



Written by [Bob Adelman](#) on September 15, 2011

Competing Currencies Would Expand Freedom While Limiting Government

One of the expert witnesses [testifying](#) before Ron Paul's Domestic Monetary Policy and Technology Subcommittee on Tuesday was Dr. Lawrence H. White, professor of Economics at George Mason University. [His written testimony](#) submitted to the committee reinforced the case for Paul's bill, HR 1098, the "Free Competition in Currency Act of 2011" by outlining its benefits in introducing freedom of choice into the realm of currencies.



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White compared competition in currencies to competition in package delivery services among Federal Express, United Parcel Service, and the U.S. Postal Service. That competition has lowered costs, accelerated delivery, increased reliability, and in general allowed better overall services to be provided for their customers. It also weeds out weak competition and rewards the most successful. He went further to explain that financial consumers today rely on banks to provide other services such as checking accounts, credit cards, and travelers checks — why not choices in currency? He noted, "Although Federal Reserve Notes ... should of course be protected from counterfeiting, there is no good case for them to enjoy monopoly privileges in the market for currency."

Such competition, if the bill were enacted into law, would not replace Federal Reserve Notes from the marketplace, but it would likely force the Fed to refrain from its continual practice of devaluing its currency through inflation, in order to compete with sounder currencies that no doubt would appear on the market. White noted that "the dollar already faces ... international competition from gold, silver, the Euro, the Swiss Franc, and other stores of value. HR 1098 would allow [similar] domestic competition between the Federal Reserve Note and other media of exchange."

A recent attempt to provide just such a competitive currency involved Bernard von NotHaus, who [created](#) a private mint to offer "American Liberty Currency" in competition with Federal Reserve notes. This was a silver-backed currency which, according to White, "would provide a useful alternative to the



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Federal Reserve's product. Then, if you don't like the way the federal government manages (or mismanages) the value of the fiat dollar [unbacked by a precious commodity], you aren't limited to complaining. You can switch to the private alternative." In periods of high price inflation, citizens would "find a very practical advantage in a silver-backed alternative to the free-falling Federal Reserve note."

HR 1098 would remove the "legal tender" status currently enjoyed by Federal Reserve notes, but that would, according to White, have very limited impact: "New forms of currency will not be introduced into the market any faster than the public is prepared to accept them. The longer-run consequence will be to enable a more level playing field for competition in the issue of currency. Besides, the term "legal tender" does not mean that Federal Reserve notes are the only way to pay. Paper checks, debit-card transfers, direct deposits, wire transfers, travelers' checks, and cashier's checks may be accepted. In fact, White pointed out that less than 20 percent of consumer payments are actually made using Federal Reserve notes, while almost no business-to-business transactions or financial payments involve the use of Federal Reserve notes: "The great bulk of payments are electronic transfers or non-legal tender bank balances."

Furthermore, "legal tender" does not mean that a vendor must accept Federal Reserve notes at point of sale. Large-denomination bills may be refused ("We cannot accept bills larger than \$20" signs are often posted in convenience stores), vending machines don't accept pennies, and millions of one-dollar coins are sitting in Federal Reserve bank vaults because no one wants to use them.

White made another important point. Since October 28, 1977, gold clauses in financial contracts have been legal and are enforceable at law. What this means is that a contract containing a gold clause allows parties to a transaction to require payment in gold or in an amount of dollars indexed to the price of gold. As he pointed out in his testimony, "Section 2 [of Paul's proposed bill] essentially broadens the gold-clause exception to allow contractual obligations to specify payment in, or indexed to, any medium that is an alternative to...Federal Reserve notes." He explained,

[The bill] opens the competition not just to private checks and banknotes, but also to gold units, silver units, units of foreign currency, Consumer Price Index bundles, wholesale commodity bundles, Bitcoins, and whatever else a lender and borrower might agree upon.

If they prefer a unit for denominating their debt contract other than the Fed or Treasury dollar, they would be free to write a specifically enforceable contract in the unit of their choice.

In referring again to the American Liberty Currency case, White pointed out the enormous injustice suffered by von NotHaus "for the victimless crime of producing one-ounce silver coins of original design." Von NotHaus was charged with various crimes, including counterfeiting, for circulating coinage in competition with U.S. currency, and he was found guilty. The Justice Department considers him a terrorist, as [reported by Wikipedia](#):

Attorney for the [Western District of North Carolina](#), Anne M. Tompkins, described the Liberty Dollar as "a unique form of domestic terrorism" that is trying "to undermine the legitimate currency of this country." The Justice Department press release quotes her as saying: "While these forms of anti-government activities do not involve violence, they are every bit as insidious and represent a clear and present danger to the economic stability of this country."

Of course, the alternative money, such as the Liberty Dollar, does not "undermine" U.S. currency; it merely provides a tool to show how much the Fed has undermined the currency through creating money. Paul's bill would repeal the law under which von NotHaus was prosecuted where, as noted by



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Seth Lipsky, [writing](#) in the *Wall Street Journal*, “it is not clear that there is a constitutional basis or a logic for prohibiting individuals from making and selling pieces of gold and silver and using them, on a voluntary basis, as money — i.e., to ‘compete with’ the official coinage of the U.S.” Lipsky added: “Certainly it’s a loser’s game to suppress private money that is sound in order to protect government-issued money that is unsound.”

White concluded his testimony favoring HR 1098:

Competition in general creates incentives to provide a high quality product by taking business away from low-quality producers. Competition in currency is a practical idea that offers sizable benefits to the public when the quality of the incumbent currency becomes doubtful. In particular, US citizens would benefit from freedom of choice among monetary alternatives though the removal of current legal restrictions and obstacles against currencies that could compete with Federal Reserve Notes and US Treasury coins. HR 1098 would give currency competition a chance.

(See also a related article, “[Ron Paul Would Restore Sound Money by Legalizing Competing Currencies](#),” posted at JBS.org on September 15, 2011.)

Photo of a Liberty Dollar: AP Images



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