

# Sound Money Review

*First Edition | 2026*



*Presented by Money Metals Exchange , Sound Money Defense League, and Sound Money Foundation*



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First Edition | 2026

*Advancing the Principles of Sound Money*

*Published by Money Metals Exchange, Sound Money Defense  
League, and Sound Money Foundation*

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First Edition

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## Money Metals Exchange

*Savvy, self-reliant investors have embraced Money Metals Exchange as their trustworthy, low-cost source for gold and silver bullion coins, bars, and rounds.*

*With over one million customers, Money Metals also operates one of the largest precious metals depository in North America and has been rated the “Best Overall” precious metals dealer by Investopedia, a global financial industry authority.*

## Sound Money Defense League

*The Sound Money Defense League is a non-partisan public policy group working nationally to restore sound money at the state and federal level.*

*Founded in 2014, the Sound Money Defense League works with allies in elective office to introduce legislation to remove taxation on gold and silver, empower state treasurers to invest state funds in gold, audit the nation’s gold reserves, auditing the private bank cartel that has been delegated government power (known as the Federal Reserve System), and otherwise support recognition and use of sound money.*

*Through aggressive grassroots citizen action, the Sound Money Defense League works to expose the global money managers running the Federal Reserve and the tax-and-spend politicians who undermine the U.S. economy by supporting crushing debt, crony bailouts, and reckless money printing.*

## Sound Money Foundation

*The Sound Money Foundation is pioneering principles of sound money through education, research, and other collaborative advocacy efforts.*

*The Foundation aims to expand the research and discourse surrounding sound money, gold standards, and free-market monetary systems. By actively participating in, as well as funding, scholarly research to highlight the shortcomings of centrally planned economic systems and develop a deeper understanding of sound money nationwide.*



# Foreword

It is my great honor to present the inaugural *Sound Money Review* – a brand new, one-of-a-kind compendium dedicated solely to advancing and immortalizing principles of sound money.

Filling a sorely needed gap, this new annual publication seeks to curate and highlight compelling and relevant research pertaining to sound money. The *Sound Money Review* will serve as a platform for scholars, intellectuals, and others interested in sound money.

We hope to bridge the gap between the wisdom found in previous research and experience as it regards sound money policy and contemporary economic challenges.

Our anthology will include in-depth analysis from economists, historians, legal experts, and today's thinkers. By synthesizing these subtopics under the larger umbrella of sound money, these contributions will comprise a collection of foundational writings on this under-researched, but vitally important, topic.

Starting in 2025, Money Metals Exchange, Sound Money Defense League, and Sound Money Foundation teamed up to present the Sound Money Fellowship. The Sound Money Fellowship is the nation's first program specifically designed to support graduate, post-graduate, and independent researchers dedicated to advancing the scholarship and understanding of sound money across the globe.

Through this fellowship, participants will produce original research and writing that contributes to the study of sound money and its historic, economic, and social implications, fostering renewed discussion in this ever-important field.

The first edition of the *Sound Money Review* will feature original work from the first Sound Money Fellow, Joakim Book. Book's work focuses on reimagining financial practices under a sound money system.

In addition to showcasing our Sound Money Fellow's work, the *Sound Money Review* incorporates important research papers and thought pieces furthering the understanding of gold standards, monetary systems, and sound money generally. This year, we're thrilled to include Lawrence Reed's "*The Abuse of Money*," chapter six of Hans Sennholz's excellent book, *Money and Power* titled, "*The Gold Standard*," Kristoffer Mousten Hansen's "*The Populist Case for the Gold Standard*," Edwin Vieira Jr.'s "*Some Observations on the Legality of 'Alternative Currency' in the United States*," and "*On The Origins of Sound Money*" from our very own Joshua D. Glawson.

These writings examine the historical, social, and legal considerations of gold as money, free-market monetary systems, and more.

Money is one of humanity's most profound communication tools. Other than perhaps the spoken word, money is among the most instrumental tools that allows individuals and societies to signal interest, endorse ideas, show support, withhold support, and otherwise value economic priorities. This underscores the crucial need that money be stable, predictable, and honest. Central bank interventions and fiat's excesses distort and pervert this tool, and thereby undermine freedom, prosperity, and economic output.

There have never been more eyes attuned to the problem of the Federal Reserve System and central banking in general than today. In addition to enacting meaningful policy changes across the nation, we are thrilled to pioneer this collection, adding yet another resource that inspires further research, debate, and actionable solutions in search of a better monetary system. We hope you'll enjoy this edition of the *Sound Money Review*.

-Jp Cortez  
Executive Director, Sound Money Defense League

# Meet Our 2025 Fellow: Joakim Book



Joakim Book is a professional editor and writer with a passion for monetary economics and financial history, and a 2025 Sound Money Fellow conducting advanced comparative analysis of economic history and financial behavior under a gold standard in 19th-century Britain and America versus current times.

He holds a Master's degree in economic history from the University of Oxford, and a joint undergraduate degree in economics and economic history from the University of Glasgow. He has been a research fellow at the Mises Institute and the American Institute for Economic Research and writes regularly for Mises Daily, The Daily Economy, and other publications.

## Sound Money Fellowship Highlights:

Golden Hiccups in our Modern Financial System: <https://www.moneymetals.com/news/2025/02/26/golden-hiccups-in-our-modern-financial-system-003867>

Government Money Incentivizes Debt: <https://www.moneymetals.com/news/2025/02/27/government-money-incentivizes-debt-003873>

The Re-Emergence and Death Knell of Century Bonds: <https://www.moneymetals.com/news/2025/04/16/the-re-emergence-and-death-knell-of-century-bonds-003989>

The Logic of Debt Under Fiat: The Student Edition: <https://www.moneymetals.com/news/2025/05/14/the-logic-of-debt-under-fiat-the-student-edition-004063>

# Government Money Incentivizes Debt

*By Joakim Book*

In a monetary economy, the money layer “exists on top of” real economic decisions, actions, and processes.

When the money layer faithfully mirrors the underlying real economy, it maximally serves its purpose; a stable, neutral, non-distortionary money allows us to plan our economic affairs, make economic calculations, engage in financial contracts, and save for the future.

When the monetary layer fails to achieve its role, it makes all those actions harder to navigate, causing a real drag on our economic behavior—with the unfortunate outcome that we’re all poorer for it.

We find it harder to make commerce, engage in mutually beneficial contracts with employers or clients, or save for old age. We must constantly reassess and renegotiate our contracts and wages, even switching jobs every few years to make real headway.

But the most immediate consequence, known to anyone who has ever had a little bit left over from their earnings, is that you cannot save in the “money” used today.

Whether the physical notes in your wallet or the digital bank account representations thereof, over time, they yield a saver fewer goods and services. The outcome for us in the 21st century, and for most of the 20th century, is that we must constantly chase returns on the funds we have already earned.

We become, so to speak, part-time managers of our own finances, having to maximize interest on bank accounts, invest spare funds in the stock market, set savings aside in tax-favored retirement accounts (again consisting mostly of paper stocks), or lend funds to the government against fickle and unreliable promises that we will get back what we put in—tomorrow or in 40 years.

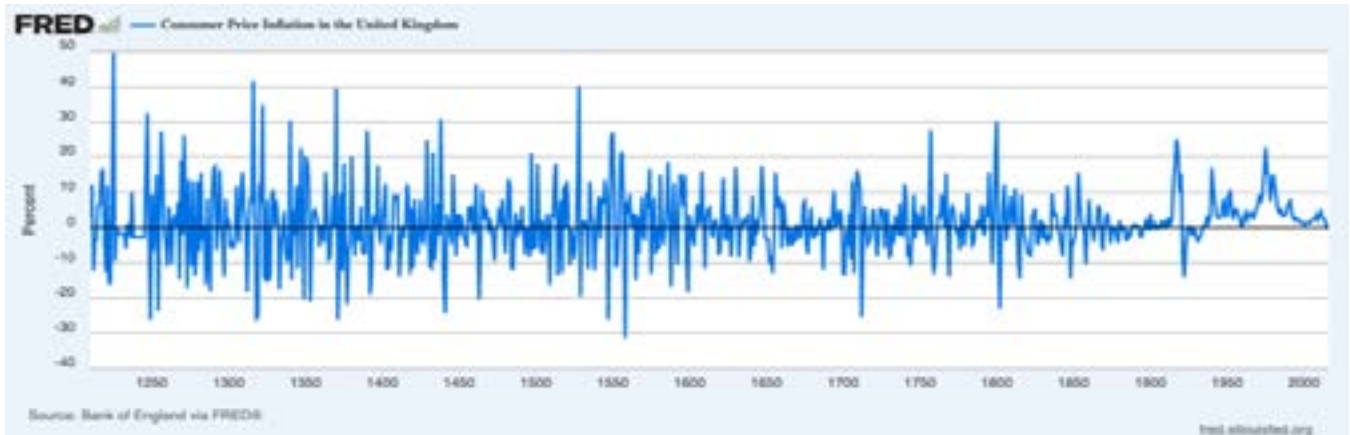
This is the outcome of a very different world than that for most people and nations up until comparatively recently.

For all of the Bank of England’s 800-year plentiful price history for England/Britain/the U.K., we see aggregate prices bounce up and down greatly—as one would expect from underdeveloped and largely agricultural economies subject to random harvest surpluses and misfalls.

What is astonishing to a modern eye is that from 1210 to around 1934, there is no trendline. There are years where prices explode upward, most likely due to some real economic event (poor harvests or wartime constraints), followed by years of price declines (improved harvests and/or end of wars).

This is precisely what we would expect from a commodity-based monetary system with credible commitment: A gold standard—a monetary order where gold is the base money or the monetary unit is tied directly to a quantity of gold—constrains monetary affairs such that prices over time are mean-reverting.

The exploration and inflow of gold accelerate when prices are low; they slow down when prices are high. Over time, the real value of a unit of money remains flat. Trendless.



Beginning in 1934, British prices never again fell. There’s a concrete regime shift, where prices after this point had an upward trend—forever.

That makes it harder to forecast the value in the future of today’s income, a given sum of money, or a contract, since even small forecasting errors around a stated target (such as the 2% inflation target favored by most central banks) add up over time and push the saver far off course.

The American experience is less clean, but the principle still holds. Prices here gradually fell until the 1860s, when they shot up during the Civil War, came down afterward, and continued their slow, secular, downward trajectory.

They hit a low point in the 1890s, and increased somewhat up until World War I—a price level experience it shared with the rest of the Atlantic world, having much to do with the shared monetary base (gold) and the gold mine discoveries in Western Australia (1885), South Africa (1886), and eventually the Yukon Territory (1896).

After the Great Depression and the first complete detachment of money from gold, America followed Britain and other industrialized nations into the fiat century, where the price level has a consistent but greatly variable and unpredictable trend—and erratic and varying inflation rates punctuated by once-a-decade bursts of money printing.

This is not a natural economic world, and, it is not inevitable either. Our savings behavior and the assets we use to move economic value forward across time are directly related to the monetary regime under which we live.

When the money itself doesn’t work to safeguard future value, people use (“monetize”) everything else that’s liquid enough—paintings, rare wine, houses, stocks. Our houses become ATMs, our mortgages a way to short the currency; these behaviors have distortionary effects, most obviously by using condos and apartments in our largest cities for storing economic value rather than providing shelter for their owners, or a financial sector much larger than it would have been under a harder money.

The perverse conclusion, contrary to all prudent savings advice up and down the centuries, is for individuals to hold the maximum amount of debt they can carry and to never, ever, hold money (i.e., fiat currency)—the very object whose socioeconomic function is to move economic value across time and place.

The backdrop of a broken monetary regime is the underappreciated variable in many current political and social disputes.

Until we pay attention to how today's monetary regime is different from all that came before it, most current topics of a fiscal or macroeconomic nature won't make sense.

To paraphrase James Carville, Bill Clinton's strategist during the 1992 election, only a little: It's the money, stupid.

# The Resurrection of Savings: Reimagining Financial Practices Under a Sound Money Standard

*By Joakim Book*

**ABSTRACT:** This paper explores how monetary regimes influence savings behavior, comparing prudent practices under three 19th-century sound money standards to distill what lessons translate to the modern fiat-money era. The core evidence comes from historical case studies under commodity money regimes in Sweden and the U.S., plus Britain, with special emphasis on its particular history of Consols (perpetual government debt). The paper shows how the gold standard's stability allowed ordinary households to save via simple means, e.g., bank deposits for life-cycle events, stable financial instruments for income, or company ledgers for instances of dearth of money — without the need for elaborate financial speculation.

Investigating banking customer behavior yields insights into how reverting to sound money would resurrect simple, stable saving strategies, rendering dominant fiat financial advice (e.g., avoiding cash, maxing out tax-advantaged stock portfolios) obsolete. Instead, savings once again become conducive to coordinating economic decision-making, moral discipline, and societal flourishing.

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In all times and across all ages, humans have saved.

Sometimes that has taken the shape of physical surplus of grain, held between harvests, or the storing of value via living cattle. At other times, metallic money stashed away has formed the basis for a household's wealth, confident that a monetary economy stood ready to provide goods and services in exchange for that money when so required.

In the heyday of the British Empire, perpetual bonds called Consols were the financial instrument of the day—divisible, highly liquid, and with an interest rate that could reliably supply even a widowed wife or orphaned child with income for the rest of their lives.

How we save is directly related to the monetary regime we're in and the fiscal and economic rules forced upon us. The modern fiat money economy has led our world to use everything except money for the purpose of shifting economic surplus forward in time—which is, socially and economically speaking, the very function money exists to serve.

To the extent that an economy's savings and material surplus is the foundation of a flourishing civilization<sup>[1]</sup> America in the fiat age has been decivilizing. When sound money died at the beginning of the 20th century, savings and saving practices died with it. Today's saving strategies amount to buying second homes and filling them with expensive art and whiskey, plunging surplus cash into stocks and bonds, and maxing out our tax-favored pension plans, such that each piece of savings at all times is “working.” If you don't do this, you become the “sucker” at the monetary table, your monetary surplus siphoned away via inflation and monetary debasement.

The structure of fiat money turns ordinary savers into involuntary investors.

When a more sound money one day returns, we must reconsider the savings practices of old: How we think, how we earn, how we retire, and how our economies approach financing real investments.

We can envision what financial life looks like on sound money by looking at what these practices were like last time humanity had a secure and sound monetary regime to rely on.

This paper examines how monetary regimes shape savings behavior, contrasting historical practices under sound money standards with modern trends in the fiat money era. Drawing on historical evidence from 19th-century Britain, Sweden, and the United States, it argues that fiat money has transformed savers into involuntary investors, prioritizing

speculation over stability. The research summary provided here hypothesizes that a return to a sound money standard—such as under past commodity-backed currencies—would revive prudent savings practices, such as holding cash or investing in liquid, secure, long-term instruments with predictable payouts for income.

By revisiting historical savings strategies and their socioeconomic contexts, I explore how a sound money regime could reshape financial behaviors, rendering fiat-based advice—such as maximizing debt and avoiding cash—imprudent or harmful.

### **Introduction: The Relevance of Lost Financial Wisdom**

In the 2014 movie *The Gambler*, Mark Wahlberg’s character, a down-on-his-luck gambling addict, approaches a loan shark (“Little Frank”) for money. Frank humors Wahlberg, and explains that once you get to a certain position of financial adequacy, “any [expletive] in the world knows what to do”—before he starts listing some safe investments, including a house with a 25-year mortgage, and a bunch of assets returning 3-5% to pay your taxes (“That’s your fortress of ... solitude”).

The major problem of structurally inflationary economies is that most participants *don’t* know what to do, and even if they did, they wildly differ in their skills and abilities to do it. Even with the best of executions, the randomness and erratic behavior of the fiat money system would make its outcomes highly unreliable.

Writes Mexican billionaire and businessman Ricardo Salinas in a recent book, “The losers in inflation are the financially illiterate who do not know how to invest their savings into hard assets, and the poor who do not profit from rising asset prices.”<sup>[2]</sup>

Contrary to what many scholars and students in larger libertarian or sound money circles typically presume, John Maynard Keynes’ early writings on money are excellent (On occasion, similar notions occur in the *General Theory* as well).<sup>[3]</sup> Especially in “Economic Consequences of the Peace,” from 1919, he echoes the groping-in-the-dark element

of societal redistributions and inability to calculate under a socialist planning economy that Ludwig von Mises thoroughly analyzed around the same time.<sup>[4]</sup> Stemming directly from uncertain and unpredictable changes in the money supply, we get an unfair redistribution of wealth and income that “engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose.”<sup>[5]</sup> It’s worth quoting this extract from pre-*General Theory* Keynes at length:

“By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method, they not only confiscate, but they confiscate *arbitrarily*; and, while the process impoverishes many, it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the equity of the existing distribution of wealth. [...] As the inflation proceeds and the real value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless; and the process of wealth-getting degenerates into a gamble and a lottery.”<sup>[6]</sup>

Other scholars have also honed in on the cultural consequences of (fiat) inflation as a destructive economic force that undermines the moral, social, cultural, and spiritual fabric of society:

“The government’s fiat makes inflation perennial, and as a result, we observe the formation of inflation-specific institutions and habits. Thus, fiat inflation leaves a characteristic cultural and spiritual stain on human society.”<sup>[7]</sup>

In contrast, our current fiat money era, the savings advice for anybody (income-earners in their peak earning years or those entering adulthood alike) remain fairly simple: Carve out a difference between incomes and expenses, and invest that surplus in a mixed portfolio of stocks and bonds; hold them in tax-favored accounts such as IRAs or 401(k)s in the U.S. (or ISAs in the U.K., or similar such tax-optimized vehicles elsewhere).

For almost everyone but the most dedicated speculators or those genuinely interested, just leave the “savings” in broad, passively invested index funds. When settled enough, the wealth-maximizing strategy for any household is to get the largest mortgage you can comfortably carry (and that a bank will allow) while paying the minimum necessary.

The same goes for other types of debt; no need to concern too much for the real value of debt, since inflation will take care of it.<sup>[8]</sup> Mind the platform fees, fund management fees, or brokerage fees, but otherwise ride the ever-increasing upward trend of asset prices into a comfortable financial life.

In fact, all of these mechanisms aspire to achieve the same thing: get *out* of money as soon as possible. The money incentives are structured such that, whether you like it or not, every economic actor must minimize cash and maximize debt.<sup>[9]</sup> Under ever-depreciating fiat currency, the universal, natural-order virtues of thrift, of creating a little something for one’s future self, or living below one’s means, are replaced by their exact inverse. Borrowing becomes not primarily a means for making productive, entrepreneurial investments or smoothing out consumption across periods of volatile incomes, but to *short the currency*.<sup>[10]</sup>

On its face, that’s an odd outcome since money’s sole socio-economic function is to move value between the time of production and the time of consumption.<sup>[11]</sup> How did we collectively land in a financial and monetary environment where the best strategy and most commonly given financial advice for saving is to *not* use the thing most suited to the task?

Everybody knows (“knows”) that inflation eats the purchasing power of cash balances, including those held in bank accounts. The rate of interest paid on whatever amounts are held in bank accounts rarely outstrips the ever-rising prices. In the richest, most flourishing nations in modernity’s most well-off civilizations, we’ve all been turned into part-time financial speculators.

## A Monetary Order

In a monetary economy, the money layer exists on top of real economic decisions, actions, and processes. When the money layer accurately and faithfully represents the underlying “real” economy, it maximally serves its purpose; a stable, neutral, non-distortionary money allows us to plan our economic affairs, make economic calculations, engage in financial contracts, and save for the future.

When the monetary layer *fails* to achieve its role, it makes all of those actions more perilous, causing a real drag on our economic behavior, with the unenviable outcome that we’re all poorer for it. We find it harder to make commerce, engage in mutually beneficial contracts with employers or clients, engage in child-rearing or raise families, or save for the future.<sup>[12]</sup>

The most immediate consequence is that a person *cannot hold* money. Whether the physical notes in a person’s wallet or the digital bank account representations thereof, over time they yield a saver fewer goods and services. The readily available consequence for us in the 21st century (and for most of the 20th century) is that we have to constantly chase returns on the funds we have already earned. We become, so to speak, second-order and part-time employees of our own finances, having to maximize interest on bank accounts, invest spare funds in the stock market, set retirement savings aside in tax-favored accounts (again consisting mostly of stocks), or lend funds to the government against mere promises that we will get back what we put in.

This is the outcome of a very different world than for most people and nations up until comparatively recently.

Writes economist Josh Hendrickson, about inflation and the monetary misperception it leads to:

“This is one under-appreciated aspect of something like the gold standard. Under the gold standard, things were priced in terms of dollars, but the dollar was defined as a particular quantity (and quality) of gold. Price changes thus always reflected the relative scarcity or abundance of

a particular good relative to gold, even during periods of inflation. The mean-reverting nature of the price level under the gold standard often meant that most price changes were relative price changes. In addition, this mean-reverting nature of the gold standard also meant that dollar prices retained their informational content. At the very least, the long-term stability of prices over time made economic coordination across time easier.”<sup>[13]</sup>

### **Historical Savings Practices Under Sound Money Regimes**

*“Never be in debt sixpence.”*  
*(William Marsh, The Poor Gentleman’s Book, 1835)*<sup>[14]</sup>

Because transactions involving outside money, like coins, or inside money in the form of bearer-asset bank notes, investigating savings patterns of the past forces us to look at the scant records left behind. Records means, largely speaking, banks or various life insurance arrangements; and the emphasis here on sound money necessarily suggests the gold standards of the 19th century—“a period for which our knowledge regarding savings patterns is relatively limited”<sup>[15]</sup>, but close enough in time that historians have enough material to work with.

That survivability bias is far from ideal from a scholarly point of view, but it still provides glimpses of monetary activity. Given that history unfolded as it did, it’s hard to expect cash transactions that don’t leave traces to be available to historians a century hence. Approaches that try to quantify national savings from a macro level fail to get at the rationale *behind* the microeconomic choices made and the structures that incentivize households into specific choices.<sup>[16]</sup>

For our purposes here, the 19th century is also the most recent instance of a pure, proper metallic monetary standard, with its moral and financial implications thoroughly spread throughout society. Under the sound money regimes here considered, savings were characterized by stability and simplicity—more attuned to money’s role as delayed consumption rather than as a speculative vehicle.

The financial flows and investments across the world during the First Globalization reflected investments by investors, specialized merchants, or aristocratic “old” money rather than forced, matter-of-course passive flows from ordinary savers.

