

from

Was Grandpa Really a Moron?
Critical Inquiries for a New American Century

by

Peter E. Hendrickson

A Few Observations About Money



Literary Lesson On Monetary Truths

I took C. S. Lewis's classic, 'Out Of The Silent Planet' along for a re-read during my recent vacation. Upon being reminded of the fact that the villains in the story were motivated by the discovery that the alien world they had found possessed gold in plentiful and relatively unguarded supply, I found myself reflecting on how, despite the hype and contrivances of its creators and beneficiaries, the utterly fictional and fraudulent "value" ascribed to fiat currency never really fools anyone outside its own artificial context.

Can you imagine anyone in the circumstance of Lewis's venal explorers being similarly excited by finding a cache of some alien state's paper money? Or even any paper money other than the one currently being accepted in the market in which they wish to trade? Had these two come across a room full of, say, 1980's Nicaraguan Cordobas, or 1920's German Reichsmarks, they would have closed the door and moved on without a second thought or glance back. Had they exhibited

Was Grandpa Really a Moron?

any excitement at such a find, not one of Lewis's readers would have bought it.

More to the immediate point for American readers (and others in the world induced to accept Federal Reserve notes), had Lewis's villains come across a room full of revolutionary American "Continental", or United States "greenbacks", they would have been similarly uninterested in what would be useful as nothing more than kindling or wallpaper. Even if they had found a great cache of present-day paper "dollars", they would have had to ask each other, "Are these still worth anything?"

Lewis, like all authors of similar tales, knew the transcendent truth about such matters. We need to keep that truth in mind ourselves.

Your Cash Ain't Nothin' But Trash, But Gold Is Always As Good As... Well, Gold

During a recent conversation with a friend, I became aware that the systematic and deliberate disparagement of real money (gold) routinely conducted in an effort to foster tolerance of the state's paper version has left many Americans without a clear understanding of the immutability of the value of gold. Here is what needs to be clearly comprehended in this regard: Gold NEVER loses its value, even if its paper "dollar" price declines!

If you buy an ounce of gold for, say, 900 paper "dollars", and later can get only 450 paper "dollars" for that ounce, this is NOT because the gold has lost value [purchasing power]. It is because the paper "dollars" have increased in value. That is, the purchasing power of the 900 paper "dollars" traded for the gold ounce in the first place is now achieved with only 450 such "dollars". The value of the gold has not changed at all.

YOU CANNOT LOSE VALUE FROM AN INVESTMENT IN GOLD,
NO MATTER WHAT HAPPENS TO ITS PAPER "DOLLAR" PRICE.

When it takes 900 paper "dollars" to buy an ounce of gold, it is because at that point 900 paper "dollars" can buy 'x' goods and services, the same purchasing power as the ounce of gold. If the price of the gold ounce declines to 450 paper "dollars", it reflects the fact that the paper "dollars" have now increased in value to the point at which 450 such "dollars" can now buy the same 'x' that required 900 at the earlier time. The gold ounce can still do the same.

The purchasing power of the gold hasn't changed, but the purchasing power of the paper has, so the 450 paper "dollars" for which the gold can be traded now have the same purchasing power that was possessed by the original 900. Whatever the number of paper "dollars" for which the gold trades AT ANY TIME, they will still represent the same purchasing power in your pocket as whatever was the number with which you bought the gold in the first place.

Of course, the paper "dollars" are virtually certain to NOT regain their relative value, and, even if subject to temporary fluctuations, certainly will not do so over the course of even a relatively brief passage of time.

For instance, while the ounce of gold your grandfather acquired in 1900 will still buy today what it would then (more, actually, due to the effect of productivity gains, all of which adhere to hard money, the paper "dollar" gramps also set aside that year now needs the help of 113.13 of its fellows to buy what it once could handle by itself (as of 2006, using an "unskilled labor rate" computation-- the comparison best insulated from improper productivity and quality-improvement skewing of such calculations, in my view).

THE BOTTOM LINE IS SIMPLE: HOLDING PAPER "DOLLARS" IS
A FOOL'S GAME, WHILE HOLDING GOLD IS FOOLPROOF.

Was Grandpa Really a Moron?

(Needless to say, more gold goes into circulation periodically, as it is discovered and mined. However, unlike paper trash, the production of gold-- or silver-- is invariably a consequence of a corresponding expenditure of capital and labor. Thus, every ounce introduced into circulation acquires and represents the inherent value of that expenditure, as well as being itself a durable-- indeed, near permanent-- capital asset added to the economy at the same time, making such increases in supply non-inflationary.)



A German of the 1920s burning hyper-inflated Reichsmarks (the "federal reserve notes" of that time and place) to heat her home.

Thomas Paine on Paper Money

"I remember a German farmer expressing as much in a few words as the whole subject requires; *"money is money, and paper is paper."*

"All the invention of man cannot make them otherwise. The alchemist may cease his labors, and the hunter after the philosopher's stone go to rest, if paper can be metamorphosed

into gold and silver, or made to answer the same purpose in all cases.

