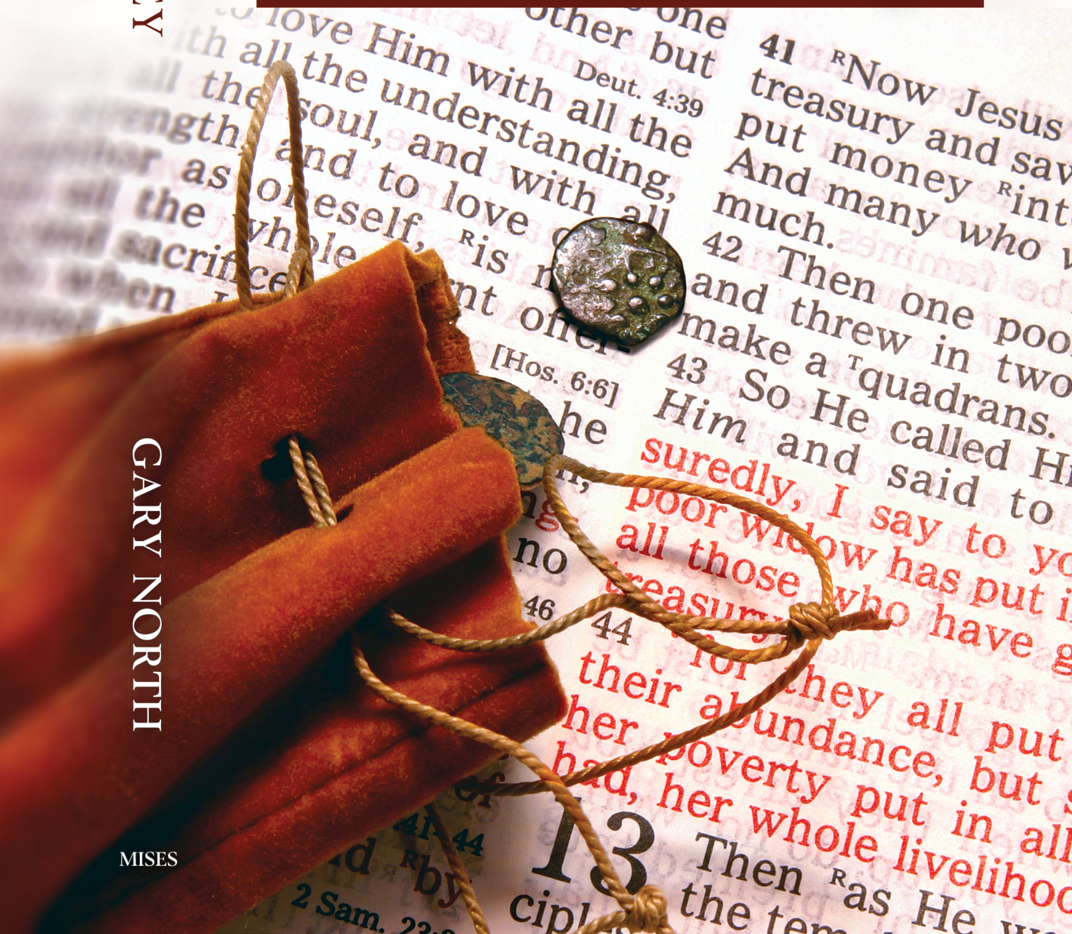
GARY NORTH

Honest Money

The Biblical Blueprint *for* Money & Banking



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The Biblical Blueprint for Money and Banking

Gary North

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MISES INSTITUTE

More information on biblical economics can be obtained from *garynorth.com*. See the section, Capitalism and the Bible.

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INTRODUCTION

This is a book about money, a subject that has defied analysis by professional economists for as long as there have been professional economists. At the same time, it is a topic for which the most ill-informed people think they have the answers. Very often the most ill-informed people are professional economists.

I will give you an example. In the fall of 1985, I suggested to a research assistant to a Congressman that he conduct a quick study of the Mexican peso. I thought that the sharp increase in cash—American money in circulation—might be explained by Mexican nationals substituting dollars for pesos in Mexico. At the time that he began his investigation, the peso was selling for about 250 per dollar. I suggested that he ask a staff economist at the Federal Reserve System, our nation's central bank, if he thought that Mexicans were hoarding cash dollars. I suspected that Mexican citizens were using the U.S. dollar as a substitute for the collapsing peso.

He phoned back a few days later. Two staff economists, one of whom was a specialist in the Mexican economy, had told him that it was quite unlikely that Mexicans were hoarding dollars, because Mexicans could take cash dollars to their local bank, exchange their dollars for pesos, and the bank would pay them interest in pesos.

Within one week, the peso fell to 500 to the dollar. Thus, anyone who had followed the advice of the expert economists had lost half of his capital. On the other hand, those who had bought cash dollars with their pesos and never went near a bank had doubled their money (pesos). In short, a lot of illiterate Mexican peasants knew more about practical economics in an inflationary economy than Federal Reserve economists knew. Somehow, this discovery did not surprise me.

A few months later, a report on the apparent disappearance of American cash appeared in the newspapers. It said that Federal Reserve economists now think that people in foreign countries are using American bills instead of their depreciating national currencies. So much for the consistent views of economists. They just don't agree on much of anything, except the need to keep economists on the payroll.

The Crisis We Face

There is a debt crisis in the making. It is international. Every industrial nation on earth faces a crisis that could dwarf the crisis of the 1930s. There are no pain-free solutions. There will be widespread defaults on a scale greater than those in the fall of 2008. The practical forecasting questions we need to get answered are these: How soon will the default come? What kind of default will it be?

This book asks a different question: What violations of the principles of the Bible did the West commit that led us into this mess? It also asks this question: What should we build on the ruins of the present system after the collapse?

There are Biblical alternatives. If we had adopted them 500 years ago, or 100 years ago, or even 50 years ago, we would not be facing the monetary crisis that we now face. But we didn't adopt them, so we are facing it.

CHAPTER ONE

THE VALUE OF MONEY

So when the money failed in the land of Egypt and in the land of Canaan, all the Egyptians came to Joseph and said, "Give us bread, for why should we die in your presence? For the money has failed." (Genesis 47:15)

Daniel Defoe wrote a novel in 1719 about a man whose ship sank, and who wound up on a deserted island for 28 years. It was called *Robinson Crusoe.* Crusoe faced a hostile world. How was he going to overcome scarcity? He needed food, clothing, and shelter. Fortunately for him, he was able to get a lot of his tools from the ship; if he hadn't, he wouldn't have survived even 28 days.

Economists love to use Robinson Crusoe as their example when they begin an introductory textbook on economics. Why? Because he was alone initially. In discussing Crusoe, economists don't have to begin with the difficult problems of the division of labor and voluntary trade. Only when the economist has explained basic production, saving, and the allocation of time and capital does he introduce Friday, the native partner. That was Defoe's strategy, too.

The textbook Crusoe initially has to decide what his highest priorities are. What is his order of preferences? Is it fresh water, food, shelter, and clothing? What need does he attempt to satisfy first? The whole point of the illustration is to show that in a world of limited resources, a person has to make decisions about how to achieve his goals. He can't achieve all of them at the same time. He has to decide what he needs to do—first, second, and so on, down to a hundred and thirty-fifth or more—and then he has to compare this list with his available resources, including his personal skills and time.

One day he may pick berries. But they don't last forever, and besides, he wants something else to eat. He can climb a tree and pick coconuts, or he can spend several hours to make a sort of poking stick that he can use to knock down fruit or coconuts from trees. But the time he spends locating a suitable stick can't be used to climb trees and get food directly. The point is that he has to give up income (food) in order to get the time to produce or discover capital (the stick).

He may want to go fishing. That means he needs a fishing pole, some line, a hook, and maybe some bait. Or he needs a net. But unless he finds the net as a free gift (the ship's warehouse), he has to make it. He can't become too fancy, or else he will die of malnutrition before he finishes the project.

Decisions on Board

Say that he has a pile of goods to take from the ship. He has put together a crude and insecure raft that he can use to float some goods back to shore. The ship is slowly sinking, so he has limited time. A storm is coming up over the horizon. He can't grab everything. What does he take? What is most valuable to him? Obviously, he makes his decision in terms of what he thinks he will need on the island. He tries to estimate what tools will be most valuable, given his new environment.

The value of a tool as far as he is concerned has nothing to do with the money it cost originally. He might be able to pick up a sophisticated clock, or an expensive musical instrument, but he probably won't. He would probably select some inexpensive knives, a mirror (for signaling a passing ship), a barrel (for collecting rain water), and a dozen other simple tools that could mean the difference between life and death.

In short, *value is subjective.* The economist uses fancy language and says that Crusoe imputes value to scarce resources. He decides what it is he wants to accomplish, and then he evaluates the value to him personally of each tool. In other words, the value of the tool is completely dependent on the value of the tool's expected future output. He mentally calculates the future value of the expected future output of each tool, and then he makes judgments about the importance of any given tool in producing this output. Then he calculates how much time he has until the ship sinks, how much weight each tool contributes, how large his raft is, and how choppy the water is. He selects his pile of tools and other goods accordingly.

In other words, *he doesn't look to the past in order to evaluate the value to him of any item; he looks to the future.* The past is gone. No matter what the goods cost originally, they are valuable now only in terms of what income (including psychic income) they are expected to produce in the future. Whatever they cost in the past is gone forever. Bygones are bygones. The economist calls this *the doctrine of sunk costs.* In the case of Crusoe's ship, that's exactly what they are about to become: sunk. That's why he has to act fast in order to avoid losing everything.

There are objective conditions on the island, and the various tools are also objective, but everything is evaluated subjectively by Crusoe. He asks the question, "What value is this item to me?" His assessment is the sole determining factor of what each item is worth. He may make mistakes. He may re-evaluate (re-impute) every item's value later, when he better understands his conditions on the island. He may later wish that he had picked up some other item instead. The point is, it's his decision and his evaluation that count. Because he is all alone, he and he alone determines what everything is worth. He doesn't ask, "How much money did this item cost in the past?" He asks instead, "What goods and benefits will it produce for me in the future?" Then he makes his choices. He allocates the scarce means of production. He allocates some to the raft and the rest he leaves on the sinking ship. He loads his top-priority items onto his raft, and floats it back to shore.

He doesn't ask himself, "I wonder how much money all this cost before it was loaded onto the ship?" Unless he expects to be rescued shortly, thereby enabling him to resell the item, he wouldn't bother with such a question.

What does he care how much money any item cost in the past? All that matters is what actual services (non-money income) it will produce for him in the future.

The Function of Money

What has money got to do with all this? Absolutely nothing. *Crusoe doesn't use money.* He simply makes mental estimations of the value of something in terms of what he thinks it will produce for him in the future. If whatever an item will produce isn't worth very much to him in the future, it won't be worth very much today.

Assume that he has really little hope of being rescued. The ship is sinking. His raft is almost sinking below the water. The storm is coming. He has to get back to shore fast. As he is about to climb off the ship and onto the raft, he remembers that the captain of the ship was rumored to own a chest full of gold coins. Would Crusoe run back to the captain's room to try to find this chest? Even if he had enough time, and even if he really knew where it was, would he drag it to the edge of the ship and try to load it onto the raft? Would he toss the tools into the ocean to make way for a chest of gold coins? Obviously not.

But money is wealth, isn't it? Gold is money. Why wouldn't he sacrifice some inexpensive knives and barrels in order to increase his wealth (money)? The answer is simple: *on a permanently deserted island, money isn't wealth.* Therefore, gold isn't wealth. It's heavy. It displaces tools. It sinks rafts. It's not only useless; it's a liability.