In 19th-century Britain, trustee savings banks, such as those in Limehouse, Newcastle, South Shields, and Bury, enabled working-class households to save for precautionary and life-cycle motives, such as illness, old age, or major purchases.<sup>[17]</sup>

These burgeoning banks operated by financially intermediating British high finance (London merchant banks, the government, the then-still private Bank of England) and small-scale, everyday savers.

In Sweden, a cash-strapped and largely backward economy until its growth miracle in the latter half of the 19th century began, workers and farmers in mostly rural areas often relied on their employer as a sort of proto-bank, custodying their wages in exchange for bank-derived (or business-derived) future returns. Rural families often stored wealth in tangible assets (e.g., land, livestock) rather than cash, and saved up for such purchases via ledgers with their employers or, if in more urban areas, the flourishing and developing banking infrastructure.

In the United States, mutual savings banks, such as the Philadelphia Savings Fund Society (PSFS) and the Freedman’s Savings and Trust Company, catered to diverse populations, including Black Americans in the post-Civil War South. The Freedman’s Bank allowed deposits as low as five cents, with an average balance of less than \$60, serving farmers, cooks, and barbers saving for land, business ventures, or economic shocks.<sup>[18]</sup> These institutions lent to local businesses or municipalities, often secured by land, fostering community-based economic stability.<sup>[19]</sup>

In all three jurisdictions, surviving savings bank records indicate that workers optimized savings for life-cycle and precautionary purposes, often making many consistent deposits but only singular, large-scale withdrawals, i.e., for (presumably) the purchasing of homes, farms, weddings, durables, or in the case of Sweden at this time, a ticket across the Atlantic to start over in the New World.

The overlapping behavior and similarity in outcomes across jurisdictions that were otherwise very different and followed unique economic trajectories point to an agreement in action under a shared monetary regime—commodity money, specifically the classical gold standard. If savings behavior is similar across countries, cultures, and continents where the common denominator is the money, we’re in a better position to conclude that these are direct outcomes, even natural outcomes, of that monetary regime. What follows is a rundown of relevant literature on savings and savings behavior in nineteenth-century Britain, Sweden, and the U.S.

### **The British Experience: Consols, Cash, and Savings Banks**

*“Today’s debts weigh more heavily on the mind than tomorrow’s prospects.”*

*Paul Johnson, Saving and Spending<sup>[20]</sup>*

In Britain, trustee savings banks served as cornerstones for working-class savings, designed to protect the working poor from financial precarity due to illness, injury, or old age.<sup>[21]</sup>

The British savings banks of the 19th century were a case of missing markets coming alive. In a growing nation with the first noticeable semblances of modern economic growth, surplus in the form of monetary assets crept further and further down the social ladder. But modest-income households (artisans, domestic servants, etc.) usually lacked access to commercial banking — too poor, unconnected, or unrespectable to maintain an account with the Bank of England or the major financial houses of London. Following Henry Duncan’s bank in the early 1800s and more institutionally through the Savings Bank Act of 1817, Britain saw local savings institutions mushroom everywhere.

For example, even on low incomes, working-class parents saved for their children, and often maintained low-balance accounts (up to £30 annually) to secure future opportunities such as apprenticeships or dowries.<sup>[22]</sup> This discipline was reinforced by cultural norms, as seen in *The British Workman’s* “Pay Night” columns, which celebrated frugality and thrift as virtues of the working-class housewife.<sup>[23]</sup>

Consols, perpetual bonds issued by the British government, underpinned much of this system, offering a secure, interest-bearing option for savers.<sup>[24]</sup>

Martin Slater ably guides us through the confusing mishmash that is the 18th and 19th century English public finance, but what emerges by 1757, after Pelham’s consolidation of government debt, is two main securities: the Consolidated 3% Annuities (and the ‘Reduced annuities’), affectionately named ‘Consols.’ These were permanent government bonds with annual interest payments of 3% (of their par value). Lacking a maturity date, the holder of these securities could expect the government to keep paying the stated interest for all future—or at least *its* future existence.

Market forces, and the by-then active financial market of London, traded these instruments up or down depending on macroeconomic changes or wartime events—thus, the effective yield stemming from the instrument’s fixed income became the country’s, and by extension, the world’s, risk-free rate, and a widespread indicator for macroeconomic stability. Since the Consols were the most dominant asset on the largest financial market in the world, their price became “the single most important asset price in the world economy.”<sup>[25]</sup> It’s why authors and novelists like Jane Austen could write about, and have her characters display, a most proficient understanding of money markets without ever explaining them. In its late February 2025 issue, the magazine *The Economist* referenced precisely this most cherished of Georgian English high literature:

*“A single man of large fortune; four or five thousand a year. What a fine thing for our girls!”*

In *Pride and Prejudice*, Jane Austen did not have to explain to the 19th-century reader what Mr Bingley’s “four or five thousand a year” meant, or why it excited Mrs Bennet. It was obvious.<sup>[26]</sup>

The existence of the Consols and their widespread use is testimony to the era’s trust in stable money. To paraphrase Samuel Johnson, nobody but a blockhead ever held securities earning 3%—except if the monetary regime is stable and credible.

For all of the 800-year price history for England/Britain maintained by the Bank of England, we see aggregate prices greatly bounce up and down as one would expect from largely agricultural economies subject to random harvest outcomes. What's noticeable is that from 1210 to around 1934, *there is no price trendline*.<sup>[27]</sup> There are years where prices explode upward due to some real economic event (poor harvests or wartime supply or trade disruptions), followed by years of price declines (improved harvests and/or end of wars, with governments paying down debt).

Beginning in 1934 and with very few exceptions, British prices never again fell; there was a concrete regime shift, where prices began having an upward trend—forever. This is precisely what we would expect from fiat-based money versus a commodity-based monetary system.

Gold standards constrain monetary affairs such that prices over *time* become mean-reverting, whereas fiat monies have ever-increasing prices.<sup>[28]</sup>

When, for example, parents saved for children, they did so by depositing banknotes or coins or taking out life insurance policies—practices that by the 17th and 18th centuries were both already fairly standardized across Britain.<sup>[29]</sup>

In *Saving and Spending: The Working-Class Economy in Britain 1870-1939*, Paul Johnson comprehensively walks through the importance of life policies, “the most popular form of working-class saving.”<sup>[30]</sup> It's an economically clever arrangement, since life policies from the point of view of the saver are real rather than monetary; they're immune to general price increases since such policies usually stipulate a specific good delivered in kind (a lump sum of money, sometimes, but more commonly burial expenses).

Per the burial costs cited by Johnson, the nominal cost of burying a working-class adult went from £5.75 in 1870 to £22 in 1937, for a compound growth of about 2% a year. It increased as a share of income, too, from about 7x weekly earnings (of an unskilled male worker) to 9x. “The most common way to cope

with the inevitable financial burden of death was to take out some form of life assurance,” Johnson summarizes the development.

*“At a time when markets for financial and liquid physical assets either did not exist or were unreliable, intertemporal reallocations of income were accomplished by relying upon reciprocity and implicit contracting with family members.”<sup>[31]</sup>*

On the banking side of things, the system of small, widespread, and conservatively financed savings banks and penny banks as a whole “arbitrated” the yield and steady income from Consols—high finance, large sizes, center of the economic empire—to the interest paid on minuscule deposits in every corner of the land. It constituted a decentralized financial vehicle of nationwide savings, built layer by layer from the penny banks to the London money market.<sup>[32]</sup>

From the Limehouse Savings Bank Records in the 1830s, we learn that many accounts functioned as short-term cash safekeeping rather than long-term accumulation. Friday paydays were recorded in on-site factory “mini savings banks,” where workers could deposit portions of their weekly pay directly to a ledger.

Overall, depositor data from small-scale banks reveal deliberate strategies: cyclical patterns of small, regular deposits followed by intermittent withdrawals, often tied to paydays or seasonal needs.<sup>[33]</sup> Similarly, in the Glasgow bank panics during the 1847 and 1857 financial crises, we have detailed records of working-class savers using savings banks for short-term liquidity and, occasionally, accumulation via depositing as little as a penny at a time.<sup>[34]</sup>

Surveys of bank accounts in the early 1900s showed that the vast majority of account holders made very little use of them—“possibly because of apathy,” suggests Johnson, but quite reasonably also for “fairly immediate ends like summer holidays.”<sup>[35]</sup>

The historian Emma Rothschild shows that for thinkers like Adam Smith, saving was not merely economic optimization but rooted in moral

dispositions—thrift, prudence, and foresight. Smith valued habits of saving as part of a civic education: they shaped responsible, financially independent citizens. Individuals saved not only from material uncertainty (future income shocks) but also psychological turbulence — precaution as a buffer against institutional unpredictability.<sup>[36]</sup>

As for cash holdings at home, by nature of the evidence, it's difficult for historians to get a gauge for how much savings households had. One survey, from Coventry in 1941, suggested that some 15 percent of working-class homes held about £5 at home.<sup>[37]</sup> Another indicator, though circumstantial, for such unknowable information is reports from, e.g., the aftermath of the Glasgow blitz during World War II, when a number of people showed up to banks with crumpled and damaged suitcases of cash, indicating that *some* cash savings were taking place.

Across much of Europe, the scant savings of the working class or the more respectable sums among the middling sort were mostly kept in liquid assets: in specie coins at home or in savings institutions, or in illiquid form such as land or homes.

“There is a strong tendency, especially among [the unskilled], to think of saving as a way of putting aside a cash sum,” summarizes Johnson.<sup>[38]</sup> *Saving* meant delayed, withheld, unspent consumption, not an investment or any sort of interest-earning source of additional income generation that we would instinctively think of today.

### **The Swedish Experience: Rural Resilience and Proto-Ledgers**

In Sweden, savings practices at Bredsjö ironworks in the Bergslagen region (1830-1899) and Falun private banks reflect some similarities to Britain, to which it, under the gold standard, was connected in trade. Workers in Bredsjö deposited their wages directly with the ironworks, which offered 5% interest on savings accounts without charging interest on debts, functioning as an accessible “bank” compared to distant savings banks open only a few hours weekly.<sup>[39]</sup> Settlement books reveal a near-barter system, with commodities deducted from wages and minimal cash circulation as late as the mid-1800s, when savings

banks became more widespread under Sweden's free banking era.<sup>[40]</sup>

Women, particularly older or well-to-do women, were frequent and long-term savers in these banks, often maintaining accounts for over 25 years, while parents often opened accounts for children, mirroring the British practices described above.<sup>[41]</sup> Savings increased after age 40, remaining stable until about age 68, as workers continued employment, supporting life-cycle and permanent income hypotheses (e.g., starting with Friedman 1957<sup>[42]</sup>, which is explicitly why Larson looked at this period).<sup>[43]</sup>

In a study of Falun's savings bank, Kristina Lilja showed that women not only were more frequent savings bank customers but also had a more long-term saving strategy than men.<sup>[44]</sup> It was also common that parents opened savings bank accounts for their children, a practice echoed in England.

Voluntarily withholding wages was a common practice, and efficient for both parties in a cash-strapped economy: the company accounted for a ledger entry instead of paying out scarce cash, and the worker received a bank-like deposit at the place of daily occupation, where the nearest bank branch would be hours away.<sup>[45]</sup>

The employees in Bredsjö took everyday goods from the ironworks' own shop, the cost of them later subtracted from their wages, with the balance transferred to the next year's books. In rural areas like this, monetary funds were often absent, the dearth of cash and “The Big Problem of Small Change” instantiating itself once again.<sup>[46]</sup> Larson considers the depreciation of money as another emphasis for bank balance savings:

*“Depreciation of money is another problem, which the theory fails to discuss, but which is important for the analysis of individual savings. The twentieth century has supplied us with several examples of a lowered tendency to save in periods of heavy inflation. The best example is the German hyperinflation of the interwar period. The yield of traditional saving did not keep up with the inflation, and capital saving was thus considered*

*unwise.*"<sup>[47]</sup>

"It is obvious," concludes Larson, "that the company upheld the position as a bank for the employees, giving them 5 percent interest rate for capital." Both the life-cycle and permanent income hypotheses are consistent with the savings behavior he observed in rural 19th-century Sweden.<sup>[48]</sup> Further:

*"The average savings increased after the age of 40, and saving was then—with some exceptions stable until the age of 68. The fact that the saved capital did not begin to shrink before, was an effect of workers continuing to work for the company despite their higher age."*<sup>[49]</sup>

Bredsjö Ironworks mostly operated as a shared (employee-employer) *ledger*; in a pre-banking setting with little to no cash available, such arrangements are "economically" efficient.

### **Antebellum and Postbellum American Banking Practices**

In much of money-strapped America, savings approximated the way human societies and civilizations have "saved" for eternity — in capital goods, tools, and physical storage. Outside the major urban areas, America had scant coins and, before free banking eras, fewer banks. Mutual savings banks emerged first in the major cities (New York, Philadelphia, Boston) beginning in the early 1800s. Savings behavior displayed life-cycle and precautionary patterns: Younger households saved less, while older or more stable earners saved more. They used a mix of savings banks, life insurance, building and loan associations, and fraternal societies to meet different motives and liquidity preferences.<sup>[50]</sup>

The price level in American history displays some major differences compared to Britain (or Sweden); here, the stark development in aggregate prices in Britain followed a different, more banking-induced, volatile story. Modern price indices show a gradual fall of prices until the 1860s, when they shot up during the Civil War, came down afterward, and continued their slow, secular, downward trajectory. They hit a low point in the 1890s, and increased somewhat up until World War I — a price level trend

it shared with the rest of the Atlantic world, having much to do with the shared monetary base and the gold discoveries in Western Australia, South Africa, and the Yukon territory.<sup>[51]</sup>

After the Great Depression and the complete detachment of money from gold, America followed Britain and other industrialized nations into the fiat century, where the price level has a consistent trend, though greatly variable and unpredictable.<sup>[52]</sup>

For much of its history, America and the former British colonies were primarily agricultural economies. Savings were informal, small-scale, and institutionalized, often with troublingly little access to monetary media.

Tamara Harevens' accounts in *Family Time and Industrial Time*, an early example of time use surveys and work patterns in New England, show that immigrant communities relied on ROSCA-type saving devices for moving value across time.<sup>[53]</sup> Rotating savings and credit associations, as described by Peter Kiko Kimuyu, "are used to compensate for failures in existing formal financial markets that result from the inability by rural lenders to screen successfully rural loan applicants and enforce credit contracts due to pervasive information asymmetries."<sup>[54]</sup> By setting aside funds and mutually allowing one party to the association to make a major purchase or invest in durable goods, enforced via social (often familial) bonds, they allow even low-income communities in poor environments to move economic value forward. The returns, if considered such, take place in the group's combined increased economic well-being over time — whether as a consequence of the purchases made or aggregate, background economic growth.

What Harevens shows is that savings practices often follow familiar strategies, with overlapping generations taking on an entirely new meaning. In many agricultural settings, employers supplied most of the goods that a worker would require (and we would presume a modern individual consumes on a regular basis). Thus, the goods were provided *in kind*, not allowing for monetary surplus to be carried over, other than in favors and goodwill (This is another reason why macroeconomic estimates

of an economy's savings rate make little sense in agricultural economies).

When America industrializes and its banking system modernizes, the inflow of monetary value, often via immigrant savers, expands banking deposits markedly.<sup>[55]</sup> According to Peter Temin's *The Jacksonian Economy*, individual accounts at many banking institutions were often well below \$100, indicating and supporting the idea of precautionary savings.<sup>[56]</sup>

Like the British example, many other formal banking institutions used low barriers to entry, enticing even wage earners to deposit small amounts. Also, much like the British, but without a safe asset like the Consol to rely on, bank savings — assisted in no small measure by credit expansion — provided the beginnings of saving practices and channeled savings into the growth of the economy. The Philadelphia Savings Fund Society largely held mortgages in its portfolio of assets, contributing to the financing, building, improvement, and consumption needs of the agricultural economy.<sup>[57]</sup>

Even during the 1850s, the decade in which Claudia Goldin and co-authors assess savings accounts at America's oldest mutual savings bank (Philadelphia Savings Fund Society), consumer prices fluctuated within a 15 percent band, with a nominal price inflation of about 6 percent for the decade. Merely holding bank notes, or gold and silver coins, would barely constitute a drag on a saver's amassed funds (and certainly less than any hypothesized convenience yield from money held).<sup>[58]</sup> In practice, plenty of people made use of various types of financial institutions, such as savings funds or bank deposits that, while custodial and at some risk for failure, at least offered suitable enough returns to cover inflation.

What's remarkable among the records for some of these institutions is that, even in dire banking crises, deposits remained fairly intact, falling, for example, only by about 15% in the Philadelphia Savings Fund Society during the 1839 crisis.<sup>[59]</sup>

The savers Claudia Goldin and co-authors map largely use their accounts for consumption smoothing and savings for old age—particularly noticeable are

female servants who deposit small amounts year in and out and thereby amass a sizable nest egg for themselves: “The mattress and cookie jar were always available to those who wanted to squirrel away funds, but these could be insecure and did not yield a return”—but they *did* reliably increase in purchasing power during the late-19th century's secular (“good”) deflation.

In no small portion did the microeconomic decisions of individuals (“who saved for their own purposes,”<sup>[60]</sup> e.g., rainy day, major purchase, old age, etc) contribute to America's substantial savings rate in the 19th century.

Another well-studied example is the Freedman's Savings and Trust Company. Having been founded as a financial refuge for former slaves, it offered bank accounts for as little as 5-cent deposits, earning interest already of balances from \$1. It had hundreds of thousands of customers, often working very ordinary jobs in services or manual labor (farmers, carpenters, cooks).<sup>[61]</sup>

*“Having an account may have allowed individuals to save to make large purchases, such as a plot of land; to invest in workers; or to open a business. It also may have helped them overcome challenges associated with irregular income and shocks—often tied to fickle agricultural harvests—by providing a place to make consistent, recurring payments and save up a cash cushion.”<sup>[62]</sup>*

### **The Savings Disaster of the Fiat Money Era**

“Most of financial history of the past 150 years is the unsuccessful attempts to maintain the value of money,” wrote the Bank of England's former Governor Mervyn King in his 2016 book *The End of Alchemy* after he had stepped down from his post.<sup>[63]</sup> Ironic, one would think, after having been the civil servant primarily tasked with that job for over a decade. What King refers to as unsuccessful attempts are concentrated in the century best characterized as the fiat era. The shift to fiat money, particularly after the abandonment of the gold standard, introduced inflationary pressures that fundamentally reshaped savings behavior.

The “resurrection” of the saving thesis presented here implies that savings were once dead, which, according to the ever-decreasing savings rates of modern Western fiat economies and the ever-increasing amounts of debts at every level, doesn’t seem hyperbolic. In the U.S., the median savings account in 1850 held about 20% of a male laborer’s annual income. That would be equivalent to some \$9,000 today,<sup>[64]</sup> in a much richer and more financialized and technologically sophisticated economy—though a contemporary figure (for technological, employment, and financialization reasons not directly comparable) is about \$500.<sup>[65]</sup> Glancing at the U.S. personal savings rate as of late emphasizes this disastrous decline: it’s been falling for decades.<sup>[66]</sup>

The money doesn’t work. Rationally, then, nobody stores the proceeds of work *in* money; consequently, everything else but money becomes monetized.

Some of the implications of research summarized here suggest that, e.g., working-class savers prioritized liquidity and precautionary savings; British parents saved for children’s futures; Freedman’s Bank depositors funded land and businesses; and Swedish workers built nest eggs for their own old age, and to some extent, inheritance. These strategies, rooted in sound money’s long-term, predictable purchasing power<sup>[67]</sup>, will regain relevance, rendering debt-heavy, speculative approaches obsolete and fostering a return to financial discipline.

The cultural implications of moving from sound money to fiat have been an erosion, not just money’s worth, but the moral framework of thrift associated with that previous monetary arrangement. It’s been replaced by a culture of risk-taking and instant gratification. It stands to reason that a return to sound money standards would once more revive these virtues and resurrect the practice of saving.

The cultural virtues propagated through human society are not detached from the economic system and monetary regime in which humans live.<sup>[68]</sup>

In closing, I offer an illustrative story of how eroded traditional savings practices are directly interwoven with the monetary circumstances of the past, yet

remain as odd relics.

For an upcoming wedding in a small, rural village in Greece—always a good place to find remnants of outdated behavioral patterns bearing witness of past equilibria—I was informed that tradition stipulates that you reciprocate a village’s newlywed couple with money of your own: “I’ve been saving for you by going to all these weddings,” my Crete friend’s mother recently told her, now that her own wedding beckons. *How are we going to pay for all these festivities* no longer becomes a concern; the musicians, the butcher, and the baker will provide the (real) goods, and she repays them for their use with the money given to her at the celebration from all the guests. They, in turn, participate out of a sense of moral duty and giving back to the community. Economically speaking, the whole arrangement approximates an intergenerational and community-based ROSCA centered on marriage.

As strange and odd a local custom as this may seem — at least from the point of view of well-functioning, monetized, and financialized economies in the Anglosphere — it’s a clever way to store monetary value in nonmonetary objects, in this case, the real productive capacity of a tight-knit community. With wedding celebrations operating as a form of forced, predictable savings, it appreciates with the wealth and real income of the community itself, rather than a financial yield throwing off interest.

At a high enough level, it’s very similar to a government pension, deriving its future payout on the continued growth of the tax base, i.e., the entire economy; or an S&P 500 investment, banking its future payout on the productivity of American corporations to improve and lavish shareholders with dividends and/or stock appreciation.

These are merely different ways of getting around the shortcomings *of the money* itself. Relying on the productive capacity of the community, but what also makes these systems work over time is that they’re short the monetary unit. What’s a respectable amount to give *increases with wealth and economic prosperity* — a proxy for productive capacity. Under constantly debasing fiat currencies, this cultural arrangement becomes a redistributive mechanism

that favors early participants over later ones. On the margin, we'd expect there to be a financial incentive to marry earlier compared to one's peers.

Another interaction between a faulty fiat monetary regime and these cultural norms would be to roughly index the fiat amount given with inflation and/or the productive capacity of the community. So, my friend's mother giving €25 or €50 in wedding gifts to the butcher's daughter or the baker's son years ago, will next year be reciprocated by €30 or €100 in gifts to my friend — since monetary inflation in the meantime has eroded the real purchasing power of those funds. Put differently, these individuals have much higher earnings-capacities now than five or ten years ago.

As an institution of rotating savings, cultural norms like this one from Crete make sense under two types of monetary regimes:

First, low-money stock barter, where economic growth and savings are stored directly in real goods and services.

Second, commodity money arrangements, where the mean-reverting characteristic of, e.g., gold or silver standards, ensures that savings made (in the case of a wedding, literally “handed over”) at a given time retain their purchasing power.

