real demand for it, not when a central bank decides to inject more of it for political purposes.

The inflation that goes hand-in-hand with fiat money is subtle theft perpetrated largely against the poor and middle class.

Keynes himself wrote, "By a continuous process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens."

If in 1950 you had put off buying a $10,000 house and instead stashed the money in a piggy bank, you would have the unwelcome surprise of discovering that the same house costs more than $106,000 today. You wouldn't even be able to afford the down payment.

Even taking your money to the bank doesn't help. According to data from the Consumer Price Index, 99 percent of savings accounts' interest rates fail to keep up with inflation. Of course, taxes *will* keep pace with inflation.

In short, inflation is making us poorer.

The War on Sound Money

How did we get here? As FDR famously said, "In politics, nothing happens by accident. If it happens, you can bet it was planned that way."

It is the financial elite, predominantly international bankers, who have been doing the planning.

In his book *Tragedy and Hope*, Georgetown University Professor Carroll Quigley, who was a mentor to former President Bill Clinton and who was close to the international banking network, wrote: "The powers of financial capitalism had another far-reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole. This system was to be controlled in a feudalist fashion by the central banks of the world acting in concert by secret agreements arrived at in frequent private meetings and conferences."

Quigley termed this group of bankers an "international Anglophile network," described them as consisting of members of the British Roundtable movement of Alfred Milner and Cecil Rhodes (along with sister groups such as the Council on Foreign Relations in America).

The international bankers sought to bring about such a system because of the untold power and wealth it would bring them. Control the money and you control the people.

It was agents of financial titans such as John D. Rockefeller and J.P. Morgan who created the Federal Reserve — with help from Rothschild surrogates such as Jacob Schiff and Paul Warburg.

To get their way, the bankers dismantled American sound money piece by piece over the course of two centuries, using the bank panics of 1893 and 1907 — panics that, history shows us, were caused largely by the bankers themselves.

This culminated in the passage of the Federal Reserve Act in 1913, which created the country's central banking system.

It is the Federal Reserve that determines the value of our fiat money today, manipulating the amount of currency in circulation by changing interest rates, modifying reserve requirements, and conducting open market operations.

With the Fed in place to control America's money, the financial elite next had to sever money's ties to gold. The Great Depression gave them the perfect opportunity to do so.

One of the ways in which the international bankers got their way was by prohibiting citizens from owning gold.

During the Great Depression, FDR signed Executive Order 6102, which forced Americans to turn over most of their gold to the Federal Reserve (a policy not overturned until 1974).

The Fed, in turn, handed the nation's gold over to the U.S. Treasury following the Gold Reserve Act of 1934. Under this legislation, Roosevelt devalued the gold dollar by 40 percent, from $20.67 to $35 per troy ounce.

It was now illegal for regular citizens to own gold or gold certificates (it should be noted that silver certificates continued in circulation after 1933, but these were effectively killed in 1968 when the Lyndon Johnson administration ended redemption in silver).

With commodity and fiduciary money gone, Americans were left with fiat money in the form of Federal Reserve notes.

Notably, the first Federal Reserve notes issued in 1914 were "Redeemable in gold on demand at the United States Treasury, or in gold or lawful money at any Federal Reserve bank."

But after Roosevelt took the country off the gold standard in 1933, Federal Reserve notes bore a different phrase. A 1934 note read, "This note is legal tender for all debts public and private, and is redeemable in lawful money at the United States Treasury, or at any Federal Reserve Bank."

Of course, that prompts the question: What is "lawful money?"

In 1974, the Ninth Circuit Court of Appeals heard *Milam v. U.S.*, which involved a man who was given Federal Reserve notes when he attempted to redeem his Federal Reserve notes for "lawful money." The man, Milam, refused the notes, claiming "lawful money" must be gold or silver.

The court ultimately shot down Milam's claim, arguing the Supreme Court had settled the matter a century before in the *Legal Tender Cases*.

According to the Federal Reserve's own website, "lawful money" is a broad term for the various currencies (demand notes and United States notes) that were once in circulation.

In the absence of a commodity-backed currency, the Fed is merely allowing people to exchange one valueless piece of paper for another.

Not surprisingly, the "lawful money language" was dropped. Today's Federal Reserve notes simply read, "This note is legal tender for all debts, public and private."

It should be noted that, prior to 1934, Federal Reserve notes did not carry the obligation to be held as legal tender for "all debts, public and private." If an individual or business in a private sector transaction wanted to refuse a Federal Reserve note as payment, they had that right. Americans today are obligated by the federal government to accept the Fed's paper money.

Richard Nixon finished off what was left of sound money in America by canceling the direct convertibility of the dollar to gold in 1971, rendering the gold standard meaningless.

Where do we go from here?

Hope From the White House

There are some signs that the Trump administration understands the importance of sound money and is willing to clean up the current system.

President Trump surprised the public with his announcement on July 2 that he will nominate Judy Shelton, a longtime Federal Reserve critic and gold standard advocate, to fill one of two open seats on the Fed's board.

Shelton currently serves as U.S. executive director at the European Bank for Reconstruction and Development, a position to which she was confirmed by the U.S. Senate in March 2018 after being nominated by President Trump.