The value of money is determined by what those who value it expect that it will do for them in the future.

A lonely man on a deserted island can't think of much that money will do for him in the future. If he remains alone for the rest of his life, there is nothing that money can do for him at all.

So the value of money in this example is zero.

Joseph in Egypt

Now let's take an example in the Bible: the famine era in Egypt. Joseph had warned the Pharaoh of the famine to come, and for seven years, the Pharaoh's agents had collected one-fifth of the harvest and had stored it in granaries. Then the famine hit. The crops failed. The people of nearby Canaan also suffered. No one had enough food.

> And Joseph gathered up all the money that was found in the land of Egypt and in the land of Canaan, for the grain which they bought; and Joseph brought the money into Pharaoh's house. So when the money failed in the land of Egypt and in the land of Canaan, all the Egyptians came to Joseph and said, "Give us bread, for why should we die in your presence? For the money has failed." (Genesis 47:14–15)

What did they mean, "the money has failed"? They meant simply that compared to the value of life-giving grain, the money was worth nothing. Why would a man facing starvation want to give up his remaining supply of grain in order to get some money? What good would the money do him? He wanted life, not money, and grain offered life.

Because the money "failed," it had fallen to almost zero value. Thus, in order to buy food, the people had been forced to spend all of their money. Now they were without food or money.

> And Joseph said, "Give your livestock, and I will give you bread for your cattle, if the money is gone." So they brought their livestock to Joseph: and Joseph gave them bread in exchange for the horses, the flocks, the cattle of the herds, and for the donkeys. Thus he fed them with bread in exchange for all their livestock that year. (Genesis 47:16–17)

Were the Egyptians foolish? After all, all those cattle and horses were useful. But animals eat grain. The grain was too valuable during a famine to feed to animals. All that the animals were worth was whatever they would bring as food, and in Egypt, the meat wouldn't last long. Dead animals in a desert country don't remain valuable very long. Why not trade animals for grain, which survives the heat?

The only reason the Pharaoh had any use for the animals and money is that he knew he had enough food to survive the famine. He knew that it would eventually end. Thus, he would be the owner of all the wealth of Egypt at the end of the famine. For him, the exchange was a good deal, but only because he had the food, and the army to defend it, and he also possessed what he believed to be accurate knowledge concerning when the famine would end. Joseph had told him it would last seven years.

Because he had a surplus of grain beyond mere survival, and because he had "inside information" about the duration of the famine, money and animals were valuable to the Pharaoh, even though they were not valuable to the people. Thus, a voluntary exchange became profitable for both sides. The Pharaoh gave up grain for goods that would again become very valuable in the future. The Egyptians gave up goods worth very little to them in the present in order to get absolutely vital present goods. Each side gave up something less valuable in exchange for something more valuable. Each side improved its economic position. Each side therefore gained in the transaction.

Notice here that we are not dealing with any so-called "equality of exchange." This theory says that people exchange goods only when the goods are of equal value. It is true that in the marketplace, they may be of equal price, but they are not of equal value in the minds of the traders. What we are always dealing with in the case of voluntary exchange is *inequality of exchange*. One person wants to possess what the other person has more than he wants to keep what he himself already has. Because each person evaluates what the other has as more valuable, a voluntary exchange takes place.

Egypt's money failed. In fact, grain became the new form of money, although the Bible doesn't say this explicitly. What it says is that everyone was willing to trade whatever he had of former value in order to buy food. But if some item is what everyone wants, then we can say that it's the true money.

The Properties of Money

Why would grain have served as money? Because it had the five essential characteristics that all forms of money must have:

1. Divisibility
2. Portability
3. Durability
4. Recognizability
5. Scarcity (high value in relation to volume and weight)

Normally, grain doesn't function as money. Why not? Because of characteristic number five. A particular cup of grain doesn't possess high value, at least not in comparison to a cup of diamonds or a cup of gold coins. The buyer thinks to himself, "There's lots more where that came from." Normally, he's correct; there is a lot more grain where that came from. But not during a famine.

Why divisibility? Because you need to count things. Five ounces of this for a brand-new that. Only three ounces for a used that. Both the buyer and the seller need to be able to make a transaction. The seller of the used "that" may want to go out and buy three other used "thats" in order to stay in the "that" business, so he needs some way to divide up the income from the initial sale. This means divisibility: ounces, number of zeroes on a piece of paper, or whatever.

Portability is obvious. It isn't an absolute requirement. I have read that the South Pacific island culture of Yap uses giant stone doughnuts as money. They are too large to move. But they are a sign of wealth, and people are willing to give goods and services to buy them. Actually what are exchanged are ownership certificates of some kind. Normally, however, we prefer something a bit smaller than giant stone doughnuts. When we go to the market, we want to carry money with us. If it can't be carried easily, it probably won't function as money.

Durability is important, too. If your preferred money unit wears out fast or rots, you have to keep replacing it. That means trouble. A barrel of fresh fish in a world without refrigeration won't serve as money. But there are exceptions to the durability rule. Cigarettes aren't durable the way that metal is, but cigarettes have functioned as money in every known modern wartime prison camp. Their high value per unit of weight and volume overcomes the low durability factor. Also, they stay scarce: people keep smoking their capital.

Recognizability is crucial if you're going to persuade anyone to trade with you. If he doesn't see that it's good, old, familiar money, he won't risk giving up ownership of whatever it is that you're trying to buy. If it takes a long time for him to investigate whether or not it's really money, it eats into everyone's valuable time. Investigations aren't free of charge, either. So, the costs of exchange go up. People would rather deal with a more familiar money. It's cheaper, faster, and safer.

So what we say is that any object that possesses these five characteristics to one degree or another has the potential of serving a society as money. Some very odd items have served as money historically: sea shells, bear claws, salt, cattle, pieces of paper with politicians' faces on them, and even women. (The problem with women is the divisibility factor: half a woman is worse than no woman at all.)

Money as a Social Product

We have already seen that Robinson Crusoe has no need of money on his island. From there we went to ancient Egypt, and we found that society did initially need money, but when a famine struck, the older forms of money "failed," no longer serving as money. Maybe grain took over as the new money. Or maybe nothing replaced money.

These examples should give us some preliminary ideas about what money is, and how it works. It is used in exchange. Because Robinson Crusoe is all alone, he has no use for money. He doesn't intend to make any voluntary exchanges. Similarly, in a society that is just barely surviving, and almost everyone is a farmer, there will be no reason for money to exist. Nobody buys and sells for money any more. To trade away grain is to trade away life. They all hang onto every bit of food they grow, and nobody trades very much. They may barter goods and services directly, but they no longer trade by means of money. This indicates a very low amount of trade. So, widespread trade ceases. When this happens, money "fails." It dies. It no longer serves society, so it falls into disuse until the crisis is over.

If people don't trade, they can't specialize in production. In the case of Egypt, what had been a rich nation became poor. The Pharaoh was rich, and the people of Egypt survived, but at very high cost: the loss of their freedom. They sold themselves into a form of slavery in order to buy food, for they sold their land and their children's inheritance to Pharaoh (Genesis 47:19–23). That's poverty with a vengeance. But they survived the famine. They bought their lives.

Why does money exist? Because it serves people well. If they want to increase their personal wealth by giving up less valuable items (to them) in order to buy more valuable items (to them), they need trading partners. If I have only cattle to sell, and the person I want to sell to doesn't want cattle, but wants an axe, I have to go find someone who will trade an axe for my cattle, and then I have to try to find the person who wants the axe. I hope and pray he hasn't found an axe to buy from someone else in the meantime.

But where there's a will, there's a way. Where there is a need in society, men have an incentive to find a way to fill the need. As people trade with one another, they voluntarily begin to search out universally desired items in order to hold "for a rainy day." They sell their surplus goods or services for this universally sought-after good. Why? Because they make the assumption that people will want this good tomorrow and next week, too. So, if they store up a quantity of this good, they will be able to find people who will be willing to sell them all sorts of goods and services later on. In fact, the owner of this good will be able to change his mind next week about what he wants to buy, and he will still be able to buy it.

In short, and most important, money is the most marketable commodity in a particular society. That is the best definition of money that economists have been able to come up with. In Egypt, when the older form of money was no longer marketable, the Bible says that the money failed. "Failed" money is the same as "unmarketable" money. But there is no such thing as unmarketable money. If it's unmarketable, then no one wants it. If no one wants it, it's no longer money.

Money allows us to change our minds inexpensively. It allows us to make mistakes about what we need or want, and we can still recover. Money broadens the number of people who will be willing to sell us what we want. The more people who want money, the more people I will be able to deal with.

Furthermore, money makes it possible for people to establish common prices for most goods and services. I don't have to compute how many axes will buy how many shoes, and then compare shoes with cattle, and sheep with axes, and on and on. All I need to do is to check the Web and see all the things I can buy with money. So, we all make better decisions because we can calculate more effectively. Without money, we can achieve only a primitive economy, because calculating the price of anything, let alone everything, becomes too difficult. In fact, we can define the word "primitive" as "a society without a developed money system."

Money increases the division of labor. It increases our options of buying and selling. It therefore increases our wealth and our freedom of action. It promotes economic growth. And most interesting of all, to achieve all this, the State doesn't need to produce it. It is a product of individual economic action, not government legislation.

Conclusion

Robinson Crusoe didn't need money (except perhaps after Friday showed up) because he had no one to trade with. He had to make his calculations of value directly. "I want this most of all, this over here second, that over there third," and so forth. He calculated in terms of first, second, third, etc., not by ten units, seven units, five units, etc. He had no units in his head, so he couldn't use them to make comparisons.

In Egypt, the money failed because everyone wanted the same thing, grain, and nobody was willing to give up any grain except the Pharaoh. Trade either ceased or slowed down drastically. Money ceased to serve as a means of trade. The famine made people poor, and as trade was reduced, they became even poorer. The division of labor collapsed. This means that the specialization of production collapsed.

Money is a social phenomenon. It comes into existence because individuals begin to recognize that certain common objects in society are universally sought after. People then sell their goods and services in order to obtain this sought-after good. They store up this commodity because they expect others to sell them what they need in the future. As in the case of Robinson Crusoe on board the ship, people want to own whatever will provide them with income (goods and services) in the future. People make decisions concerning the present and the future. The past is gone forever. Money offers people the widest number of options in the future, so they sell their goods and services in order to buy money in the present.

Summary

The principles governing the value of money are these:

1. Economic action begins with an ordered set of wants (first, second, third, etc.).
2. A world of scarcity doesn't permit us to achieve all of our desires at the same time.
3. To increase output, we need capital (tools).
4. We have to sacrifice present income in order to obtain capital.
5. The value of the tool to each person is dependent on the expected value (to him) of the future output of the tool.
6. Value is imputed by a person to goods and services; it is therefore subjective.
7. Past costs are economically irrelevant; present and future income are all that matter.
8. We must allocate our scarce resources rationally in order to achieve our goals.
9. Money isn't wealth if you're all alone.
10. Money is a social phenomenon.
11. The value of money isn't constant (for example, during a famine).
12. There is no "equality of exchange."
13. Money's five characteristics are divisibility, portability, durability, recognizability, and scarcity.

14. Money is the most marketable good.
15. Money increases our options.
16. Money allows us to recover more easily when we have made economic errors.
17. Money increases the division of labor.
18. Money therefore increases our productivity.
19. Money increases our freedom.
20. Money makes possible a highly developed economic calculation.
21. The State doesn't need to create it in order for it to exist.

