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# A BRIEF HISTORY OF

# FIAT MONEY

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# Contents

# 1. A PARABLE OF MONEY SYSTEMS

A master teacher called his 144,000 servants before him and spoke.

"I am dividing you into two groups and want each group to build a city for me. You are to start with nothing but your own wisdom and strength and the land that I will grant to you which shall be sufficient for your needs. By cooperating and working together you can build a beautiful city that will glorify the kingdom."

"Each group will apply themselves a littler differently according to their own intelligence and in the end one will be more effective than the other. The results of the contrast between the two methods will teach us a valuable lesson."

The teacher then directed them to the land they were to occupy and gave them some time to move their possessions thereon. After they were settled in and camped in tents they were instructed to begin.

For a few days nothing much happened for there was no leadership and each group of 72,000 had many contrasting ideas of how to proceed. Finally, both groups decided to elect leaders, for without leadership they seemed to be like ships adrift at sea with no rudder.

They spent the next few weeks electing leaders on several levels that gave the groups capacity to govern the whole. After this the presidents of both groups called their people together and gave similar messages:

"My Friends," said one of them. "Our master teacher has given us a great assignment, but so far all we have done is gather, get settled in and elect leaders. Now is the time for action and we must proceed."

"But how are we to proceed?" asked a member of the audience. "All we have is the bare necessities to survive let alone build a city."

The President spoke, "Apparently our teacher thinks we have the ability to create the tools and gather all; the ingredients to build a city. Yes, it will take a lot of work and ingenuity, but I believe we can succeed and make our teacher proud. We must therefore divide into work groups and proceed with making tools and gathering the needed raw materials."

Both groups created assignments of duty and proceeded, but after a short time the leaders became painfully aware that the work was proceeding very sluggishly. Both presidents sent consultants to investigate the problem and both received a similar report. Said one, "The people are complaining. Many are slow or reluctant to work because their fellow workers are not doing their share. Everybody is waiting for the other guy to work before he works."

"The problem," said the President, "Is the Teacher gave us no money to begin this project so we are left with working with natural motivation to get the job done."

A consultant responded, “We’re finding out without pay the people will do very little for the group good. We need some type of money to pay them with. If we had money we could get them to work.”

The President rose up, walked back ands forth, and spoke, “If its money they need then its money they shall have. We will create a money system and pay the workers. Have the consultants draw up a plan.”

Up to this point the two groups proceeded similarly. However, the two groups of consultants came up with two plans for the creation of money which were very different.

The first group of consultants approached their President. “Sir, we believe that we cannot create real money out of thin air. It has to be backed up by something tangible such as a precious metal.”

“Suppose we had all the people deliver all their belongings to a central storehouse and we use these as backing for money,” said the President.

The head consultant spoke, “Taking what little they have would have to be done by force and even if we could do this their possessions are few and there is not enough to create the money we need.”

“What do you suggest then?” said the President.

“Even though we do not have the precious metals now we can get them. There is gold in the nearby hills that we can mine. As soon as we get a supply we can then issue money which is backed by a real tangible material – gold. We can mine the gold, store it in vaults and then issue money to pay for labor. We know the people will work for money so at that point the work can proceed as we direct.”

“It’s quite possible the other group will have this same idea. Is there enough gold for both of us?” asked the President.

“The area where the gold is located is only large enough to accommodate one group. If two of us go at it then we will be at each other’s throat,” said the consultant.

“Then we must secure the area immediately and claim it for ourselves,” said the President.

The first group then proceeded to lay a claim to the area wherein the gold was deposited, built a fence around it and set guards so only their group could have access. After this, most of the group began participating in mining for gold.

Around this time the second president called his consultants together and contemplated the same problem. When one of them proposed creating money backed by gold another answered, “Unfortunately, the other group has moved forward with this idea and has staked out a claim on the only gold in the area. The only way for us to obtain gold is to go to war with them.”

“That’s pout of the question,” said the President. “There must be another way. Are there more precious metals available to mine we could use?”

“None that we know of.”

“Is there any other way that we can create money then? Speak if any of you have ideas.”

“There is another way,” said another consultant. “We can create it out of thin air.”

“That sounds outrageous,” said the President. “Surely you can’t be serious.”

“I’m very serious,” said the consultant. “Actually the creation I am talking about is not really out of thin air at all, but it can seem that way to those who believe that the only real money is backed by a precious metal.”

“You’ve got my interest. Tell me your plan.”

The consultant moved forward and spoke, “My plan will not only create real usable money, but it will save us all kinds of useless time digging for gold and storing it. This will allow us the advantage of completing the city much faster than the other group.”

“I see your point,” said the president. “The other group is now spending all their time digging for gold and this shall continue for heaven knows how long. If we can avoid doing this then we shall have an advantage indeed. How do we proceed?”

“Here is how it works. We will issue money by fiat but it will have value unlike money printed up by some guy on his own in a basement.”

“How is that?” said the president.

“The fiat money will be backed by the people’s good faith in the government of our perspective city and each dollar will represent not gold, but labor. Each twenty dollar bill will represent an average of an hour’s labor.”

An average?” he asked.

“Yes. Some people without skill may only have their labor valued at $10 a hour while some with skills may be valued at $50 or more. By averaging the value I have calculated that the average value of an hour’s labor is about $20.

“So how do we distribute the money?”

“We just print up what we will need to keep people employed and enter the bills in circulation as needed to pay for their labor. Then as the money re-circulates we will need to introduce smaller amounts, but only what is needed to maintain a stable balance.”

“I see two possible problems,” said the President. “Something could happen to take the money out of circulation producing deflation or we could have unscrupulous people in the government print up too much money and we would have inflation where the dollar would lose its value.”

“But that’s a danger around the creation of money by any means,” said the consultant. “If the other group has their gold stolen or they print up too much money in relation to the gold supply then they face the same problem we do. In fact, other kingdoms have had this problem with money related to gold since paper notes have existed.”

“The only way to make sure our money remains stable is responsible oversight. There is no other way with any paper currency.”

“I see your point,” said the President. “I also see another advantage that may have escaped you.”

“What’s that?”

“If there was a large gold discovery or if our alchemists solved the problem of transmuting lead into gold then the value of the other group’s money would plunge and their society could be destroyed.”

“Yes, that is a possibility,” said the consultant.

“But the value of an hour’s labor is always worth an hour’s labor and our dollar can remain steady as long as the money supply is wisely measured.”

“That is correct,” said the consultant.

“Then let us proceed,” said the President. “We will dispense with the wasted time of mining for gold and immediately begin work on gathering materials for the city.”

The second group then explained the program to its citizens and paid the workers in fiat money as they commenced labor. Within a short period of time the whole community was bristling with activity and the foundations to the city began.

When the first group saw that the second group had already laid the foundations to the city while they were still mining for gold they became alarmed. This alarm reached the President and his consultants.

“What is this?” said the first President. “The other group has reached full employment and has not only gathered raw materials but is laying the foundation to their city. All this has been accomplished while we are still mining for enough gold to create sufficient backing to employ the kingdom.”

A consultant stepped forward and explained, “There’s nothing to worry about. We have done some research and discovered the second group is not using real money. They are using fiat money which is just manufactured out of thin air.”

“What do you mean thin air? How does thin air get the jump on us in creating full employment and building a city?”

“They are cheating, sir and their cheating will soon catch up with them. Because their money is not based on gold or any tangible commodity it will only be a matter of time before their system collapses completely. Then we can offer then some of our gold, buy up all their materials and be the first to complete the city.”

“Are you sure about this?” asked the President. “It looks like the people are convinced they are getting real money and as long as they are convinced they will keep building the city.”

“But they are fooled by a deceptive government and bankers,” said the consultant. “We shall expose them and the day will soon come that their house of cards will come tumbling down.”

Both groups then proceeded with their various philosophies on money. It took a year of struggle and sacrifice before the first group mined sufficient gold to create a viable money system but even after this they had to keep a portion of their people mining for gold to keep new gold infused into the system. These people who mined the gold were unable to perform any labor that contributed to the building of the city.

Two years passed and several times it looked like both money systems would fail. It turned out there was criminal negligence on both sides but the leadership of both governments were upright enough to catch their mistakes and correct them.

Each time the second group had any problem with their money the first group relaxed their labors thinking there would soon be a collapse and they would soon own the materials of both cities. But it turned out that both the fiat and the gold backed money had the same problems and both required honest government to insure that the people could prosper.

Another year passed and the second group had completed a beautiful city with housing for all the inhabitants. The city of the first group was only half done and many homes lay unfinished.