Under various historical commodity standards, purchasing power retention was not necessarily in the immediate years following, since gold's purchasing power under the classical gold standard was often variable in the short- to medium-term but reliable over longer time horizons.<sup>[69]</sup>

It's a culturally entrenched institution, developed in and with a clear rational foundation from a time, at odds with fiat money. It becomes an ingrained, forced-savings type of arrangement, not fueled in principle by financial considerations and instead upheld by cultural norms. This is not a natural economic world, and not inevitable either. Our savings behavior and the assets we use to move economic value forward across time are strictly and directly related to the monetary regime under which we live.

The way that societies do monetary arrangements is reciprocally affected and upheld by cultural and moral norms consistent with those arrangements. The morals and behaviors we have around savings are tied to the way the money works: You can't save in currency in a hyperinflating economy, so your financial behavior changes. Under a commodity standard, your monetary surplus has mean-reverting purchasing power, meaning it allows you to plan and prudently arrange your financial affairs going forward.

Reestablishing sound money, which last existed in prelapsarian times long forgotten, means we must also resurrect savings practices of old.

This paper looked at three distinct, but via commodity money connected, jurisdictions and the savings practices of the people and institutions in them. The historical evidence there shows that sound money regimes make simple and stable saving behavior possible and rational, a conclusion that stands in stark contrast to the modern fiat era.

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# On The Origins of Sound Money

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ABSTRACT: This essay argues that money emerges spontaneously from purposeful human action and market exchange rather than decree, and that “sound money” safeguards liberty by resisting political manipulation. Addressing the limits of barter, especially the double coincidence of wants, it critiques conventional, ethical-historical accounts from Aristotle, Locke, and Smith as contingent or instrumental, and advances a deductive thesis grounded in the Austrian School. Methodologically, it proceeds from axioms of human action to a stepwise account of increasing saleableness: from direct barter to commodity exchange, to proto-monies, and finally to universally marketable media. Drawing on Menger’s analysis of money’s origin, Mises’s Regression Theorem, and Rothbard’s defense of commodity standards, the essay explains why gold and silver uniquely satisfy durability, divisibility, portability, uniformity, limited supply, relative value stability, and broad acceptability, thereby qualifying as sound money; by contrast, fiat currencies, which are rooted in legal decree, debasement, and seigniorage, are unsound substitutes that carry counterparty risk and enable manipulation. The principal finding is that gold and silver became money not by arbitrary convention but by market selection, and that the “soundness” of money is best understood analogously to a sound argument found in deductive logic: valid in structure and true in premises as reflected in economic reality. The significance is both economic and political: privileging sound money improves honest exchange, savings, and calculation, constrains inflationary policy and malinvestment, and serves as a bulwark for civil liberties.

# On The Origins of Sound Money

## Introduction: The Nature of Sound Money

Money is not a social invention or government decree, but a necessary and spontaneous outcome of purposeful human action and market exchange.

This essay explores the origins of ‘sound money,’ showing that gold and silver naturally emerged as the most effective and just forms of money, fulfilling all essential economic functions while protecting individual liberty against political manipulation.

By tracing the evolution of money from the limitations of barter to the deductive insights of the Austrian School, it argues that only ‘sound money,’ rooted in market choice and economic reality, can be distinguished from fiat currencies and other coercive substitutes.

To trace the rise of ‘sound money,’ this essay first explores how barter systems gave way to commodity money. It then examines key philosophical contributions from Aristotle to Locke and Smith, and then contrasts them with the deductive reasoning of the Austrian School.

Finally, the essay explains why gold and silver meet the criteria for ‘sound money’ and critiques fiat currency as its unsound counterpart.

## From Barter to Exchange: The Problem of the Double Coincidence of Wants

Before there was money, there was barter.

Barter describes a process of direct exchange. People traded cattle for chickens, wheat for barley, clothing for tools, spices for salt, pottery for fabrics, silk for cotton, eggs for labor, meals for weapons, and much more.<sup>[1]</sup>

Humans have always traded because humans act with purpose.<sup>[2]</sup> In the case of exchange, it is to improve their own lives and their own individual desires.

For these transactions to take place, however, a party must have a particular need for the item or items being offered by the other party, and vice versa.

In other words, if a trade takes place between a person who has wheat and a person who has eggs, there has to be an aligned mutual desire.

When both parties naturally want what the other has to trade, this is known as a *double coincidence of wants*.<sup>[3]</sup>

This, of course, does not warrant unlimited trade. Since most goods are perishable, a person would hold only a limited amount of particular goods for a limited amount of time. If they already have plenty of wheat or eggs, they may not want to barter for more of these items. Instead, they will likely choose to barter for other goods and services, to maximize their self-interests with the items they have to offer.

A person can only have so much product, space, or time before they can no longer realistically trade. Recognizing this, they will likely choose to barter with people offering specialty items, labor, jewelry, or items that do not perish and are perceived to hold value.

## The Emergence of Commodity Money

Out of the many trades available, people began to seek out items to barter with that would withstand the test of time, would not perish, could be divided, were relatively stable in value, were deemed rare, could not be counterfeit, and had multiple uses.

For long periods of time, people tried using various mediums of exchange in the pursuit of their best self-interests. These were typically commodities such as cattle, salt, furs, copper, shells, or tobacco.

This *primitive* money is commonly referred to as *commodity* money.<sup>[4]</sup> However, these items are much more abundant. They do not maintain themselves well for long periods, do not maintain very stable values, and are not often divisible, making them unfunctional for smaller trades.

### **Gold and Silver: The Natural Evolution Toward Sound Money**

Over the course of multiple millennia, catastrophes, wars, diseases, geographical location, and the understanding of trade and human nature led civilizations across the world to naturally move toward trading with gold and silver.

Gold and silver as media of exchange became understood as proper forms of money, or “good” money, because they are durable, divisible, portable, uniform, limited in supply, relatively stable in value, and accepted nearly universally. These precious metals were also most often the most saleable, or liquid, which is an important factor for ‘money’ as a medium of exchange.

The transition from bad forms of money to good forms of money marked a pivotal point in human development.

### **Aristotle and the Moral Origins of ‘Good’ and ‘Bad’ Money**

In the *Nicomachean Ethics*, the philosopher Aristotle discusses what he might call “good” money by highlighting justice involving money.<sup>[5]</sup>

“All goods must therefore be measured by some one thing, as we said before. Now this unit is in truth demand, which holds all things together (for if men did not need one another’s goods at all, or did not need them equally, there would be either no exchange or not the same exchange); but money has become by convention a sort of representative of demand; and this is why it has the name ‘money’ (nomisma) - because it exists not by nature but by law (nomos) and it is in our power to change it and make it useless.”

Aristotle explains that for fair exchanges between different goods, such as a house and shoes, the value of the goods must be proportionate. To achieve this, ‘money,’ properly understood, was artificially introduced as a universal measure to equate these values, making different goods comparable and enabling a fair trade.

The money was deemed “good” based on its ability to properly fulfill its intended function and purpose while remaining just. Such characteristics of Aristotelian good money would include being durable, divisible, stable in value, portable, widely accepted, and rooted in “social agreement” so it can serve as a universal measure and medium of exchange.

While good money fulfills its intended function as a medium of exchange, bad money does quite the opposite. For Aristotle, bad money, or unjust money, undermines fair exchange by failing to hold stable value, it erodes trust, and corrupts money’s natural purpose as a just measure and medium of trade. Bad money would include clipped coins, debased alloys, unstable fiat, perishable commodities, or money twisted into usury.<sup>[6]</sup>

### **The Limits of Aristotelian and Classical Views on Money**

However, Aristotle’s position on money was based on ethics and morality rather than on a purely economic and scientific understanding of ‘money,’ which would include a value-neutral position.

Aristotle’s predominant inadequacy in explaining ‘money’ was that he gave a descriptive, conventional, and inductive account of money instead of a causal, logical, and deductive one. Essentially, Aristotle told us what he perceived to have happened, but not why it had to happen, or even what money actually should be based on humans’ naturally purposeful action. In fact, he believed that the very concept of money was arbitrarily created and could be arbitrarily ended.

Aristotle saw ‘money’ as a human convention that was artificially created to overcome the inconveniences of barter, serving as a common measure, medium of exchange, and store of value, while building a sense of unified and legitimate authority in a government.<sup>[7]</sup>

This is inadequate because it roots ‘money’ in agreement and custom rather than in the logical necessity of human action and market exchange, leaving its origin contingent instead of inevitable. In other words, money isn’t just something people

agreed to use. Money is something that naturally arises whenever people start trading, because it makes exchange easier while satisfying the practical needs and desires of humans.

### **Government Intervention and the Corruption of Money**

As time went by and philosophy spread further, what was considered “good” or “bad” became more subjective, particularly involving the direction of government.

As people freely traded in gold and silver, governments got involved in regulating and issuing currencies. They either had people turn in their metals to be purified, made uniform in size and weight, and stamped with a government seal of approval, or the government directly minted the coinage on their own.

Occasionally, this government intervention was out of necessity to rectify justice, such as in cases where someone makes an exchange or payment with gold or silver that is not the weight or purity they claim it to be, which is, in effect, a form of theft.<sup>[8]</sup>

While the majority of the time, government intervention occurred in the form of a government manipulating the purchasing power of the currency and stealing it for themselves. Such plundering happens when a government abuses seigniorage, which is when a government profits from issuing currency with a higher price tag than its cost of production.

Additionally, conniving thievery via corrupt monetary policy also occurs when the money is intentionally debased by the government. While the government takes into its possession all of the gold and silver, and other real assets that it purchases with its monopoly over the money supply, it actively coerces its citizens to accept less valuable commodities, hollow promises, and swapped representations for money.

Some people, however naive, believe that whatever their own government does is considered “good,” including government monopolization of currency, seigniorage, debasement, and other forms of monetary manipulation.

Through this lens, a person may reasonably consider their government-approved money as “good” while another government-approved money as “bad,” even if the two forms of money’s purity, weight, and diameter are the same.

### **The Shift Toward Deductive Reasoning in Monetary Theory**

In order to remove this clouded judgment about what is deemed good money or bad money, some philosophers began moving away from an inductive approach to money and toward a more scientific and deductive approach to money.

Before a purely deductive model of money came into existence, there was a transitional period of a hybrid model consisting of an inductive approach mixed with a semi-scientific approach. The main goal of this movement was to remove the arbitrary value assessment from governments and monarchies and to put it into the hands of ordinary people.

For philosophers like John Locke and Adam Smith, the concept of money became more of a hybrid model that included a normative-inductive approach, viewing money as arising from a social contract rooted in convention and agreement, and as a practical instrument enabling division of labor.

Just as Aristotle’s approach to money was not fully scientific, neither was the approach by Locke or Smith.

For John Locke, his idea of ‘money’ as being gold and silver was directly tied to his idea of a social contract theory. Although Locke did not believe that money could be arbitrarily made or legitimately debased by governments, he did hold that with social consent and changes in views by the governed could effectively change what ‘money’ is.<sup>[9]</sup>

“Mankind, having consented to put an imaginary Value upon Gold and Silver, by reason of their Durableness, Scarcity, and not being very liable to be Counterfeited... have made them by general consent the common Pledges, whereby Men are assured... to receive equally valuable things...”

John Locke's theory on money was overly "contractual," conventional, and it lacked a real-world market mechanism outside of his social contract theory. Since Locke's theory was based on consent and a social contract, it justified fiat currency or state-managed monetary systems and enabled money to be effectively renegotiated or redefined by rulers or legislatures.

Adam Smith's theory of money, while insightful, is also somewhat incomplete.

"...To prevent such abuses [fraud and impositions], to facilitate exchanges, and thereby to encourage all sorts of industry and commerce, it has been found necessary, in all countries that have made any considerable advances towards improvement, to affix a public stamp upon certain quantities of such particular metals, as were in those countries commonly made use of to purchase goods. Hence the origin of coined money..."

Although he acknowledges that money emerges naturally from the practical needs of exchange in a market society, his account is primarily historical and instrumental, emphasizing money's development as a response to the inconveniences of barter and the need to prevent fraud.<sup>[10]</sup>

Smith never fully addresses what 'money' is in conceptual terms, offering no systematic account of its nature as a medium of exchange, a store of value, or a unit of account. He simply suggests that 'money' is ultimately formalized through government coinage and state authority.

As a result, Smith presents 'money' more as a practical solution than as a necessary and spontaneous outcome of human interaction within a market system.

Since Smith's theory on money suggested that money itself was merely a practical invention or even a historical accident, and a simple instrumental tool, it allowed for state intervention in money, along with the ability for governments to recreate and manipulate forms of money for their own gain.

With these underlying philosophical challenges seemingly unanswered by Aristotle, Locke, and Smith, the understanding of money continued to evolve through a more deductive lens.

A deductive approach to money consists of first understanding human nature in the form of axioms. An axiom, or a postulate, or an assumption, is a statement that is true and serves as a premise, or starting point, for further reasoning and arguments.<sup>[11]</sup>

A deductive approach to money treats money not as a historical accident, social contract, or artificial imposition, but as the logical necessity of exchange that spontaneously arose. Wherever humans trade, money must arise from the most marketable commodity. This happened to be gold, followed by silver.

### **The Austrian School and the Deductive Origins of Money**

Philosophers and economists of the Austrian School of Economics, Carl Menger, Ludwig von Mises, and Murray Rothbard, whose works are based on deductive reasoning, put forth the strongest case for the deductive approach to money, i.e., 'sound money.'

Economist Carl Menger explores what money is in his 1892 book *On The Origins of Money*. Through his deductive exploration, he cautions against simplistic assumptions about barter or exchange, emphasizing that commodities differ in how readily they can be exchanged, which matters for the emergence of money.<sup>[12]</sup>

As opposed to the inductive origin of money, which looks at money as the sole creation of government, the deductive approach to money suggests that, first, humans act purposefully to satisfy their wants.<sup>[13]</sup> This may consist of a person growing wheat not just for personal use but also to trade for meat, tools, or cloth. This is understood as *commodity* money.

Second, people recognized that barter was limited, especially given the double coincidence of wants. This inspired people to begin trading for goods not for their direct use, but because they are more

marketable for an indirect use. This is a commodity money valued partly for its exchangeability as opposed to direct use value.

Third, people began accepting goods not for direct use but because others will accept them, i.e., an intermediate good. An example of this would be a farmer who trades wheat for cattle, not because he needs cattle, but because the shoemaker and fisherman will accept cattle in turn.

Fourth, ‘money’ becomes that of the most widely accepted goods, which then crowd out less useful ones - this sort of proto-money replaces the previous commodity money. Such examples of proto-money may include salt (where we get the word salary), beads (wampum), furs, copper ingots, and seashells. This is a more focused type of commodity money that is more socially recognized on a larger scale, instead of situationally valued like the prior intermediate good form of commodity money. When there are standardizations among the tokens or objects used in this form of medium of exchange, we can call it a *currency*.

Fifth, proto-money is soon replaced with the most durable, divisible, portable, salable, and scarce goods. What naturally arose as fully embodied money were the most universally marketable commodities, i.e., gold and silver. The market standardization of gold and silver coins affirmed this to ultimately enshrine it as the definitive medium of exchange, unit of account, and store of value. Gold and silver are proper *money*, as opposed to mere everyday *commodities* or *currencies*.

### **How Money Emerges: Step-by-Step Deductive Progression**

*The Deductive Origin of Money:*

- 1. Humans act**
- 2. They prefer some goods over others (subjective value theory)**
- 3. They engage in exchange to improve their conditions**

### **4. Barter has limitations (double coincidence of wants)**

### **5. To overcome this, a medium of exchange emerges spontaneously**

### **6. The most marketable commodity becomes money**

Over the centuries, gold and silver’s universal acceptance as a medium of exchange and their relative stability made them the monetary foundation of nearly every advanced commercial society, securing their role as definitive money until corrupt governments later displaced them with fiat substitutes for money.

All forms of “money” after gold and silver are no longer ‘money’ by definition, but merely colloquial references to what ‘money’ is to be, i.e., gold and silver.<sup>[14]</sup>

The deductive approach to the concept of money is where we see the rise in differentiating general “money” from what is known as “sound money.”

### **The Rise of the Term ‘Sound Money’ in Economic Thought**

The term ‘sound money’ had been written on as early as 1833 by Jacksonian Democrat, economist, and hard money advocate William M. Gouge in his treatise *A Short History of Paper Money and Banking in the United States*.

Gouge’s paper directly inspired U.S. President Andrew Jackson and Martin van Buren. In 1836, Jackson issued the Specie Circular, an executive order that all public lands had to be purchased with *hard money*, which is *specie* - gold and silver sound money - pursuant to the Coinage Act of 1834.<sup>[15]</sup>

In 1895, the book *Sound Money* was published by writers John Arthur Fraser and Charles Hubbard Sergel. In this book, the authors deductively argue for sound money and a monetary standard based on precious metals (especially gold), free from manipulative or inflationary interference by government.<sup>[16]</sup>

There is a significant rise in the number of uses of the term ‘sound money’ from around 1886 to 1897, when the U.S. was working toward creating a de jure gold standard in 1900.

There is another, smaller rise in the use of ‘sound money’ from 1928 to 1934, around the same time that the U.S. government was working to end the gold standard and confiscate all of the circulating gold, effectively making gold ownership illegal in the United States.<sup>[17]</sup>

The popular rise in the term ‘sound money’ directly coincided with the founding and growth of the Austrian School of Economics, which started in 1871. The prolific philosophical and economic works of Carl Menger - the founder of the Austrian School of Economics - along with William Stanley Jevons and Léon Walras, inspired the Marginal Revolution.

The Marginal Revolution transformed the theory of ‘money’ by showing that it derives its value from the subjective marginal utility individuals place on its purchasing power instead of from intrinsic properties or labor content.

Especially through the Austrian School, the Marginal Revolution revived deductive reasoning in economics by grounding monetary theory in fundamental axioms about human action and individual choice - humans act purposefully.<sup>[18]</sup>

This economic revolution and deductive philosophical journey into the origins of money and what separates “good” money from “bad” money, or other forms of general currency, directly led to the understanding of ‘sound money.’

According to Carl Menger in his 1892 book *On The Origins of Money*, “Putting aside assumptions which are historically unsound, we can only come fully to understand the origin of money by learning to view the establishment of the social procedure, with which we are dealing, as the spontaneous outcome, the unpremeditated resultant, of particular, individual efforts of the members of a society, who have little by little worked their way to a discrimination of the different degrees of saleableness in commodities.”

He went on to say, “Money has not been generated by law. In its origin, it is a social, and not a state institution. Sanction by the authority of the state is a notion alien to it.” However, Menger provided lip service to governments, saying that the state *perfected* the idea of ‘money’ with various legal standards, weights, fineness, grades, and promoted circulation.

Although the early founders of the Austrian School of Economics, like Menger, laid the groundwork for the concept and term ‘sound money,’ as previously noted, they were not the first to use it, and their views slightly varied among them.<sup>[19]</sup>

### **Mises and the Political Dimension of Sound Money**

Out of the Austrian tradition, the first to really coin the term ‘sound money’ was Ludwig von Mises in his 1912 book *The Theory of Money and Credit*.

Before Mises explained what ‘sound money’ was, according to his perspective, he explained the origins of money through what would become known as The Regression Theorem.

Mises’s Regression Theorem uses deductive logic to explain that money’s value must trace back to a time when the money commodity was valued for its non-monetary uses. Gold and silver satisfy this requirement because they were historically valued as commodities before becoming “money.”

This natural origin makes gold and silver ‘sound money,’ as their value is grounded in real market preferences rather than government decree or fiat.

For Ludwig von Mises, however, ‘sound money’ was more than just a “good” money that maintained its value. Interestingly, Mises rejected the idea of a *stable* currency, calling it a fallacy. For him, ‘sound money’ was a payment in full with no counterparty risk - especially relating to government control or manipulation, effectively removing any monopolization of money from the clutches of government.<sup>[20]</sup>

Sound money is then transformed from more than a commodity, “good” money, proper money, silver and

gold, and simply based on deductive logic, to a more politico-socio-economic form that ultimately and actively protects individual liberty.

“It is impossible to grasp the meaning of the idea of sound money if one does not realize that it was devised as an instrument for the protection of civil liberties against despotic inroads on the part of governments... It is affirmative in approving the market’s choice of a commonly used medium of exchange... It is negative in obstructing the government’s propensity to meddle with the currency system.”

This was, of course, Mises’s more robustly astute view of ‘sound money’ beyond its mere monetary economic definition<sup>[21]</sup>. So, we shall look more closely at the origins and meaning of ‘sound money.’

Contrary to popular belief, the term ‘sound money’ does not originate from the audible sound produced by striking gold and silver coinage (also known as specie), although they do have an unmistakable signature sound of authenticity.

‘Sound money’ is also not a reference to its hard physical nature as a hard currency; although sound money tends to be hard money (specie), its hardness is not an exclusive characteristic of what ‘sound money’ is.

For example, a modern dime made primarily of copper may be considered “hard money” because this token coin is made with a metal of common value in limited supply, meaning that it is technically not “fiat,” but this metallic coin would not be considered “sound.”

The ‘soundness’ of “sound money” is an artifact of the concept’s origins found in deductive reasoning in philosophy. The term ‘sound money’ directly originates from deductive logic, which is deeply rooted in philosophy.

The phrase “sound money” thus borrows directly from this philosophical foundation. Just as a sound argument is one that is both valid and true, ‘sound money’ must meet stringent criteria that ensure its integrity and reliability. It is not simply about the

physical or sensory qualities of money, but about the underlying economic truth it embodies.

Money that is “sound” resists arbitrary manipulation, maintains its value over time, and fulfills its essential functions consistently, making it a “true” or “valid” medium of exchange within a stable economic framework.

This deductive reasoning underscores the conceptual precision behind the term, distinguishing it from more superficial or folkloric explanations.

In deductive logic, a ‘sound argument’ is both logically valid and has true premises, making the conclusion necessarily true.<sup>[22]</sup>

When applying this term to ‘money,’ we would say that ‘money’ is ‘sound’ when it is economically valid by serving all proper functions of money (e.g., durable, divisible, portable, uniform, limited supply, accepted), and it is relatively stable in reality, making it true without manipulation.

Even further, properly understood money, i.e., *sound money*, is not just a neutral tool or medium of exchange; it is also a safeguard for honest exchange, reliable savings, accurate calculation, and ultimately a bulwark against tyranny and economic chaos.

Sound money is more than good money; it is ‘money’ properly understood. Just like a sound argument, sound money is valid, true, and relatively stable, without the reliance on logical fallacies and arbitrary authority.