CHAPTER TWO

THE ORIGINS OF MONEY

And the gold of that land [Havilah] is good. Bdellium and the onyx stone are there. (Genesis 2:12)

In the second chapter of the Book of Genesis, God, speaking through Moses, saw fit to mention this aspect of the land of Havilah. It was a place where valuable minerals of value were present. One of these minerals was gold.

We cannot legitimately build a case for a gold standard from this verse. We could as easily build a case for the onyx standard, or a bdellium standard (whatever it was: possibly a white mineral). What we can argue is that Moses knew that people would recognize the importance of the land of Havilah because they would recognize the value of these minerals. One of these minerals was gold.

Why do I stress gold? Historically, gold has served men as the longest-lived form of money on record. Silver, too, has been a popular money metal, but gold is historically king of the money metals. There is no doubt that Moses expected people to recognize the value of gold. We read his words 3,500 years later, and we recognize the importance of the land of Havilah. If we could locate it on a map, there would be as wild a gold rush today as there would have been in Moses's day. No one thinks to himself, "I wonder what gold was?"

Money: Past, Present, and Future

You may remember from the previous chapter that money appears in a society when individuals begin to recognize that a particular commodity is becoming widely accepted in exchange. People want to be able to buy what they want tomorrow or next week or next year. They aren't really sure which economic goods will be in demand then, so they seek out one good which will probably be in heavy demand. They can buy units of this good now, put them away, and then buy what other goods or services they want later on. In short, money is the most marketable commodity. It is marketable because people expect it to be valuable in the future.

This isn't too difficult to understand. But it raises a problem. The unit we call money is valuable today. We have to sell goods or services in order to buy it. In other words, money has already established itself as the common unit of economic calculation. My labor is worth one-hundredth of a unit per hour. A brain surgeon's hour of labor is worth a unit. A new car is worth twenty units.

Money has exchange value today. If it didn't, it wouldn't be money. We have all learned about money's value in our daily affairs. We are familiar with it.

How do we know what it's worth today? We know what it was worth yesterday. We have a historical record of its purchasing power. If we didn't know anything about money's value in the past, we would not accept it as a unit of account today. If it has no history, why should anyone expect it to have a future? But if people don't expect it to have a future, it can't serve as money.

Here is the key question: How did money originate? If it has to have a history in order to have present value, how did it come into existence in the first place? Are we confronting a chicken-and-egg problem?

This was the intellectual problem faced by one of the greatest economists of all time, Ludwig von Mises, an Austrian scholar. In his book, *The Theory of Money and Credit* (1912), he offered a solution to this important question. Money, he argued, came into existence because in earlier times, it was valued for other properties. He thought that gold was probably one of the earliest forms of money—not a unique observation, certainly. Before it functioned as money, it must have served other purposes. Perhaps it was used as jewelry. Possibly it was used as ornamentation. We know that many religions have used gold as part of their ornaments. It is shining, lovely to look at, and widely recognized.

Gold in the Bible

Anyone familiar with the Bible would recognize the accuracy of Mises's theory. Abraham's servant gave Rebekah gifts in order to lure her into marriage with

Isaac. These gifts included jewelry made of silver and gold (Genesis 24:53). When the Israelites fled Egypt, they were told by God to collect "spoils" as repayment for their long enslavement: jewels of gold and silver (Exodus 3:22).

God warned the Israelites not to make gods of gold or silver to worship (Exodus 20:23), indicating that this was a common form of idolatry in pagan lands. But his tabernacle was to be filled with gold ornaments (Exodus 25, 26, 28, 37, 39). So was the temple (I Kings 6, 7:48–51, 10). As a possible (though not conclusive) argument, we can compare the shining brilliance of gold with the glory cloud of God. It is not surprising that men adopted gold in religious worship, and then in ornamentation and jewelry.

Gold has the five characteristics of money: divisibility, durability, transportability, recognizability, and scarcity (in relation to weight and volume). It is uniquely divisible. It can be cut with an iron or steel knife in its pure form. It can be hammered incredibly fine. It is uniquely durable; only an acid, aqua regia, destroys it. It is easily transported and easily hidden. It is instantly recognizable. As for its scarcity, throughout history it has been exceedingly scarce in relation to other metals. Men have searched for it for as long as we have records.

We can understand how it was that gold came into common use as a form of money. People recognized its beauty, and its close connection with the gods. Men who are made in God's image understandably desire to collect gold for themselves. If God wants gold in his places of worship, why shouldn't people want gold to adorn themselves?

God described His love of Israel by describing figuratively what He had done for His people. Like a bride, Israel had been given ornaments, bracelets, chains around her neck, a jewel in her forehead and earrings. "Thus you were adorned with gold and silver, and your clothing was of fine linen, silk, and embroidered cloth. You ate pastry of fine flour, honey, and oil. You were exceedingly beautiful, and succeeded to royalty" (Ezekiel 16:13).

The Most Marketable Commodity

Gold has been the most marketable commodity for thousands of years. A seller of gold has not had to stand in the streets desperately begging people to consider buying his gold. If anything, he has needed bodyguards to keep people from stealing his gold.

Understand from the beginning that the State was not necessarily a part of the development of gold and silver as money. There is nothing in the Bible that indicates that gold and silver became money metals because Abraham, Moses, David, or any other political leader announced one afternoon: "From now on, gold is money!" The State only affirmed what the market had created. It collected taxes in gold and silver. It thereby acknowledged the value which market forces had imputed to gold and silver. But the State didn't create money.

Notice also that if Mises's argument is correct concerning the development of money, the original money units must have been commodity-based. If the unit of account (for example, gold) must have come into popular use because of its past value, at some point we must conclude that it was valuable as a commodity for some benefit that it brought besides serving as the most marketable commodity: money. Money had to start somewhere. It had to originate sometime. Before it was money, it must have been a commodity.

In short, money was not originally a piece of paper with a politician's picture on it.

Money and Taxes

There is no doubt that the State can strongly influence the continuation of one or more metals as an acceptable unit of money. All the State has to do is to announce: "From now on, everyone will be required to pay his taxes in a particular unit of account." After all, taxes are an expense. There is no escape from death and taxes. (But, fortunately, the death rate doesn't go up every time Congress meets.) The State has power. If it says that people must pay their taxes in a particular unit of account, there will be strong incentives for people to store up this form of money.

Still, the State doesn't have an absolutely free hand in selecting this unit of account. If it imposes on people a legal obligation to pay what the people cannot actually gain access to, there will be no revenues. In the Middle Ages, for example, there were no gold coins in circulation in Western Europe until the mid-1200s. There was no way that a king or emperor could compel people to pay gold in the year 1100 or 900 A.D., because his subjects couldn't get any gold. They had nothing valued by the East (Byzantium, the Eastern Roman Empire) that could be exchanged for gold.

The Bible is clear: taxes to the State were paid both "in kind" (a tithe of actual agricultural production:

1 Samuel 8:14–15) and "in cash," meaning silver. A head tax was required when the nation was numbered immediately before a military conflict (Exodus 30:12–14)—the only time that it was lawful for the State to conduct a census, as King David later learned (2 Samuel 24:1–17). Solomon collected 666 talents of gold (1 Kings 10:14), presumably from taxes, gifts from other nations, and from the sale of any agricultural produce he collected. (We aren't told where he got this huge quantity of gold.)

Tribute in silver and gold was paid to a militarily victorious State. There were incidents when Israel had to pay such tribute (2 Kings 15:19; 23:33) and also when foreign nations paid tribute to Israel (2 Chronicles 27:5).

The State also hired military forces with gold (II Chronicles 25:6). Thus, taxes came into the treasury in the form of silver and gold, but then expenditures by the State came back out in the same form. There is no doubt that this process made silver and gold the familiar forms of money in the ancient Near East. There are plenty of examples in ancient records from other Near East societies that they asked for tribute in gold and silver. It was the common currency of the ancient world.

What must be fully understood is that there were no coins in this era. Coins didn't appear in the world until about 600 years before Christ. This would have been about the time that Judah fell to the invading Babylonians, quite late in Hebrew history. So, there was no system of State money with the monarch's picture or other symbols on the metal bars, or if there was, no examples of such markings have survived. It is reasonably certain that the State did not manufacture the metallic bars in ancient Israel.

This means that the State did not originate money. A theoretical model ("blueprint") for the origin of money doesn't need to include any reference to the State. The State's decision about what to tax clearly had an influence on the kind of money people accepted, but that decision was tied to the existing kind of money that was already being used by the people. In short, "If it ain't being used, you can't tax it."

This is very important to understand from the beginning. There are economists who rely heavily on the idea that the State was the source of money originally, and that whatever the State designates as money is money. This explanation is biblically incorrect, historically incorrect, and logically incorrect. *Money is the product of individuals who make decisions to buy and sell*. If individuals refuse to use what the State designates as money, it isn't money. If the State refuses to use what the market has designated as money, it can't collect taxes or buy people's services and goods. The State can influence the value of a particular kind of money, or the popularity of that money, for the State is a big buyer and seller of goods and services. But the State cannot autonomously create money and impose it on the market if market participants don't want to use it.

No Committee Needed

It is difficult for many people to understand that the free market operates rationally, even though there is no committee of expert planners or politicians to tell the market what to produce. People find it difficult to believe that God's world is a world in which individual people, responsible before God and their fellow men, go about their daily affairs, making decisions, planning for the future, and focusing their attention on their own personal and family needs, and out of all this hustling and bustling, pushing and shoving, comes the most productive economy in the history of man.

Christians can believe that the world is orderly because it was created by God. The Bible teaches that God is sovereign, but men are fully responsible for their actions. As they interact with one another, they learn things. They find out what they have to offer other people in order to buy what they want. They also find out what other people are willing and able to offer them for the things that they presently own. Market competition is a form of exchanging information. Free market activity can be described as a process of discovery.

We don't need a committee to tell us what we need to do to satisfy other buyers. In fact, a committee cannot possibly know all the things that we know as individuals, taken as a group. What we learn we can put to profitable use later on.

This spread of knowledge is made much easier by the existence of an agreed-upon currency unit. I don't mean that we all sit down and agree to use it. I mean that people learn that other people will usually accept a particular currency in exchange for goods and services. As this learning process continues, certain currency units become familiar. It's always easier for us to deal with each other if "the rules of the game" are known in advance. The currency unit is the most important single source of information concerning the state of the actual conditions of supply and demand.

Who decides which currency unit is acceptable? Originally, the people who entered into agreements with each other about buying and selling. They learned what was good for them, and the rest of us have continued to learn. A currency unit becomes familiar. We get into the habit of calculating the price of everything in terms of this familiar unit. It saves us time and effort when we can mentally estimate: "Let's see, I can buy three of these, but only two of those, or five of yours, or eight of hers. Which do I want more?"

Do you want a committee to set prices? Do you think a committee can sit down and decide what everything should cost in relation to everything else? Will a committee be an intelligent, reliable economic representative of all of us? Most of us know the answer most of the time: no.

Why then would a committee do such a terrific job in deciding how much money to create or destroy? If the committee can't set prices, why should it be allowed to control the supply of money in which all prices are quoted? Why should we trust a committee in money questions when the committee didn't invent money, and when the committee can't know enough to tell all of us what we really need or should really pay?

There's another question. How do we know that the committee will act only in behalf of us citizens? How can we be sure that the committee won't start fooling around with the money supply in order to feather its own economic nest? Monopolies are always dangerous. Why should some government committee have a legal monopoly over money? No committee invented money. No committee showed the rest of us how to use money. Why should any committee possess absolute control over money now that the rest of us have decided on what kind of money we want?

Conclusion

Money is a very important social institution. It was no more invented by a government than language was. True, the government can influence money in the same way that it can influence language, but it is not the source of money's origins. It cannot impose its monetary decisions on the public unless people decide that the government is doing the right thing. If people change their minds later on, they can change the government or voluntarily, transaction by transaction, change over to a new form of money.