At this time the teacher called the leaders of both groups to appear before him.

"I see that one group has completed a beautiful city and the other has not. Tell me what has made the difference here?"

The President of the first group stepped forward and explained. "Sir, the second group has cheated. They paid their group with funny money created from nothing. We created our money from gold stored in vaults and it will retain its value while the economy of the other group will soon come crashing down and then we will buy the whole city for pennies on the dollar."

"But I see before me a beautiful city," said the teacher. "Such beauty is not created from nothing. Perhaps the other president can explain."

The second President stepped forward and explained. "You are right sir, this city was not created from nothing. We issued money that was backed by the good faith of the people in their own labor. Labor may not be visible as is gold, but it is not nothing. As proof look and see what our money backed by labor has produced."

"I understand you had a culprit that printed up some extra money for selfish ends," said the teacher.

"Yes," said the second President, "but so did the other group. We both had some problems because of it and we both made corrections."

"I see," said the teacher. "So you both had viable money systems and honest government. How do you explain the fact that you finished your city so much faster than the gold standard group?"

The second President answered, "Because gold in a vault by itself does not produce anything, but takes away many productive labor hours to mine and refine. We took all those hours and spent them building the ingredients of a city that adds joy to the lives of the inhabitants. Gold in a vault by itself accomplishes nothing."

The first President then became very angry and exclaimed, "My teacher, you do not understand. We have the only viable money system. This other money system is based upon lies. Just wait another year or so and their system will completely collapse and we shall buy up the whole thing. Then we shall own both cites."

The teacher contemplated and responded, "My friend, do you not see the wisdom of the second group who are relying on the value of labor rather than visible objects?"

"But sir, their money is fiat money built upon nothing!"

The teacher thought again and responded, "Then perhaps I must teach you where the real value of money lies." He then took an ancient scroll from a table and handed it to the second President. "Here is the formula for transmuting lower elements into higher ones. With this you can make all the gold, silver and other metals you wish. You can pave the streets of your city with gold if you wish."

The first President spoke again, his voice quaking, "If he makes enough gold to pave his streets then there will be so much gold our money will become useless and the effort we have made will come to an end. Please don't do this to us."

"I am not hurting you. You are hurting yourself," said the teacher. "I am also giving you the opportunity to pave your streets with gold. All you have to do is learn your lesson that labor will always have value, a value that will outlast gold or any other commodity. Have faith in the labor of your brothers and you shall prosper and pave your streets with gold, otherwise your people will rebel against you and your fate shall be a terrible thing."

After thinking long and hard the first President swallowed his pride and sought to change his money system to be based in the faith of the labor of his brethren. It was not long before the cities were completed and both had streets of gold that sparkled in the sun.

## 2. WHAT IS ‘FIAT MONEY’?

Before we explore fiat money more deeply let us give a definition of it to avoid confusion – as, at present, the term is used in a variety of ways. The word “fiat” comes from the Latin, which literally means, “let it be done.”

The common modern definition is expressed by Dictionary.com as: “an authoritative decree, sanction, or order.” Fiat money is often defined as unbacked money created by government decree or sanction but technically this extends to any money that is not fully backed by a commodity. So for the sake of clarification and purpose of this treatise we’ll define it as follows.

“Fiat money is any money, paper, coin, substance or digital creation which is not fully backed by a commodity. It exists only because of a decree or sanction made with enough authority to cause the people to accept it as money.”

That said we must now ask if it is possible to create a feasible fiat money system as illustrated in the parable. Many fundamentalists think not and feel that every possible form of fiat money is doomed to failure.

And why is this?

Basically because they look at the surface of a few examples of failed money in the past and lump all fiat money into one category. They pretty much call it the god-awful bad category. This is basically where their analysis begins and ends.

Let us look below the surface and first ask ourselves why fiat money has received such bad press.

Here are three reasons various economies have had problems with fiat money in the past and present.

(1) Too much money is printed or created and placed into circulation. If there is more money in circulation than the value of goods and services needed there will be inflation. If there is a shortage of money there will be deflation. If the right amount of money is in circulation the prices will be stable. This runs contrary to the party line of some thinkers who believe that all fiat money is inflationary. It is not. It is only inflationary when too much money is added to circulation. For instance, during the Great Depression we had a contraction of the fractional fiat money in circulation and prices went down, not up.

(2) The second problem is the government borrows the fiat money from banks and burdens its taxpayers with paying the accumulating interest rather than creating interest free money itself.

(3) Because the money is easily created the temptation of governments to overspend by borrowing too much money is great. This straps their people with not only high interest payments but a large amount of debt.

These problems may seem significant enough to make us think we should ditch fiat money and go with a gold standard until we look at the problems of maintaining such a gold standard. Earlier we covered the gold standard and we discovered even more problems there.

Some simply state that fiat money is bad because it has always failed in the past. They count as failure every money system that is no longer with us but overlook the fact that money systems have often changed in history, not because they failed but because a new king or power comes to the throne. War and conquest has also greatly altered money systems of the past. Sometimes a good money system has been replaced with a bad one. If a new king saw the system benefitted the people more than himself then the temptation was to install one that was unstable but good for the elite.

Gold and silver backed currencies (as has been previously illustrated) have their own set of problems and one could also argue that they have all failed because they no longer exist. There is not one country in the entire world that has a gold or silver backed currency. The last one was Switzerland which backed its money with 40% gold reserves but in the year 2000 they had a referendum and the people voted to go off it. Now they merely have gold reserves for security purposes just as we do.

One might ask that if gold and silver backed currencies are so great then why has every nation on the planet abandoned them? If they are so stable and bring prosperity (as advocates claim) then why hasn't one nation seen the light?

With all things considered a growing number of thinkers are considering that interest free fiat money represents the best hope for a permanent money system that allows for unlimited expansion of prosperity. To create this, a definite change from the one in use today is required. That is, instead of our government giving away its power to create money to private banks it will instead reserve that power to itself. It will then be able to create money for the people's welfare, which will be interest free and debt free.

The Federal Reserve notes of today are a promise to pay. The new notes will not contain any promise to pay but will be real constitutional money.

Has there ever been any such debt and interest free fiat money in the past that we can examine to see how it worked?

Fortunately, the answer is yes. Let us look at a few.

# 3. FIAT MONEY IN SPARTA

For the first example let's look way back to the foundation of the ancient Spartan way of life originated by its king Lycurgus around 800 BC. Because his story is almost larger than life some historians believe he was a fabled character but this is not likely as Plutarch wrote in detail, about him quoting historians Eratosthenes, Apollodorus, Timæus, and Xenophon as sources. No less than Plato and Aristotle also wrote of him.

There is no dispute though that an ancient powerful lawgiver created the legendary Spartan way of life along with a most unusual fiat interest free money system.

Plutarch presents Lycurgus as a dedicated spiritual leader who sought not for power but to elevate the minds and hearts of the people in a system of discipline and equality. He believed that riches, especially gold and silver, were a major detriment to the spirit. Plutarch says he banned "ownership of any gold or silver, and to allow only money made of iron. The iron coins of Sparta were dipped in vinegar when red hot to make the metal brittle and worthless. Merchants laughed at this money because it had no intrinsic value, so imports of luxuries stopped. Robbery and bribery vanished from Sparta instantly.

"All useless occupations were banned in Sparta. This law was hardly necessary, because along with gold and silver, all of the evil creatures that accompany them went away too. Who would come to practice fraud, fortune-telling, prostitution, jewelry, or the other trades of luxury and larceny, in a country where there was no gold and silver money? So luxury, deprived little by little of the fuel that fed it, gradually died out. The rich had no advantage over the poor because wealth was useless."

The only money left in Sparta were iron discs called Pelanors. They had no intrinsic value as did gold and silver for the vinegar made them useless for anything except fiat money. Lycurgus set their value by fiat and this was their only money for centuries. During this period the Spartan city-state and way of life flourished.

Plutarch gives his reason for the end of this money system:

"For five hundred years, Sparta kept the laws of Lycurgus and was the strongest and most famous city in Greece. But eventually gold and silver were allowed in, and along with them came all of the evils spawned by the love of money. Lysander must take the blame, because he brought home rich spoils from the wars. Although not corrupt himself, Lysander infected Sparta with greed and luxury, and thus subverted the laws of Lycurgus."

From Plutarch's *Lives of Noble Grecians and Romans*, Lycurgus chapter

# 4. FIAT MONEY IN ROME

When Numa Pompilius came to power as the second king of Rome around 715 BC he contemplated a major problem that lay before him. To facilitate prosperity for his people he needed money and lots of it. The problem was that the authorized money of the world was composed of gold and silver. Why was this a problem?