“Gold and silver are the emissions of nature: paper is the emission of art. The value of gold and silver is ascertained by the quantity which nature has made in the earth. We cannot make that quantity more or less than it is, and therefore the value being dependent upon the quantity, depends not on man. Man has no share in making gold or silver; all that his labors and ingenuity can accomplish is, to collect it from the mine, refine it for use and give it an impression, or stamp it into coin.

“Its being stamped into coin adds considerably to its convenience but nothing to its value. It has then no more value than it had before. Its value is not in the impression but in itself. Take away the impression and still the same value remains. Alter it as you will, or expose it to any misfortune that can happen, still the value is not diminished. It has a capacity to resist the accidents that destroy other things. It has, therefore, all the requisite qualities that money can have, and is a fit material to make money of — and nothing which has not all those properties can be fit for the purpose of money.

“Paper, considered as a material whereof to make money, has none of the requisite qualities in it. It is too plentiful, and too easily come at. It can be had anywhere, and for a trifle.

“There are two ways in which I shall consider paper.

“The only proper use for paper, in the room of money, is to write promissory notes and obligations of payment in specie upon. A piece of paper, thus written and signed, is worth the sum it is given for, if the person who gives it is able to pay it, because in this case, the law will oblige him. But if he is worth nothing, the paper note is worth nothing. The value, therefore, of such a note, is not in the note itself, for that is but

Was Grandpa Really a Moron?

paper and promise, but in the man who is obliged to redeem it with gold or silver.

"Paper, circulating in this manner, and for this purpose, continually points to the place and person where, and of whom, the money is to be had, and at last finds its home; and, as it were, unlocks its master's chest and pays the bearer.

"But when an assembly undertakes to issue paper *as* money, the whole system of safety and certainty is overturned, and property set afloat. Paper notes given and taken between individuals as a promise of payment is one thing, but paper issued by an assembly *as* money is another thing. It is like putting an apparition in the place of a man; it vanishes with looking at it, and nothing remains but the air.

"Money, when considered as the fruit of many years' industry, as the reward of labor, sweat and toil, as the widow's dowry and children's portion, and as the means of procuring the necessaries and alleviating the afflictions of life, and making old age a scene of rest, has something in it sacred that is not to be sported with, or trusted to the airy bubble of paper currency.

"By what power or authority an assembly undertakes to make paper money, is difficult to say. It derives none from the Constitution, for that is silent on the subject. It is one of those things which the people have not delegated, and which, were they at any time assembled together, they would not delegate. It is, therefore, an assumption of power which an assembly is not warranted in, and which may, one day or other, be the means of bringing some of them to punishment.

"I shall enumerate some of the evils of paper money and conclude with offering means for preventing them.

"One of the evils of paper money is that it turns the whole country into stock jobbers. The precariousness of its value and the uncertainty of its fate continually operate, night and day, to produce this destructive effect. Having no real value

in itself it depends for support upon accident, caprice, and party; and as it is the interest of some to depreciate and of others to raise its value, there is a continual invention going on that destroys the morals of the country.

"It was horrid to see, and hurtful to recollect, how loose the principles of justice were left, by means of the paper emissions during the war. The experience then had should be a warning to any assembly how they venture to open such a dangerous door again.

"As to the romantic, if not hypocritical, tale that a virtuous people need no gold and silver, and that paper will do as well, it requires no other contradiction than the experience we have seen. Though some well-meaning people may be inclined to view it in this light, it is certain that the sharper always talks this language.

"There are a set of men who go about making purchases upon credit, and buying estates they have not wherewithal to pay for; and having done this, their next step is to fill the newspapers with paragraphs of the scarcity of money and the necessity of a paper emission, then to have a legal tender under the pretense of supporting its credit, and when out, to depreciate it as fast as they can, get a deal of it for a little price, and cheat their creditors; and this is the concise history of paper money schemes.

"But why, since the universal customs of the world has established money as the most convenient medium of traffic and commerce, should paper be set up in preference to gold and silver? The productions of nature are surely as innocent as those of art; and in the case of money, are abundantly, if not infinitely, more so. The love of gold and silver may produce covetousness, but covetousness, when not connected with dishonesty, is not properly a vice. It is frugality run to an extreme. But the evils of paper money have no end. Its uncertain and fluctuating value is continually awakening or creating new schemes of deceit. Every principle of justice is put

to the rack, and the bond of society dissolved. The suppression, therefore, of paper money might very properly have been put into the act for preventing vice and immorality.

"The pretense for paper money has been that there was not a sufficiency of gold and silver. This, so far from being a reason for paper emissions, is a reason against them.

"As gold and silver are not the productions of North America, they are, therefore, articles of importation; and if we set up a paper manufactory of money, it amounts, as far as it is able, to prevent the importation of hard money, or to send it out again as fast it comes in; and by following this practice we shall continually banish the specie, till we have none left, and be continuously complaining of the grievance instead of remedying the cause.

