WHAT IS MONEY?

Money is simply a medium of exchange. As a store of value, money may be traded for goods or services, which allows for commerce to flourish. A person buys money when he sells his goods or services; and he sells money when he buys goods or services.

Once money is universally accepted, it spurs commerce, allows for a wide diversification of labor, stimulates productivity, fills the need for a measure of value, and advances civilization. Without money, people must resort to the impreciseness of bartering, which hampers commerce.

Sound money characteristics

History clearly indicates that good money has these characteristics: (1) divisibility, (2) transportability, (3) durability, and (4) relative scarcity. Gold and silver both fit these qualifications. In fact, gold has been employed as money for at least 3,000 years. Money should be a commodity valued for its own properties aside from its use as money, unlike the paper money now in use.

Types of money

There are three types of money:

Commodity

Commodity money is sound money with the four characteristics described above, which includes gold and silver. Commodity money serves to ensure personal freedom by minimizing arbitrary increases in the money supply by the government.

Fiduciary

Fiduciary money is a substitute for commodity money, including Bank or Treasury notes, token coinage, checking accounts, etc. Its value will be equivalent to the commodity money it represents if everyone has complete confidence that the substitute is fully and easily redeemable for the real thing. Fiduciary money combines the soundness of commodity money with the convenience of paper currency. Even electronic transactions can be backed by commodity money.

Fiat

Fiat money is essentially a valueless substance, such as a small piece of paper, which does not serve as a substitute for commodity money. It's like a token one gets at an arcade or a subway. Made legal tender by law or fiat, it is redeemable neither in a valuable commodity nor in fiduciary money. When a currency's value is diluted by issuing more paper than there are tangible assets backing it, wealth is transferred away from one segment of society to another. Typically, the poor and middle class are the ones who end up short. Fiat money empowers the government at the expense of personal freedom and prosperity by permitting inflation of the money supply which always leads to higher prices. Fiat money is what we all have now in the form of the Federal Reserve Notes we all carry and consider to be "cash."

WHAT DOES THE CONSTITUTION SAY ABOUT MONEY?

Regarding money, the Constitution grants the following powers to Congress in Article I, Section 8:
"To coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures; To provide for the punishment of counterfeiting the securities and current coin of the United States."

The founders intended "to coin money" to mean taking precious metal and stamping it into coinage for use as a medium of exchange.

James Madison explains further:

By "regulate the value thereof, and of foreign coin," power was granted to Congress to create what James Madison explained was "uniformity in the value" of both domestic and foreign coin. The founders sought to prevent disputes about the value of domestic and foreign coinage among the states, and by the states with foreign nations, so they gave power to Congress to keep this from occurring.

The Constitution lists no grant of power to Congress to print paper money or emit "bills of credit," the term for paper money in common use at the time. And if no such power was granted, Congress has no authority to engage in the process — or to delegate it to any central bank including the Federal Reserve.

Counterfeiting

As for the constitutional grant of power to punish counterfeiters of both "the securities and current coin of the United States," the founders intended that the same governmental unit possessing power to insure uniformity in the value of the coin of the United States would also have the power to punish anyone who counterfeits it. Note that there was no power given to punish counterfeiters of U.S. paper money or bills of credit, since the Constitution does not authorize U.S. paper money or bills of credit.

While Article I, Section 8 granted specific powers to the federal government, Article I, Section 10 lists restrictions on state power. These restrictions were freely accepted by the delegates. Yet they agreed to several prohibitions including:
"No State shall ... coin money; emit bills of credit; make anything but gold or silver a tender in payment of debts...."

Thus, the Constitution clearly states that the only permissible legal tender is gold and silver money.

WHAT IS INFLATION?

Inflation is an increase in the amount of currency in circulation, resulting in a relatively sharp and sudden fall in its value and a general rise in prices.

Value Stolen

During inflation, the value of money ends up in the possession of whoever does the inflating. The counterfeiter is the simplest example of an inflator at work. If he produces some good-looking bills, he can "spend" them and walk away with someone else's goods or services for the cost of paper, ink, and some time on a printing press. He has traded essentially worthless paper for valuable goods.

The previous owner of the goods or the provider of the services is left holding the counterfeit bills. If he fails to realize that they're counterfeit, he will pass them on in some other transaction. In virtually all cases, the fact that the bills are illegitimate will eventually be discovered and someone will be defrauded.

If the counterfeit currency is not discovered to be bogus and the counterfeiter continues to introduce quantities of it into the system, then all holders of currency are defrauded. Inflation, in a very real sense, steals from those who hold money. When practiced by governments, inflation is a hidden tax on all holders of money including all deposits and investments denominated in the unit of currency being inflated.