Because most of the gold and silver was in the private hands of the various religious temple cults or eastern religions and merchants. These private interests had power over the money and if he wanted an increase in the money supply he had to play the beggar and humbly strike his best bargain while placing Rome as collateral.

What do do?

Numa formulated an ingenious plan. He would decree that gold and silver would merely be commodities in his kingdom. They could be traded as commodities as unmarked coins or bars but the real money would be bronze, an alloy composed of mostly copper which was abundantly available.

Numa monetized bronze and the citizens used this internally for money or nomisma. In early Rome they called it nummi. Because his name was so close to "nummi," some historians think Numa was his adopted name rather than given one.

Gold and silver was used internally for jewelry, medallions, ornaments etc and for trade with other governments. Since gold and silver were used for money outside Rome their reserves were used for necessary trade but not for internal money.

The brass money took on various shapes at first but eventually evolved into coins bearing an image. As long as Bronze was the designated money gold and silver coins and bars were blank and merely traded by weight with foreign interests or for practical internal use.

From the time of Numa the nummi had more monetary value than the commodity value of the bronze and the fiat value increased over time until the time of the second Punic war (218-202 BC) a one ounce bronze coin was worth 30 ounces of the commodity. In other words, over 96% of its value was fiat rather than intrinsic.

No one complained of being cheated during this fiat money system because the money was based on law and not the product of debasement as happened later in the Roman Empire. When the people expected a certain weight and percentage of gold or silver and the size or content was reduced then the people felt cheated and rejected the money. But because the bronze money was based on the fiat principle from the beginning and the value was established by law the people accepted it from beginning to the end of its dominance.

After war depleted their resources and plunder increased Rome's supply of gold and silver, silver, and later gold, gained a legal status as money and by 146 BC Rome ceased producing bronze money.

So we had a period of over 500 years where bronze fiat money financed the rise of the longest lasting world power in recorded history.

During this period of time the people had their greatest freedom and were enterprising as they created a great nation state. Then when silver and gold became money hundreds of thousands of slaves were added to the kingdom – many of them mining for gold and silver to increase the money supply.

Then came the money changers which included the likes of which Jesus chased out of the temple.

The ratio of the value of gold to silver in Rome was usually set at 12:1, but in India and Asia it was set around 6:1 or 7:1. This meant that a money changer could take six pounds of silver to India and trade it for a full pound of gold. Then he could return home and trade that pound of gold for 12 pounds of silver and double his money. Then by repeating the process over and over he could become rich without producing anything.

Over time this created instability in the gold/silver money systems in both the East and West.

Contrary to the belief of many inflation was a problem on the gold/silver standard of Rome. Zarlinga tells us that “soldiers in the 2nd century BC got 110-125 denarii per year. A hundred years later, their pay doubled to 225; after another hundred years to 300; and by the 3rd century AD had increased to probably 600 denarii per year.”

Up to about 250 AD the silver content of coins remained fairly consistent but then started dropping. By 270 AD it had dropped to 4% of its original value. At this low point Diocletion instituted wage and price controls in an attempt to force people on pain of death to accept an inflationary currency. In the process many businesses were destroyed.

In 312 AD Constantine began minting the pure gold solidus, which gained the reputation of being the longest circulating coin in history – over 700 continuous years. This period was not immune to inflation as during periods of plunder there were excessive amounts of gold coins added to the system. Some think this contributed to the fall of Rome. The solidus was in circulation beyond 1000 AD long after the fall of Rome during our darkest age. It weighed 4.5 grams and was never debased and desired and accepted by all.

This gold standard did little to save the empire during the time of Rome’s greatest decline. It also did nothing to prevent a descent into the period we call the Dark Ages. It is interesting that during these two periods the world had the purest most consistent gold standard in the history of the world.

BUT… during the period of Rome’s greatest progress and individual freedom they were fueled with fiat currency.

## 5. FIAT MONEY IN ENGLAND – TALLY STICKS

The tally stick was a unique form of money that seemingly existed on the power of thin air through the fiat principle. They were most prominent in medieval England and also used to a lesser degree in France, Germany and numerous other nations and settlements of ancient times.

Tallies in one form or another have existed from prehistoric times but the most significant use of them was began by King Henry I in England in 1100 AD and were in use for an amazing 726 years. The split tally was accepted as legal proof in medieval courts and the Napoleonic Code of 1804 still makes reference to the tally stick in Article 1333.

The tally sticks owed their prominent financial use to King Henry's response to a dire economic situation when he assumed the throne. He discovered that the Crusades had siphoned off most of the gold and silver that could be used as money. He found himself in a similar situation to Lincoln before the Civil War. He either had to borrow at excessive interest from the money lenders of the day or improvise with a system of his own.

Just as Lincoln chose to create a fiat money that did not borrow from any lender even so did Henry create a tally system that was backed by no commodity and was interest free. There was a huge difference on how the two financial instruments were used. The greenbacks bought war materials that were either destroyed or of little use after the war. These added little or nothing to the nation's actual wealth.

On the other hand, many of the tallies were used to finance agriculture, construction and essential trades that helped the people live more abundant lives.

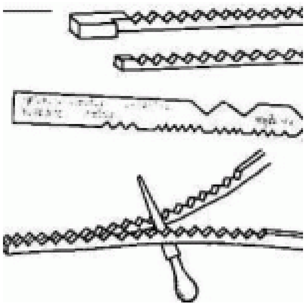
Some critics of fiat money have claimed that the tally stick was not fiat, or even money but merely IOUs that had to be paid off in gold or silver coin.

This presentation is extremely misleading and distorted. First there was very little gold and silver in the kingdom as most of it was shipped out of the country for the Crusades. Many of the tallies were redeemed for commodities instead.

As for whether they were fiat or not – let us examine how they worked and see.

"A tally was a stock about nine inches or so long with each of the four sides about ½ inch wide. On two of the sides, the value of the "tally" was carved into the wood. On the other two sides, the amount was printed in ink.

"The tally was then split in half lengthwise. One half remained in the treasury and the other half was given to soldiers for their pay, to farmers for wheat, to armorers for armor, and to laborers for their labor." From *War Cycles – Peace Cycles* by Richard Hoskins, Virginia Publishing (2000)



There were a number of advantages for using the tally sticks.

(1) They could be used like money, but they were interest free.

(2) They were virtually impossible to counterfeit. Each tally had different grains in the wood and different records and notches engraved that appeared on both halves. To be legal you had to match your half with the King's half.

(3) They did not need any gold or silver to back them but were backed by commodities that did not even exist at the time of issue. These commodities could be future produce, something manufactured or even gold or silver that the person hoped to acquire.

(4) They were basically inflation proof. Unlike money in our current system they could not be produced in unlimited amounts. The number of tallies made would be limited by the estimated production or wealth of the people. Then when the tallies were turned in for taxes or payment during Michaelmas (the harvest time) they no longer existed within the system and new ones had to be created. There could only be an increase in tally sticks if there was a corresponding increase of anticipated production and since each person was responsible for the value of his tally stick there was little desire to inflate its value.

(5) Tally sticks were widely accepted by the people for two reasons. First, tally sticks of some kind have been used for elementary record keeping since civilization began and people trusted them. Secondly, the king insured its equivalency to money by issuing a fiat that they can be used to pay taxes. In addition the various kings used tally sticks for money themselves.

It wasn't long before the value of tally sticks in circulation far exceeded gold and silver money. Richard Hoskins (cited earlier) estimates that by the end of the seventeenth century the tallies in circulation had a value of about fourteen million pounds yet the coined metals at the time never exceeded a half million pounds in value.

By 1694 the tally sticks evolved into being represented by paper bills and by 1697 they circulated interchangeably as money with banknotes and bankbills.

The amazing thing is that life was a good during the height of the tally system. Contrary to popular belief the people prospered and had to work much fewer hours to make a living than they do today.

Monetary author Ellen Brown makes this interesting observation:

"Modern schoolbooks generally portray the Middle Ages as a time of poverty, backwardness, and economic slavery, from which the people were freed only by the Industrial Revolution; but reliable early historians painted a quite different picture. Thorold Rogers, a nineteenth century Oxford historian, wrote that in the Middle Ages, "a labourer could provide all the necessities for his family for a year by working 14 weeks." Fourteen weeks is only a quarter of a year! The rest of the time, some men worked for themselves; some studied; some fished. Some helped to build the cathedrals." *Web of Debt* by Ellen H. Brown, 2008

She continues:

"Economic historians like Rogers and Gibbins declare that during the best period of the Middle Ages – say, from the thirteenth to the fifteenth century, inclusive – there was no such grinding and hopeless poverty, no such chronic semi-starvation in any class, as exists to-day among large classes in the great cities . . . . In the Middle Ages there was no class resembling our proletariat, which has no security, no definite place, no certain claim upon any organization or institution in the socio-economic organism."