"Considering gold and silver as articles of importation, there will in time, unless we prevent it by paper emissions, be as much in the country as the occasions of it require, for the same reasons there are as much of other imported articles. But as every yard of cloth manufactured in the country occasions a yard the less to be imported, so it is by money, with this difference, that in the one case we manufacture the thing itself and in the other we do not. We have cloth for cloth, but we have only paper dollars for silver ones.

"As to the assumed authority of any assembly in making paper money, or paper of any kind, a legal tender, or in other language, a compulsive payment, it is a most presumptuous attempt at arbitrary power. There can be no such power in a republican government: the people have no freedom — and property no security — where this practice can be acted: and the committee who shall bring in a report for this purpose, or the member who moves for it, and he who seconds it merits impeachment, and sooner or later may expect it.

"Of all the various sorts of base coin, paper money is the basest. It has the least intrinsic value of anything that can be put in the place of gold and silver. A hobnail or a piece of

wampum far exceeds it. And there would be more propriety in making those articles a legal tender than to make paper so.

"It was the issuing base coin, and establishing it as a tender, that was one of the principal means of finally overthrowing the power of the Stuart family in Ireland. The article is worth reciting as it bears such a resemblance to the process practiced in paper money.

*Brass and copper of the basest kind, old cannon; broken bells, household utensils were assiduously collected; and from every pound weight of such vile materials, valued at four pence, pieces were coined and circulated to the amount of five pounds normal value. By the first proclamation they were made current in all payments to and from the King and the subjects of the realm, except in duties on the importation of foreign goods, money left in trust, or due by mortgage, bills or bonds; and James promised that when the money should be decried, he would receive it in all payments, or make full satisfaction in gold and silver. The nominal value was afterwards raised by subsequent proclamations, the original restrictions removed, and this base money was ordered to be received in all kinds of payments As brass and copper grew scarce, it was made of still viler materials, of tin and pewter, and old debts of one thousand pounds were discharged by pieces of vile metal amounting to thirty shillings in intrinsic value. (Leland's *History of Ireland*, vol. iv. p. 265.)*

Had King James thought of paper, he needed not to have been at the trouble or expense of collecting brass and copper, broken bells, and household utensils.

"The laws of a country ought to be the standard of equity, and calculated to impress on the minds of the people the moral as well as the legal obligations of reciprocal justice. But tender laws, of any kind, operate to destroy morality, and to dissolve, by the pretense of law, what ought to be the principle of law to support, reciprocal justice between man and man —

Was Grandpa Really a Moron?

and the punishment of a member who should move for such a law ought to be *death*.

"When the recommendation of Congress, in the year 1780, for repealing the tender laws was before the Assembly of Pennsylvania, on casting up the votes, for and against bringing in a bill to repeal those laws, the numbers were equal, and the casting vote rested on the speaker, Colonel Bayard.

"I give my vote," said he, "for the repeal, from a consciousness of justice; the tender laws operate to establish iniquity by law." But when the bill was brought in, the House rejected it, and the tender laws continued to be the means of fraud.

"If anything had or could have a value equal to gold and silver, it would require no tender law; and if it had not that value it ought not to have such a law; and, therefore, all tender laws are tyrannical and unjust and calculated to support fraud and oppression.

"Most of the advocates for tender laws are those who have debts to discharge, and who take refuge in such a law, to violate their contracts and cheat their creditors. But as no law can warrant the doing an unlawful act, therefore the proper mode of proceeding, should any such laws be enacted in future, will be to impeach and execute the members who moved for and seconded such a bill; and put the debtor and the creditor in the same situation they were in, with respect to each other, before such a law was passed.

"Men ought to be made to tremble at the idea of such a bare-faced act of injustice. It is in vain to talk of restoring credit, or complain that money cannot be borrowed at legal interest; until every idea of tender laws is totally and publicly reprobated and extirpated from among us.

"As to paper money, in any light it can be viewed, it is at best a bubble. Considered as property, it is inconsistent to suppose that the breath of an assembly, whose authority expires with the year, can give to paper the value and duration

of gold. They cannot even engage that the next assembly shall receive it in taxes. And by the precedent (for authority there is none), that one assembly makes paper money, another may do the same, until confidence and credit are totally expelled, and all the evils of depreciation acted over again. The amount, therefore, of paper money is this, that it is the illegitimate offspring of assemblies, and when their year expires, they leave a vagrant on the hands of the public....

"Paper money is like dram-drinking, it relieves for a moment by deceitful sensation, but gradually diminishes the natural heat, and leaves the body worse than it found it. Were not this the case, and could money be made of paper at pleasure, every sovereign in Europe would be as rich as he pleased. But the truth is, that it is a bubble and the attempt vanity. Nature has provided the proper materials for money: gold and silver, and any attempt of ours to rival her is ridiculous...."

"It is well enough that people of the nation do not understand our [Federal Reserve] banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning."

-Henry Ford