Historically, people have voluntarily selected gold as the common medium of exchange. Silver has also been widely acceptable, all over the world. No government legislated this; people simply came to use these two metals in their economic transactions.

Why do people select a particular form of money? Because they learn from experience that other people usually accept this monetary unit in exchange. We can make better predictions and plans about the future when we discover that other people generally have accepted a certain currency unit in the past. What people habitually do they tend to keep on doing. They have a right to change their minds, but it's easier not to, at least most of the time. Thus, money allows us to gain access in the future to the goods and services we think we will want, or even to new ones that we haven't thought about yet.

Thus, historically it was the free market which determined what was acceptable to people for their economic activities. It happened to be gold and silver, but other commodities have sometimes been used widely. The point is, people voluntarily selected what they wanted to use as money. They did not need a committee to make this decision for them.

Summary

The principles of the origins of money are therefore these:

1. The Bible doesn't say that people should be required to use gold and silver as money.
2. The Bible does indicate that people in Biblical times came to use gold and silver as money.
3. Money will be selected because people expect others to use it in the future.
4. To establish what money is worth today, we need information about what it was worth yesterday.
5. Tracing this principle backward, we conclude that the money commodity must have been used for something else originally.
6. Gold and silver were used as jewelry and ornaments.
7. The beauty of gold and silver probably had something to do with their popularity.
8. The symbolic shining of gold may have been connected in people's minds with God's glory.

9. The metallurgical properties of gold make it highly suitable as money (the five characteristics).
10. Money is the most marketable commodity.
11. The State can influence the continued use of a monetary unit by taxing and spending in terms of that unit.
12. Some economists argue that money is what the State says it is.
13. The Biblical evidence points to the conclusion that money is what the market says it is.
14. A committee didn't originate money.
15. A committee isn't needed to maintain money.
16. A monopoly over money is a dangerous grant of power by the State.

CHAPTER THREE

MAINTAINING HONEST MONEY

You shall do no injustice in judgment, in measurement of length, weight, or volume. You shall have just balances, just weights, a just ephah, and a just hin: I am the Lord your God, who brought you out of the land of Egypt. (Leviticus 19:35–36)

It's not necessary to get into a debate over just exactly what unit of measurement an "ephah" and a "hin" were. The point is clear enough: once defined, they could not be changed by individuals in the marketplace.

Who defined them? That isn't said. Not the Hebrew civil government, in all likelihood, because it was being set up at the time the law was announced. Like the widespread use of gold and silver, certain weights and measures had also come into widespread use on a voluntary basis. The important thing was not that the civil government made its definitions "scientific"; the important thing was for the civil government to enforce a consistent standard.

It should be noted that God immediately provides the reason for this commandment: He is the One who brought them out of Egyptian bondage. He is the Lord, the sovereign master of the universe. He is the deliverer of Israel. To avoid being placed in bondage once again, they had to discipline themselves. First, they had to discipline themselves by means of honest weights and measures. Second, they had to discipline themselves by means of God's comprehensive moral law.

We cannot do without discipline. It is never a question of "discipline or no discipline." It is always a question of whose discipline. Will we be disciplined by ourselves, as individuals under God's law? Will we be disciplined by God directly (for example, when He sends a plague on us, as He did several times in the Old Testament)? Or will we be disciplined by the State? In our day, State tyranny is the most common alternative to self-discipline.

Without self-discipline under God's revealed laws, there can be no freedom. False weights and measures lead to unrighteousness. People who sell items to the public must be sure that they avoid giving less than what is expected—revealed on the scales—through tampering with the physical standards. In short, tampering with society's physical standards is a sign that men have already tampered with the society's moral standards.

Market Scales

When a person in Old Testament times (indeed, up until relatively modern times) went to market in order to buy something, he brought with him something valuable to exchange. In barter societies, he would bring some homegrown or homemade item for sale. He would try to exchange it for someone else's homegrown item, or manufactured item.

If a man brought something that would require weighing (for example, a sheep) and wanted to trade it for some other item that required weighing (for example, a sack of wheat), the question of accurate scales was less important. If something was underweighed for the "seller," it was equally underweighed for the "buyer." (Remember, both parties are buyers and sellers simultaneously: one buys wheat and sells a sheep, while the other buys a sheep and sells wheat.) Dishonest weights would be those in which the professional seller—the man who could afford the scales—tampered with the weights in one half of the transaction. Tampering in half the transaction probably isn't easy.

When people started bringing metals to market in order to buy consumer goods, it became easier for sellers to use dishonest scales. The metal bar or item would normally be measured in small units of weight ("ounces"), or even less ("grams"), in the case of gold. But the item being sold for money would, if sold by weight, probably require much heavier units ("pounds"). The man with the scales could cheat the buyer by lightening up the money metal scale, while making heavier the product scale.

Thus, once money metals came into widespread use, as they would in an advancing, high division of labor economy, the opportunities to commit fraud increased drastically.

The Seller's Advantage

The seller in the marketplace normally has an advantage over the buyers. He understands his trade, especially scales. It is easier for the professional seller to tamper with the scales than it is for the buyer to tamper with the coins. This is not a universal rule, however. Coin clipping is an ancient practice. People would shave a bit of the gold off the rim. This is why coins have those little ridges around them: to reduce theft (a forgotten legacy of the days when coins were made of valuable metals).

There is an odd example from United States history. In the late 1800s, during the "wild west" era, a famous crooked cattleman named Dan Grew herded his cattle for days without allowing them access to water. Then, just before he sold them, he would let them drink their fill. He would then take them to the stockyards and sell them. This became known as "watering the stock." The same term was later applied a similar immoral practice by corporations. Corporate officers would print up huge quantities of ownership certificates (stock) and sell them whenever some outside group would try to take over the company by buying up 51 percent of the outstanding shares. The buyers wound up with shares of depreciated value—"watered down stock."

On the whole, though, a professional produce-seller with the scales is more likely to cheat than the seller of goods. It is he who is normally the focus of attention by the civil government. On the other hand, it is easiest to check him, for he operates in a public place.

Perhaps even more important, the seller of produce has competitors. Buyers catch on when they are being cheated, if they have access to a rival. The competitors have an economic incentive to warn the buyers, or warn the civil government, about the fraud at any particular shop. Thus, market competition tends to pressure produce sellers to stay honest, at least within the generally accepted "permissible range" of the free market.

Scales of Justice

God links the ownership of scales with His own sovereignty. The man who owns the scales is a judge. God judges men in terms of moral standards. He is a Judge with the scales of justice.

When the evil Babylonian king Belshazzar was having his great feast, in the midst of a military siege by the Medo-Persians, the hand of God wrote the famous words on the wall: "MENE, MENE, TEKEL, UPHARSIN." The king called Daniel to translate, and Daniel did so: "MENE: God has numbered your kingdom, and finished it; TEKEL: You have been weighed in the balances, and found wanting" (Daniel 5:25–27).

Weighed in the balance: this is symbolic of God's final judgment. Therefore, the man who controls the "scales" of civil justice is a judge. So is the man who controls the actual weights and measures in the marketplace.

If a man misuses his position and cheats people, he is thereby testifying falsely to the character of God. He is saying, in effect, that God cares nothing for justice, that He tips the balance. He cheats mankind for His own ends. This is precisely what Satan implies about God's role as Judge. It is false witness against God. Thus, God warns men that they must use honest weights and measures, for He is the sovereign God who delivered them out of bondage. He implies that He has the power to deliver them back into bondage if they cheat in this very special area of economics.

Honest Metal Money

What was money in ancient Israel in the days before the Babylonian captivity? It would have been any item that people voluntarily accepted in exchange for goods and services. The only monetary units identified in the Bible relating to money were the shekel and the talent. These were units of weight. In principle, though the Bible doesn't specify this, they were also units of fineness. ("Fineness" refers to the percentage of pure gold or silver in the total weight of the coin.) We conclude this because of the fact that base (cheaper) metals can be melted in when the smelter is pouring the metal into the molds. Weight was not enough; there had to be a particular fineness.

An ingot or coin of a specific size, assuming it's well known, is known by sellers to weigh a certain amount. By measuring the ingot or coin, and then by weighing it, the expert can determine whether it's of the standard fineness (the proper mixture of a base metal for hardness and a precious metal for value). I own a simple, inexpensive set of weights and measures that measure the more common gold coins.

The weights and measures for the ingot of gold or silver is the professional seller's defense against fraud. The scales for produce are the buyer's protection against fraud.

The Bible lays down the rule of honest weights and measures. To tamper with the scales is a moral evil. It is theft through fraud. Someone trusts the seller, and the seller misuses this trust. It is easier to cheat a trusting person because the latter isn't watching every move of the seller. Thus, tampering with the scales is a major sin. When sellers get away with it because the authorities look the other way, honest, trusting people lose, while crooked dealers win. This reverses God's standards for dominion, namely, dominion by ethical behavior. Furthermore, it reduces the efficiency of the market, for buyers have to devote extra time and trouble in testing sellers. God will not tolerate such behavior indefinitely.

One reason why gold and silver came into widespread use in the ancient world was that they could be tested by sellers of goods and services. Today, a seller of goods (buyer of money) can use simple tools, if necessary, to determine the reliability of a particular ingot or coin. He could test the ingots in the ancient world, too, using similar simple tools. Because gold and silver were recognized, and because standards of shape and weight made it possible for people to test the full weight (precious metal content) of the ingots, these two metals could more easily function as the most marketable commodities in society.

Honest money is easy to define in the context of a pure precious-metals ingot or coin economy. An ingot or coin contains a specific quantity of gold or silver of a known fineness. In the case of the famous U.S. "double eagle," the $20 gold piece, the coin weighed 1.075 troy ounces (the standard unit for measuring gold), with .967 ounces of pure gold and the rest copper, for hardness.

For greatest ease of use, an ingot would be stamped with some familiar mark or company, so that the user would know that smelter or firm stands behind the honesty of the weights and measures. The coin or ingot in a literate society would announce its weight and fineness of the metal (such as one ounce, .999 fine). Perhaps the traditional names of national currencies might be retained on the coins—"dollar," "yen," "peso," etc.—but to reduce confusion to a minimum, it would be better to have no name attached. It would simply be a one-ounce gold coin. With or without a familiar name, the coin when originally produced would contain exactly what it says concerning the precious metal.

To tamper with either the weight or the fineness of the coin would be like pouring water into the ground meat at the supermarket. It would be fraudulent: the attempt to get something for nothing.

Honest Paper Money

Coins and ingots are heavy and bulky. It should be obvious why people prefer paper money. It fits into a wallet or purse. It's flat. It's easily recognizable. Paper can be printed to represent any number of currency units: 1, 5, 10, 20, 50, 100, and so forth.

The key word is *represent*. The paper money, to remain honest, must be issued by the money-issuer on a strict one-to-one basis. If it announces that it represents a one-ounce gold coin, .999 pure, then the issuer must have that one-ounce coin in reserve, ready to be redeemed by anyone who walks in and presents the piece of paper.

To issue a piece of paper that serves as an IOU for precious metals without having 100 percent of the promised metal in reserve is fraudulent. It is theft. It is a form of tampering with weights and measures.

How would such a system work? The coin owner might deposit his coins at a warehouse. He wants his coins kept safely. He pays a fee for the safekeeping, the same way we rent safety deposit boxes at our bank. The warehouse issues a receipt. Since the receipt promises to pay the bearer a specific amount of coins, or ingots, on demand, the paper circulates as if it were gold, assuming that everyone knows and trusts the warehouse that issued the receipt.