The great cathedrals were not only built with mostly unpaid voluntary labor but they were also maintained by volunteers. The people had free time and used it to increase the wealth of the kingdom and took pride in keeping public buildings and works of art in good shape.

They also had free time for learning, which explains why many great universities, libraries and centers of learning were established during that time.

There is an interesting book in the public domain by James J. Walsh called "The Thirteenth, Greatest Of Centuries" detailing how this was actually the most wonderful century in which to live that set the foundations to many of the amenities we value today. This was also the century when the use of the tally stick matured and came into almost universal use and acceptance in England.

The tally stick worked great and everyone was happy except the bankers. They were not getting their cut in interest from the tallies and decided to act as soon as they had the opportunity.

That opportunity came near the end of the seventeenth century after lengthy and costly wars with France and the Netherlands. The tally sticks did a great job of keeping the internal economy functioning, but external wars demanded large expenditures of gold and silver which were accepted outside the country. Goldsmiths were charging 30-80% interest on small loans and what coinage was left was clipped about 50%. The public lost millions of pounds because of goldsmiths going bankrupt.

Bankers proposed creating a Bank of England to solve the money problems. With a name like this it sounded like a government bank but in reality it was a private bank composed of private investors. The bank practiced fractional reserve banking and loaned the government money that it could have created for itself. Government debt went from 1.4 million pounds in 1694 to 16 million in 1698. The prices of most things doubled.

It is interesting that tallies were one of the sources used to finance this bank yet after it became established the bank saw the tallies as competition and from that point on sought to destroy them. Even so, some continued to be used until 1826 when they were removed from circulation and stored in the houses of Parliament.

In 1834 the tallies were ordered to be burned in the two furnaces in the House of Lords. This wound up starting a fire that got out of control and burned down both Houses of Parliament. It almost seemed like divine retribution for trashing a money system that worked so well.

Those with a negative view of fiat money cannot deny that the tally system was successful so they save face by saying that it was not fiat money at all, or not even money but merely like a promissory note. Others have said they were used like a modern day credit card.

No matter how you look at it the fiat principle was behind the use of the tally stick. Yes, the tally stick was like a promissory note, but a note authorized to be used as money. Many promissory notes of today or yesterday are not backed by gold, silver or any commodity. They are a promise to pay only backed by fiats of the issuers and the power of their good names. Just like our fiat dollars today are promissory notes from the Federal Reserve and are used as money even so were the tally sticks individual promissory notes also used as money.

There was a huge difference however. The tally sticks did not involve interest and never drove the government deeper into debt and did not contribute to inflation. This was why they were successful for numerous centuries.

Then the tallies had the fiat of the King authorizing them to be used as money to pay taxes. It’s difficult to see the reasoning as to why some critics do not see the Tallies as fiat money when two different fiats were involved and they were virtually backed by thin air. Just because they do not exactly fit the parameters of fiat money of today does not mean they were not based on the fiat principle.

Another criticism is the tallies were not even money because they were sometimes discounted or that discounting them was as bad as paying interest.

If an owner waited for the tally to mature then he received the full value but if he needed the value early in or if he had to use it in another country he had to trade them at a discount for commodities or coins. For internal use they were traded as money at a standard value just as money is today.

The occasional discounting does not alter the fact that they were used as money and had a more consistent value than does the fiat money of our age. Even in our time promissory notes and contracts are used as money on a number of levels, but the tally had the additional legal monetary authorization of the King.

The tallies were not in the same category money loaned at interest today for they drew no interest. First, only a small number were discounted whereas all new money today is created through loans at interest. Secondly, the tallies did not add to the public debt as is the case with today's money.

Unless one takes the path of splitting hairs there is no other way to view the era of the tally sticks then as one of a successful fiat money.

## 6. FIAT MONEY IN THE AMERICAN COLONIES

If someone wanted to create a control group to experiment with differing forms of alternative money it would be difficult to put together a better set of ingredients than existed in the colonial times of the American continent. Their situation was a little like the group in the parable who didn't have the gold. They had to improvise.

We must remember that England, France and other nations were not investing in America out of the spirit of good will – just to help them advance into prosperity and freedom. Just the opposite is true. They didn't give a hoot about the comfort the colonists may or may not have had. Instead, they were in it for the money – the profit.

The dominant mother country, England, did everything in its power to insure the maximum amount of gold and silver that found its way into the colonies was shipped back home. Essential goods and taxes had to be paid in coin yet the flow was one way, for English laws prohibited sending coins to America and even discouraged colonies from trading with each other. England wanted all available commodity wealth for herself with as little as possible going to the colonies. Most of the gold and silver money that found its way to the colonies came from pirates or trade with the Spanish West Indies. Other coins came from the Netherlands, the German States, France and other foreign countries. In turn, many of these coins went back to England.

This illustrates one of the weaknesses of gold and silver money. Their quantity can be manipulated so those gaining the favor of the bankers and powers-that-be have all the advantages whereas a lesser power such as the colonies have a monetary famine.

Fortunately, the colonies did not just roll over and play dead, or America as we know it may have never been. Their independent spirit shined forth in their creation of numerous alternative and fiat currencies that allowed them to prosper and continue their growth.

They tried using various non-metallic commodities as money but people wanted to pay with the least desirable available and this caused problems. They tried monetizing tobacco but the different quantities available from the various harvests created inflation and deflation. In 1639 when a bumper crop threatened severe inflation they decided to burn half the crop. What a waste!

Something else had to be done or it seemed the colonies would turn into a poor man's slave camp whose only purpose was to serve the crown.

One of the not so well known experiments with non-metallic money were bills of exchange where farmers or manufacturers could use bills drawn up for the promised sale of products and use these like cash in trading or purchasing.

Another item used as money were "shop notes," also called "notes of hand." When a merchant sold some something on credit he drew up one of these notes and often traded it to someone else for other items he needed just as if it were money. Massachusetts was the first to come up with the fiat paper money solution in 1690. They printed paper bills from copper plates, which were called bills of credit. These were promissory notes based on no present commodity, but a future delivery and supported by the full faith and credit of the government. This allowed the colonists to buy supplies and pay labor so agriculture and production could move forward.

Within ten years other colonies saw the new prosperity in Massachusetts through this fiat currency and a number of variations appeared in Rhode Island, Connecticut and New Hampshire.

The Massachusetts money was at first issued in moderate amounts (starting with 7,000 pounds) and the money held its value well for 20 years. Then they got a little greedy and dramatically increased their issue until it reached 420,000 pounds. On top of this counterfeiters jumped in and added a significant amount of false currency. Inflation crept in but, even so, the economy hummed along much better than it did before the fiat currency.

In 1723 Pennsylvania (followed by Delaware, New York and New Jersey) successfully created another type of money, seemingly out of thin air that was more stable and successful. The State created money by the sheer power of fiat and loaned it out to citizens at 5% interest. These were more secure than bills of credit as they were loaned against collateral, which was usually the plentiful supply of land available. They were also issued more responsibly so the money supply was not excessive.

The issuance of this new money not dependent on any precious metal but only upon the fiat of the government and the resources and labor of the people.

Instead of the interest going to private banking it went to finance the government. From 1723 to 1750 Pennsylvania citizens had to pay no taxes as all government expenses were financed by the interest paid by citizens. This money system worked very well and little or no inflation occurred.

It wasn't long before the authorities back in England sensed a problem. The injection of new money caused the colonies to trade more with each other and to cease relying on or even seeking gold and silver coin. England felt their trade and flow of new cash was threatened by the new money and also upset at the inflation in Massachusetts. In response King George II in 1751 issued a ban on creating any new colonial paper money.

This made things more difficult but fortunately they were still able to use money in circulation and the governors were lax in enforcing the ban so some new money was still added to circulation. Several years later Franklin was forced to make a trip to England to petition Parliament to lift the ban. When he got there he saw that the economic situation of the common people in the mother country was dire.

The situation in the colonies was much different as related by Congressman Charles G. Binderup in a radio address in 1941.

He first quoted Franklin

"There was abundance in the Colonies, and peace was reigning on every border. It was difficult, and even impossible, to find a happier and more prosperous nation on all the surface of the globe. Comfort was prevailing in every home. The people, in general, kept the highest moral standards, and education was widely spread."