Inflation as a Hidden Tax

Properly and simply defined, taxation is the taking of the wealth of the people by government. Inflation fits that definition exactly, just as surely as does an income tax, a sales tax, or any other kind of tax. Therefore, anyone figuring his tax bill must add amounts taken not only via income tax, corporation tax, excise tax, and others, but also the hidden tax of inflation.

How the Federal Reserve Inflates

Simply put, the Federal Reserve creates currency with a simple bookkeeping entry and then purchases government securities (Treasury bills, bonds, or notes) on which it then collects interest. This newly created currency expands the money supply, which constitutes inflation of the money supply.

Inflation is a tactic turned to by governments in debt, a hidden way of forcing the people to pay for programs they would not allow if direct taxation were demanded of them.

WHAT IS THE FEDERAL RESERVE?

Congress established the Federal Reserve on December 22, 1913, to control the U.S. money supply and interest rates.

The Fed is not a federal agency and not a private corporation, but rather a hybrid of the two. This central bank is the third under the U.S. Constitution. The previous two were rejected amidst controversies over their artificial inflation of the money supply, abandonment of sound money, and lack of constitutional authorization.

No Oversight

No branch of the federal government owns any portion of the Fed, and there is no official oversight of the Fed from Congress or any government entity, even though the Fed claims otherwise. It alone is responsible for controlling the money supply and has special powers to invoke extraordinary actions during times of "economic crisis." In essence, the Fed can manipulate the entire economy by creating inflation or deflation, recession or boom, and sending the stock market up or down at whim.

The Fed's website suggests that its duties fall into four general areas: conducting the nation's monetary policy; supervising and regulating banking institutions; maintaining the stability of the financial system; and providing financial services to depository institutions, the U.S. government, and foreign official institutions.

Mismanagement

Yet, since the establishment of the Federal Reserve, the U.S. dollar has lost over 95% of its purchasing power while the Fed maintains a monopoly over the issuance of bank notes or cash. The temptation to issue more paper money than can be redeemed by the issuing agency has proven irresistible. This inflationary policy produces predictable results: people are defrauded, commerce slows, confidence in the credit of the U.S. suffers, and bankers, merchants, and their allies in politics become wealthy.

Powerful banking interests like to blame their failures on deregulation or "free banking," even though competition among banks would lead to a healthier marketplace. Honest banks would remain in business; fraudulent banks would fail; and bank customers would have learned a great deal about honest banking, honest bankers, and honest money. The nation would be spared future agony because of the awareness of the people and free banking.

DOES THE FREE MARKET WORK?

It does when it's tried. But America does not now have a truly free market and has not for a long time. The economy has been harmed by excessive government spending, debt, taxation, and regulation. It has also been harmed by the creation of money out of thin air by the Federal Reserve. Yet the problem is being blamed on the free market. And the solution that is being offered by Congress is to spend more, borrow more, tax more, regulate more, and create more money out of thin air. Never mind that doing more of what caused the problem can only make the problem worse!

Common sense demonstrates that the economy cannot be moved out of recession or depression with increased spending. Children are taught that a penny saved is a penny earned via a trusty Piggy Bank. Responsible parents know that they cannot provide for themselves and their families through endless borrowing. They have learned to live within their means and save, for living above their means leads to painful decisions.

It's no different with the government, except that the government can (and does) finance its debts by borrowing money from the Federal Reserve. The Fed, in turn, creates the money out of thin air. The Fed also pumps newly created money into the economy through the banking system by artificially lowering interest rates.

Children are taught that money does not grow on trees. But the Fed treats money as if it does. It expands the amount of money in the economy claiming that the additional money will jump-start the economy. The problem is that expanding the money supply (the true definition of inflation) devalues the money already in circulation, causing prices to rise. *Monopoly* players see this firsthand in the phenomenon of the rapid increase in the value of properties when they have more money to spend.

But inflation is only part of the problem. Fed manipulation of interest rates below what the market otherwise would dictate has encouraged bad loans and malinvestments that later provided the "rationale" for government bailouts in late 2008. So too has the Community Reinvestment Act, which has effectively compelled banks to make sub-prime loans to people who couldn't afford it.

But government bailouts will only make the problem worse, since the money for the bailouts will come out of the pockets of the American taxpayers one way or another. Moreover, government bailouts reward the recipients for their bad business decisions and spending habits and encourage more of the same.

The *real* way to help the economy is to slash government spending, reduce debt, restore sound money, and unfetter the market from big government regulation. Without the economic drain and the malinvestment now caused by government intervention, Americans would be better able and would have a greater incentive to save, with the savings fueling future economic growth.