Warning: whenever someone promises to store your precious metals for free, watch out. You never get something for nothing. Either there is a hidden payment, or else there is fraud. Any system of paper money or credit that doesn't somewhere involve a fee for storage is unquestionably and inevitably fraudulent. Keep looking until you identify the form of fraud.

The paper certificate is a *metal substitute*, sometimes called a *money substitute*. But it isn't a money substitute; it really is money, *if the metal on reserve is regarded as money*. Its value in exchange rises or falls according to the exchange value of the money metal in reserve.

The big problem is counterfeiting. It is a lot easier to counterfeit a piece of paper than it is to counterfeit a gold coin. A counterfeit coin is easier to detect. It can be weighed. A piece of paper looks just like other pieces of paper. So, issuers take care to identify pieces of paper by serial numbers, or special water marks, or by using special paper that is easy to identify by the public.

A counterfeiter is clearly a thief when he prints up false warehouse receipts. Some company is required by law to redeem the paper receipts by paying out the specified quantity and fineness of gold or silver. To issue phony receipts places the issuer at risk. Or, if the company should go bankrupt and be unable to redeem the notes, it places at risk the last person who accepted the receipt at face value. He goes to get his gold, and the issuing company has gone bankrupt. He is stuck with a worthless warehouse receipt, whereas the counterfeiter has bought valuable goods and services. The loser (among others) is the last guy to get stuck with the bad receipt when the bad news is made public. Unquestionably, counterfeiting is a form of theft.

One way to protect users from counterfeit bills is for the bank to allow the depositor to write receipts for the deposited coins whenever he makes a transaction. This way, the user has to sign his name at the time of purchase. He writes checks (warehouse receipts) until he runs out of coins in reserve. Then he stops, unless he is a thief, or he makes a mistake (and pays a penalty to the bank), or he has made prior arrangements with the warehouse to "cover" his checks with gold which is held in reserve—gold that has no warehouse receipts issued against it—for this purpose by the warehouse firm.

This is why checks are money, *if the money metal backing them up is money*. They are metal substitutes. An honest check is simply another form of warehouse receipt.

A credit card is also money, *if the metal backing up the credit card is money*. It, too, is a metal substitute. An honest credit card is simply another form of warehouse receipt.

We could add all sorts of examples to this line of reasoning, but by now you have the idea. The key is the honesty of the warehouse firm. If it issues no more receipts than it has gold or silver in reserve to redeem the receipts, then the receipts can legitimately serve as forms of money.

If a warehouse company issues more receipts to valuable money metals than it has metals on reserve, then it has violated the law against false weights and measures. The difference is that it is harder to detect a false (unbacked) warehouse receipt than it is to detect a counterfeit coin not containing the stated amount of gold or silver. The coin can be measured and weighed; the paper bill can't. But the principle is the same in both cases: counterfeit coins or counterfeit warehouse receipts.

Conclusion

The principle of honest money is quite easy to understand. You deliver what you say you're delivering. If you promise to give an ounce of gold, .999 fine, to a seller, then that's what you deliver. He can make an estimation of how much that ounce of gold is worth to him, and if he decides that he wants the gold more than he wants what he has offered for sale, then you get the item, and he gets the gold.

If either of the parties tampers with the scales, or in any way substitutes something less valuable than what he has agreed to deliver, then he has committed a sin. This sin is an attack on God's principles of justice and man's social peace. The sinner must make double restitution (Exodus 22:11–12): the return of the value stolen, plus a 100 percent penalty.

The law regarding honest weights and measures is obviously a specific (case-law) application of the eighth commandment: "Thou shalt not steal" (Exodus 20:15). But because God is a Judge, and because the symbolism of His perfect judgment is the scales, honest weights and measures become a theological issue as well as an economic issue. To tamper with the scales is to defy God in a unique way. It is to assert that man, the law breaker, being made in God's image, reflects a God who is equally a law breaker.

Honest money is an economic application of the law against false weights and measures. Because money in the Bible is metallic, any tampering with the content of the precious metal is the equivalent of tampering with the scales. Counterfeiting coins is illegal. So is the counterfeiting of paper money: creating more warehouse receipts for precious metal than there is precious metal on reserve for future redemption.

Summary

We find the principles of honest money involve the following:

1. The prevailing definitions of measurement must be observed in all our dealings with one another.

2. The civil government need not be the originator of these standards, though it is supposed to certify them.

3. The goal is consistency of use.
4. The God who requires honest measures is the same God who delivered Israel from bondage.
5. Violating these physical standards is the equivalent of violating God's moral standards.
6. The professional seller in the marketplace has more opportunities to tamper with the scales.
7. Market competitors monitor each other, thereby reducing the extent of tampering.
8. God's activities as Judge symbolically undergird the law of honest weights and measures.
9. Money in ancient Israel consisted of gold and silver in familiar sizes and shapes.
10. When the civil magistrate refuses to enforce honest weights and measures, evil people temporarily prosper at the expense of honest people. This reverses God's standards of dominion.
11. Widespread dishonest weights also increase everyone's transaction costs (costs of exchanging): time involved in checking scales.
12. Paper money represents specific quantities of gold or silver (or whatever money unit which is common).
13. Any issuing of warehouse receipts to money constitutes a violation of the law prohibiting dishonest weights and measures.

14. Issuing more receipts than there is metal to redeem them is a form of counterfeiting.
15. Paper bills, checks, and credit cards are all forms of metal substitutes; they are all true money.
16. Whenever some agency promises to create a paper money system that doesn't require storage fees for money metals, it's making a fraudulent offer. You don't get something for nothing.

CHAPTER FOUR

DEBASING THE CURRENCY

Your silver has become dross, your wine mixed with water. (Isaiah 1:22)

The prophet Isaiah came before the nation of Judah, the Southern Kingdom of the divided nation of Israel, sometime around the year 750 B.C. He began his ministry with a condemnation of the spiritual condition of the people, from the man in the street to the rulers.

The Old Testament prophets didn't just talk about the internal mental state of the people. They believed in what the Bible teaches, that the heart of a people is reflected in their actions. Almost eight centuries later, Jesus said: "Even so every good tree bears good fruit; but a bad tree brings forth bad fruit. A good tree cannot bear bad fruit, nor can a bad tree bear good fruit. Every tree that does not bear good fruit is cut down, and thrown into the fire. Therefore by their fruits you shall know them" (Matthew 7:17–20).

Jesus also said, "A good man out of the good treasure of his heart brings forth good; and an evil man out of the evil treasure of his heart brings forth evil . . ." (Luke 6:45a).

Isaiah was saying exactly what Jesus said so many years later. The people were corrupt in their hearts. He used the imagery of dross. What is dross? It is cheap or "base" metal. It is unfavorably compared with precious metals: silver and gold. It can be removed from the precious metal only by melting down the ingot and purging out the base metal, either by heat or by chemical reaction. This, too, is a familiar Bible image: purging away dross by placing the metal into a hot fire.

God spoke to the prophet Ezekiel, who wrote more than a hundred and fifty years after Isaiah: "Son of man, the house of Israel has become all dross to Me: all they are bronze, tin, iron, and lead, in the midst of a furnace; they have become dross from silver" (Ezekiel 22:18).

The Old Testament prophets understood that sin served as dross in Israel. They knew that if people did not "purge away" their spiritual dross voluntarily through personal moral reform, to be followed by political, economic, and institutional moral reform, then God would purge the whole nation. There would be war, or plague, or famine. God will not tolerate moral dross indefinitely. Isaiah announced the warning of God: "I will turn my hand against you, and purely purge away your dross, and take away all your alloy" (Isaiah 1:25).

Weights and Measures

We have already seen in chapter 3 that God requires the civil government to enforce predictable standards of weights and measures. This makes it easier for people to make voluntary economic transactions in a free market. Not only do we say, as buyers and sellers, "What you see is what you get," we also implicitly say, "What I say you are getting you will get." More specifically, "What my scale says you are getting is what you will get."

Our scales are symbols of God's justice. If we rig our scales to cheat our customers, we are implicitly saying either that God doesn't care (because He is also at heart a cheater) or that God can't do anything about it (meaning that He isn't really God). We are saying that God as Judge of all mankind is a liar. He isn't really a Judge. Therefore, if we can get the earthly judges to "look the other way," we can continue to cheat our customers.

Corrupt businessmen want to deal with civil officers who are equally corrupt. They are willing to pay bribes to get them to "look the other way," to get them to "turn a deaf ear" to those weak people who will be cheated by corrupt scales. This was Isaiah's accusation against the leaders: they were bribe-seekers, people who did not hear the widow's plea.

But they were something else. They were also men who refused to prosecute those who tampered with false scales. Remember, the State in this era did not issue coins. Coins were invented about a century later. There is no indication that the State even certified the weight and fineness of any ingots in circulation as money. But the State could prosecute fraud. The authorities could prosecute anyone who was passing dross-filled silver or gold bars as if they were high quality (normal market standard).

Centuries later, when officials learned about the "wonders" of debased money, they made the State the monopolist over money. Instead of serving God by enforcing laws against debased money, politicians took the profits for the State. They "eliminated the middlemen." They stopped taking bribes from the corrupt money-manufacturers and started stealing from the public directly. One of the main reasons that the Roman Empire fell into the hands of the Christians around 320 A.D. is that the pagan emperors had destroyed the Roman coinage system. Nobody trusted the money, so nobody trusted the State.

The Process of Debasement

Why would any private producer of silver ingots want to debase his product? Because he could get more short-run profits by doing so.

Say that you are a corrupt expert at smelting metals. This skilled trade was a near-secret trade in the ancient world. A secret guild controlled mining and smelting in many cultures. Not many people knew the secrets. This made corruption easier, whenever the guild decided to produce short-term profits for its members.

The smelter could do the following. He had molds into which he poured molten metal. He could pour in pure silver, but silver was a short supply. This was why it was a precious metal. It was a lot cheaper to buy tin. So, the cheater would melt down some tin, and then pour a little tin into the formerly pure liquid silver.

Who would know? The ingot would still look shiny. It would look like silver. How many people would own accurate measures and scales to detect the shift in weight produced by the tin? Hardly anyone.

The silver producer could sell the debased silver in exchange for scarce goods and services. But by adding cheap metals (dross), he could buy more scarce goods and services than he had been able to buy the day before with pure silver. People trusted him. They wouldn't measure and weigh his ingots. They wouldn't insult him in this way.

But what if the authorities found out? He could bribe them. Only if the bribe was as valuable as the profits on the deception would he really worry.

It was a simple scheme. Just pour "a little" tin, or other cheap metal, into the molten silver, pour the molten metal into an ingot, and there was instant profit.

What is his profit? The extra silver he has left after the tin has replaced silver in the ingot. But understand: this extra silver can be translated into profit only by "spending it into circulation"—in other words, by selling it in exchange for additional goods and services.

Who Wins, Who Loses?

Our world is a world of scarcity. It is also a world of God-imposed law. The rule says: "You never get something for nothing, except as a gift." This testifies to God's mercy in redeeming us: salvation is a gift: "For by grace are ye saved through faith; and that not of yourselves: it is the gift of God" (Ephesians 2:8). But this gift had to be paid for: Jesus died on the cross to meet God's stiff requirements against sin. "But God commendeth [demonstrates] his love toward us, in that, while we were yet sinners, Christ died for us" (Romans 5:8).

So if someone is able to win by cheating, someone else becomes a loser. It is not a question of everyone winning because there has been new wealth created in the economy. It is profit based on deception. No new wealth has been created. Someone has to lose.