### **Sound Money vs. Fiat Currency**

In contrast, with the use of fiat currencies such as the modern U.S. Dollar (USD), i.e., the Federal Reserve Note, which have no commodity backing and whose legal value is determined solely by government decree as opposed to *market value*, the layperson has been left with money in name only.<sup>[23]</sup>

Although people erroneously, or out of simplicity’s sake, refer to *fiat currency* as “money,” it is in fact not ‘money.’

The Federal Reserve Note, for instance, does not maintain stable value relative to gold or silver. It is highly manipulated by the U.S. government and the banking cartel of the Federal Reserve. It is not very durable, not universally accepted, and has no commodity backing or substance. USD bears plenty of counterparty risk. America's paper currency does not safeguard honest exchange, it is not a reliable store of value or savings, and it directly enables a tyrannical government and a crooked system of monetary policy and fiscal policy.<sup>[24]</sup>

In order to distinguish between such fiat “money” and properly understood ‘money,’ proponents of the deductive approach to money will call gold and silver ‘sound money,’ even if these precious metals do not actually have a standardized purity, weight, diameter, or seal of approval by a government or private benefactor.

This is because gold does not derive its monetary status from official certification, but from its ability as a commodity to fulfill the essential functions of money through voluntary exchange and historical precedent.

### **Gold as the Ultimate Sound Money**

According to economist Murray Rothbard in his book *What Has Government Done to Our Money*, “It must be emphasized that gold was not selected arbitrarily by governments to be the monetary standard. Gold had developed for many centuries on the free market as the best money, as the commodity providing the most stable and desirable monetary medium. Above all, the supply and provision of gold was subject only to market forces, and not to the arbitrary printing press of the government.”

Gold is not only ‘money’ properly understood, it is ‘sound money’ and the ultimate form of ‘sound money.’ That is, it is ‘money’ whose value and trustworthiness arise from its natural properties and its consistent popular role in facilitating honest exchange.<sup>[25]</sup>

Sound money, especially that of gold, enables a person to safeguard for honest exchange. The yellow

metal is a reliable store of value and savings, while limiting government and crony manipulation. Sound money is durable, divisible, portable, uniform, has a limited supply, and is *universally* accepted.

What sets gold apart as sound money is not merely its usefulness in trade but its resistance to political abuse, as highlighted by Mises. Because gold's supply is naturally limited and cannot be arbitrarily expanded, gold places constraints on monetary expansion. In doing so, gold as ‘sound money’ protects individuals from widespread inflation, currency debasement, economic distortion, and political abuse.<sup>[26]</sup>

### **Economic and Moral Advantages of Sound Money**

Economically speaking, ‘sound money’ encourages production, mining, saving, smart investing, long-term planning, and productivity-driven deflation, while it simultaneously discourages inflationary booms and reckless debt expansion. ‘Sound money’ actively aligns economic behavior with reality rather than illusion, and it rewards prudence over speculation.

In contrast, fiat currency encourages consumerism, inflation, debt, speculation, malinvestment, waste, centralization, and political overreach. Its very design invites abuse, as it can be created at will by central banks and used to finance monetary and fiscal policies that would be unsustainable under a sound money standard.<sup>[27]</sup>

### **Conclusion: Reclaiming Money and Liberty Through Sound Money**

In summary, gold is money; gold is sound money; and gold, as proper money, has far more benefits and protections for exchanging, spending, saving, investing, planning, and protecting individuals from political overreach than that of fiat currency, such as the U.S. Dollar Federal Reserve Note.

Other forms of currency may be colloquially referred to as ‘money,’ but only those who study the history and philosophy of money can truly know what ‘money’ is, how it arose, and what it does. Until the

masses know what true ‘money’ is and we make a victorious return to gold and silver as money, we will have to continue to differentiate the general ‘money’ from ‘sound money.’

In conclusion, ‘sound money’ is not an arbitrary invention of governments nor a mere convention of society, but a logical and necessary outcome of human action in a market-based world.

Gold and silver emerged as ‘sound money’ not by force or fiat, but by their unique ability to fulfill the essential economic functions of ‘money’ while resisting political abuse.

Unlike fiat currencies, which are manipulated and unstable, ‘sound money’ is rooted in truth, liberty, and economic reality.

Only by understanding the deductive origins of ‘money’ and embracing ‘sound money’ once again can individuals reclaim honest exchange, safeguard their wealth, and protect themselves from the creeping erosion of freedom.

## **Footnotes**

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# The Abuse of Money

*By Lawrence W. Reed*

ABSTRACT: Lawrence Reed's timeless essay identifies government money printing and credit expansion as the direct culprits behind inflation by reviewing the writings of Ludwig von Mises, Milton Friedman, John Maynard Keynes, Thomas Sowell, and others. By juxtaposing market-born sound money monetary systems and state fiat monopolies, he creates a powerful case for gold and silver.

# The Abuse of Money

Back in the 1970s, the New York congressman and later vice-presidential nominee Jack Kemp was a fierce critic of President Jimmy Carter's policies that produced soaring prices. Kemp said that the Carter administration was so clueless that its officials apparently thought "inflation was caused by many, many, different things, all of which are acting and interacting in strange and mysterious ways."

Carter and his minions pointed fingers at oil sheiks, credit cards, store clerks, etc. Joe Biden's list of inflation causes is just as tedious and laughable: Putin, oil companies, price gougers, Republicans, and the failure of Congress to pass all his monstrous, inflationary spending bills. The objective is the same: to coax you to look in all the wrong places as their policies bite you in the rear end.

If St. Patrick really drove the snakes out of Ireland, we should make him President so he can do the same thing in Washington.

Economists Ludwig von Mises and Milton Friedman, though they certainly had their differences, offered much wiser observations about inflation. Mises defined it as "an increase in the quantity of money without a corresponding increase in the demand for money, i.e., for cash holdings." Friedman said it was "always and everywhere a monetary phenomenon."

Think of it this way: Whoever controls money and credit (the government and the banking system it orchestrates) expands the supply. Interest rates fall at first, and an economic bubble begins. If the expansion of money and credit is big enough, and goes on long enough, then prices in the economy will eventually rise. Rising prices are not the inflation; they are a consequence of the inflation. Then when the authorities try to rein in the soaring prices that their money and credit creation caused, they jack up interest rates and bring on a recession or depression.

It's the same with the weather. It rains and then the streets get wet. Wet streets don't cause the rain any more than rising prices cause inflation. They are a consequence, not the source.

The stupid quotes from officialdom keep on coming. In June 2022 at a central banking forum in Portugal, the chairman of the Federal Reserve, Jerome Powell, said this with a straight face: "I think we now understand better how little we understand about inflation. This was unpredicted."

Unpredicted? What's the address of that cave Powell lives in? This bout of price hikes was forecast by a boatload of economists, including me.

Error, deception, and havoc are plagues in the long history of money, but not because of the stuff itself. Money, after all, is a remarkable and indispensable invention of the marketplace—a medium of exchange that facilitates commerce in complex ways that mere barter could never do. It's the abuse of it that creates problems, as John Adams noted in a letter to Thomas Jefferson in 1787:

*"All the perplexities, confusions, and distresses in America arise, not from defects in their constitution or confederation, nor from want of honor or virtue, as much from downright ignorance of the nature of coin, credit, and circulation."*

For interested readers who want to explore the fascinating tale of money, see the suggested readings below this essay. Meantime, allow me to present a few of the most instructive comments ever made on the subject.

I rarely quote the British economist John Maynard Keynes. He was prolific but often wrong. Nonetheless, he knew that government could cause chaos by inflating the money supply:

*"There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."*

To “debauch” means to corrupt and degrade the value of money. Governments do it by printing too much, or reducing the precious metal content of coinage, or other means of debasement. A particularly interesting example comes from 17th Century Europe, during the Thirty Years’ War.<sup>[1]</sup>

One of the enduring fallacies about money is that it must be the duty of the government to provide it (despite the government’s sorry track record). We will never be free of destructive inflations or deflations until we toss that bit of flim-flam into the bonfire. Economist Murray Rothbard expressed the alternative succinctly: “Freedom can run a monetary system as superbly as it runs the rest of the economy.”

Imagine if bread were provided the way our money is. We would have a government bread monopoly supervised by a Federal Bread Board. Its members, appointed by the President, would decide how much bread should be supplied. It would be a central planner’s playground but every consumer’s nightmare. Shortages, surpluses, and political shenanigans of every stripe would ensue.

But as it is, thankfully, bread is supplied by the market—by multiple, private, competing enterprises. It comes in numerous shapes, sizes, and recipes. If bakers offer too little or too much, they’ll get the message by way of rising or falling prices. No pompous, presumptuous central planning blowhards are needed.

Historically, when free markets governed our money, precious metals arose as its most reliable form. World history’s greatest advances in wealth creation occurred during the price stability that gold and silver provided. Economist Henry Hazlitt wrote eloquently in defense of such sound money:

*“It is the outstanding merit of gold as the monetary standard that it makes the supply and the purchasing power of the monetary unit independent of government, of office holders, of political parties, and of pressure groups. The great merit of gold is precisely that it is scarce; that its quantity is limited by nature; that it is costly to discover, to mine, and to process; and that it*

*cannot be created by political fiat or caprice.”*

Of course, power-focused politicians are not much interested in sound money. It restricts their ability to spend. Have you ever wondered if they really know what they are doing when they throw other people’s money around like wastrels? In a moment of remarkable candor, former Missouri Senator John Danforth told a newspaper in 1992:

*I have never seen more senators express discontent with their jobs...I think the major cause is that, deep down in our hearts, we have been accomplices to doing something terrible and unforgivable to this wonderful country. Deep down in our hearts, we know that we have bankrupted America and that we have given our children a legacy of bankruptcy.... We have defrauded our country to get ourselves elected.*

On the matter of what money can or cannot do, Archbishop Leroy Bailey Jr. of Connecticut advises us wisely:

*“A whole lot of people think that, that when you have money, you can do anything you want to do. But I want to tell you there are some things money can’t do for you. Money can buy you a house, but it can’t buy you a home. Money can buy you food to put on your table, but it can’t buy you an appetite. Money can buy you one of the finest mattresses in the world, but it can’t buy you sleep.”*

I explained above that money (the medium of exchange) was a fantastic invention of the marketplace, not of kings or parliaments. It solved the problem inherent in the primitive exchange that we call barter and facilitated commerce across time and distance. Over the centuries, though, greedy governments couldn’t leave it alone. They took it over, monopolized its creation, and abused it for their own short-term advantages. Sound money in free markets is indispensable to progress; money in the hands of politicians is a blank check for uncontrolled spending, trade cycles, and inflation.

In our personal lives also, there are two sides to the coin. Whether money is a blessing or a curse depends on this: Do you respect it or do you worship it? Do you manage it, or do you let it manage you? Many thoughtful people have observed this crucial distinction.

In his *Select Proverbs of All Nations*, published in 1824, Thomas Fielding cites an anonymous but profound maxim: “*If you make money your god, it will plague you like the devil.*”

The words of the Apostle Paul are often misquoted as suggesting that “money is the root of all evil.” He never said that. In fact, he likely used money in his extensive travels, perhaps every day. In 1 Timothy 6:10, he wrote: “**The love of money** is a root of all sorts of evil.” The distinction between what some think he said and what he actually said is profound.

Paul was a thoughtful scholar, never so aloof or mindless as to advise anyone to avoid money as a medium of exchange. Rather, it was an unhealthy idolization of money (and the ephemeral, material things it can buy) that he warned against. The difference between money and the love of it is like the difference between night and day, hot or cold, right and wrong.

Also often misunderstood is this important admonition from Jesus Christ, recorded in Matthew 6:24 and repeated in Luke 16:13. Jesus said:

*“No one can serve two masters, for either he will hate the one and love the other, or he will be devoted to the one and despise the other. You cannot serve God and money.”*

In *Did Jesus Despise Money?*<sup>[2]</sup>, I explained this passage. It was in perfect sync with what Paul said:

*Jesus never suggested, even remotely, that money per se was evil. He praised the earning of it through productive work and investment, as in the famous Parable of the Talents. He advised careful stewardship of it in business, as in Luke 14:28-30. He encouraged the private, voluntary giving of it to worthy purposes and charities, as in the*

*Parable of the Good Samaritan. He praised those who supported ministries, missions, and the temple by their tithes and offerings, as in the story of the widow’s mites in Mark 12:41-44 and Luke 21:1-4.*

*On many occasions, he urged people to help each other—including by way of donating money—to meet legitimate needs and improve conditions. You and I have done the same, perhaps on a daily basis at work or at home. Encouraging someone to help a person is one thing but compelling someone to give to help someone is quite another. Jesus called for personal, individual, and free will-based generosity, not coercive, state-run, and politicized redistribution programs.*

*Why do so many people think that because Jesus endorsed charitable giving, he would also embrace a compulsory welfare state? There’s a world of difference between the two. If I recommend that you read a book, would you assume I would support the state forcing you to read it? When your mother told you to eat your broccoli, did you think she was endorsing a federal Department of Vegetables?*

Progressives criticize entrepreneurship and free markets as “all about money.” They pretend to be representatives of a higher calling which, it turns out, is even more about money than what they oppose. What is it that they’re always attempting to seize? Money. Your money. Even communist Cuba’s Fidel Castro understood this. In 1964, he was quoted in London’s *The Observer* thusly: “Capitalism is using its money; we socialists throw it away.”

While most value creators in free enterprise seek happy customers and fulfillment derived from problem-solving accomplishment, progressives and their socialist brethren can’t quit talking about other people’s money. They count the other guy’s blessings instead of their own. They have no theory of wealth creation, only political schemes to swipe it and give it away. They are utterly obsessed with it.

Virtually every problem can be fixed, they believe, by the very “filthy lucre” they despise when it belongs to someone else. Ironically, their fixation on money proves how corrupting the love of it can

be. They love it so much that they're eager to steal it from others. They even buy votes with it and make people dependent on the loot. How crass! How dehumanizing!

Progressives and their socialist brethren, it turns out, are the real money grubbers. Consider this observation from economist Thomas Sowell: *"I have never understood why it is "greed" to want to keep the money you have earned but not greed to want to take somebody else's money."*

The temptations accompanying material wealth, or a singular focus on attaining it, are numerous and powerful. This is why Jesus cautioned that "only with difficulty will a rich person enter the kingdom of heaven." Whether or not one gets to heaven never depends on the size of one's bank account. That would run counter to his message of salvation. Jesus was, in effect, urging all of us to keep our priorities in order and not allow the temptations of wealth to compromise our character. He would say the same about many things that can be taken to excess, including earthly political power.

The love of money motivates people to lie, steal, cheat, embezzle, gamble their savings away, and even murder. Instead, keep your eyes on loftier values. In free markets, material possessions are likely to follow. Those values include honesty, humility, patience, responsibility, gratitude, courage, entrepreneurship, respect for life and property, and improving the lives of others through voluntary means.

In his Parable of the Talents, Jesus reserved the highest praise for the man who magnified the money to which he was entrusted. The man who sat on his hands and did nothing with it was the object of his scorn.

## **Footnotes**

[1] Lawrence Reed, "Did You Know About The Great Hyperinflation of the 17th Century?" <https://fee.org/articles/did-you-know-about-the-great-hyperinflation-of-the-17th-century/>.

[2] Lawrence Reed, "Did Jesus Despise Money?" <https://fee.org/articles/did-jesus-despise-money/>

Economists like me urge governments to be wise and honest with money. "Don't abuse it and don't let it be your highest value!" we tell them. In essence, that advice applies perfectly to all of us in our private and personal lives as well.

## **Footnotes**

[1] Lawrence Reed, “Did You Know About The Great Hyperinflation of the 17th Century?” <https://fee.org/articles/did-you-know-about-the-great-hyperinflation-of-the-17th-century/>.

[2] Lawrence Reed, “Did Jesus Despise Money?” <https://fee.org/articles/did-jesus-despise-money/>

# Money and Freedom: The Gold Standard *By Hans F. Sennholz, Ph.D.*

Reprint of Chapter 6 - "The Gold Standard" originally included in [Money and Freedom](#) by Hans Sennholz, courtesy of [Libertarian Press](#).

Abstract: Published in 1985, Money and Freedom became an instant classic, highlighting the classical gold standard as the epitome of honest money, while taking fiat and government money to task for inflation and "deliberate mutilation." In chapter 6 - The Gold Standard, Sennholz explains gold's natural properties and explains the benefits of a monetary system rooted in honest weights and measures.

# Money and Freedom: The Gold Standard

## Terminating the Monetary Monopoly

To facilitate trade and social cooperation, societies need a reliable and honest medium of exchange. This is why, from the beginning of time, they have searched for such a medium among a great variety of economic goods, from cattle and corn to powder and shot. When gold and silver proved to be most marketable, they sought to standardize coins for purposes of convenience and order. Unfortunately, the quest for order brought forth the political lord who, in urgent need of revenue, seized the power over the mint and made it an important source of revenue.

The history of Western society is a long register of the struggle between the individual longing to be free and the political lord insisting on sovereignty and order. The struggle over money must be seen as an integral part of this fateful confrontation. Where people seek liberty, self-determination and self-government, they seek to regain their freedom of money or, at least, to force government to be honest in monetary matters. They may lead government to adopt an unadulterated gold or silver standard.

The classical economists gave the world a new perspective on economic life and ushered in an age of individual freedom and enterprise. They succeeded in imparting honesty to money matters but, unfortunately, failed to remove government entirely from the people's money. In retrospect, the classical economists proved to be naive in their trust of politicians. They looked upon the costs of a metallic currency --the gold coin standard -- as a waste, which the gold bullion standard was said to reduce. They blithely assumed that no government of a civilized nation would exploit such a standard for inflationary objectives.

David Ricardo, perhaps the most influential English economist of the nineteenth century, placed his trust in the hands of commissioners who “*not removable from their official Situation but by a vote of one or both Houses of Parliament,*” would issue paper money. “*Five commissioners shall be appointed, in*

*whom the full power of issuing all the paper money of the country shall be exclusively vested.”*<sup>[1]</sup>

Many contemporary economists still echo this particular train of thought. While we may understand the naivete of classical economists, who had never experienced hyper-inflations and devaluations in England, modern economists cannot be exculpated so easily. They should be aware of the warning by William Graham Sumner, the great Yale economist of the pre Federal Reserve era:

*“Scheme after scheme has been proposed and tried for realizing the gain which it was believed that cheap money could produce for the public; that is, for those who buy and use currency. This gain has been pursued as the alchemists pursued the philosopher’s stone, by trial and failure. Whether there be any such gain or not, our attempts to win it have all failed, and they have cost us, in each generation, more than a purely specie currency would have cost, if each generation had had to buy it anew ... The revulsions to which the system was subject overwhelmed us in every decade. The notions on which the system was based are proved to have been delusions, disastrous to everybody concerned, including those who tried to profit by them.”*<sup>[2]</sup>

To return to sound money is to return to free money, free from any infringements by politicians and bureaucrats. Monetary freedom, like all other economic freedoms, clears the way for energy, intellect and virtue. However, it is an unfortunate fact that most Americans are no longer seeking freedom; they are surrendering their inalienable rights to politicians and government officials who promise comfort and security.

It may be a maxim of economics that government, which is the political apparatus of coercion, cannot improve economic conditions by hampering productive efforts. Political control weakens individual self-reliance and energy, causes want

and poverty and, in the end, breeds tyranny and oppression. In matters of money and banking, political control leads to government creation of monopolistic rights-in particular, to a central bank with legal tender powers and monopolistic privileges. It gives rise to a money and banking monopoly resting on legislation, jurisdiction and police enforcement. Obviously, such a monopoly differs fundamentally and diametrically from the phantom of monopoly depicted by Marxist writers. The former rests on brute police power; the latter springs from the fertile imagination of Marxist writers who know little about the private property order.

### **The Gold Standard**

The gold standard, in its broadest sense, is a monetary system that uses gold as the primary medium of exchange. It was the monetary standard of the Western world throughout the ages, from Philip II of Macedonia in the fourth century B.C. to the United States of the twentieth century. It was paramount in the Byzantine and Arab empires, and in the great commercial republics of Italy during the thirteenth century and thereafter.

In a narrower sense, the gold standard is a legal-tender system in which government makes a fixed weight of gold the standard money unit. Under this standard, the U.S. dollar was a piece of gold of a certain weight and fineness, with free coinage, free melting and free movement of gold. It was a gold coin standard that put gold coins in the cash holdings of the people, along with bank notes, checkbook money, and fractional coins. They all were money substitutes, payable on demand in gold coins.

The virtues of the classical gold standard were twofold:

1) It limited the power of government to inflate the stock of money and thus depreciate monetary purchasing power. The supply of gold remained unrelated to the needs of government and the presumed needs of business. It depended instead on the costs of mining, refining and processing, which effectively limited the quantity of newly mined gold coming to the market.

2) The classical gold standard united the world in one monetary system, facilitating world-wide division of labor and growth of the world economy. With national currencies representing fixed quantities of gold, it gave certainty and stability to exchange rates. It created international capital markets, and encouraged the exportation of European capital to all corners of the world, bringing economic life to many backward areas.

### **Mutilation and Destruction**

Deterioration of the gold standard set in when, early in this century, governments began to restrict the actual use of gold, and hoard it in their treasuries or central banks. They gradually established the gold bullion standard, which introduced the people to paper money. Gold coins were withdrawn from cash holdings and replaced by national currency that was no longer redeemable in gold coins, but only in large, expensive gold bars. The gold bullion standard, in effect, prevented redemption by most people, limiting it to a few specialists in international trade and finance. During the early decades of this century, many countries had standards of this type.

The gold standard system was weakened further by the advent of the gold exchange standard. Some governments preferred to hold their country's gold reserves in foreign claims to gold rather than in actual gold. They were buying and selling foreign currencies that continued to be redeemable in gold coin or gold bullion at rates reflecting the legal parity. A few central banks thus accumulated the world's monetary gold and became the reserve banks of the world.

After World War II, the Bank of England and the U.S. Federal Reserve System controlled most of the world's monetary reserves. More than sixty nations were holding their reserves in pound sterling claims to gold, forming the sterling area. Some twenty nations, mainly in Latin America, belonged to the dollar area; however, the Bank of England was holding most of its reserves in dollar claims to gold. This made the Federal Reserve System the ultimate reserve bank of the world, and the gold exchange standard a *de facto* dollar exchange standard.