When Benjamin Franklin went over to England to represent the interests of the Colonies, he saw a completely different situation: the working population of this country was gnawed by hunger and poverty. “The streets are covered with beggars and tramps,” he wrote. He asked his English friends how England, with all its wealth, could have so much poverty among its working classes.

His friends replied that England was a prey to a terrible condition: it had too many workers! The rich said they were already overburdened with taxes, and could not pay more to relieve the needs and poverty of this mass of workers. Several rich Englishmen of that time actually believed, along with Mathus, that wars and plague were necessary to rid the country from man-power surpluses.

Franklin’s friends then asked him how the American Colonies managed to collect enough money to support their poor houses, and how they could overcome this plague of pauperism. Franklin replied:

“We have no poor houses in the Colonies; and if we had some, there would be nobody to put in them, since there is, in the Colonies, not a single unemployed person, neither beggars nor tramps.”

His friends could not believe their ears, and even less understand this fact, since when the English poor houses and jails became too cluttered, England shipped these poor wretches and down-and-outs, like cattle, and discharged, on the quays of the Colonies, those who had survived the poverty, dirtiness and privations of the journey. At that time, England was throwing into jail those who could not pay their debts. They therefore asked Franklin how he could explain the remarkable prosperity of the New England Colonies. Franklin replied:

“That is simple. In the Colonies, we issue our own paper money. It is called ‘Colonial Scrip.’ We issue it in proper proportion to make the goods and pass easily from the producers to the consumers. In this manner, creating ourselves our own paper money, we control its purchasing power and we have no interest to pay to no one.”

The information came to the knowledge of the English Bankers, and held their attention. They immediately took the necessary steps to have the British Parliament to pass a law that prohibited the Colonies from using their scrip money, and then ordered them to use only the gold and silver money that was provided in sufficient quantity by the English bankers. Then began in America the plague of debt-money, which has never since brought so many curses to the American people.

The first law was passed in 1751, and then completed by a more restrictive law in 1763. Franklin reported that one year after the implementation of this prohibition on Colonial money, the streets of the Colonies were filled with unemployment and beggars, just like in England, because there was not enough money to pay for the goods and work. The circulating medium of exchange had been reduced by half.

Franklin added that this was the original cause of the American Revolution – and not the tax on tea nor the Stamp Act, as it has been taught again and again in history books. The financiers always manage to have removed from school books all that can throw light on their own schemes, and damage the glow that protects their power.

Franklin, who was one of the chief architects of the American independence, wrote it clearly:

"The Colonies would gladly have borne the little tax on tea and other matters had it not been the poverty caused by the bad influence of the English bankers on the Parliament, which has caused in the Colonies hatred of England and the Revolutionary War."

(Author's note: This exact quote cannot be verified though Franklin did express this thought in different wording.)

This point of view of Franklin was confirmed by great statesmen of his era: John Adams, Jefferson, and several others. A remarkable English historian, John Twells, wrote, speaking of the money of the Colonies, the Colonial Scrip:

"It was the monetary system under which America's Colonies flourished to such an extent that Edmund Burke was able to write about them: 'Nothing in the history of the world resembles their progress. It was a sound and beneficial system, and its effects led to the happiness of the people.'"

John Twells adds:

"In a bad hour, the British Parliament took away from America its representative money, forbade any further issue of bills of credit, these bills ceasing to be legal tender, and ordered that all taxes should be paid in coins. Consider now the consequences: this restriction of the medium of exchange paralyzed all the industrial energies of the people. Ruin took place in these once flourishing Colonies; most rigorous distress visited every family and every business, discontent became desperation, and reached a point, to use the words of Dr. Johnson, when human nature rises up and assets its rights."

Another writer, Peter Cooper, expresses himself along the same lines. After having said how Franklin had explained to the London Parliament the cause of the prosperity of the Colonies, he wrote:

"After Franklin gave explanations on the true cause of the prosperity of the Colonies, the Parliament exacted laws forbidding the use of this money in the payment of taxes. This decision brought so many drawbacks and so much poverty to the people that it was the main cause of the Revolution. The suppression of the Colonial money was a much more important reason for the general uprising than the Tea and Stamp Act."

The next step in fiat money came though the Continental Congress on May 10, 1775 in creating the first fiat money for the nation – the Continental Currency. Money historian
Alexander Del Mar sees this as a major ingredient of the revolution

"…the creation and circulation of bills of credit by revolutionary assemblies…coming as they did upon the heels of the strenuous efforts made by the Crown to suppress paper money in America … constituted acts of defiance so contemptuous and insulting to the Crown that forgiveness was thereafter impossible . . . There was but one course for the crown to pursue and that was to suppress and punish these acts of rebellion. There was but one course for the colonies; to stand by their monetary system. Thus the Bills of Credit of this era, which ignorance and prejudice have attempted to belittle into the mere instruments of a reckless financial policy were really the

standards of the Revolution. They were more than this: they were the Revolution itself!"
History of Money in America; Alexander Del Mar 1895, Page 96

They started with $2 million and reached a total of $200 million. In addition to this coined and colonial money continued to circulate.

Continental Currency has received a lot of bad press because of the massive inflation associated with it but we need to take a breath and reflect with reason and see that there would have been no way to fight, let alone win the war without it. There just was not enough gold and silver coin available to the government to fight the most powerful kingdom on the planet.

$200 million was a lot in those days and this amount would have caused inflation but it was not enough to cause the bottom to fall out by the end of the war. Two other events were responsible.

First is that the colonial states began printing their own scrip in massive amounts. At the beginning of the war there was about $3.8 million in colonial scrip and at the end there was $209 million – more than the total amount of the continental currency. Congress realized this additional scrip would be a problem and asked the states to discontinue printing, but they mostly ignored this request.

Secondly, they faced and even greater threat from British counterfeiting.

Benjamin Franklin wrote of this time:

"The artists they employed performed so well that immense quantities of these counterfeits which issued from the British government in New York, were circulated among the inhabitants of all the states, before the fraud was detected. This operated significantly in depreciating the whole mass."
Kenneth Scot, Counterfeiting in Colonial America (Philadelphia: University of Pennsylvania Press, 2000), 259–60

They shipped special presses from England for this specific purpose and distributed massive amounts of bogus, but high quality currency for some time before the colonists caught on to the sabotage. Throughout the war the British distributed this as much as possible, sometimes by the wagonload.

It is a mystery as to exactly how many counterfeit bills wound up in circulation. For some reason the British government to this day has never revealed any data on it. Judging by the stories and the amount of inflation that occurred Thomas Jefferson concluded there must have been as much counterfeit as there were authorized continentals.

If not for the vast inflow of bills not authorized by Congress the Continental would not have failed.

There is another reason for the great inflation. During wartime, especially a war of survival, resources and labor are directed away from production that brings wealth to society and is directed toward war materials that create no wealth but only serve to defeat the enemy and afterwards become mostly useless or destroyed in the war itself. Most of the labor during such a war produces no wealth. A fiat currency is backed up by the wealth of a nation and if the wealth is diminished inflation will occur no matter what.

At the beginning of the war the was only $9.2 million worth of coins in all the colonies and only a tiny amount was in the hands of congress to fight a war – a war that required much more money than they had if they were to win. Despite having an inflationary $400 million added to circulation in addition to the $200 million continentals this fiat scrip saved the day and paid our soldiers to fight and financed the war for six years. A final loan from France then saved the day and allowed us to continue the final six months until victory was obtained.

We owe the foundation of our nation and the victory over the crown to the Continental. There's no way we could have won the war with a handful of gold and silver coins.

It would be interesting to see how the results would have been different if $200 million worth of continentals would have been circulated as the main currency in a time of peace with no counterfeiting and competing bills from the colonies. Instead of $600 million spent mostly on war we would have had $200 million on production, transportation, manufacturing, farming etc. If the Continental had the advantage of being backed by lots of new wealth the results would have been much different.

# 7. LINCOLN'S GREENBACKS


Lincoln felt the weight of the world upon his shoulders after he was elected President. Before he assumed office he saw himself facing the greatest crisis since the Revolutionary War. He even called the situation his own Garden of Gethsemane and prayed that the burden of dealing with it could be lifted.