The person who buys the "silver" ingot uses it for something. Perhaps he makes an ornament. He sells the ornament, or barters with it. But the buyer gets stuck with an ornament which is overpriced. Why? Because the original cheater can collect his profit only by selling the extra silver into the market. Someone will make more ornaments (or whatever) with this extra silver. The supply of "silver" ornaments goes up; therefore, the value (price) of the existing supply of "silver" ornaments will drop. The early buyer has overpaid.

What if the cheater just produces ingots, and "spends them into circulation"? He trades the debased ingots for something he wants. If whoever sells him what he wants then turns around and sells the newly produced debased ingot for whatever he wants, he will not be hurt economically. The secret is this: sell the ingot before a lot more phony silver ingots hit the market. In other words, "get while the getting is good." Or "take the money and run"—run to the nearest store and buy goods with it.

Those who are hurt are those who hold onto these debased ingots too long. As more and more of them flood the market—remember, the only way for the cheaters to collect their profits is to spend the extra silver—one of two things happens. First, if the dross in the new ingots is undetectable, the market price of all silver ingots will fall: more supply, lower price per ingot. Second, if the dross-filled ingots are detectable (inexpensively), then the price of the phony silver ingots will drop in relation to pure silver ingots. This means that there will be two separate price-quote systems in the economy: a pure silver price per good or service, and a dross-filled silver price per good or service.

In either case, the person who is stuck with a pile of dross-filled ingots will lose when prices rise. He sold goods and services at yesterday's lower price level, but he will buy his goods and services at today's higher price level, or perhaps at tomorrow's even higher price level.

Thus, the winners are those who get access to the phony money early, and spend it fast. The losers are those who get access to the phony money later, after prices in general have risen. Worse, what about the people on fixed money incomes, who don't see their incomes rise at all, but who now face higher prices?

Who are these people likely to be? Pensioners. Small businesses that are barely making money, and widows: the very people that Isaiah said were being harmed by false judgment. They were to be protected, and to fail to do so was a sign of sin within the nation, but especially among the rulers: "You shall not afflict any widow, or fatherless child. If you afflict them in any way, and they cry at all unto Me, I will surely hear their cry; and My wrath will wax hot, and I will kill you with the sword; your wives shall be widows, and your children fatherless" (Exodus 22:22–24).

Conclusion

Civilizations fall when they become morally corrupt. One sign of this corruption in virtually all known instances is debased money. When a society finds that its rulers have debased the currency unit, the people receive a warning: the rulers are corrupt, and if the people continue to support these rulers, then they, too, are corrupt.

In modern times, civil governments have the full support of their people for at least "limited inflation," meaning "a little corruption" of the money supply.

Summary

We have learned the following lessons from Isaiah's critique of Judah:

1. A sign of moral corruption was the debased condition of their money.
2. The people were morally corrupt.
3. The corruption of their silver was a violation against God's law regarding false weights and measures.
4. The profit from debasing silver can come only when the supply of debased ingots increases.
5. The corrupt metal producer produces corrupt metal.
6. He buys more goods and services than would otherwise have been possible.

7. The holders of the debased ingots will eventually suffer losses, as prices of other goods and services rise.
8. The secret of success in a time of corrupt money is rapidly to sell the money for goods and services.
9. Those who are on fixed money incomes are hurt, such as, widows.

CHAPTER FIVE

THE CONTAGION OF INFLATION

Your silver has become dross, your wine mixed with water. (Isaiah 1:22)

In chapter 4, I focused on the actual process of debasing a precious metal currency.

Once the process of moral debasement begins to spread, it is very difficult to stop it. People must take a stand in principle against this spreading moral corruption. The more that people see that corruption seems profitable, at least in the short run, the more difficult it is to persuade people to change. The corruption is contagious, almost like a disease. But it isn't a disease; it's a moral condition.

It was not simply that Judah's silver had become dross. Their wine had also become adulterated.

Consider the winemaker. He spent a lot of time growing, caring for, and harvesting his grapes. It took time for the fermentation process to produce wine. These retarding factors reduced the available quantity of wine. Thus, for people to buy it, they had to pay a higher price than they would have been forced by competition to pay if there had been abundant supplies of comparable-quality wine.

By the way, we should not argue that the high cost of wine production is what produced the high prices. This has cause and effect backward. What we should recognize is that all those buyers competed against each other to buy the wine. Their willingness to pay for it is what lured producers to stop producing other products and start producing wine. Buyers determined the price of wine by competitive bidding; the producers didn't force the buyers to buy it. In short, *customers set prices*, not producers. If producers set prices too high, many customers won't buy; they will buy something else instead, and then the high-price producers have to lower prices or suffer losses.

It is obvious that if good wine were easy to produce in huge quantities, customers would not have to bid so much money to buy the wine. But it isn't cheap to produce in large quantities, so they do have to pay high prices.

Now, let's return to the problem that faced the prophet Isaiah: the moral corruption of the people. It was not just the silversmiths who were corrupt. It was the winemakers, too. It was everyone.

How did the winemaker practice his corruption? By a process almost identical to that of the silversmith: debasement. The silversmith had poured cheaper base metals into the molten silver, but called the product silver.

This was precisely the process of the corrupt winemaker. He was pouring "debased wine" (water) into the pure wine, and calling it pure wine.

How could he make his profit? The same way the corrupt silversmith made his. He would displace pure wine when he poured in the water. This displaced wine could then be used to pour into other wineskins along with more water. Then he could take, say, 20 percent more wineskins full of "wine" to market and sell them. Presto: a 20 percent profit, at least initially.

He was trading on his own former reputation. Before, he had produced a high-quality product (just as the silversmith had formerly produced). People trusted his products because they trusted his morals. So, he could take advantage of this trust by pouring water in the wine. He was simply imitating the silversmith.

But moral corruption being what it is, it never stays in one place. It gets worse. So, more and more water would wind up in the wine, just as more and more dross would wind up in the silver. Pretty soon, everyone would begin to see that a particular silversmith's silver was mostly dross, and a particular winemaker's wine was mostly water. At that point, people would stop doing business with these corrupt people, or else start offering them fewer valuable goods and services in exchange.

Unless . . .

Unless the existing silversmiths were acting as a giant monopoly to debase the silver uniformly (a cartel). Unless the existing winemakers were doing the same thing. Unless they controlled the markets (with the cooperation of the rulers) to keep out competitors who were willing and able to offer customers high quality silver or wine.

With government controls against honest newcomers, it would have been possible for corrupt sellers to maintain their corrupt practices and not lose their markets to honest newcomers. But this would have required coercion against newcomers, either directly (privately hired thugs) or indirectly (thugs hired by the government).

This was the very essence of economic oppression in Biblical times. It still is. When corrupt producers capture the government in order to keep out honest producers, the losers are customers. They are the ones whose interests are hurt, not just the interests of honest producers who are kept out.

Widespread economic oppression always requires the consent of the governors. In God's world, it also requires the consent of the governed. God brings oppressors against those who practice oppression privately and who want to practice it without threat of judgment by the civil government. God hears the cries of the afflicted, and brings judgment against the oppressors (Exodus 22:22–24).

The Bible says that specific corrupt practices are like yeast (what the Bible calls "leaven"): they corrupt the whole loaf. But, on the other hand, honest dealing is also like yeast; it, too, can spread to the whole loaf. What determines which yeast is more powerful in any particular society? The hearts of the people. They will choose which kind of yeast they prefer, corrupt or incorrupt. In Judah, they had chosen corrupt practices.

Gresham's Law

Back in the late 1500s, an official in Queen Elizabeth's court, Sir Thomas Gresham, made a famous observation.

He said (approximately) that "bad money drives good money out of circulation." In short, debased money drives honest money out of circulation.

But if God's law really does rule the world, how can this be true? How is it that something bad (corrupt, phony, debased money) can drive good money (pure gold or silver) out of circulation? Is there something corrupt about market competition? Why should the bad product defeat the good product in a competitive free market?

Economists finally figured out the answer. Something was missing from Gresham's analysis. The bad money drives out the good money only when the government says the two are equal in value, and enforces this decision with the threat of punishment.

If I have a silver coin that will buy a loaf of bread, and I also have a phony, silver-looking coin that has only half the silver, the latter coin should buy only half a loaf of bread. But what if the government says the two coins are of equal value? Which coin will I spend on the loaf of bread, the full silver coin or the phony? I will spend the phony coin and hoard the full silver one, or trade the full silver coin to someone who wants to give me (perhaps illegally) three-quarters of a loaf of bread for it. (The bread seller will keep an extra quarter loaf—or whatever—as his profit, to compensate him for trouble and risk.)

So Gresham's law should read: "The coin that is artificially overvalued by the government will drive out of legal, visible circulation the coin which is artificially undervalued by the government."

But this artificial price which is set by the government isn't a free market price. It's a form of coercion. It's a lie which is enforced as if it were truth. It is another example of the government's violation of God's law concerning weights and measures.

The Spread of Corrupt Products

Let us consider a society in which the rulers have established a fixed price which equates honest money (full-weight of gold or silver) with dishonest money (partially gold or silver, or even zero-content of gold or silver). The government lies, and it enforces that lie on everyone.

We are rational people. We don't want to spend a full silver coin on a product which says "for sale for one silver coin." We would much rather spend the common coin which lies, which says "pure silver," but which is in fact only half silver. We will hoard the full silver coin for a better deal at a later time.

What does the businessman do? He knows he will not be getting full silver coins into his till that day. He knows his customers will spend the half silver coins. Now what should he do:

1. Continue to sell his product for "one silver coin," when he knows that he will receive only half-silver coins?
2. Double his price to two silver coins, in order to get the same amount of silver per item sold?
3. Debase his product with cheaper quality materials, but maintain the fiction that each unit is worth one silver coin—the real, old-fashioned, true silver coin?

Consider the consequences to him of each of the three possible decisions:

1. Same price, same product: he gets stuck with phony coins. He is selling his product at 50 percent of what it was worth before the phony coins started circulating.
2. Doubled price, same product: he risks losing sales. Maybe his competitors will take the third approach, and debase their products. His customers, not being experts at quality controls, may not recognize this. He loses business.
3. Same price, reduced quality: his customers are initially defrauded (until they figure out the new rules). He sells fraudulent high-quality goods at the familiar (pre-debased money) price.

You can understand how tempting the third decision is. The government is not enforcing the law of honest weights and measures against corrupt silversmiths. Silversmiths who don't practice corruption cannot get the government to step in and stop the deception of their competitors. Their competitors make more profits, and the honest ones eventually go out of business, or begin to imitate the corrupt silversmiths.

Once the silversmiths are all (or mostly) corrupt because of the corruption of the rulers, the other producers face a problem as individuals. Should they raise prices? Should they instead cut profit margins, but try to sell high-quality goods at the older, familiar price? Or should they follow the lead of the corrupt silversmiths, and start debasing the quality of their products?

Isaiah's condemnation of Judah indicates that the winemakers had fallen into the same corruption as the silversmiths. They were pouring water into the wine.

Step by step, the debasement of money provides incentives in the short run for deception. The sellers are tempted to deceive the public. But remember, the public wants to be deceived. The public wants to believe in something for nothing. The public is crooked, too.

Something for Nothing

The worker who is employed by the silversmith says to himself, I want a raise. I see that my boss is corrupting the silver, and he is pocketing the profits. I want "a piece of the action." He can afford to give me a raise. To keep his employee quiet, the silversmith gives him a raise. He, too, gets paid in extra quantities of the debased silver. He, too, can rush out and spend it on goods and services at yesterday's prices. He, too, has "won." He, too, has been corrupted.

What does the person do who sells something to the silversmith's employee? He makes more money. Business has picked up! He orders more goods to sell to the employee next payday. And what does his employee think? "My boss is getting rich by selling goods to these silversmith workers. I want my piece of the action." So, he asks for a raise, and gets it.