During the 1950s and 1960s, several monetary crises and runs from the British pound triggered world-wide demands for dollar redemption. These demands greatly depleted the American stock of gold, and created precarious payment situations. During the crisis of March 1968, most governments joined the British government in blunting the gold exchange standard even further. They introduced the “two-tier system” that called for gold payment among governments and central banks and summary denial of all private claims for redemption in gold. At the same time, President Johnson persuaded the Congress to remove the requirement that one fourth of U.S. currency be backed by gold.

The final repudiation was performed by President Nixon on August 15, 1971, when he suspended all U.S. gold payments. Notwithstanding the international agreement on the resumption of gold payments reached at the Smithsonian Institute a few weeks later, which he called “the most important monetary agreement in the history of the world,” the U.S. government chose to repudiate all gold claims. Thus ended the gold exchange standard and began the world dollar standard.

The demise of the gold standard in its most insipid and feeble form ushered in the age of irredeemable legal-tender paper money, which is a product of politics under the guiding influence of public opinion. It is synonymous with the age of inflation and monetary depreciation. Every national currency is filling nearly continually; all have been devalued officially, and several replaced with new issues that are depreciating again. The paper standard is self-destructive.

### **Natural Qualities of Gold**

The gold standard will return as soon as people realize that honesty is the best policy. As hope of ill gain is the beginning of the fiat standard, so is honesty the mother of the gold Standard. The gold standard is as old as civilization. Throughout the ages, the gold standard emerged again and again because man needed a dependable medium of exchange. Gold provided such a medium. It was the most marketable good that gradually gained universal employment- and thus became money. Its natural qualities, i.e., its

use for the manufacture of ornaments and jewelry, its easy divisibility, great durability, storability and transportability, made this precious metal well suited to serve as money.

Gold is more marketable than any other economic good. As economizers, we like to carry a reserve in the form of gold coins, nuggets, bullion, gold ornaments and plate- because it is readily saleable and acceptable in trade. It can be exchanged easily on the markets for other goods, and can be hoarded for exchange at a later date. It can be readily sold in small quantities or larger sums without much difference in price, to individuals of all races and nationalities. Every individual is a potential buyer, although he may not need the gold. It may be added to the store of personal wealth, and passed from generation to generation as an object of family wealth. There is no other economic good as marketable as gold.

Gold is an abundant commodity, accumulated for more than two millennia, unessential for consumption and, therefore, available to serve as money. Existing supplies of gold, in the form of coins, jewelry, decoration and plated coating, are greater by far than annual production or consumption; this makes annual additions of gold through new mining rather unimportant. This characteristic of gold, in which it differs from all other metals, removes the risk of sudden changes in quantity that would affect its value.

Governments throughout the ages have sought to amass gold in their treasuries because it meant wealth and power. Yet its use as a medium of exchange has caused it to be diffused with the passage of time. In contrast, platinum, palladium and other precious metals are industrial metals in the possession of dealers and producers, which limits their marketability and deters their use as money. Even silver cannot compete effectively with gold because its current production, relative to its visible supplies, is large, exposing its value to sudden changes in quantity. No other metal has such large stockpiles and small current production as gold. No other commodity enjoys as much universal acceptability and marketability as gold. It is naive to believe that irredeemable paper based on the debt of legal-tender governments could ever acquire the universal

marketability and take the place of gold.

No one had to make the gold standard work as an international system; it evolved without intergovernmental treaties and institutions. When the trading countries had adopted gold as their currency, the world had an international money. True, the coins bore different names and had different weights; this hardly mattered as long as they consisted of gold and could be exchanged freely. An ounce of gold is an ounce of gold, whether it consists of guineas, sovereigns or eagles.

### **An International Standard**

The gold standard was a world standard, facilitating international trade and investment. It encouraged countries to specialize in the production of those goods in which they enjoyed the greatest advantage, thus raising labor productivity and levels of living. Moreover, it permitted and encouraged exportation of capital from the industrial countries to backward areas, from London and Paris to New York and Buenos Aires. In search of profitable employment opportunities on all continents, European capital built commerce and industry, and thereby improved the living conditions of people around the globe.

Countries on a gold standard suffered no balance-of-payments problems, no shortages of money, no currency crises. Exchange rates of bank notes, bills of exchange and acceptance, moved between two definite points: the gold import and export points, which were determined by the costs of transport and gold delivery. When the use of gold was less expensive than foreign exchange, debtors preferred to ship gold rather than drafts and acceptances to settle a foreign debt. Gold would enter a country when foreign debtors would prefer to ship gold to buying exchange. They would prefer to ship gold if their own currency was inflated and depreciated, or if gold itself were coming to the market from new mining.

The gold production that followed the discovery of gold in California (1849) was probably the greatest the world had witnessed heretofore, which caused the United States to suffer large exports of gold. During the 1850s and 1860s, large quantities of California

gold entered the markets, and even larger quantities of greenbacks took the place of gold. The reasons for the outflow of gold were well understood: the growing quantities of money in individual cash holdings.

Under the gold standard, commercial banks and central banks kept their currencies at par with gold and foreign exchange through unconditional redemption. At the parity rate, they bought any amount of gold against domestic banknotes and deposit currency. They sold without discrimination at the parity rate. The gold standard thus provided trusted national currencies that were mere money substitutes for the world medium: gold.

### **Creation of Freedom**

Monetary freedom can be expected to give rise to the gold standard and private gold coinage. From colonial times until the middle of the nineteenth century, Americans used gold coins struck by private mints. The Chalmers Shilling, issued by a goldsmith of Annapolis, Md., in 1783, was freely used by the founding fathers. The ten-dollar pieces coined in 1830 and later by the mint of Templeton Reid of Georgia, containing gold valued at \$10.06, widely circulated throughout the South. Another mint in Rutherfordton, North Carolina, issued some \$2.2 million of gold coins. In fact, an 1851 U.S. Mint report speaks of twenty seven different kinds of gold coins issued by fifteen private mints. This number even increased thereafter, when numerous private mints in California issued fine gold coins bearing the names of the manufacturer. Business transactions were conducted in these coins, which also served to redeem money substitutes, such as bank notes and deposits. Redemption on demand kept them at par with gold.

In freedom, the gold standard is a gold coin standard that is utterly independent of government. It is true, it cannot achieve the unattainable ideal of an absolutely stable currency. There is no such thing as stability and unchangeability of purchasing power, but the gold standard protects the monetary system from the influence of governments, as the quantity of gold is utterly independent of the wishes and manipulations of government officials and politicians, parties and pressure groups. There are no "rules of the game," no

arbitrary rules which people must learn to observe. It is a social institution that is controlled by inexorable economic law.

The issuers of money substitutes, whether private or public, keep their currencies at par with gold through unconditional redemption. A note-issuing bank buys any amount of gold against its currency or deposits at the parity rate, and sells indiscriminately and on demand any amount of gold against its notes or deposits. It thereby renders no national service, nor “defends” nor “protects” its currency. It merely fulfills the contract it made when it issued the money substitutes.

Under the gold coin standard, inflationary policies are not rendered impossible, but made difficult. Redemption demands and the threat of drains of their gold reserves would restrain the issuers of money substitutes from inflationary expansion. Any such expansion would alarm the owners of substitutes and cause them to demand redemption in gold coin, which would spell ruin to the issuer.

### **Footnotes**

[1] David Ricardo, “Plan for the Establishment of a National Bank,” Works, Vol. IV., ed. Piero Sraffa (Cambridge University Press, 1951), p. 285.

[2] William Graham Sumner, “History of Banking in the U.S.,” The Journal of Commerce and Commercial Bulletin, 1896, p. 472.

# The Populist Case for the Gold Standard

*By Kristoffer M. Hansen, Ph.D.*

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**ABSTRACT:** There have been many calls for reforming the gold standard since the end of the classical gold standard and especially since the end of Bretton Woods. This article will attempt to show that the gold standard is still a superior monetary system, and that the reform of the monetary system is still a desirable policy.

Hansen’s paper analyzes the shortcomings of the present fiat- money order, indicating how it distorts the market and society through inflation, redistribution, by artificially increasing the importance of financial markets, and by hampering US industrial production in international trade. Then it will show that these problems would cease to exist under the gold standard, and we will indicate a possible reform for returning to gold in the US. Finally, he argues that such a reform in order to be successful must become a popular crusade—i.e., it must become a populist issue.

# The Populist Case for the Gold Standard

## Introduction

Politics have become increasingly populist throughout the Western world since the Great Recession. Both left-wing and right-wing parties thunder against political and other elites, suggesting that their specific programs and ideologies will put an end to what they see as unfair exploitation of the people by an unaccountable and increasingly out-of-touch elite. In the United States recent populist movements are the Tea Party movement and Occupy Wall Street, and both Donald Trump and Bernie Sanders used populist rhetoric in their presidential campaigns.

The rise of populism is, in hindsight, perfectly understandable. The war in Iraq would be a “cakewalk”; “if you like your health insurance, you can keep it”; my opponent’s voters are a “basket of deplorables”—mainstream politicians have again and again shown themselves to be out of touch with reality and increasingly, it seems, also with more and more of their voters. Most important for our purposes, the Federal Reserve, charged with managing the money supply and securing low inflation and low unemployment, was oblivious to all dangers on the eve of the Great Recession, and seemed to do what it could to help big banks and investors weather the storm, no matter what the price would be for the rest of the country.

Indeed, the Federal Reserve has proven unable to achieve the goals set for it since its establishment and especially since the final end of the gold standard and the introduction of the fiat dollar in 1971, when its control over the money supply was vastly expanded. The Fed did manage to break the inflationary expectations that had led to double-digit inflation in the 1970s, but this slight improvement has not canceled out the many evil effects of fiat money. The harmonious development of society and the economy depends on sound money, which is itself a spontaneous social institution (Mises 1981, 421), while monetary policy leads to accumulating economic distortions. These distortions favor political

and financial elites (Sennholz 1985, 1979): they have greatly expanded the scope of the financial sector and its importance to the economy, and politicians now have greatly increased resources at their disposal to pursue their dreams of remaking society. With our present fiat money system it is much easier for politicians to engage in deficit spending, as this spending artificially enlarges the market for government bonds as well as other financial titles. The public at large, on the other hand, is more and more dependent on financial markets if not outright on the state, while political elites are less beholden to the taxpayers for the resources they need.

More than any other institution, it is our contention that the Federal Reserve has caused economic distortions and increased popular resentment toward elites in general. This is why the gold standard should be the eminently populist cause: against unaccountable elites and for the general welfare of the public at large. Not only that, it is only by making the gold standard a populist crusade that there is any hope of restoring gold to its monetary role (Mises 1981; Sennholz 1985; Paul 1985). Fiat money has greatly distorted the economy and harmed the common man, and returning to the gold standard would resolve these distortions. This does not mean that the restoration of the gold standard would mean the fulfillment of every policy currently advocated by populists, nor that the advocates of gold should stoop to demagoguery. The case for gold must be presented honestly. All we mean by making the gold standard a populist cause is to make the appeal directly to the public at large, and especially to that part of the public who are the most victimized by the present system, and who have the most to gain by returning to sound money. The gold standard cannot be just an academic exercise: we must show how a return to gold would improve the economic situation and prospects of the common man.

We will proceed as follows: first, we will present some of the main problems of fiat money. In particular, we will focus on how these problems affect the broad classes of producers in the private sector. Then, we will show how these problems would

disappear, or at least be more manageable, under a gold standard. We then sketch how the gold standard would look in the present day and how we could move from fiat dollars to gold and, eventually, to complete monetary freedom. Finally, we will briefly discuss the ways monetary reform might become a populist movement.

We do not pretend to any great originality with this proposal, rather it should be seen as an updated and slightly modified version of Mises's proposed reform from the 1950s.

## **The Case Against Fiat Money**

What follows is a brief survey of the main problems of fiat money. They are all variations of the effects that additions to the money supply have as new money enters and spreads through the economy, the Cantillon effects (named after the Irish economist Richard Cantillon, who first analyzed them in 1755. Cantillon 2010), and are as such all connected. They can be broadly categorized as inflation, redistribution, financialization, and deindustrialization.

### **Inflation**

Price inflation is a constant presence in the age of fiat money. It is true that the high inflation of the 1970s gave way to more moderate inflation in the following decades, but the purchasing power of the dollar has continued to fall steadily (see figures 1 and 2). This moderation might partly have been due to greater restraint on behalf of the Federal Reserve, but it should be pointed out that the money supply continued to grow throughout the period. A more likely explanation is that the advent of moderate price inflation was due to exogenous factors beyond the control of US monetary authorities. The last forty years or so of globalization have seen the integration of first the East Asian tiger economies, then the formerly Communist countries, and especially China, into the world economy, massively increasing global production and trade. Former Fed chairman Alan Greenspan frankly admitted that the period of low inflation was not due to activist central bank policy (Greenspan 2007, 12–15; cf. Stockman 2013, 63–64); indeed, more recently he admitted in an interview

with the Gold Investor that during his tenure as chair of the Federal Reserve “US monetary policy tried to follow signals that a gold standard would have created. That is, sound monetary policy even with a fiat currency” (Greenspan 2017, 14). We may question just how effective merely playing at the gold standard is compared to the real deal,<sup>[1]</sup> but this policy may have led monetary authorities along a less inflationary path for a time.

FIGURE 1: PURCHASING POWER OF THE US DOLLAR, 1960–2019.

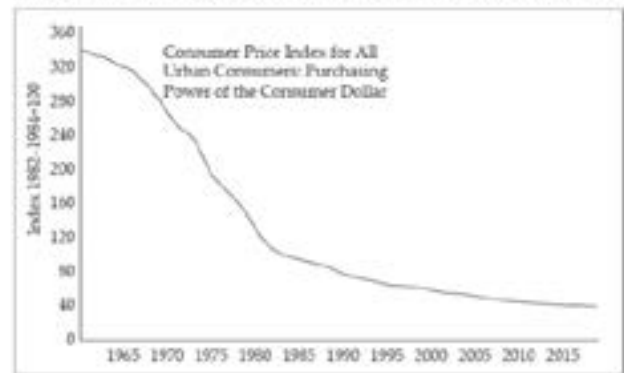


FIGURE 2: PURCHASING POWER OF THE US DOLLAR, 1960–2019, YOY Change.



Nevertheless, the effect of these positive developments across the globe would, in the absence of government manipulation of the money supply, have been a steep fall in the prices of consumer goods. The 1990s and the first decade of the 2000s should have been marked by deflation, as the amount of goods offered to consumers increased while the supply of money remained steady. This would have spread the benefits of globalization and increased production to all holders of US dollars. But the

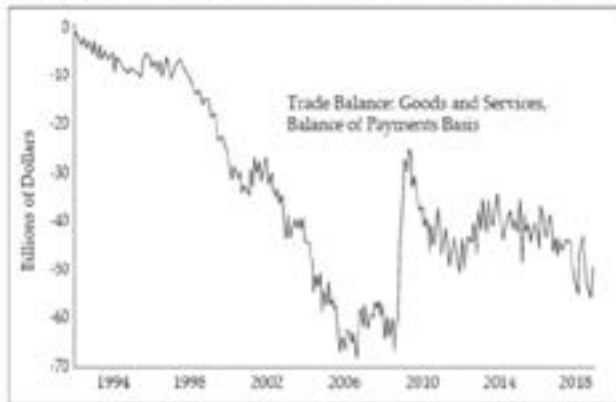
Fed’s inflationary policy neutralized this beneficial effect, as it pumped more money into the economy in pursuit of its goal of low but stable price inflation. The hollowing out of the purchasing power of the dollar therefore continued at a time when we should have expected a general appreciation in the value of money.

The inflation engineered by the Fed did not cause uniform price increases across the board. The effects of additions to the money supply depend on where the new money enters the economy and how it spreads through the economy. So some consumer goods did fall in price—e.g., consumer electronics—while others rose drastically, such as housing. Figure 3 shows this clearly by comparing changes in the Case-Shiller housing index to the general Consumer Price Index. Housing became drastically more expensive relative to other consumer goods over the last thirty years.

FIGURE 3: CASE-SHILLER HOUSING INDEX COMPARED TO CPI (1987 = 100).



FIGURE 4: UNITED STATES TRADE BALANCE, 1992–NOVEMBER 2018.



Inflation and the erosion of purchasing power do not affect only the consumers; they are also important factors for producers. In an inflationary environment, the entrepreneur cannot simply allow for yearly depreciation based on the purchase price of his assets. He has to also estimate how monetary factors will distort future prices in order to calculate his replacement costs and make adequate allowance for depreciation. At the very least, this increases the costs of doing business, as more time and resources must be spent on accounting; more seriously, it can lead to capital consumption and reduced productivity, as the entrepreneur fails to foresee replacement costs adequately (Rothbard 2009, 993–94; Baxter 1955; cf. Reisman 2002).

Monetary inflation, furthermore, is not simply a hydraulic process, with prices being raised gradually as new money percolates through the economy. Rather, inflation may also affect the quality of products offered for sale by entrepreneurs (Sieroń 2017). Increases in the money supply often affect the prices of producer goods before those of consumer goods, especially when the new money enters the economy in the form of credit expansion. It is not possible to simply pass on the higher costs to the consumers if the demand for goods is elastic, as higher prices would then simply mean lower total revenues. Rather, the entrepreneur must somehow reduce his costs in order to stay profitable, which usually means substituting lower-quality for higher-quality inputs (ibid., 153, 155).

This process of product degradation also takes place over the long term: given that the broad mass of consumers will only receive increased monetary incomes late in the Cantillon process, the entrepreneurs will have to cut costs long before they can raise prices for consumers in order to stay in business. As inflationary credit expansions are perennially reoccurring, entrepreneurs will have to shift their innovative activities toward cost-cutting technologies and finding ever-cheaper substitutes for inputs, at the expense of research into higher-quality products. In the long run, we should therefore expect the inflationary environment of the fiat dollar system to yield progressively worse consumer products over time compared to what would have been produced

under a sounder monetary regime.

While it is difficult to isolate this effect in the real world of complex phenomena, there are some clear indications that such product degradation has in fact been taking place. When we look at the consumption of foodstuffs in the United States during the twentieth century, there are some clear trends of changing consumption patterns that follow very closely the change to inflationary fiat money. This is not to say that every change in the diet for the worse is caused by monetary phenomena. For instance, the fall in butter consumption (figure 6) occurred mainly before the end of Bretton Woods and was probably due to the crusade of Dr. Ansel Keys against it (Teicholz 2014), but other changes have a clearer connection to the increasingly inflationary monetary systems of the postwar period and especially after 1971.

The changing trends in the consumption of meats have a clear connection with monetary phenomena. We will make two assumptions for the purposes of our presentation: that people, at least in Europe and America, eat more meat the more prosperous they are and that most people in the western world consider beef a higher-quality meat than pork or chicken. There was a rising trend in per capita consumption of the main kinds of meat—beef, pork, and chicken—until 1971. After this date, however, overall consumption of meat virtually stagnated: it only returned to the 1971 level for an extended period in the 2000s and was in 2017 only 3.5 percent above the 1971 level. What is more, the kinds of meats consumed have changed dramatically: pork consumption has declined and beef consumption has collapsed by more than 30 percent, while the amount of chicken consumed per capita has more than doubled since 1971, and has increased sixfold since 1909 (see figure 5). While changing consumer tastes may account for part of this change, it is hard not to suspect that most people can simply no longer afford the same amount and quality of tasty beef that they could in the 1960s and 1970s.<sup>[2]</sup> There are, at the very least, some interesting indications here of the way that fiat money has led to the production and consumption of lower-quality products.

FIGURE 5: PER CAPITA AVAILABILITY OF LEADING MEATS, INDEXED 1971 = 100.



FIGURE 6: PROPORTION OF PER CAPITA AVAILABILITY OF FATS.



## Redistribution

It is a fact of nature that economic resources are distributed unevenly. Even if everybody had the same resources initially, different choices would quickly lead to differences in wealth and income. In a market economy, such differences are due to differences in productivity and in entrepreneurial skill. Workers will tend to be paid according to the value of their contribution to production; savers will earn a return on their investment based on the social rate of time preference; successful entrepreneurs will earn higher profits than unsuccessful entrepreneurs; all will earn an income and accumulate wealth based on their contribution to satisfying consumer demand. This inequality is not wrong or evil, but simply a fact of life that results from the free actions of economic agents.

Inflationary monetary policy distorts this picture of market-determined natural inequalities, as Cantillon effects redistribute income and wealth to the early receivers of new money and away from those who receive the new money last or who are on fixed incomes. This process was restricted under the gold standard, since gold cannot be created at will and gold mining does not lead to Cantillon effects, as we shall see below. Increases in the issue of fiduciary media did mean some redistribution, but these increases were severely limited by the danger of an outflow of gold. Since the final destruction of the gold standard in 1971, however, this is no longer an issue: the monetary authorities can keep inflating the money supply and banks can continue to create fiduciary media to the benefit of some at the expense of others.

The result has been stagnating incomes for workers and for the middle class generally, while the politically well connected and the financial operatives who are closest to the source of new money benefit. Recent studies (Bachman 2017; Brill et al. 2017; Bivens et al. 2014) suggest that for the median US worker, earnings (in real terms) have not only been stagnant, but have fallen slightly since 1973. This is not due to falling productivity: rather, the growth in productivity has far outstripped growth in compensation to workers since 1970 (Brill et al. 2017, 8). Up to that point, increasing productivity was reflected in higher wages, as we should expect according to economic theory. While the economy has continued to become more productive, then, the average worker sees less and less of this increased productivity.

Who are the beneficiaries of this hidden redistribution? The main clients of the central bank: the government and the commercial banks (Hülsmann 2013). These have generally been the first to receive the new money, as the banks have been able to expand their issue of fiduciary media and the government has always had a ready market for new debt issues. Since the 1970s, finance has become an increasingly important part of the economy, and even in non-financial firms, financial income constitutes an increasing proportion of total revenue (Lin and Tomaskovic-Devey 2013). The reason for this should

be clear: as money is pumped into the economy through financial markets, firms that position themselves to take advantage of monetary infusions and easy financial conditions will win out over their less savvy competitors (although this is an advantage that depends on the conditions of easy money and credit expansion). The company officers guiding this process and the workers skilled in financial dealings will naturally earn higher compensations than their colleagues engaged in more mundane activities.<sup>[3]</sup>

This does not invalidate the conclusion of economic reasoning that wages are set in accordance with the discounted marginal revenue product (DMRP) of the worker (Rothbard 2009, chap. 7). However, this is the long-run tendency of the market and will only ever be reached in final equilibrium. In the meantime, inflation, especially in the form of credit expansion, temporarily increases the revenue to be gained from financial transactions and makes indebtedness more attractive. It is therefore clear that so long as the inflation lasts, financial incomes will be higher than they otherwise would be. In our inflationary environment, the DMRP of financial wizardry is simply higher than it would otherwise be, and that of workers correspondingly lower.