Little did he know at the time that the physical enemies that loomed before him were less than half the problem. The greater half of the war he faced was discovered shortly after he became president and the problem was clearly seen near his death in 1865 when he said this in a statement to Congress:

"The money powers prey upon the nation in times of peace and conspire against it in times of adversity. The banking powers are more despotic than a monarchy, more insolent than autocracy, more selfish than bureaucracy. They denounce as public enemies all who question their methods or throw light upon their crimes. I have two great enemies, the Southern Army in front of me and the bankers in the rear. Of the two, the one at my rear is my greatest foe."
Nov. 21, 1864 (letter to Col. William F. Elkins) The Lincoln Encyclopedia, Archer H. Shaw (Macmillan, 1950, NY

Lincoln first received a taste of this first enemy at the beginning of the war when he realized that they would have to amass an enormous sum of money if they were to defeat the South. The problem for both sides is that neither had the supplies of gold and silver coin necessary to wage much of a challenge. It seemed that whoever could borrow the most money would prevail.

As Lincoln and his cabinet checked out the possibility of borrowing from banks within the country they soon found that they were of little use. Over 1600 private banks existed and each of their 7000 notes had different values and confidence of the people. But the real problem became obvious when Lincoln discovered that they wanted over 20% interest on any loans they made to a government that may not be there tomorrow if the South were to prevail.

The eastern banks were particularly outrageous as they offered Lincoln a $150 million loan package at rates between 24-36%.

Lincoln felt there must be a better way to finance the war than making the winners slaves to the banks. This was irony indeed considering the war was said to end slavery.

There had to be a better way to finance the war so the President listened to all possible suggestions from his cabinet, Congress and consultants.

There was only about $100 million in gold and silver in the whole country and about 25 times that amount would be needed by the North alone to consummate the war. Secretary Chase supported the idea of issuing government war bonds. There were about $2 billion worth of these issued during the war usually at 6% interest.

As the war continued it became obvious that the bonds would not fulfill all the financial needs and the Greenback made its appearance to supply additional financing. Some say that Congress acted on its own initiative to pass legislation to create the Greenbacks and others call Lincoln's friend, Dick Taylor the "Father of the Greenback" for selling he idea to the President.

The story relates that Lincoln called on Taylor for advice on financing the war and when meeting they he said:

"Why, Lincoln," Taylor is said to have replied, "that is easy; just get Congress to pass a bill authorizing the printing of full legal tender treasury notes or greenbacks, and pay your soldiers with them and go ahead and win your war with them also."

"Do you suppose the people will take them?" Lincoln is said to have asked.

And to this Taylor replied, "The people or anyone else will not have any choice in the matter, if you make them full legal tender. They will have the full sanction of the government and be just as good as any money; as Congress is given that express right by the Constitution and the stamp of full legal tender by the Government is the thing that makes money good anytime, and this will always be as good as any other money inside the borders of our country."

Lincoln also had an economic adviser named Henry Carey who was a big supporter of the Greenback idea and it is thought that he also had a strong influence on Lincoln.

Some claim Lincoln then worked with Congress to pass the Greenback legislation and other historians believe Congress passed it independent of the President. Congressman E. G. Spaulding from New York was a big promoter of Greenback legislation. It seemed that the Greenback was an idea whose time had come. Legislation was passed on Feb 25, 1862 and Lincoln signed it into law. At first $150 million was authorized with a total of $450 million being put into circulation as the war continued.

The Lincoln administration partially bypassed the bankers with the war bonds, but the Greenbacks left them completely out of the loop. This was pure fiat money from the government that created no debt whatsoever and there was no interest to be paid to bankers or anyone else.

As word of the Greenbacks reached the big bankers in England and Europe great alarm was felt. In 1865 The London times wrote:

"If that mischievous financial policy, which had its origin in the North American Republic, should become indurate down to a fixture, then that government will furnish its own money without cost. It will pay off debts and be without a debt. It will have all the money necessary to carry on its commerce. It will become prosperous beyond precedent in the history of civilized governments of the world. The brains and the wealth of all countries will go to North America. That government must be destroyed or it will destroy every monarchy on the globe."

The Greenbacks had several advantages over the fiat Continental currency in that they were very difficult to counterfeit. They used a proprietary green chromium tint invented by Canadian Dr. Sterry Hunt to combat photo duplication. This made the Greenbacks very difficult to counterfeit. The bills got their name from this “green” ink on the “back” of the bill. The name did not come from the Lincoln administration but from the common people who started calling them “Greenbacks.”

It is interesting that the two men with the greatest authority (Lincoln and Chase) had strong reservations about the Greenback. Chase was particularly negative and may have influenced Lincoln at first. After Lincoln’s death Chase supported the retirement of the Greenback.

Fortunately Lincoln saw that the greenback was necessary and supported legislation to create them. As time passed he seemed to have embraced them as he said:

“… (We) gave the people of this Republic the greatest blessing they have ever had – their own paper money to pay their own debts…” Quote from *Who Rules America* by C. K. Howe

Near the end of his life Lincoln expressed interest in printing more Greenbacks. Some believe that his association with the Greenbacks, as seen through the eyes of the bankers, was part of the reason he was killed. Many students believe that his lack of cooperation with powerful bankers created a conspiracy against him. Whatever the case, it is obvious that many bankers were happy to have him out of the way thanks to John Wilkes Booth.

Those who do not like fiat money and/or the Greenback attack it as being inflationary and not holding its value. Most of the Greenback attacks I have read point out that it reached a low of 36 cents against what started as a dollar’s worth of gold. They rattle this off and then dismiss the Greenback out of hand as being “toilet paper money,” or worthless.

This is an extremely deceptive and mean spirited affront on truth and logic and leaves out the whole picture. Let us therefore fill in the blanks so the reader can make an informed judgment.

What readers are generally not told was that this low represented a spike that lasted less than a month. It was caused in part by a fear that the country would have a repeat of the inflation of the Continental currency. As soon as Congress let it be known that the total issue would not exceed $450 million the value of the Greenback sharply rose against gold. Here are the facts.

Congress authorized the circulation of Greenbacks on Feb 25, 1862. Their stated value was equal to one dollar in gold. They dropped down to 58 cents by the end of the year, but rose back up to 82 cents about six months later and then back down to the low of 36 cents on July 16, 1864. This low followed the largest release of Greenbacks during the war – $200 million and some were frightened that an unlimited inflationary amount was forthcoming.

Congress stated the total release would be limited to $450 million and put an end to this fear and it rose to 68 cents by December 1865. It rose steadily after that until it became equal with gold in December 1878. If the total issue of new money was limited to Greenbacks during the war the value of the Greenbacks would have held much higher, but often overlooked is the fact that almost $2 billion in war bonds, which was over four times the number of Greenbacks, was the major cause of the inflation of fiat money during the war.

It is interesting to note that this still does not tell the whole story. A small detail left out by the anti-Greenback crowd is that the purchasing power of gold itself fluctuated significantly during the Greenback era.

Now some diehards will claim the value of gold never fluctuates giving their reasoning that an ounce of gold is always worth an ounce of gold. This thinking makes no sense and is like saying a Greenback is always worth a Greenback or a pound of wheat is always worth a pound of wheat. The hard fact is that every currency and commodity fluctuates in value and this includes gold as we illustrated a few pages back.

During the war conversion of notes into gold was suspended so this turned gold into a commodity with fluctuations like wheat or corn. The price of gold in relation to its value compared to commodities at the beginning of the greenback era fluctuated over 200% during the war. Cotton fluctuated much more though because of interrupted flow from the South. Its range of value was 1300%. In other words, it took a lot more gold to buy a pound of cotton near the end of the war than the beginning.

Wages also rose but not as much as the average commodity price or gold. When one takes all these fluctuations into account he must conclude that any indexed value of the Greenback would move like a roller coaster during such turbulent times no matter what happened to gold.

Stephen Zarlenga gives this interesting quote from Civil War historian J. G. Randall:

"The threat of inflation was more effectively curbed during the Civil War than during the First World War. Indeed as John K. Galbraith has observed, "it is remarkable that without rationing, price controls, or central banking, Chase could have managed the federal economy so well during the Civil War."

Here is a partial list of what the Greenback had to overcome.

(1) Almost $2 billion worth of inflationary bonds thrown into circulation.

(2) A Secretary of Treasury that was against their existence.

(3) The fact that almost all the spending of the Greenbacks during the war was for the war itself which added no wealth to the economy. This would be similar to spending money on digging holes and then filling them up again. Nothing is added to wealth.

(4) The fluctuations of wholesale, commodity and labor prices during a fight for survival.

(5) Attacks by big bankers to undermine its value.

(6) Attacks by the Press attempting to bias the people against it.

(7) Counterfeiting attempts

(8) Being associated in the public mind with the Continental currency, which failed for reasons previously noted.