And so it goes, all the way through the economy. Everyone just loves having more money. Everyone loves becoming a bigger spender. Everyone seems to have gotten something for nothing.

Guess what starts happening to prices? Right: they start going up. So, what do customers do? Some pay more for the things they buy. (That's why prices go up.) But others start looking for bargains: sellers who are "stupid" who keep selling goods at older, pre-inflationary prices. Buyers seek bargains, meaning older-priced goods and services. They want something (discounts) for nothing (lots of debased new money jingling in their pockets).

So, corrupt wine sellers accommodate corrupt buyers. "Yes, sir, a brand-new, 100 percent top-quality item at low, old prices!" Meanwhile, they have poured water into their wine. So do a lot of other sellers.

The quality of many products starts going down. Prices stay artificially low, because in principle people are violating the principle of honest weights and measures—all through the society. "Yes, you get ten yards of 100 percent silk at last year's low prices." It's a lie. Either the silk isn't 100 percent silk, or it's an inferior quality silk, or it's actually seven yards because the seller has substituted a false measure.

Price Controls

But what if the government steps in and tells all the other sellers except the silversmiths to maintain the old standards of quality? Then either prices will rise, or else the amount customers can buy at the old prices will be reduced, or else quality will drop.

But what if the government passes a law against raising prices? This means that sellers can't cut the amount sold. What then? Quality will have to drop.

What if the government passes another law, making it illegal to cut quality? Then many sellers will go out of business, and customers will not be able to buy all the goods they want.

Meanwhile, risk-oriented producers will start selling their goods in the free market, meaning an unregulated market, meaning the black market.

I hate to use the term "black market." I prefer to use the term "alternative zones of supply."

If the silversmiths alone are allowed to debase their product—money—and the government passes laws against price rises or quality cutting, the law-abiding customer and the law-abiding producer will be ruined.

Conclusion

In short, if there is any tampering with the monetary unit, and the government allows such fraud to continue, the whole economy is threatened with a progressive debasement. It is not simply the monetary unit that will be debased, but also many other products. Any seller or producer who finds that his customers are unwilling to accept price increases is forced to consider adopting the same corrupt practices as the silversmiths, just to stay in business.

Thus, a debased currency is like a giant engine of economic corruption. Where the rulers allow, not to mention control, this sort of debasement, the whole society is brought under the temptation of adopting corrupt practices. Because money is the universally used medium of exchange, debasement of money is the most efficient "yeast of corruption" that an economy faces. If governments allow this debasement, to say nothing of getting a monopoly over money and then beginning the process of debasement, the spread of immorality speeds up. Every economic enterprise is tempted to imitate the corrupters in order to stay in business.

Something for nothing in the field of monetary policy eventually leads to disaster. God will not be mocked.

Summary

The process of monetary debasement causes a string of undesirable, yet tempting effects.

1. People could see the debasement of silver, yet there was no opposition.
2. The rulers were corrupt in allowing the debasement of silver.
3. The spread of monetary corruption was not merely passive; evil was widespread in Judah.
4. High quality goods normally cost more to produce than low quality goods.
5. Producers begin to imitate the corrupt practices of money debasers.
6. Continued monetary debasement requires the cooperation of government, meaning coercion (direct or indirect) against honest money producers.
7. Evil and good both spread like yeast (what the Bible calls leaven).

8. Bad money drives good money out of circulation only when the government equates the two by law.
9. The public thinks it benefits from the inflation, at least at first.
10. The public wants to fool sellers into selling at "discount" (honest money) prices.
11. Sellers fool the public by cutting quality and offering them at "discount" prices.
12. The corruption spreads from employers to employees.
13. Government-legislated price controls are in fact "people controls." They control the decisions of people, not prices as such.
14. Government price controls reduce people's wealth by destroying the free market.
15. The "black market" is simply the product of people who are trying to escape dishonest money in a world of price controls.

CHAPTER SIX

WHEN THE STATE MONOPOLIZES MONEY

"Show me the tax money." So they brought Him a denarius. And He said to them, "Whose image and inscription is this?" They said to Him, "Caesar's." And He said to them, "Render therefore to Caesar the things that are Caesar's, and to God the things that are God's." (Matthew 22:19–21)

By the days of Jesus, rulers had learned the wonders of issuing money. No longer was money the product of silversmiths or goldsmiths. No longer did private individuals have the legal right to issue ingots or other easily recognized units made with precious metal. The State had made money a monopoly.

There were many reasons for this. Let's begin with the key fact in this famous confrontation between Jesus and the Pharisees: the face and the inscription. The coin was a Roman silver denarius. It was specifically a tax coin, a coin for paying tribute to Rome.

Now why would the questioners ask him about the lawfulness of a Roman tax? To tempt Him. Either He would say that it was unlawful to pay the tax, and incur the wrath of the Roman authorities in Jerusalem, or He would say to pay it, and incur the wrath of the multitudes that followed Him. So, He turned the tables on them—figuratively, this time. He had already turned the tables on them in the temple (Matthew 21:12).

What kind of coin did they bring Him? A tribute coin. So, they possessed a tribute coin? Of course. This meant that because of the realities of Roman power, they had already made their own decision to use coins, that were tax coins, as currency. They were the beneficiaries of a widely respected coinage system which had been imposed by a foreign ruler. If they profited from the system, why shouldn't they pay taxes to support the system?

We can learn a lot by a study of Roman coinage. The Roman Empire was a religious organization—all ancient societies were. (So are all modern societies, but most of them disguise this fact.) Increasingly, the emperors were regarded as gods, especially in the eastern half of the Roman Empire. The coins were used as political devices. In an illiterate world, the pictures on the coins announced religious messages, which in turn were political messages.

Tiberius Caesar's picture was on the denarius that they handed to Jesus. Tiberius issued only three types of denarii during his reign, and by far the most widely circulated had his face on one side, adorned with a laurel wreath, a sign of his divinity. The inscription read, "Emperor Tiberius august Son of the august God," referring to Caesar Augustus, the father who had adopted him.

On the back of the coin, his mother appears, seated on a throne of the gods, in her right hand she holds an Olympian scepter, and in her left hand is an olive branch, a symbol of peace. Professor Ethelbert Stauffer, a theologian and a numismatist, commented concerning the coin: "It is a symbol of power. For it is the instrument of Roman imperial policy."

Roman coins from Augustus on, announced divine emperors, saviors of the world. Yet by the year 300, the coins were worthless, price controls had been imposed, and the empire was an economic catastrophe. The more the coins promised deliverance, the worse they became. The silver was taken out of them, and cheap copper was substituted. Professor Stauffer's book, *Christ and the Caesars* (1955), tells the story of the collapse of the pagan Roman Empire through a study of its progressively debased coinage. As the Empire collapsed, so did its coinage.

A Sign of Sovereignty

Political rulers learned very early just how powerful coins could be in serving as symbols of political and religious authority. They could serve as unification devices, just as flags serve modern men. The users were reminded constantly of the source of the coins (the State) and the person who made the State possible (the political-religious leader).

It is not surprising that the first coins ever issued were issued in order to strengthen the State. While Greek coins in the ancient world were in part used to expand commerce, historians are now generally agreed that political motives were equally as important as economic motives. The right to issue coinage was a sign of a city-state's political and legal independence. In other words, the State's officials saw coins as an effective means of strengthening citizens' loyalty to the existing government.

But the symbolic importance of coins was only the beginning. The State could use coins as a means of collecting taxes. If the State issued precious metal coins, it could collect coins as taxes. This made it easier to keep tax records, and politicians always like to simplify tax collecting! The State could buy goods and services, including the services of armies, if it had coins.

Where could the State get the precious metals? From mines, or from successful warfare, or from taxing businessmen who were involved in trade. Once the State sanctioned money, this would have led to an increase in demand for certified money. After all, the State collected its taxes with its own money. This would have created demand for money just in itself.

Eventually, the politicians learned about the short-term benefits of debasing the currency. They learned quite early, in fact. When the State took in gold and silver, it then issued coins that were pure. But as time went on, and people became accustomed to the coins, the old debasement trick became too tempting for politicians to resist.

People don't like to pay taxes. They never have. Politicians love to spend money. They always have. So, politicians long ago figured out a way to increase spending without increasing direct tax collections. If they just took out some of that molten gold or silver, and poured in some cheaper metal, they could produce more coins with the extra gold or silver. You have heard all this before. (Take a "silver" coin—ha, ha—out of your pocket. You have in your hand tangible proof that politicians haven't changed over the last two thousand years or so.)

The government then spends these extra coins into circulation. It makes little difference in the long run whether it's the government or a private silversmith who does this. The result is more coins in circulation. Prices will eventually go up. The trick is to spend the debased money before everyone else catches on and hikes selling prices.

There is a new problem, however. The people may trust the State more than they trust private silversmiths. They think that the State is honest. In the old days, they thought the State was divine. Thus, when the State starts producing debased money, it threatens people's confidence in law and order. In the ancient world, it made people doubt the honesty of the gods.

We are back to God's laws regarding honest weights and measures. If God is the Judge, then His lawful representatives in the civil government should not cheat. To cheat here is to call into question the reliability and the integrity of God.

The State may be able to get away with the debasement process longer, since people trust the State. But coins are coins, and if more of them are coming into circulation, people are building up a supply in reserve. Why not spend some of the extra ones? As they are spent, prices begin to climb, compared to last year's prices, which were produced by an economy with fewer coins in circulation.

Ultimately, it doesn't matter who produces the coins. People will respond to the new conditions of the supply and demand for money. If there is a greater supply of money, the price (exchange value) of the money will drop. Holders of cash will be hurt.

A New Form of Debasement

The trouble with money metals from the politicians' point of view is the very measurable character of metal. If a user can measure it and weigh it, he can tell if someone has added a cheaper metal to the precious metal. The coin's weight will change. It also starts to change color as more and more base metals are added. Then everyone finds out about the corruption. People lose faith in the issuer of the coins.

But paper money overcomes this inherent weakness. One piece of paper looks like any other piece of paper. They all weigh the same. How can the user determine which piece of paper is the phony? He can't.

How does the State get people to accept pieces of paper as money? By making them convertible on demand for silver or gold. Then the State just starts issuing more paper notes than it has gold in reserve. Most people don't catch on. They accept the State's paper as if it were honest money. After all, these are our leaders. They wouldn't cheat us.

Yes they will . . . if they think they can get away with it. They can, too. They already have: in the United States in 1933 (gold) and 1967 (silver).

As more and more pieces of paper come into circulation, the price of goods starts to rise. This includes the price of gold or silver. Now, if a piece of paper called "one dollar" entitles the bearer to collect an ounce of silver, but the printing of paper money raises the price of silver to "two dollars," it pays the person who owns the piece of paper to go the treasury and get an ounce of silver with his paper dollar.

Guess what he then does with the ounce of silver? He takes it to a free market silver dealer and sells it for two dollars. Then he takes two dollars to the treasury and gets two ounces of silver. Then he sells it to the public for four dollars. Then he . . .

You get the picture. The treasury will run out of silver. In fact, it will run out a long time before the free market price hits two dollars an ounce. It will run out by the time it hits a dollar and ten cents, probably.

So, the politicians either have to stop printing more paper money, or else they have to "shut the window" on people who want to exchange dollars for silver.

This is what they did in the United States in 1967. The following year, the price of silver doubled.