While real wealth has increased as a result of globalization and increased productivity, the distribution of wealth and incomes has been increasingly skewed since 1970 due to continuous inflation. Private sector workers see their wages stagnate while government employees, government contractors, and the financial sector benefit.<sup>[4]</sup>

## **Financialization**

Fiat money, as we have seen, tends to lose its purchasing power over time. This means that plain saving—hoarding of money and accumulation of durable goods—and direct investment of accumulated funds in capital goods are discouraged. Instead, both the supply and the demand for financial assets increase as savers look for some way to protect their accumulated wealth (Hülsmann 2013, 6). The quality of fiat money is such that it is not a good store of wealth, since price inflation and a falling purchasing power are inherent to fiat money (cf. Bagus 2015b on

the importance of the quality of money). Furthermore, as a consequence of central bank policy, the prices of financial assets tend to increase relative to those of nonfinancial assets (Žukauskas and Hülsmann 2019), so saving in forms other than financial titles is discouraged. In order to protect themselves from the wealth-destroying effects of inflation, savers have to engage in financial speculation: they take on debt to invest in financial assets, just to stay ahead of inflation and the redistributive effects of central bank policy.

This all leads to increased dependence on the financial sector, not only for consumers who want to acquire durable consumer goods such as houses and cars, but also for savers who want to accumulate wealth for later consumption and for businesses that want to expand operations (Hülsmann 2008b, 180–85). There is nothing wrong with financial institutions or financial markets in themselves. They provide a valuable service for the individual saver or borrower, and they provide a valuable service for society as a whole by helping to allocate funds to the most valued uses. The problem is that the destruction of sound money has led to a situation where everybody has to make use of financial services simply to preserve their wealth, while the financial markets increasingly depend on central bank interventions, not on the objective facts concerning the real assets underlying the various financial claims (Hülsmann 2014, 11–12). A paper issued by the Bank of England (Bush, Farrant, and Wright 2011) makes a similar point: severe imbalances have been allowed to build up in the international monetary and financial system, and capital movements do not seem to be guided by considerations of productivity.

There is also evidence that overreliance on financial markets has had spillover effects on the real economy, as it has distorted the process of valuation and calculation guiding economic action (Ehret 2014). This leads us to the next problem generated by fiat money and privileged financial markets: the perennially reoccurring business cycle.

It should come as no surprise that banks and other financial institutions' knowledge that they can depend on the central bank to bail them out leads to moral

hazard. They can now engage in risky speculation in the hope of huge profits, and when the financial system periodically experiences a crisis or collapse, the taxpayers and hapless depositors are left with the bill. This speculation generally takes the form of increased lending to businesses in the form of fiduciary media, that is, uncovered money substitutes. As this increase in lending is not matched by an increase in saving, the result is that the market rate of interest is driven below its natural level and the business cycle is set in motion (Mises 1981, 357–64).

Austrian economists have thoroughly explained the business cycle resulting from credit expansion (e.g., Hayek 1935; Mises 1998, 535–83; Rothbard 2009, 989–1041; Skousen 1990; Hülsmann 2002; Huerta de Soto 2009; Salerno 2012). Cheap credit initially fuels a boom, as entrepreneurs invest in a longer structure of production. But the real savings needed to complete all investment projects are not available, and this becomes apparent when the infusion of cheap credit has passed through the system and the interest rate again rises to a level determined by the time preference of the economic agents. The boom inevitably turns to bust as nonviable investments are liquidated, workers laid off, and unconvertible capital goods in unprofitable production processes abandoned.

As part of the adjustment process during the bust, there is often so-called secondary or credit deflation (Rothbard 1963, 14–19; Salerno 2012, 37–41). Faced with bankruptcies and financial difficulties among borrowers, banks contract credit, or refuse to roll over short-term loans. At the same time, there is often an increased demand for money, as, faced with greater uncertainty, entrepreneurs and consumers hold off on spending until they are more sure of the economic environment. However, monetary authorities often intervene to prevent this deflation. To do this, they recapitalize overextended banks with new money, and the financial system that initiated the business cycle is largely saved from the ensuing recession. At the same time, workers and entrepreneurs have to scramble to reconstitute the structure of production along sustainable lines, while living through periods of unemployment and reduced incomes.

## **Deindustrialization**

It is difficult to know how much of the decline in manufacturing and deindustrialization in the United States we can ascribe to the natural development of the economic system. The integration of vast areas of the globe into the world economy over the last several decades means that some industries are simply no longer competitive in the United States. Workers and investment will have to shift to other employment where the US still has a comparative advantage. There is no way around this adjustment, but there is some reason to believe that industry in the United States has been disadvantaged by the monetary policy of the Federal Reserve.

The first indication that something is amiss is the permanent deficit in the US balance of payments. Except for periods of recession, the deficit in the trade balance has only grown since the early 1990s (see figure 4). This would not normally be a problem, since the trade deficit would be offset by investments in the US economy. Increasingly, however, the trade deficit is paid for by a continuous outflow of newly created fiat dollars. Under the gold standard, this would be impossible (cf. below), and in this world of fluctuating fiat currencies, inflation should have led to a depreciation of the dollar in terms of foreign currencies, as its supply increased and its purchasing power fell. Yet this has manifestly not happened; the dollar's exchange rate is by and large stable.

The reason for this is that the fiat dollar deliberately continues to be overvalued against foreign currency. David Stockman (2013) has repeatedly spoken of the “China price,” the downward pressure on prices caused by the flow of goods from China. Yet it is not just increased productivity and market integration that cause this. Lewis Lehrman (2013, 191–95) has argued that China is in effect a financial colony of the United States: by pegging the yuan to the dollar at an undervalued rate, Chinese exports to the US are boosted, and the People's Bank of China can then inflate its own currency against its artificially overvalued dollar holdings. Indeed, the current international monetary system is best seen as a continuation of the gold-exchange standard introduced in 1922 and reintroduced at Bretton

Woods, where the dollar became the world's reserve currency and the only link to gold. This allowed the US to build up a balance of payments deficit, especially from the late 1950s on. Instead of an outflow of gold from Fort Knox, dollar balances simply accumulated abroad, especially in Western Europe, stoking inflation there, and in effect meant (and means) that the citizens of any country with a positive balance of payments vis-à-vis the United States were financing Americans' acquisition of tangible assets in their own countries as well as the foreign spending of the US government. Jacques Rueff called this “an unprecedented system of spoliation” (Rueff 1972, 191) and it has continued since the end of Bretton Woods in 1971.<sup>[5]</sup>

The best description of this system is as a policy of American financial imperialism in which the Chinese government and other creditor nations are the junior partners.<sup>[6]</sup> Not only are the incomes of Chinese workers artificially diluted, but the permanent overvaluation of the dollar has made it impossible for American industries to compete with those of other nations, and the result has been widespread deindustrialization in America (ibid., 195). It has been persuasively argued that increased trade contributed significantly to the collapse of manufacturing employment in the 2000s (Houseman 2018), which would corroborate the theory advanced here: monetary policy distorted the benefits from globalization and hobbled American industry. Had the dollar been allowed to depreciate as a consequence of inflationary Fed policy, it is plausible that the dislocations from the emergence of the Chinese economy and its integration into the world economy would not have been as severe. In that scenario Chinese and American industry would both have adapted and evolved according to the law of comparative advantage, to the benefit of both countries. Instead, American workers have had to suffer far more than necessary from the inevitable dislocations of globalization, while the benefits of globalization have been redirected to the people in control of the fiat dollar system: politicians, career bureaucrats, and crony capitalists well connected to the Fed's money-creating operations.

The fiat dollar, then, has bred serious ills for American economy and society. Yet can the reintroduction of the

gold standard—or, rather, the introduction of a pure gold standard—overcome these problems? And how can we go about reestablishing gold as money? We turn now to these questions.

## **The Solution: Return to Gold**

The goal of this section is to establish that a return to the gold standard would overcome the severe problems that the fiat dollar has caused and that such a return is not only desirable but also eminently feasible. We will also briefly explain why the gold standard is preferable to some other commodity standard, such as a silver standard or a bitcoin standard.

### **Previous Reform Proposals**

There have been very many proposals for a return to or a reform of the gold standard ever since the gradual deformation of the classical gold standard began. The following is not a complete list of these proposed reforms. We are only interested in recent reforms along the lines of a “true” or “pure” gold standard, where gold truly is money and money is seen as a market institution (Salerno 2010a). Money originated in the market as the outcome of the free actions of human beings (Menger 2007, 257–85; 2009), and the ultimate goal of any reform should be to reestablish money as a market institution and banish all government interventions from the monetary sphere. In a way, returning to the gold standard is just a means to this end—once the reform is accomplished, it is up to the actors in the market to either validate the experience of millennia by freely using gold as money or to discard the gold standard in exchange for their preferred medium of exchange.

The “gold standard” of such reforms is Mises’s from 1953 (Mises 1981, 413–57), and this is the one we will use as a blueprint for our own proposal. Rothbard wrote several works calling for a return to gold at a legal par that would lead to 100 percent reserves, and while we agree with his views on fractional reserve banking, we do not agree with this proposed method of achieving 100 percent reserves (Rothbard 2005, 1985; more on this below). Jesús Huerta de Soto has also proposed a reform of money and banking along

Rothbardian lines (Huerta de Soto 2009, 715–812). Hayek in his writings on monetary reform in the 1970s does not endorse a gold standard, but his call for full freedom in monetary matters is definitely consonant with the gold standard as envisioned by its champions (Hayek 1976, 1990, 2008). Hans Sennholz (1969, 1979, 1985) and Ron Paul (Paul 1985; Paul and Lehrman 1982) both emphasize the need for complete freedom in monetary matters as part of their reform proposals. The Misesian reform we will outline below is superior to both the Rothbardian approach and a reform that calls for full freedom in monetary affairs but stops short of abolishing the paper dollar.

The way of returning to gold that Rothbard proposes is that the definition of the dollar be changed so that the total stock of gold becomes 100 percent equal to the supply of dollars in circulation (Rothbard 2005, 181–83; Huerta de Soto 2009, 800). When Rothbard wrote this in 1962, it would have required a ten- or twenty-fold rise in the price of gold, and it would require an even greater increase today, but this would simply be the equivalent of a massive inflation and would itself cause grave dislocations. It would also amount to a massive intervention in the monetary sphere, which is not the best strategy when the goal of the reform is the elimination of all such interventions. Rothbard sees a massive deflation of the dollar supply as the only alternative, but if this is so, that is probably the better alternative. In the end, Mises’s plan is preferable, as it depends on the free action of men in the marketplace, not government fiat, to set the new legal par between dollars and gold. If the goal is monetary freedom, then the price of gold should be set by free markets, not by politicians (cf. Salsman 1995, 120). Once the market has established the price, paper money is to be made freely convertible into gold and vice versa. This plan is not a guarantee against a deflationary destruction of fiduciary media, but is the reform least likely to entail such radical economic dislocation. And should such a deflation happen anyway, it will be due to the choices of freely acting men, not a government policy.

The problem with reforms along the lines suggested by Sennholz and Hayek that look only to freedom in establishing a new monetary system is that they

overlook the great advantage fiat dollars have in competition with alternative potential moneys. Since it is already established as money, the fiat dollar will generally be preferred to other media of exchange, as it simply fulfills the primary purpose of money better than the alternatives (White 2002, 2004). Since prices are expressed in dollars, it is much easier to continue to use the incumbent money rather than speculate on some other commodity that might in time become widely used as a medium of exchange. This advantage of incumbency could be countered if the issuer of the fiat money, addicted to highly inflationary policies, in the end completely destroyed the monetary system. If we rely only on freedom, only on economic actions and not on political reforms in the establishment of sound money, all we can do is to wait for and even cheer on the complete destruction of the monetary system, while we stock up on the commodities that we think will emerge as media of exchange after the economic apocalypse. This is, however, an immoral and destructive course of action (Hülsmann 2008b, 241), as it amounts to resignation and surrender in the face of a great evil. There is, furthermore, no reason to think that the advocates of sound money will be in a position to prevent the perversion of the monetary regime that would emerge after the end of the fiat dollar.

The goal of all these reforms and of the reform we will present below is not simply anchoring the dollar to gold; rather, the goal is to completely replace fiat money with commodity money. Only in this way can the evils of fiat money be permanently banished.

## **How the Gold Standard Would Solve the Problems of Fiat Money**

### **Inflation**

Unlike with fiat money, there are definite limits to the possible increases in the supply of gold. Gold is an economic good and its production is subject to the same economic laws as all other goods (Hülsmann 2003, 39). In particular, the production of gold is limited by the law of costs (Sennholz 1975, 47–48): over time, the costs of production will tend to equal

the selling price, as entrepreneurs bid up the prices of factors of production until the return to capital (the interest rate) is the same in all industries. Should a producer of gold go beyond this limit, he will lose money, just as would be the case in the production of other goods: he would spend more on inputs and wages than he would receive in revenue, so attempts to become rich simply by producing money would be self-defeating.

Furthermore, gold is indestructible; virtually the whole stock ever mined is still in existence, so current annual production is just a fraction of the total aboveground stock, usually 1–2 percent (Skousen 1996, 83–85). The possibilities for monetary inflation, then, are clearly limited under a gold standard. This does not mean that the supply of gold is completely fixed; the production of gold will respond to an increase in the demand for money. As the demand for money increases, the purchasing power of money increases, meaning that it is now relatively more profitable to produce money. Gold miners will therefore expand their operations and less gold will be used for industrial purposes, as the gold is more highly valued in monetary uses, and manufacturers will search for substitutes to replace the more costly gold. Current production of gold and supply for monetary uses will also respond to a decrease in the demand for money: if the demand for gold for monetary purposes falls, its price will fall and gold miners will curtail their activities, reducing the additions to the present stock of gold. It may also prove possible to use more gold for industrial purposes or for consumer goods at the lower price, and more gold will therefore be switched to these uses, away from the monetary use (Salerno 2010b, 345; White 1999, 31–39).

It is theoretically possible for there to be short-term, localized inflation in gold-producing countries during a gold rush (Skousen 1996, 88), but these are unlikely now that the whole earth has been explored. Should they happen, however, they will only be temporary: the new gold will spread across the globe in such a way that its purchasing power will tend toward equality throughout the world (Mises 1981, 170–78), as it indeed did during the period of the classical gold standard (McCloskey and Zecher 1985). Speculation

will speed up this process, further limiting the local inflationary effects of sudden increases in gold production.

Deflation of the money supply will be very limited, since gold is indestructible. Two kinds of changes on the demand side may cause the money supply to fall: a fall in the demand for money will lead to a lower purchasing power of money and higher prices, which would mean a relative increase in the profitability of gold for industrial purposes, leading to increased industrial demand. Similarly, an increase in industrial demand for gold will lower the supply of money, causing a general fall in prices and an increase in the purchasing power of money. In both cases, gold does not disappear completely: it will still be a potential part of the money supply, ready to reenter people's cash balances should their demand for money increase or the possibility for profitable industrial uses disappear. There will very probably be price deflation during periods of economic growth, but this is on the whole beneficial (cf. Saul 1969; Bordo, Landon-Lane, and Redish 2010), as it just means that the value of everybody's money holdings will increase slightly, which will not hamper economic growth (Selgin 1997; Thornton 2003; Hülsmann 2008a; Bagus 2015a). A falling price level will tend to stimulate gold production, and increased gold production will then tend to stabilize the price level. This is indeed what happened historically: in the period of 1890–1910, for instance, there was a tremendous economic expansion, but the overall level of prices was much the same in 1910 as it had been in 1890. The reason was that falling prices had stimulated gold production to such an extent that the monetary gold stock increased threefold (Rueff 1972, 45).

The problem of inflation leading to lower-quality products will also disappear under the gold standard. Recall that the substitution of lower-quality for higher-quality inputs was a response to the cost squeeze experienced by entrepreneurs as a result of fiat money inflation affecting input prices before affecting the prices of the final products. These problems will disappear on the gold standard, as money will be produced by entrepreneurs in response to consumer demand, not created arbitrarily.

## **Redistribution**

Unlike the production of fiat money, money production on the free market does not imply redistribution away from producers. Just as in other industries, the incomes to gold miners are due to their productive efforts and entrepreneurial foresight, to how well they satisfy consumer demand.

It might be argued that gold, after all, is money, and that Cantillon effects mean that the production of gold leads to redistribution. But the similarity between the two cases is only on the surface. The “redistribution” to the entrepreneurs operating gold mines is no different from the “redistribution” to entrepreneurs engaged in producing consumer goods and capital goods. The new money produced will be paid out to the entrepreneurs, capitalists, and workers engaged in gold mining, and should increased demand for money or reduced costs increase the profitability of mining, more workers and capitalists will be attracted to the business. Conversely, should the profitability of gold mining decrease for some reason, workers will be laid off and have their wages reduced, capitalists will shift their investments from gold mining to more profitable areas, and entrepreneurs will suffer losses until all the adjustments have been made. All these changes are no different from what happens in other industries, and they do not lead to the kind of redistribution described by the Cantillon effect.

It is true that during a gold rush the workers and capitalists will be able to enjoy their increased incomes before the price effects of the increased money supply have taken effect, but a comparison to the production of a nonmonetary commodity will show that this is no different from increased profits in other sectors. Let us imagine that there is a sudden increase in demand for steel. Steel mills will make larger profits, as their selling prices increase before their buying prices, and these profits will be distributed among the entrepreneurs and workers and capitalists engaged in steel production. Entrepreneurs will bid up factor prices for their inputs in order to expand their production to satisfy the increased demand until production has been expanded and the profits have been distributed to workers and factor owners. The permanent effect of the change in

demand has been increased incomes to all the workers and factor owners engaged in steel production, and they can enjoy these incomes before the prices of consumer goods have adjusted fully to the change in consumer demand brought about by the change in income distribution.

When we have commodity money, then, a boom in the production of money does not have effects, when it comes to the distribution of incomes, that are different from those of a boom in any other industry. It will lead to a rise in money incomes, but everybody is free to try their luck in the gold mines, and so the increased monetary incomes here will quickly bid up money wages in other industries. The distribution of incomes will change accordingly as productivity and consumer demand change.

## **Financialization**

Financial markets offer an important service to the economy— what we may call the financial division of labor<sup>[7]</sup>—as they transfer savings to where they are most valued. Savers benefit, as they gain a return on their savings and borrowers benefit, as they can now raise the funds they need for their planned investments instead of having to fund them out of their own savings. Financial intermediaries simply facilitate the process of investment by searching out and evaluating possible investment opportunities, pooling savings, and organizing markets (cf., e.g., Mishkin and Eakins 2016 for more on the true benefits of financial institutions).

However, as detailed above, the role of financial markets has been much exaggerated under the rule of fiat money, as virtually all saving has had to be in the form of financial assets to guard against inflation and as the costs of borrowing have been artificially lowered. Under a gold standard, we can expect money with a stable, probably even increasing, purchasing power. The artificially elevated demand for financial assets will therefore disappear, as it will no longer be necessary to guard against the erosion of one's savings by investing in financial markets as fast as possible. We can imagine that people would instead accumulate funds and make long-term investments—perhaps in bonds, perhaps in various

market funds, and probably to a larger extent in non-financial assets. There will still be an important role for financial markets, and it might even be, as Salerno (2010a, 364–65) speculates, that some financial assets (specifically, money market mutual funds) will supplement gold in its monetary role. But the artificial impetus forcing every small-time saver into the financial market and inducing everybody to take on debt will be gone, as it will no longer be necessary for everybody to dabble in financial markets to protect their savings.

The business cycles and periodic financial collapses will also disappear with the return of the gold standard. There will still be entrepreneurial errors and bad business decisions, and these may lead to the collapse and bankruptcy of companies from time to time. But we will not see the systematic boom of the economy as a whole followed by crisis and recession as the bad investments are liquidated. This phenomenon is dependent on infusions of money into the credit market that drive down the market rate of interest from its natural level—and this simply will not be possible under the pure gold standard. All lending will have to be backed by savings; there will be no fiduciary media. Credit will only be what Machlup (1940, 224n; cf. Mises 1981, 265) called transfer credit and Mises called commodity credit, that is, credit provided out of real savings, not simply granted *ex nihilo* by banks.

Even the case of a gold-induced business cycle that Mises (1998, 571) thought at least theoretically possible—increases in the supply of commodity money that reach the credit markets first—will not, in our opinion, trigger the business cycle, for what has happened here is not an artificial lowering of the rate of interest; rather, some entrepreneurs with a lower time preference have increased their incomes by better satisfying consumer demand. They have chosen, at the market rate of interest, to increase their investments relative to consumption. There is no difference between this scenario and the case where an entrepreneur in some other sector is successful, amasses a fortune, and invests most of it rather than consuming it. In Machlup's terms, it is still an (perhaps temporary) increase in transfer credit, not created credit, and such fluctuations are simply part of

the dynamic market process (Rothbard 1963, 34–36).

## **Deindustrialization**

We live in a changing world and industries that were once competitive may suddenly find that new competitors in the global economy are undercutting them. This is simply part of reality, and to the extent that worldwide economic integration has made manufacturing in the United States noncompetitive, being on the gold standard would not have changed this. Some short-term pain for some producers is inevitable when the whole world economy has to adjust to the integration of large nations like China into the international division of labor.

The problem of the permanent balance-of-payments deficit and the artificially overvalued dollar would, however, be solved by returning to gold. Increased imports would mean an outflow of gold, and this would lead to a higher purchasing power for gold in the country. Foreigners taking advantage of this would increase their purchases of goods from the United States and the outflow of gold would be reversed to an inflow as speculators exploited the profit opportunity created (Salsman 1995, 34). Gold would tend to be distributed in such a way that its purchasing power is the same in all countries (Mises 1981, 170–72, 178). There are very definite limits to the supply of commodity money and a balance-of-payments deficit could not go on for long. Eventually, it would be reversed and money would start pouring back into the country (Heilperin 1939, 145, 152–53). These adjustments would happen automatically—that is, without the need for intervention by the monetary authorities—and would result in imports, in the long run, being paid for with exports or with foreign investments. Only the gold-producing countries would have a sustained outflow of money.