(9) A little known but potent problem the Greenbacks faced were religious fanatics of the time. Many Bible believers thought that gold was a God-sanctioned money and any move to create money not backed by it came straight from Satan. These people created quite a stir and turned many politicians against the Greenback after the war.

These preachers must not have read their Bible very carefully for it doesn't really support their case. Yes, they used gold and silver as money or barter in Bible times but God didn't seem to be thrilled with the idea. Take a look at these scriptures:

"Their idols are silver and gold, the work of men's hands. They have mouths, but they speak not: eyes have they, but they see not: (Sounds like gold and silver coins)

"They have ears, but they hear not: noses have they, but they smell not:

…They that make them are like unto them; so is every one that trusteth in them." Psalms 115:4-8

"Receive my instruction, and not silver; and knowledge rather than choice gold. For wisdom is better than rubies; and all the things that may be desired are not to be compared to it." Proverbs 8:10-11

"He that loveth silver shall not be satisfied with silver." Eccl 5:10

"They shall cast their silver in the streets, and their gold shall be removed: their silver and their gold shall not be able to deliver them in the day of the wrath of the LORD: they shall not satisfy their souls, neither fill their bowels: because it is the stumblingblock of their iniquity." Ezek 7:19

"Neither their silver nor their gold shall be able to deliver them in the day of the LORD'S wrath." Zeph 1:18

It is amazing that the Greenback survived these problems and became a major factor in not only winning the war but inspiring people for a generation afterwards including the creation of a Greenback political party. Now finally, after its seeming demise, interest in the principle behind it is surfacing again.

The confederate currency didn't fare so well as the Greenback.

In 1861 a confederate dollar was worth 90 cents in gold. By 1862 it had gone down to 83 cents and then took a big drop the next year to 29 cents. By 1864 it was worth only 5 cents and by early 1865 was on its way to oblivion at less than 2 cents in value.

The student of history may wonder why the Greenback held on to its value so much better. After all, they were the same type of money in similar circumstances, weren't they?

Not quite.

There were several key differences. The first all important difference is that the Greenbacks were declared by fiat to be money, not a loan or promissory note, but national "legal tender for all debts public and private."

The Confederate notes had no such fiat. Instead, they were promissory notes to be redeemed for something else of value in the future.

The second difference, which is also huge, is there was no limitation set on the number of Confederate notes that could be added to circulation. Whereas the Greenbacks were limited to $450 million the Confederates with no limitation wound up printing $1.55 billion in bills – over three times the amount of the Greenbacks in the North.

On top of this Lincoln took a queue from the British and counterfeited the Confederate dollar and circulated as many as possible in the South. Private counterfeiters also did their share. Their inflation became so bad that the South used Northern Greenbacks themselves to purchase essential goods and services. No one knows how many Confederate dollars were in circulation but judging from their inflation rate, it was several billion dollars worth.

Many students of monetary history believe the Greenback was the best money ever created. Its creation did not depend on bankers or loans and there was no interest to pay to anyone.

During the Greenback/Civil War era Ellen Brown says "the country managed to become the greatest industrial giant the world had ever seen. The steel industry was launched, a continental railroad system was created, the Department of Agriculture was established, a new era of farm machinery and cheap tools was promoted, a system of free higher education was established through the Land Grant College System, land development was encouraged by passage of a Homestead Act granting ownership privileges to settlers, major government support was provided to all branches of science, the Bureau of Mines was organized, governments in the Western territories were established, the judicial system was reorganized, labor productivity increased by 50 to 75 percent, and standardization and mass production was promoted worldwide.

"How was all this accomplished, with a Treasury that was completely broke and a Congress that hadn't been paid themselves? As Benjamin Franklin might have said, "That is simple." Lincoln tapped into the same cornerstone that had gotten the impoverished colonists through the American Revolution."
Web of Debt by Ellen H. Brown, 2008, , Page 82

If we had created Greenbacks in our age rather than borrowing many trillions we would not be paying over $450 billion a year in interest. Instead, we could put that money to good use in keeping the nation solvent.

Maybe we will eventually learn our lesson.

## 8. GERMAN MONEY

Of all the incidents of failed money in history the poster child of bad money is that of the Weimar Republic of Germany in 1923. Unfortunately, this is often used as an example of why fiat money must be avoided like the plague.

Those who put the blame on fiat money make the mistake of lumping all fiat money into one category but as was pointed out earlier there are two categories of fiat money. Here they are again:

(1) Money created by private banks or institutions and loaned out at interest. Most of our national debt is created this way. The Federal Reserve creates the money by fiat and loans it to the government at interest. There are many variations of this category, some fairly workable and others doomed to failure.

(2) Interest and debt free money created or approved by the government.

The Greenbacks that we just covered was in the second category. This has been proven historically to be much more stable than the private fiats that create debt and interest.

The fiat attackers make the mistake of lumping all forms of fiat money together as being equally bad and dangerous. Nowhere is this more apparent than their portraying the Weimar republic's money as being no different than the Greenback.

Most writers talk about the German inflation problem as beginning in 1919 or 1921 but the problem really began at the beginning of World War I in 1914. By the time 1921 rolled around those who were on fixed incomes and depended on savings or government bonds for retirement or security were largely wiped out by the high inflation leading up to that date. From the beginning of the war in 1914 to its end in 1918 prices of consumer goods increased over 200%. By February 1920 shortly after the Treaty of Versailles internal prices jumped over 500% and prices of imported products skyrocketed to 1898% over the 1914 level.

Unfortunately, Germany could not pay off their draconian war reparations with inflated Marks but had to pay them with foreign currency values. This meant that when the Mark lost half of its value it took 200 of them to pay for what only took 100 earlier.

This situation accompanied by unlimited printing from private banks created an inflation slide of historical proportions.

By July 1922 it took 300 Marks to equal one U.S. dollar. By November it took 9000 and by January of 1923 it was a whopping 49,000. That was just the beginning of the sinkhole. By July 1923 the figure was 1,100,000 and by Mid November it reached the legendary 2.5 trillion marks to equal one U.S. dollar. Billion mark notes were traded as almost worthless paper.

It is a blatantly false and disingenuous comparison to compare the Weimar money as being equivalent to the Greenbacks.

Let us examine the differences so the reader can judge correctly.

(1) The Greenback was issued by the government. The Weimar money was issued by private banks – led by the Reichsbank. This was similar to the Federal Reserve, which, contrary to the sound of its name, was privately owned and publicly controlled. May 26 1922 private business was given complete control over the Reichsbank and the issuing of currency.

Most hyperinflation commentators blame the government as having sole responsibility for issuing so much money but it was done through the privately owned Reichsbank and other private issuers of the Mark. The Greenback was not issued by a private or semi-private bank but by the U.S. government.

(2) The Weimar Mark was created by loans at interest whereas the Greenback was created without interest involved.

(3) The Weimar Mark had no limitations on its issue. The Greenback's issue was limited to $450 million.

A heroic German, named Hjalmar Schacht, who became the Commissioner of Currency, finally brought the inflation under control. He prohibited the private banks from creating Marks and established a new Mark – the Rentenmark. The new Mark had a value equal to an astounding $4.2 trillion of the old Marks. He then established guidelines for limited issue and created regulations that dramatically slowed the currency speculation that had been adding to inflation.

Within a year the currency reached an amazing degree of stabilization despite the fact they still had reparations to deal with.

After 1929 a great depression was forced upon most of the world. By 1932 Germany had suffered economic effects similar to that of the United States including a 30% unemployment rate and a 41% dip in industrial production. One could say they were lucky it was not worse considering they had war reparations to pay off.

This was the situation when Adolf Hitler came to power.

Now before I write more about Hitler let me make something crystal clear because many others who have written about Hitler's economic recovery have been maliciously accused of being a Hitler lover or sympathizer. This is not the case with me nor is it the vast majority of writers on this subject.

BUT… there is one thing that is agreed on by those who despise Hitler's philosophy and that is – he was an evil genius.

It's fine with people if you talk about the evil part but as soon as you talk about the genius part there is danger of being lumped with Neo Nazis or worse.

This is unfortunate as we need examine Hitler without blinders on if we wish to neutralize such tyrants in the future.

When Hitler took over Germany on January 30, 1933 Germany was in the middle of a great depression and the little gold they had was storming out of the country. By 1934 they only had 83 million Marks worth of gold, a loss of about 97% of their supplies since 1929.

Basing an economic recovery on gold would have been pure fantasy.