Because Shelton has passed a Senate confirmation process and background check before, she may have a better chance of making it onto the Federal Reserve Board than the president's previous two picks: conservative analyst Stephen Moore and businessman Herman Cain — both of whose names were withdrawn due to lack of Senate support.

Like Cain and Moore, Shelton is a supporter of the gold standard.

Shelton praised gold while comparing it to cryptocurrencies in a 2018 piece published by the Cato Institute. "If the appeal of cryptocurrencies is their capacity to provide a common currency, and to maintain a uniform value for every issued unit, we need only consult historical experience to ascertain that these same qualities were achieved through the classical international gold standard," Shelton wrote.

"In proposing a new international monetary system linked in some way to gold, America has an opportunity to secure continued prominence in global monetary affairs."

Shelton has indicated that she would be in favor of a Bretton Woods-style conference (referring to the 1944 United Nations gathering to develop a post-World War II international monetary system) with the purpose of establishing a "convertible, gold-backed bond" as a "neutral reference point" for currencies.

Shelton blames the Federal Reserve for worsening the 2008 financial crisis. "No other government institution had more influence over the creation of money and credit in the lead-up to the devastating 2008 global meltdown," she wrote in a *Wall Street Journal* op-ed. "And the Fed's response to the meltdown may have exacerbated the damage by lowering the incentive for banks to fund private-sector growth."

In addition, Shelton has expressed skepticism of central banks and spoken of the dangers of politicizing the Fed. "What concerns me is that central banks around the world, the ECB, the Bank of Japan are now buying corporate assets," she told *Fortune* in 2016. "I'm wondering how far away we are from the Fed thinking it needs to branch out and buy corporate assets. Will these corporate assets be those from firms that are politically connected?"

But some of Shelton's views raise red flags.

The Trump advisor believes in near-zero interest rates. But should the Fed decide how high or low interest rates are any more than it should decide whether to expand or contract the money supply?

Neither the government nor a corporate entity such as the Federal Reserve should wield this power. Interest rates — the cost of borrowing money — should be decided by the free market, just as other costs are.

When money and the economy are sound, one would expect low interest rates. But artificially lowering interest rates causes malinvestments, leading to bubbles that eventually burst.

Even more concerning is Shelton's position on American sovereignty.

In 2000, Shelton penned a *Wall Street Journal* op-ed entitled "North America Doesn't Need Borders," in which she called for "open borders" between the United States and Mexico.

Referring to then-Mexican President Vicente Fox's vision of a "greater movement of people," Shelton wrote: "His talk of open borders is deeply controversial in the U.S., though what he is really selling is the fulfillment of open markets. His proposal to combine resources across borders may strike some as too imaginative in its scope. But it is, in fact, steeped in pragmatism."

The elimination of national boundaries means the elimination of nationhood, which is worse than unsound money.

As Fox candidly stated back in 2002: "Eventually, our long-range objective is to establish with the United States, but also with Canada, our other regional partner, an ensemble of connections and institutions similar to those created by the European Union."

Whether or not Shelton is an agent for positive change, her nomination may be a signal by President Trump, himself a Fed critic, that he is willing to challenge fiscal convention.

The Return to Sound Money

The president is far from alone in his skepticism of the Fed. There is a growing movement to rein in the

Fed by auditing it. The idea gained widespread support after Ron Paul backed it while in Congress and during his presidential bids.

In January of this year, Congressman Thomas Massie (R-Ky.) reintroduced a bill that would require the comptroller general to conduct a full examination of the Board of Governors of the Federal Reserve System and the Federal Reserve banks.

Others aren't waiting around for the federal government to solve the problem.

In line with the Constitution's Article I provision that states shall not "make any Thing but gold and silver Coin a Tender in Payment of Debts," Utah passed the Specie Legal Tender Act in 2011.

The legislation recognizes silver and gold as legal tender within the state. Among other provisions, this allows Utahans to transact in gold and silver coins without paying capital gains tax. It also means the state itself can pay off debts in gold and silver.

Since Utah passed its legal tender law, a number of states have followed suit with similar legislation, including Wyoming, Oklahoma, and Louisiana.

Other thinkers have advocated going even further to erode the centralized control over money by the international bankers.

Economist Milton Friedman told Bill Still, producer of the film *The Money Masters*, "If you end the Fed and do nothing about fractional-reserve lending, you've done nothing."

Fractional-reserve banking is the practice that allows banks to keep only a portion of deposits in reserve while lending and charging interest on the rest.

Friedman's position is understandable. The debt-based monetary system, which allows banks to create money through bookkeeping when they make loans, has continually been a source of power for those who seek to undermine American sovereignty and our constitutional republic.

Whether as sweeping a change as an end to fractional-reserve lending would be possible or desirable, one thing is clear: A drastic shake-up is needed to uproot the entrenched influence of the "Money Masters" and restore power to its rightful heirs — the American people.

Photo credit: scanrail/iStock/GettyImagesPlus

Written by Luis Miguel on August 19, 2019
Published in the August 19, 2019 issue of the New American magazine. Vol. 35, No. 16