How would the gold standard affect trade between industrializing nations and the United States and would it limit the tendency for manufacturing to decline in the US? To the extent that imports into the US have been artificially stimulated and production in the United States has been disadvantaged by the fiat dollar system, to that extent the gold standard would restore competitiveness to industry in the

United States. This does not mean that the gold standard would hamper international trade; quite to the contrary, it would promote sustainable trade and integration between all trade partners. We can imagine that under the gold standard, the United States would specialize in producing and exporting higher order goods such as specialized machinery, advanced electronics and the like to China, while China exported lower order goods and consumer goods to the United States. Yet all this is speculation; all we can say with any degree of certainty is that the balance of payments would tend to balance in the long term, and that capital flows would finance expansion of production in the most profitable locations and not simply support government and private consumption in the United States.<sup>[8]</sup>

## **The Outline of a Gold Standard In The Twenty-First Century**

The gold standard would be a vast improvement over fiat money, as it would solve most of the problems identified above. Furthermore, it is clear that it is the broad strata of the public who would gain from the reform, while only the narrow elites controlling the production of fiat dollars would lose out. The goal of our reform should not, however, be to simply return to the gold standard as it existed before 1933 or 1914, as this system still left the government and the central bank with some influence over monetary policy. Rather, we should aim at complete monetary freedom, at getting the government completely out of the business of producing and managing money.

Mises's reform plan is, as indicated above, the main inspiration for the present proposal. His reform consists of two simple steps: 1) cease all inflationary activity; this also means 100 percent reserves for all future bank deposits; and 2) once the market price of gold stabilizes, this market price of gold is decreed the new legal parity for the dollar and the dollar is to be convertible unconditionally at this parity (Mises 1981, 448–49). A conversion agency independent of the Federal Reserve should be set up to accomplish this. The goal of this reform is not simply to stabilize the value of the dollar, but to make sure gold coins again circulate as money, that gold is again in everybody's cash holdings, in order that the common

man understands the importance of commodity money and is alerted in time should inflationary schemes be tried (*ibid.*, 450–52). It is therefore important that all five-, ten-, and twenty-dollar bills are withdrawn against new gold coins within a year of the reform.

The first step in any reform, then, must be to stop inflating the money supply. The market can only be expected to find the correct price if disturbing factors are eliminated and the goal of reform is openly announced. It is therefore also necessary that all legal tender laws and all laws and taxes discriminating against the use of gold for monetary purposes be repealed (Paul and Lehrman 1982, 179–81). Naturally, all measures prohibiting or limiting private coinage of gold and silver coins must also be repealed. This will greatly facilitate the production and spread of such coins and prepare the way for the complete privatization of the monetary system.

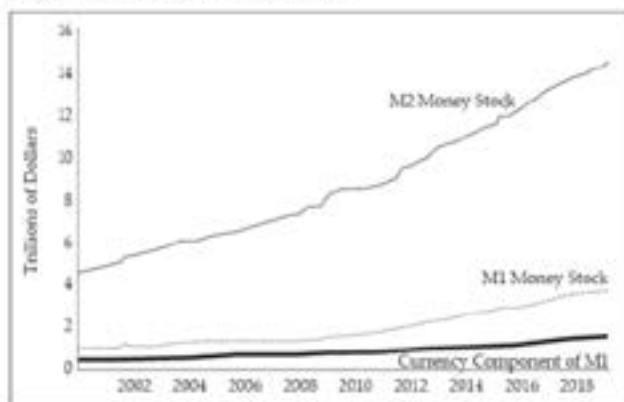
Once these measures have been implemented and the commitment to restore the gold standard been openly and forcefully communicated, markets will in a short time establish a new dollar-gold ratio that will then be elevated to the new legal parity. It is impossible to say beforehand what this new price will be. Mises thought that the price of gold would settle around \$36–\$38, but this is obviously nowhere near the present-day market price. The legal price of \$42.22 per troy ounce that the Treasury still insists on using in its accounts is equally outdated (Bureau of the Fiscal Service 2019). We can imagine that the imminent reintroduction of gold for monetary uses will create additional demand for gold, although it must be realized that a lot of the present demand for gold is for monetary and investment purposes: out of a total production of 4,490 tons in 2018, 1,810.6 tons were bought by investors and central banks (World Gold Council 2019).<sup>[9]</sup> Most likely, a great proportion of the 2,200 tons used for jewelry was also really investment demand, but how much we can only speculate.

For present purposes, imagine that the announcement of the reform and the initial actions suggested above lead the gold price to settle around \$1,500—a slight increase from its present level.<sup>[10]</sup> This price is then

decreed the new legal parity—that is, the dollar is now defined as 1/1,500 troy ounce of fine gold. The conversion agency envisioned by Mises then proceeds to exchange all paper dollars presented to it at the legal parity into newly minted gold coins.

Several problems immediately present themselves when we contemplate this plan. For one thing, what kind of dollars, that is, what range of money substitutes should be accepted for redemption? Whether we choose M1 or M2, or just the currency component of M1, it is clear that the Treasury does not have enough gold to fully redeem all fiat dollars now in existence. At our suggested price of \$1,500, the gold reserves of about 8,140 metric tons would be valued at about 400 billion dollars (precision is not important for our purposes here). This would be enough to redeem about one-quarter of the currency component of M1, or one-tenth of M1 or one-thirty-sixth of M2 (see figure 7).

FIGURE 7: US MONEY STOCK, 2019.



Clearly, despite the large gold reserves, immediate redemption of every dollar in existence is not possible at gold prices below \$15,000 at a minimum. However, there is no reason to think that the whole dollar stock will be presented for redemption at once. The dollar will, after all, improve considerably in quality once all inflation stops and redemption in gold is resumed. Hopefully, this means that an orderly withdrawal of paper money and its substitution with gold will be possible, and the Treasury will be able to gradually buy up gold in the market as necessary to redeem all dollars with gold as they are presented to the conversion agency. How the Treasury is to find the resources to buy gold as needed is a different

question: it might fund the purchases out of tax receipts, which would mean an increase in taxation or a reduction in government expenditures and would therefore be unpopular, as well as keeping paper dollars in circulation, or it might fund its gold purchases by selling off government assets. The government held assets worth \$3.48 trillion at the end of fiscal year 2017, to which should be added stewardship land not on the books (Department of the Treasury 2018, 55, 155). Selling off these assets to fund the necessary gold purchases would have the double benefit of not burdening the taxpayer and liberating substantial resources for use by the private sector, increasing real wealth and the production of desirable goods and services. This is clearly preferable to diverting taxes to gold purchases, since taxation not only is unpopular, but it is also destructive of real wealth.

Another serious problem is how to most easily get rid of the paper money in daily use. The use of cash is still widespread, and especially so for small purchases (Kumar, Maktabi, and O'Brien 2018). We agree wholly with Mises that it is desirable to replace banknotes with hard currency, but that is more easily said than done. The smallest gold coin produced by the US Mint is the one-tenth-ounce gold eagle, which at the suggested price of \$1,500 per ounce would have a purchasing power equal to \$150. Even were it technically possible to produce a one-twentieth-ounce coin, this too would be unusable for smaller purchases. Clearly, some other solution is necessary.

One possibility would be to allow for the existence of the old Federal Reserve notes, which could then assume the function of a token money for small purchases (Paul 1985, 137). This, however, leaves open the possibility of government interference in monetary matters, as only a legal monopoly on the issue of such notes can ensure their monetary character, and the point of the reform is precisely to finally achieve the complete separation of money and the state. Another possibility is to let banks take care of the problem by issuing money certificates and token coinage in small denominations. We can easily imagine that banks and other intermediaries will already be helping the citizens redeem their dollars for gold, so it is not too farfetched to think that the process will to a large degree consist in the

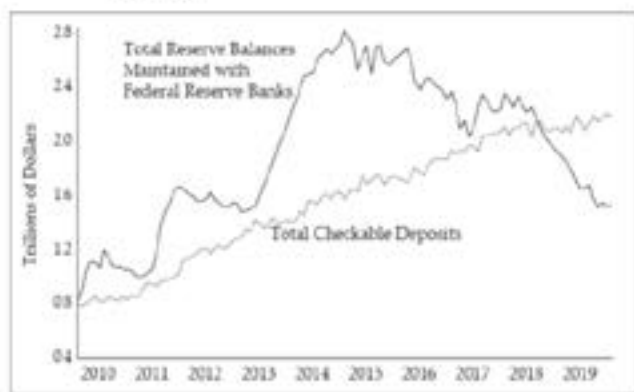
transfer of gold bullion from the government to banks rather than of coins to citizens. This will save the cost of coinage for the government and economize on the costs of redemption for the citizens, and the citizens, if they so chose, could then continue to keep their gold in the bank and use money certificates.

There is a risk that the old paper currency will continue in use, simply because its value will be stabilized by the reform. As already said, this is undesirable, as it leaves the government a role in monetary affairs— and thus leaves the door open for the government to start meddling again. The solution to this problem is simple: allow the market to set a premium for gold above paper. Only at the conversion agency should the legal parity be enforced (Paul 1985, 135–36; Sennholz 1985, 82), market actors should be free to prefer gold in exchange and even to refuse to accept paper dollars. It is natural that sound money and trusted money certificates should be preferred to and command a slight premium over paper, since it is a more honest and secure form of money. By allowing this premium to emerge on the market – i.e., by abstaining from government intervention in the market process – while still enforcing the legal parity at the conversion agency, we should see a steady stream of gold out of the US Treasury and into private holdings. The premium may not amount to more than 1 percent, and will perhaps even be less, but that should be enough. This trend can be strengthened by forcing the US government as a whole, not just the conversion agency, to accept paper dollars in payment of fines and taxes at the legal parity. Since paper currency is also not very durable, we should expect it to disappear relatively quickly as old notes are turned in before they disintegrate.

Returning to the gold standard would usher in an era of increased productivity and prosperity for all. This has been the historical experience: the monetary reform in Germany in 1948, for instance, did not lead to a crisis, but rather straight out of a depression (Rueff 1964, 103–21; Lutz 1949) and was an important cause of the German Economic Miracle. <sup>[11]</sup> It is true that returning to the gold standard would mean that the government would have to balance its budget in short order, and this may evidently be problematic for companies whose main business is

in government contracts of various kinds, but these difficulties would be minor compared to the great prosperity unleashed in the rest of the economy. The financial system too should be able to adapt to sound money quickly, as most banks have ample reserves compared to their demand deposits (see figure 8). These reserves will be a more than adequate cushion for any short-term turbulence in financial markets that might result, especially since the quality of the banks' reserves will improve as they are gradually swapped for gold through the process of redemption.

FIGURE 8: TOTAL RESERVES AND TOTAL CHECKABLE DEPOSITS, 2009–19.



Mises suggested that a monetary reform should be accompanied by the elimination of further issues of fiduciary media (Mises 1981, 438). His idea was to institute a 100 percent reserve requirement on new issues of money substitutes, whether in the form of demand deposits or banknotes.<sup>[12]</sup> There is a lively debate over the issues of banking and money among supporters of the gold standard, but here we will limit ourselves to suggesting a reform targeting base money, or money in the narrower sense. A banking reform liberalizing financial institutions and removing undue protections and privileges would be of great benefit in itself and has previously been suggested as an integral part of monetary reform by, for instance, Judy Shelton (1994, 305–6), but we will not here enter into a discussion of the problems or benefits of fractional reserve banking and fiduciary media.<sup>[13]</sup>

Once the reform has been accomplished and all fiat dollars have been exchanged for gold, it will be a small matter to move on to complete monetary freedom. No special privileges should be afforded

the use of gold for monetary purposes. Merchants, banks, and other financial institutions are free to favor one medium of exchange over another, should they so desire, but the same freedom of choice cannot be allowed to the government. While it may continue to keep its accounts in terms of the defunct dollar or in terms of gold, it should be forced to accept any commodity in current use as money in payment of taxes and other dues. This will ensure that, going forward, the market will be free to confirm gold as money, or to replace it with its preferred commodity.

### **Why Not Silver or Cryptocurrencies?**

We have throughout emphasized that the goal of the reform is not simply the gold standard, but full monetary freedom. So why not choose another commodity, such as silver, or something more modern such as Bitcoin?

It is entirely possible that the market may, in time, come to prefer these media of exchange to gold. We have proposed a gold standard that would put the minimum of artificial obstacles in the way of such a substitution. Yet there are still good reasons to think that gold is the better choice for a commodity money.

There is, first of all, a long tradition across the globe of gold as a medium of exchange and store of value. This means that there is widespread ownership of gold throughout society and that it would not take much mental effort for the citizenry at large to again come to think of money as gold and gold as money. This is probably as true of silver as it is of gold. Bitcoin, on the other hand, is a recent invention (cf. Barta and Murphy 2017; Ammous 2018 for an introduction to Bitcoin). While it could theoretically serve as money, it is not used or owned widely in society yet. Unlike gold and silver, Bitcoin requires at least some familiarity with modern digital technologies. This will, in our view, slow down its widespread adoption for some time, even if it should prove to be a higher-quality medium of exchange than gold. The payment of transaction fees is also inherent in the use of Bitcoin, while it is free to use gold and silver, although banks might very well charge a fee for the use of their services and credit card companies already charge such fees.

Our preference for gold over silver is purely pragmatic: both metals could conceivably perform the functions of money equally well and have done so historically. However, the US government is in a better position to replace the paper dollar with gold than with silver. The Treasury possesses 8,140 metric tons of gold, or about 261 million troy ounces—enough to redeem a sizable portion of the outstanding paper dollars, as outlined above. Its stock of silver is slight by comparison: only 498 metric tons, or about 16 million troy ounces (US Geological Survey 2018). The conversion agency is bound to buy more gold than the US government already possesses anyway, but the US government is in a much better position to return to gold than to institute a silver standard.

Nevertheless, should the public prefer silver to gold, we can conceive of the conversion agency supplying silver currency as well, although this can only be done if the government buys up large quantities of silver. Having silver circulate as money as well as gold might be one way to solve the problem of small change outlined above, but it should be made clear that a fixed exchange between the two metals is not what we advocate. That would run into the problems described by Gresham's law, and would at best result in silver becoming a rather expensive token coinage. Instead, it might simply be possible for the citizens to buy silver coins from the conversion agency instead of redeeming their dollars for gold. But this would be a purchase transaction, not an act of redemption, and silver would continue to fluctuate in value in terms of gold. Expanding the possibilities for purchasing silver coins even before the reform is completed would also be in keeping with the ultimate goal of monetary freedom.<sup>[14]</sup>

## **Why The Case For Monetary Reform Must Be Populist**

*"[We] must show how the money system impoverishes most people and benefits politicians, government officials, and entitlement cronies."*

- Hans Sennholz (1985, 78)

Such a reform as we have presented above is ambitious, and it might well be asked how it can be a popular cause. However, any social institution depends on popular support for its continued

existence, and this is true also of money. In order to promote sound money, the public at large must be convinced of the justice and utility of that reform (Mises 1981, 456).

The reason for making the cause of the gold standard a populist cause is not simply that all branches of government have proved impotent or unwilling to defend sound money (Mises 1981, 452); unfortunately, there does not seem to be any clear political gain to be made from championing sound money, while there is a clear financial and bureaucratic interest in maintaining the status quo. There also seems to be very little understanding of the importance of the gold standard, which to this day is still too often confused with the gold-exchange standard in official circles and academia and therefore dismissed as a barbarous relic.

It is, however, clearly in the interest of the public at large to see a return to sound money, and it is especially in the interest of that portion of the public employed in the private sector or who live off their own funds. We tried to outline in the last two sections how such people are hurt by the fiat dollar and how a return to gold might benefit them especially. Only by making such appeals to the tangible benefit that the public can expect from sound money can we expect them to join a movement for gold (Paul 1985,131), and only if we can make the cause of the gold standard a popular movement on a par with the free trade movement of the nineteenth century (Hayek 1990, 133) can unwilling politicians and bureaucrats be forced to accept it. It is, in other words, necessary to make sound money a popular crusade in order for a return to the gold standard to become at all possible.

Making the cause for the gold standard a populist one does not mean that just any argument in its favor can be used. The arguments used must always be true and in accord with reality. A popular movement for sound money and gold should not create unrealistic expectations in the public; the gold standard can solve some problems but it is not an economic panacea. The agitation for the gold standard should never go beyond what can reasonably be expected, but we should not be afraid to show the relevance of sound money to whatever question holds the public's

attention at the moment. Some arguments are clearly not compatible with the gold standard: the gold standard imposes golden shackles on the state, and it would be dishonest to pretend otherwise, nor can or should it be hidden that advocacy for sound money was and is intimately connected with the main goals of classical liberalism and libertarianism: laissez-faire, personal freedom, and peace. This does not mean that the public has to be converted to the whole liberal/libertarian program, but it does mean that it would be dishonest and counterproductive to hide the fact that sound money would mean severe limits to the possibilities for expanding state power.

The case for gold probably cannot sustain continued support on its own. A sound money movement would want to ally with other popular movements to advance its cause (Sennholz 1985, 79). Sennholz suggested the tax revolt movement in the 1980s, but there is no reason to be picky. Gun owners, advocates of First Amendment rights, of privacy rights, of religious freedom—wherever there is a movement whose objectives are consonant with the objectives of the sound money movement, there the possibilities for cooperation should be explored. Some causes, no matter how popular, cannot be allies of a movement for restoring the gold standard. Specifically, any movement that seeks to expand the scope of government significantly in pursuit of its goals cannot be an ally of a movement for sound money, as the objectives of such a movement are incompatible with the institution of sound money.

How can the populist appeal, then, be made? This, as already indicated, depends on the specific circumstances of time and place and the problems exercising the public. In general, in the American context, appeals might be made to the injustice of Roosevelt's confiscation of gold in 1933 and how it would be just to restore the gold to the current owners of dollars; the long tradition of adherence to gold and sound money might also be invoked, from the Jeffersonians and Jacksonians to the late nineteenth century. Fundamentally, any policy rests on the popular acceptance of the doctrines on which it is grounded, which is why any long-term reform must be based on popular support for true principles:

*The first condition of any real monetary reform is still to rout completely all populist doctrines advocating Chartalism, the creation of money, the dethronement of gold and free money. Any imperfection and lack of clarity here is prejudicial. Inflationists of every variety must be completely demolished. We should not be satisfied to settle for compromises with them. The slogan, "Down with gold," must be ousted. The solution rests on substituting in its place: "No governmental interference with the value of the monetary unit!"* (Mises 2011, 21)

## **Conclusion**

The gold standard, and sound money generally, is still the only solution to the problems generated by fiat money. We have argued in this paper that the economy and society of the United States is still plagued by the evils of fiat money, even though the high inflation of the 1970s gave way to the "Great Moderation". We have also tried to show how returning to gold would solve the specific problems caused by fiat money, and how a feasible reform returning the dollar to gold would look now, after close to 50 years of fiat money.

The crucial point is that any restoration of the gold standard must originate as a popular movement, and the advocates of the gold standard must therefore make their appeal to the public, not to politicians and central bankers. The benefits of sound money are very real, and so are the abuses of fiat money. There is therefore no reason that sound money cannot become a popular idea at the center of a political program as it once was (Mises, 1981, 414).

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# Some Observations on the Legality of “Alternative Currency” in the United States

*By Edwin Vieira, Jr., Ph.D.*

Reprint of “Some Observations On The Legality of “Alternative Currency” In The United States” by Edwin Vieira, Jr., Ph.D., courtesy of *Congressional Public Record*.

ABSTRACT: Dr. Edwin Vieira, Jr.’s 2012 written testimony submitted during a hearing before the Subcommittee on Domestic Monetary Policy and Technology of the Committee on Financial Services of the U.S. House of Representatives explores constitutional and statutory questions surrounding using gold and silver as “alternative currency” alongside Federal Reserve notes, especially in the use of gold and silver clause contracts. Legally, Dr. Vieira references Supreme Court cases to bolster his argument for monetary alternatives which promote sound money.

# Some Observations on the Legality of “Alternative Currency” in the United States

By Edwin Vieira, Jr., Ph.D.

For the purposes of this study, an “alternative currency” will be defined as United States gold or silver coins<sup>[1]</sup> which are used in normal financial transactions in preference to Federal Reserve Notes<sup>[2]</sup> or United States base-metallic coins.<sup>[3]</sup> Although the Federal Reserve System and Federal Reserve Notes are burdened with many constitutional infirmities,<sup>[4]</sup> this study will assume *arguendo* that these problems are not material.

**I.** Present law already allows Americans to use “alternative currencies”; on the one hand, Federal Reserve Notes irredeemable in either gold or silver;<sup>[5]</sup> and, on the other hand, United States gold and silver coins, specifically gold “American Eagles” and silver “American Liberty” coins.<sup>[6]</sup>

**A.** In general, *all* “United States coins and currency (including Federal Reserve notes \* \* \*) are legal tender for all debts, public charges, taxes, and dues.”<sup>[7]</sup> In particular, American Eagle and American Liberty coins are “legal tender”, too.<sup>[8]</sup>

In practice, any contract or other obligation for which the medium of payment is denominated in undefined or undifferentiated “dollars”,<sup>[9]</sup> such as by the use of “the dollar sign” (“\$”) without more, is payable in whatever “legal-tender” United States coin or currency, the value of which Congress has set in some number of “dollars” pursuant to its power” [t]o coin Money [ and] regulate the Value thereof”,<sup>[10]</sup> the debtor wishes to tender.

**B.** Americans can, however, avoid this effect of the “legal-tender” law by entering into so-called “gold-clause contracts”, which specify that *only* a certain type of coin or currency—typically, gold or silver coin—may be used as the medium of payment. As relevant here, “‘gold clause’ means a provision in or related to an obligation” which “give [s] the obligee a right to require payment in \* \* \* a particular United States coin”.<sup>[11]</sup> Such “particular United States

coin” is the *only* “legal tender” for such a contract. “[E]xpress contracts to pay coined dollars can only be satisfied by the payment of coined dollars. They are not ‘debts’ which may be satisfied by the tender of \* \* \* notes”.<sup>[12]</sup>

**1.** “Gold-clause contracts” have a constitutional basis. The Constitution provides that “[n]o State shall \* \* \* make any Thing *but* gold and silver Coin a Tender in Payment of Debts”.<sup>[13]</sup> This amounts to an explicit constitutional reservation of the States’ right, power, *and duty* to “make \* \* \* gold and silver Coin a Tender”.<sup>[14]</sup> Most “Debts” for which “gold and silver Coin” would naturally be “a Tender” would arise out of “gold-clause contracts”, in which the parties have explicitly chosen such “Coin”, and only such “Coin”, as their medium of exchange and therefore “Tender”. Thus, the Constitution *requires* the States to recognize and enforce their citizens’ “gold-clause contracts”.