Instead of descending the country further into economic chaos, as many expected, Hitler surprised the world by creating a teeming economic system in a few short years. Between 1933-1938 the Nazi economy grew by 9.5% per year. They built many public works projects such as dams and about 1900 miles of the current autobahn. Housing construction doubled. By 1936 unemployment was over 80% gone and by 1938 it was virtually non-existent for they had more jobs available than there were laborers to fill them.

By contrast FDR and his New Deal was not working so well. In 1938 the United States was in a depression within the depression with unemployment at 19% and many were committing suicide rather than endure a continued struggle.

Some say that Hitler achieved full employment because he borrowed money and put people to work on government projects. That explanation does not cut it because FDR did the same thing yet his economy was in shambles.

What was the difference then?

There were several. Even though Hitler only had a elementary understanding of economics he recognized talent when he saw it. Hjalmar Schacht, who once restored Germany's economy but quit in frustration in 1930, was appointed by Hitler to be the Reichsbank President in 1933. He enthusiastically supported Hitler until the war and later supported Stauffenberg and the resistance to Hitler. He assisted Hitler in creating Bills of Exchange, similar to what the early American colonists did when they had no gold.

This was powerful fiat money, but still had a disadvantage over the Greenback in that they paid around 4% interest and added to the national debt whereas the greenback was interest free.

Even with this disadvantage they were able to put enough money into circulation to revive the economy whereas money was nowhere to be found or borrowed by the common people in the United States at that time.

By contrast it was said that the German "certificates (were) paid out to employers who undertook projects of replacement or maintenance projects. Anyone who equipped a factory with new machines or who had his house repainted could finance his operations with these work drafts…" Konrad Heiden, The Fuerher, (Boston: Houghton Mifllin, 1944, page 662.

Hitler's economy not only did a much better job in making consumers happy and employed but in addition to doing this he built up a military from virtually nothing that challenged everything the banking systems of the whole world could throw at him. This is even more amazing when you consider that France, England and the United States put very little investment in defense until the War because they had just fought the war to end all wars – World War I.

Hitler often bragged about his economic accomplishments in his speeches. Here's just one example:

"When I took over the government, I had only one hope on which to build, namely, the efficiency and ability of the German nation and the German workingman; the intelligence of our inventors, engineers, technicians, chemists, and so forth. I built on the strength which animates our economic system. One simple question faced me: Are we to perish because we have no gold; am I to believe in a phantom which spells our destruction? I championed the opposite opinion: Even though we have no gold, we have capacity for work. The German capacity for work is our gold and our capital, and with this gold I can compete successfully with any power in the world.”

# 9. CONCLUSION

So what would be the basis of the ideal money system? Before we can answer that we should list the ingredients of such a system. If we do not know what we are looking for there is not much chance of finding it.

**(1) Stability**

This is perhaps the most desired feature of a currency, but as we study history we discover that no currency has been completely safe from extreme fluctuations, inflation, deflation, stagnation, manipulation, fraud, degradation, theft, etc.

We have illustrated that even gold and silver money has its own set of problems and gives no guarantee of stability. Yes, it is true that actual gold and silver coins will always have some commodity value, but that value is affected by an increase or decrease in the substance as well as speculation. Remember that one action by President Grant reduced the price of gold from $165.50 to $135 in one day. Then another action by FDR increased the price from $20.67 an ounce to $35 in another day of time.

Yes, yes, I know – that if we had some type of purist system in play and men of Jesus type integrity in office this may not happen but that has never been and not likely to be in the future.

Fiat money also has its own set of problems, Unlike gold and silver it has no intrinsic value but represents value. Its value can be manipulated by the amount of money added to or taken away from the currency system. Usually the problem is inflation caused by too much currency being added and if the presses go too wild there can be a collapse of the money bringing its value close to zero. This insecurity causes many to look to metallic currency in the hope of establishing a stable system.

**(2) Flexibility**

One often hears about the importance of a stable currency, but not so much about the advantages of a flexible one. It is interesting to consider the importance of flexibility in currency, for without this quality stability eventually goes out the window no matter what currency base is used.

Lack of flexibility is one of the major drawbacks of a gold or silver standard. Ironically, advocates tout this lack of flexibility as its major selling point even though this flaw inevitably leads to the undoing of the standard. Let me explain.

Advocates state that a gold system is desirable because it has little flexibility in that the State just cannot magically create additional gold supplies by fiat or out of thin air. New gold has to be mined or acquired from other nations. Since this is a slow process it normally insures against huge bursts of inflation which troubles many fiat systems.

That's a good thing, right? On the surface it seems so. Advocates simply state that all we have to do is stay on the gold system causing the growth of money supply to be slow and stable thus preventing any major inflation.

That sounds good in theory but the historical results have been far from that reality. And why is this?

Because of the lack of flexibility.

And what are the two situations that demand the greatest flexibility?

The first is war or a situation that threatens the very survival of a nation. If a nation has a choice between survival or a period of inflation – which will they choose? The answer is really a no-brainer that seems to go over the heads of gold standard people in their thinking and calculations. The only response I have seen from them on this point is: "IF all nations stayed on the gold standard then they would not be able to raise large sums of money and would be discouraged from going to war."

If? If??? When has this "if" ever taken place except in some fictionalized idealistic future?

The hard-core fact is this. If a nation's survival is at stake, the leaders will seek to raise money by any means necessary, even if the end result is the destruction of the money system. Any people would rather have their currency destroyed than lose their country to a tyranny.

This was the situation in the Revolutionary War. The Colonists had the choice of throwing the gold standard out the window and creating a shaky fiat system that would probably fail or lose their country. There was only one choice for them. If the money system failed they could create another, but if they lost their country all was lost.

The Colonists thus created a flexible money system and won a country at the cost of a currency. BUT the currency problem was temporary and a new start was made. As a result the United States soon became the greatest economic vehicle in the history of the world.

Both the North and the South felt they had to have more flexible money during the Civil War and moved away from gold to fiat money.

In 1914 at the beginning of World War I the international gold standard ceased to function because of its lack of flexibility. During the war the wholesale prices in the U.S., France and the UK more than doubled causing much difficulty in going back on the standard after the war. Attempting to adjust for the deflation caused by returning to a gold standard caused so much economic grief that a full return became impossible and redemption of currency was abandoned a short time later.

These problems caused by the inflexibility of the metallic standard are not peculiar to our age but similar problems have occurred hundreds of times throughout history. During the Roman Empire alone the government faced dozens of economic crises due to a lack of flexibility and this lead to either debasing the currency, plundering other nations or enslaving people to work in government mines.

It is interesting that gold standard fundamentalists place absolutely no blame for currency debasement or economic problems on the inflexibility of the metallic standard but maintain that it is all due to human corruption. If the leaders of nations could have just been pure in their metallic ideology then all would have been well.

While it is true that human frailties do create monetary problems this is far from providing the full explanation. The fact is that every generation or two a nation is presented with a life and death struggle for survival that demands flexibility in currency. If the money is not raised then their way of life will be gone.

It is not human greed or corruption that causes the people of a nation to seek to survive at all costs. It is common sense if their way of life is worth preserving.

The second situation that demands flexibility is a strong economic downturn.

For instance just as the various nations were struggling in an attempt to return to the gold standard we suffered the Great Depression and this pretty much ended the idea of paper money being redeemed for gold.

Powerful economic downturns demand a similar flexibility with currency as does war and if flexibility is not available then war can result. After World War I the winning nations demanded that Germany pay war reparations with gold standard money. This inflexible demand crushed their economy and led to the rise of Hitler.

Spain's economic problems during the time of Columbus led to the plundering of millions of American Indians for the gold and silver.

This leads us to the irrefutable fact that during war or hard times the nations of the world will demand flexibility in their currency. If it is not there they will devise every possible scheme to create it. If they cannot create it then they will plunder their people or other nations and steal it.

Conclusion: A flexible currency is necessary for a nation to see itself through a major crises.

**(3) A Debt Free Currency**

> A third quality a currency must possess is that its creation should not add to the public debt. If our Founding Fathers could see our national debt and the astronomical interest we pay every year they would roll over in their graves indeed. Had they seen our perilous state I'm sure they would have added a couple new paragraphs into the Constitution in an attempt to steer us on a better course.

We've already covered the fact that it is an insane idea for our government to pay private enterprise to create our money and loan it to us at interest when we the people can create debt free money for ourselves through our elected representatives and then owe nothing on it.

Wouldn't it be great if our nation had a currency that fit in the guidelines of these three criteria: (1) stability, (2) flexibility and (3) debt free?

Is such a currency possible? I think it is.