That being so, the Constitution disables Congress from prohibiting or inhibiting the enforcement of “gold-clause contracts” in the States’ courts. In addition, “[t]he judicial Power [of the United States] shall extend \* \* \* to Controversies \* \* \* between Citizens of different States”.<sup>[15]</sup> Such “Controversies” which involve the enforcement of “gold-clause contracts” usually must be decided under the particular State laws pursuant to which the contracts were negotiated. Perforce of the Constitution, all of the States are required to enforce such contracts in their courts specifically by the payment of the gold or silver coin the contracts designate as the sole allowable “Tender”. So, because the courts of the United States must follow State law on this matter, Congress cannot prohibit or otherwise impair the enforcement of such “gold-clause contracts” in the courts of the United States.

**2.** “Gold-clause contracts” have a statutory basis, too. Any American may now enter into private

contracts that “give the obligee the right to require payment in \* \* \* gold”, or “a particular United States coin or currency”, or “United States money measured in gold or a particular United States coin or currency.”<sup>[16]</sup> (Perforce of the Constitution, the States may enter into such contracts. As a practical matter, however, the United States have disabled themselves from entering into such contacts.<sup>[17]</sup>)

**II.** At the present time, the use of United States gold and silver coin as an “alternative currency” pursuant to “gold-clause contracts” has two practical limitations.

**A.** The amount of American Liberty and American Eagle silver and gold coinage being minted is not optimal. The present statutes require that those coins shall be minted and issued “in quantities sufficient to meet public demand”.<sup>[18]</sup> “Public demand” is now gauged by the sale of the coins “at a price equal to the market value of the bullion [measured in Federal Reserve Notes] at the time of sale, plus the cost of minting, marketing, and distributing such coins”.<sup>[19]</sup> The correct method for determining the true public demand for silver and gold coinage, however, is so-called “free coinage”, whereby the Mint coins all of the silver and gold that the public presents for coinage.<sup>[20]</sup> Adoption of “free coinage” would surely produce more coinage than the present scheme.

**B.** Perhaps of more immediate consequence is the problem of how a “gold-clause contract” providing for the payment of United States gold or silver coins should be valued, particularly for purposes of taxation. For instance, is the value of a “gold-clause contract” which stipulates payment in (say) ten “\$50” American Eagle gold coins<sup>[21]</sup> the aggregate face value of those coins (“\$500”), or the much greater “dollar” value of the Federal Reserve Notes against which those coins would exchange in the free market? The Internal Revenue Service and various State agencies generally take the position that the value of such a contract for purposes of taxation is the latter. But the correct answer, for all purposes, is the former (“\$500”).

**1.** American Eagle and American Liberty coins are minted pursuant to statutes enacted under Congress’s constitutional authority “[t]o coin Money, [and] regulate the Value thereof”.<sup>[22]</sup> They are therefore “lawful money” by definition. They are also specifically constitutional “currency”, because the only use in the Constitution of a word related to “currency” is the reference to “current Coin of the United States”.<sup>[23]</sup> More generally, they are “currency” because they are “[c]oined money \* \* \* authorized by law” which, when “gold-clause contracts” are involved, “in fact circulate[s] from hand to hand as the medium of exchange”.<sup>[24]</sup> And they are designated “legal tender”, on an equal basis with all other United States coins and currency.<sup>[25]</sup>

The statutes providing for American Eagle and American Liberty coins explicitly set their values at their face values.<sup>[26]</sup> The coins announce their values on their faces.<sup>[27]</sup> And no other statute sets any other values for these coins, or purports to delegate authority to anyone to set other values by regulation or otherwise. Therefore, the coins’ values as “lawful money”, “currency”, and “legal tender” are their face values, and nothing else.

**2.** Today the United States have a “dual monetary system”, consisting of: (i) gold and silver coinage; and (ii) Federal Reserve Notes and base-metallic coinage which the United States refuse to redeem in gold or silver.<sup>[28]</sup>

Different United States coins and other currency have different economic purchasing powers in the marketplace. For example, a “\$10” American Eagle gold coin or ten “\$1” American Liberty silver coins both buy far more than a “\$10” Federal Reserve Note or “\$10” face value in base-metallic coinage. This economic discrepancy, however, is irrelevant to *the legal values as money* of these various coins and currency. Applying *mutatis mutandis* the controlling case-law with respect to a “dual monetary system” and “gold-clause contracts” in the United States --

the laws for the coinage of gold and silver [in the present United States Code] have never been repealed or modified. \* \* \* And the emission of gold and silver coins \* \* \* continues \* \* \* .

Nor have those provisions of law which make these coins a legal tender in all payments been repealed or modified.

It follows that there [a]re two descriptions of money in use \* \* \* , both authorized by law, and both made legal tender in payments. The statute denomination of both description [i]s dollars; but they [a]re essentially unlike in nature. The coined dollar [i]s \* \* \* a piece of gold or silver \* \* \* . The [Federal Reserve Note i]s a promise to pay a coined dollar \* \* \* . It [i]s impossible, in the nature of things, that these two dollars should be the equivalent of each other, nor [i]s there anything in the currency acts purporting to make them such \* \* \* .

If then, no express provision to the contrary be found in the acts of Congress, it is a just and necessary inference, from the fact that both descriptions of money were issued by the same government, that contracts to pay in either [a]re equally sanctioned by law. It is, indeed, difficult to see how any question can be made on this point. Doubt concerning it can only spring from that confusion of ideas which always attends the introduction of varying and uncertain measures of value into circulation of money.<sup>[29]</sup>

One owing a debt may pay it in gold coin or in legal-tender notes of the [Federal Reserve System], as he chooses, unless there is something to the contrary in the obligation out of which the debt arises. A coin dollar is worth no more for the purposes of tender in payment of an ordinary debt than a note dollar. The law has not made the note a standard of value any more than coin. It is true that in the market, as an article of merchandise, one is of greater value than the other; but as money, that is to say, as a medium of change, the law knows no difference between them.)<sup>[30]</sup>

Cases such as *Bronson* and *Thompson* stated the law of America's "dual monetary system" and "gold clauses" until 1933-1934. When Congress then prohibited the private ownership of gold and declared certain "gold clauses" unenforceable, those cases became temporarily obsolete.<sup>[31]</sup> They were *not*

overruled, however. The private ownership of gold was statutorily permitted in 1973-1974.<sup>[32]</sup> "Gold clauses" (other than for the United States) were allowed statutorily *post*-1978.<sup>[33]</sup> And the minting of American Eagle and American Liberty coins was authorized in 1985.<sup>[34]</sup> At that point, *Bronson*, *Thompson*, and related cases once again provided, and today continue to provide, the controlling legal standards, as the United States Court of Appeals for the Fifth Circuit recently recognized by explicitly relying on *Thompson* in *Crummey v. Klein Independent School District*.<sup>[35]</sup>

On these points, the differences between the United States Treasury Notes at issue in *Bronson* and *Thompson*, on the one hand, and Federal Reserve Notes, on the other, work against the latter. Both were or are obligations of the United States, "legal tender", and irredeemable in gold or silver coin. But the Treasury Notes issued directly from the Treasury, whereas Federal Reserve Notes are "issued at the discretion of the Board of Governors of the Federal Reserve System". And the Treasury Notes were explicitly designated as "lawful money", whereas Federal Reserve Notes are to be "redeemed in lawful money" (and obviously cannot be the very things in which they are to be redeemed).<sup>[36]</sup>

No decision of the Supreme Court has overruled, limited, or even questioned *Thompson* or *Bronson*. So lower courts must follow these precedents "no matter how misguided the judges of those courts may think [them] to be."<sup>[37]</sup> *A fortiori*, all other governmental agencies are bound by the principles stated in these decisions.

Because, as the Court of Appeals opined in *Crummey*, "[b]y statute it is established that federal reserve notes, on an equal basis with other coins and currencies of the United States, shall be legal tender", it must also be "established" that American Eagle and American Liberty coins are "legal tender" "on an equal basis" with Federal Reserve Notes.<sup>[38]</sup> So, "[a]s legal tender, a dollar is a dollar, regardless of the physical embodiment of the currency."<sup>[39]</sup> Any attempt by a court or an agency such as the IRS to re-value a "gold-clause contract" in terms of some United States coin or currency other than the "particular United States coin" in which the

contract is payable, where such re-valuation results in a value in “dollars” more or less than the aggregate face value of the “particular United States coin” the contract specifies, thereby attempts to “[re-] regulate the Value” and change the “legal tender” character of that coin contrary to the express determination of Congress. The power to “regulate the Value” of money and “to declare what is and what is not ‘legal tender’”, and at what value in “dollars” particular coins or other currency shall be taken as such, however, “lies with Congress and not the Courts” or any other governmental body.<sup>[40]</sup>

3. The contrary contention is frivolous. The Supreme Court has described claims “so attenuated \* \* \* as to be absolutely devoid of merit” in several ways: as “wholly insubstantial”, “obviously frivolous”, or “no longer open to discussion”.<sup>[41]</sup> “A claim is insubstantial \* \* \* if ‘its unsoundness so clearly results from the previous decisions of *this court* as to foreclose the subject’”.<sup>[42]</sup> As explained above, “the previous decisions of this court”—that is, the Supreme Court—in *Bronson*, *Thompson*, and related cases establish beyond question that, where “gold-clause contracts” are concerned, “[a] coin dollar is worth no more for the purposes of tender in payment of an ordinary debt than a note dollar. The law has not made the note a standard of value any more than coin.”<sup>[43]</sup>

Congress itself has approved the use of “gold-clause contracts” according to these principles. When Congress authorized private “gold-clause contracts” by statute in 1977, its Members knew the applicable law as stated in *Thompson*, *Bronson*, and other decisions of the Supreme Court.<sup>[44]</sup> Also, because Congress was fully aware of its own constitutional power “[t]o \* \* \* regulate the Value” of “Money”,<sup>[45]</sup> it knew that it could effectively modify or overrule the holdings in those cases as to how “gold-clause contracts” should be valued in “dollars”.<sup>[46]</sup> Yet Congress has never taken any such action.

With the statutory authorization of “gold-clause contracts” in 1977, Congress recreated essentially the same “dual monetary system” which existed during and after the Civil War. Congress then strengthened this system in 1985, by authorizing the minting of American Eagle gold and American Liberty silver

coins as “legal tender” and “in quantities sufficient to meet public demand”.<sup>[47]</sup> At both times (and ever since unto today as well), Congress knew that:

(i) This “dual monetary system” consists of paper currency not redeemable in gold or silver coin (United States Treasury Notes then, Federal Reserve Notes now) and United States gold and silver coins.

(ii) Under this system, individuals can choose, through “gold-clause contracts”, to employ United States gold and silver coins as their media of payment to the exclusion of Federal Reserve Notes.

(iii) As a matter of law, perforce of Congress’s monetary statutes as applied under the rule enunciated in *Thompson*, the value of a “gold-clause contract” is the aggregate face value in “dollars” of the coins involved.

(iv) As a matter of fact, equal face values of United States gold and silver coins and of Federal Reserve Notes do not have equal purchasing powers in the marketplace. Therefore,

(v) Individuals who employ “gold-clause contracts” might obtain some tax benefits therefrom--*unless Congress enacted a statute preventing that result, along the lines of a statute it enacted shortly after the Civil War, when America’s first “dual monetary system” existed.*<sup>[48]</sup> But,

(vi) No such statute was in force in 1977 or 1985. And Congress has enacted no such statute since then.

One may posit numerous, and compelling, reasons why Congress created and has maintained such a “dual monetary system”, including:

- to enable Americans, by increasingly employing gold and silver coin in preference to Federal Reserve Notes, to pressure the Federal Reserve System into adopting policies that would stop the depreciation of those notes relative to specie;

- to enable Americans to protect themselves financially against the consequences of the Secretary of the Treasury’s failure to perform his duty to “redeem gold certificates owned by the Federal Reserve banks at times and in amounts the Secretary decides are necessary to maintain the equal purchasing power of each kind of United States currency”;<sup>[49]</sup>

- to provide Americans with an alternative currency (and a set of market prices denominated in such currency) that could enable the markets to continue to function even if the Federal Reserve System should collapse in hyperinflation or depression; and “to supply the several States and the United States with an alternative currency then in use by many Americans on the basis of which public business could be conducted even were the Federal Reserve System to collapse.”<sup>[50]</sup>

In any event, *the very existence of this “dual monetary system”, unrestricted by statute with respect to the calculation and payment of taxes, establishes that Congress has authorized and empowered Americans to employ that system to the maximum extent they desire and for the maximum benefit that it can afford them, even with respect to taxes.*

**III.** Notwithstanding the foregoing, certain practical problems in the use of United States gold and silver coin as “alternative currency” remain. Fortunately, the solution is not particularly difficult:

**A.** Congress should enact a statute under its powers “[t]o lay and collect Taxes” and “[t]o coin Money, [and] regulate the Value thereof”,<sup>[51]</sup> or the President should promulgate a directive under his power and duty to “take Care that the Laws be faithfully executed”,<sup>[52]</sup> requiring the IRS and all other agencies of the United States to follow the rule of valuation set in *Thompson v. Butler*. And under its power “[t]o coin Money, [and] regulate the Value thereof”, Congress should enact a statute requiring the same compliance from all State agencies.<sup>[53]</sup>

It might be objected that, in a system of taxation with “progressive” rates, applying the rule of *Thompson* would encourage individuals to enter into “gold-

clause contracts” simply to reduce their tax-liabilities through the lesser number of “dollars” that would be involved in such transactions (as opposed to the same transactions when conducted on the basis of Federal Reserve Notes as the media of payment). The best way to deal with this possibility, however, would be for Congress (and the States’ legislatures) to require that taxes on transactions effected with United States gold and silver coins be paid with the same type of coins involved in those transactions. Thus, taxpayers would file specific returns for “gold-clause contracts” payable in gold, and pay the taxes on those transactions in gold; they would file specific returns for “gold-clause contracts” payable in silver, and pay the taxes on those transactions in silver; and would file general returns for all other transactions conducted in Federal Reserve Notes, and pay the taxes on those transactions in such notes.

As noted above, the first step in maximizing the amount of gold and silver coinage available for use as alternative currency must be to reinstate “free coinage” in the United States Mint.

The imprudence in not taking this step, in the face of the present worldwide monetary and banking crisis, speaks for itself.

## **Footnotes**

- [1] See 31 U.S.C. § 5112 (3)(7) through (10), and 5112 (e).
- [2] See 12 U.S.C. § 411.
- [3] See, e.g., 31 U.S.C. § 5112(a)(1) through (6).
- [4] See Edwin Vieira, Jr., *Pieces of Eight; The Monetary Powers and Disabilities of the United States Constitution* (Chicago, Illinois: R R Donnelley & Sons, Inc., GoldMoney Foundation Special Edition [2011] of the Second Revised Edition of 2002), Volume 2, at 1401-1524.
- [5] Compare 12 U.S.C. § 411 with 31 U.S.C. § 5118(b) and (c).
- [6] 31 U.S.C. § 5112(a)(7) through (10), and 5112(e).
- [7] 31 U.S.C. § 5103.
- [8] 31 U.S.C. § 5112(h).
- [9] See 31 U.S.C. § 5101.
- [10] U.S. Const. art. I, § 8, d. 5.
- [11] 31 USC. § 5118(a) (1)(B).
- [12] *Bronson v. Rodes*, 74 U.S. (7 Wallace) 229, 254 (1869). *Accord*, *Butler v. Horowitz*, 74 U.S. (7 Wallace) 258, 260-261 (1869). See *Dewing v. Scars*, 78 U.S. (11 Wallace) 379, 380 (1870) (court judgment on a “gold-clause contract” must be “entered for coined dollars \* \* \* instead of \* \* \* notes equivalent in market value”)
- [13] U.S. Const. art. I, § 10, cl. 1 (emphasis supplied).
- [14] See U.S. Const. amend. X.
- [15] U.S. Const. art. III, § 2, cl. 1.
- [16] 31 U.S.C. § 5118(a) and (d).
- [17] See 31 U.S.C. § 5118(b) and (c).
- [18] 31 U.S.C. § 5112(e) and (i)(I).
- [19] 31 U.S.C. § 5112(f)(1) and (i) (2)(A).
- [20] See, e.g., Act of 2 April 1792, ch. 16, § 14, 1 Stat. 246, 249.
- [21] 31 U.S.C. § 5112(a)(7).
- [22] 31 U.S.C. § 5112 (a)(7) through (10), and 5112 (e), enacted under aegis of U.S. Const. art. I, § 8, cl. 5.
- [23] U.S. Const. art. I, § 8. cl. 6.
- [24] See Black’s Law Dictionary (rev. 4th ed. 1968), at 458 (“currency”), 459 (“current money”).
- [25] 31 U.S.C. §§ 5112(h) and 5103.
- [26] 31 U.S.C. § 5112 (a) (7) (“ [a] fifty dollar gold coin”). (a) (8) (“ [a] twenty-five dollar gold coin”), (a) (9) (“ [a] ten dollar gold coin”), and (a)(10) (“[a] five dollar gold coin”); and § 5112(e)(4) (“One Dollar” in silver).
- [27] 31 U.S.C. § 5112(e) (4) (“have inscriptions of \* \* \* the words \* • • ‘One Dollar’”) (American Liberty); and § 5112(i) (1) (B) (“have inscriptions of the denominations”) (American Eagles).
- [28] See 31 U.S.C. § 5112(a)(7) through (10), (e), and (i); 12 U.S.C. § 411; 31 U.S.C. §§ 5112(a)(1) through (6), (b), (c), (d), and §5118(b) and (c). No legal disability prevents Federal Reserve Banks from redeeming their notes in gold. See 12 U.S.C. § 354. It is the banks’ practice not to do so, however.
- [29] “*Bronson v. Rodes*, 74 U.S. (7 Wallace) 229, 251-252 (1869). It is no longer entirely true that “[t]he [Federal Reserve Note i]s a promise to pay a coined dollar”, Federal Reserve Notes must be redeemed for “lawful money”. 12 U.S.C. § 411. Both the Treasury and the Federal Reserve Banks will redeem Federal Reserve Notes with United States base-metallic coinage. See, e.g., 31 U.S.C. 5112(a)(1) through (6). But the Treasury refuses under color of statute to redeem them for gold or silver coin. See 31 U.S.C. § 5118(b) and (c). And the banks as a matter of practice refuse to perform such redemption, too. This refusal of the Treasury and the banks is the reason that United States gold and silver coinage constitutes an “alternative currency” and not an integral part of the Federal Reserve System’s currency, in contrast to the original arrangement specifically as to gold. See Act of 21 December 1913, ch. 6, § 16, 38 Stat. 251, 265-267.
- [30] *Thompson v. Butler*, 95 U.S. 694, 696 (1878).

- [31] See *Norman v. Baltimore & Ohio R.R.*, 294 U.S. 240 (1935).
- [32] Act of 21 September 1973, Pub. L. 93-110, § 3, 87 Stat. 352, 352; Act of 14 August 1974, Pub. L. 93-373, § 2(b) and (c). 88 Stat. 445, 445.
- [33] Act of 28 October 1977, Pub. L. 95-147, § 4(c), 91 Stat. 1227, 1229.
- [34] Act of 9 July 1985, Pub. L. 99-61, Title II, 99 Stat. 113, 115; Act of 17 December 1985, Pub. L. 99-185, 99 Stat. 1177.
- [35] No. 08-20133 (5th Cir. 2008) (unpublished opinion).
- [36] *Compare and contrast* Act of 25 February 1862, ch. 33, § 1, 12 Stat. 345, 345; Act of 18 March 1869, ch. 1, 16 Stat. 1; *and* *New York ex rel. Bank of New York v. Board of Supervisors*, 74 U.S. (7 Wallace) 26, 30-31(1869), *with* 12 U.S.C. § 411 and 31 U.S.C. § 5118(b) and (c).
- [37] *Hutto v. Davis*, 454 U.S. 370, 375 (1982).
- [38] Slip Opinion at 3, *quoting* *United States v. Wangrud*, 533 F.2d 495, 495 (9th Cir. 1976).
- [39] Slip Opinion at 3.
- [40] See U.S. Const. art. I, § 8, cl. 5, *and* *Linne v. Baker*, 1986 WL 9502, at \*3, *aff'd*, 826 F.2d 129 (D.C. Cir. 1987).
- [41] See *Newburyport Water Co. v. Newburyport*, 193 U.S. 561, 579 (1904); *Bailey v. Patterson*, 369 U.S. 31, 33 (1962); *Hannis Distilling Co. v. Baltimore*, 216 U.S. 285, 288 (1910); *Levering & Garrigues Co. v. Morrin*, 289 U.S. 103, 105 (1933); *McGilvra v. Ross*, 215 U.S. 70, 80 (1909).
- [42] *Goosby v. Osser*, 409 U.S. 512, 518 (1973) (emphasis supplied).
- [43] *Thompson*, 95 U.S. at 696.
- [44] See *Cannon v. University of Chicago*, 441 U.S. 677, 696-697 (1979).
- [45] U.S. Const. art. I, § 8, cl. 5.
- [46] See *Albernaz v. United States*, 450 U.S. 333, 341-342 (1981).
- [47] 31 U.S.C. § 5112(e), (h), and (i)(l).
- [48] See Act of 13 July 1866, ch. 184, § 9, 14 Stat. 98, 147, *amending* Act of 10 March 1866, ch. 15, §§ 3 through 5, 14 Stat. 4, 5, *repealed by* Act of 14 July 1870, ch. 255, § 1, 16 Stat. 256, 256. See *Pacific Insurance Co. v. Soule*, 74 U.S. (7 Wallace) 433, 440-443 (1869).
- [49] 31 U.S.C. § 5119(a). If the Secretary fulfilled this duty, the exchange-rate between Federal Reserve Notes and United States gold coin would immediately become close to unity, because a one-ounce American Eagle gold coin is statutorily denominated “\$50”, and the statutory standard for the redemption of gold certificates is “\$42.-2/9” per ounce. *Compare* 31 U.S.C. § 5112(a)(7) *wirh* § 5117(b).
- [50] A model statute for the adoption of an “alternative-currency system” by the States can be found in E. Vieira, Jr., *Pieces of Eight*, *ante* note 4, Volume 2, at 1664-1666.
- [51] U.S. Const. art. I, § 8, cls. 1 and 5.
- [52] U.S. Const. art. II, § 3.
- [53] See U.S. Const. art. VI, cl. 2. A model statute can be found in E. Vieira, Jr., *Pieces of Eight*. *ante* note 4, Volume 2, at 1663-1664.
- [54] *Contrast* the present provision on this subject, in 31 U.S.C. § 5103. Congress has taken this route in the past. See E. Vieira, Jr., *Pieces of Eight*, *ante* note 4, Volume 1, at 199-205.
- [55] See 31 U.S.C. § 5112(a)(7).
- [56] See 31 U.S.C. § 5112(e).

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