Why didn't they stop printing paper dollars? (Actually, the Federal Reserve System bought U.S. Treasury debt with newly created money—checks—and the government spent the new money into circulation by writing checks.) Don't be silly. If they had stopped creating money, they would have had to raise taxes (unpopular) or cut back government spending (even more unpopular). So, they printed money instead. So, prices of goods and services have risen by more than 6.5 to 1, 1967 through 2010.

Will the Public Revolt?

Not very often. The public decides that fiat money is money, not pieces of shiny metal. If fiat money is acceptable by the store down the street, then who cares? Who cares if prices go up, year after year? What's "a little" price inflation? We're all doing better, aren't we?

The trouble is we are all thinking short term. We forget what happens to the value of our money when its purchasing power erodes year after year (that is, prices keep going up). What happens if you retire and are forced to live on a fixed money income? You lose your wealth, year after year.

Look at the explanation on the next page. Pick a year. See what happens to your money at various rates of price inflation.

"Inflation can't hurt anyone too badly" is a delusion of fully employed younger workers. It can hurt everyone who isn't staying ahead of it with pay increases, and I mean after-tax pay increases.

Higher Tax Brackets

That's another reason why governments like inflation. Governments since the era of World War I have convinced voters to violate the Biblical principle of the tithe, and impose higher rates of taxation on people with higher incomes. This is done in the name of a higher morality. It is done in the name of justice.

At first, only rich people are supposed to be taxed at these higher rates. That's what the politicians promise. Cross their hearts and hope to die. In 1913, the year the income tax was passed in the United States, the tax rates began at 1 percent and went as high as 7 percent. The 1 percent rate was applied to all income over $20,000 a year, and the 7 percent tax was on all income over $500,000 a year. This was in an era in which the average family earned about $1,000 a year. Almost nobody got taxes for about four years.

Then, in 1917, the bottom bracket was dropped from $20,000 a year to $2,000. The politicians swept a lot more people into the net. And look at what they did to the top brackets: 1913, 7 percent; 1916, 15 percent; 1917, 67 percent; 1918, 77 percent. In short, they changed the rules. They always do.

Here was their plan: lower the level of taxable income, and increase the rate of taxation in every bracket. Next, inflate the money supply, so that everyone is pushed into higher and higher taxable brackets. The higher your money income, the larger the percentage of your income gets collected by the State.

The "graduated" income tax (also called the "progressive" income tax) was recommended by Karl Marx, the founder of Communism, in his 1848 book, *The Communist Manifesto.* He understood that such a tax system would help to destroy private property. He forgot to mention that it would place a major temptation in front of politicians to inflate the currency, increase everyone's money income, and push everyone into higher tax brackets.

The lure of greater tax revenues from a graduated income tax makes inflating the currency look too productive. It makes the immorality of changing weights and measures look like a good idea. It makes the destruction of people's economic futures too popular. The government begins to inflate, and almost never in history has the process stopped until the value of the currency falls to zero. It may take a hundred years, but at the end, the people lose what they had needed: a reliable, generally predictable monetary system.

Inflation is an invisible tax. Instead of taxing people directly, the politicians fool people. They increase government spending but they don't collect enough tax revenues to pay for it. So, they print up the money to make up the difference and spend it into circulation. The victims (people on fixed money incomes who face rising prices) seldom know who it is who ruined them. They blame "speculators" and "price gougers," not the politicians.

But eventually everyone learns who did it to them. They read a book like this one. They get angry. Inflation of the currency is a good way to create a revolution. The politicians figure this out way too late.

Two Kinds of Counterfeiters

The private counterfeiter prints up currency and spends it into circulation. The government counterfeiter prints up money and spends it into circulation.

Private counterfeiting raises prices if enough counterfeiters do it fast enough and long enough. Government counterfeiting raises prices if the government does it fast enough or long enough.

The private counterfeiter doesn't agree to deliver a specified weight and fineness of gold or silver to the person who "cashes in" his paper note. The government counterfeiter does promise to cash in gold or silver for paper, but eventually he breaks his promise.

The public doesn't trust private counterfeit money. The public does trust government counterfeit money, at least for a long time, until people's trust is totally betrayed (mass inflation).

What is the difference in principle between private counterfeiting and government counterfeiting? None.

What is the difference economically? Only the beneficiaries: private counterfeiters who buy up goods and services, or politicians who buy up goods, services, and votes.

What is the difference politically? Private counterfeiters betray people's trust in criminals. Government counterfeiters betray people's trust in the government.

If government counterfeiters and private counterfeiters both issue paper and call it money, then on what legal basis can the government prosecute counterfeiters. The only thing I can think of is that it's a violation of the government's trademark laws.

Conclusion

From about 600 to 500 B.C., governments began issuing gold, silver, gold-silver, and copper coins. This became an aspect of the authority of civil government. Cities (which were city-states) claimed a political monopoly over money. So did the Roman Empire several centuries later.

The coinage system was both a religious and a political phenomenon. It was also economic. As people began to use the coins of a particular government because of the familiarity of the coins, a temptation was placed in front of the government: to debase the currency. The government could buy extra goods and services for itself—initially, before prices started to rise—by spending new (debased) money into circulation. All it had to do was mix dross metals in with the precious metals. In short, coins made it easier for corrupt governments to steal from trusting citizens.

Eventually, people caught on, and people started asking higher prices. After all, the economy is a giant auction, and if people are given more money by the State, they can afford to bid prices higher than before they got access to the new money.

Rising prices eventually destroy people's confidence in the money system. This loss of confidence eventually reflects in their loss of confidence in the State. It is the State's responsibility to protect the integrity of the money, because the State is supposed to enforce honest weights and measures.

But who can enforce honest weights and measures regarding money if the enforcers—politicians and rulers—are profiting from the cheating? That is the problem that no society has ever been able to solve. Government money eventually becomes corrupt money.

It boils down to this: It is cheaper to print a piece of paper with some dead politician's picture on it than it is to mine gold two miles beneath the earth. Being cheaper, it becomes too great a temptation for politicians to resist in a crisis, or even in peaceful times. They are unrestricted by the geology of gold mining. All they need is paper and ink.

When the voters have larceny in their hearts ("something for nothing" from the government), they eventually get stuck with nothing for something: they sell their goods and services to the government, and get depreciating paper money in return. When they try to spend it, they find out they have been robbed by the robbers they elected. God will not be mocked.

Summary

All this happens because people accept it when the State grants itself a monopoly over money. The politicians violate Biblical principles, but nobody protests. The State's money system is eventually destroyed. So are those who have become dependent on it.

The State step by step violates these principles:

1. The State at most is supposed to certify the honesty of money: weight and fineness.
2. The State then violates the principle of economic freedom: allowing people to buy and sell on their own terms: it makes private coins illegal.
3. The State claims for itself an economic monopoly that it cannot be trusted to possess.
4. The State in the ancient world used the coinage to propagandize the public (false religion).
5. The State misuses the trust of the people.
6. The State becomes an official debaser of the metal coinage: adding cheap metal ("dross") to the precious metal.
7. These new, "dross" coins add to the number of monetary units in use.

8. People then bid up the price of goods and services, since they have more money to spend.
9. Price inflation begins to erode people's faith in the money.
10. The modern State uses paper money to hide, and then speed up, the debasement process.
11. The State has imposed an invisible tax: inflation.
12. Economically and morally, there is no difference between private counterfeiting and public counterfeiting.

CHAPTER SEVEN

BIBLICAL BANKING

Therefore you ought to have deposited my money to the bankers [money exchangers], and at my coming I would have received back my own with interest. (Matthew 25:27)

The translators of the King James Version of the Bible (1611) translated the Greek word toku as "usury." But it doesn't mean usury in the Greek; it means "interest." This is how modern translations translate it. There is a difference between usury and interest.

How did the King James scholars make such an error? Because they assumed that the concept of interest in the Bible always means usury. The Hebrew word "usury" was a term of criticism. Usury referred only to interest taken from a poor fellow believer, in other words, interest secured from a charitable loan. Such usury is prohibited by Biblical law. But interest as such isn't prohibited.

Before I attempt to prove this from the Old Testament texts, let me point out that in this parable of the talents, Jesus was affirming the importance of productivity and profit. In explaining God's kingdom, He tells the story of a rich man who goes away, but before he goes, he calls three of his stewards and gives them money ("talents"), each according to his abilities (Matthew 25:15). One receives five talents; one receives two talents; and one receives one talent.

The first two doubled their money through trade (25:16, 17). The third one buried his talent in the ground. Upon the rich man's return, each servant came to settle his accounts. The master was most pleased with the first man, who doubled a large amount of capital. He is also pleased with the second, who doubled a smaller amount of capital. To both he said, "Well done, good and faithful servant; you were faithful over a few things, I will make you ruler over many things: enter into the joy of your lord" (vv. 21, 23).

But to the third man, who buried his talent because of his fear of losing it in trade, the owner was furious. At least the servant could have placed the money with the money changers and received interest back on it.

Jesus was affirming the legitimacy of both profit through trade and the normal rate of return which is secured by lending money. The two forms of activity are not the same, as the parable indicates, but both are legitimate.

Profit through trade is risky. This is why the third man was afraid to attempt it: "And I was afraid, and went and hid thy talent in the earth: lo, there thou hast that [which] is thine" (v. 25). He thought it would be best just to return the owner's principal.

The owner criticized him. Why? Because he had forfeited the use of that talent. The only reason anyone forfeits the use of money is to get a greater amount of money in the future. Otherwise, why not just spend it on whatever it will buy today? Why wait? Thus, interest is a basic category of human action. It is inescapable.

Waiting

To show you why interest is inescapable in every aspect of human action, let me give you two examples.

First, assume that I run a national contest. You have just won the grand prize, a brand-new Rolls-Royce automobile. I have paid all the taxes on it. You can either keep it or sell it. It's up to you.

But I come to you and ask you to make a choice. You can take delivery of the car today, or you can take delivery three years from now. Because Rolls-Royce styles don't change very often, and because the car probably won't go down in value, you don't face a loss of capital directly. But you assume that it won't appreciate, either. So, what do you do, take delivery now or later?

Obviously, you take delivery of it immediately. Why wait?

What do I have to do to get you to wait? I have to offer you the car, plus something else. Maybe I will toss in a small sedan at the end of three years, or extra money. But to get you to wait for delivery, I have to compensate you, to make it worth your time to wait.

Now, let's take another example. This time, you're the buyer of something from me. You want to buy a piece of property. I show you that you can earn one ounce of gold per year net profit from this land, simply by renting it out. You don't have to do anything. Furthermore, we both agree that the land will probably be able to produce this profit for a thousand years without damage to the land. Then I ask you to pay me one thousand ounces of gold for the land.

You, of course, protest. It isn't worth a thousand ounces. I counter by showing you that you already agreed that the land will produce a thousand ounces of gold, so why shouldn't I be entitled to a thousand ounces? We all agree: equal for equal, right?

Where is my argument incorrect? It has to do with the value to you today of those future ounces of gold. I am asking you to give me gold, ounce for ounce, in advance. But what is the thousandth ounce, a thousand and one years from now, really worth to you? Will you give up an ounce of gold today (and all that it will buy) for that thousandth ounce in the distant future for some unnamed heir of yours? I don't think so.

You apply a discount to that future income. An ounce of gold a thousand years down the road isn't worth as much to you as an ounce is worth to you today. (If it is, please contact me immediately. Do I have a deal for you! There's this bridge in New York City that I know you'll want to buy.) You won't be here to enjoy it.

But think about this principle. An ounce of gold fifty years from now, or twenty years from now, isn't worth an ounce today. It also is discounted in your mind. So is an ounce a year from now. We have therefore discovered a law of human action (which applies in every area of economics): the present value of future goods is always discounted in comparison with the immediate value of those same goods.

What is this discount called? I'll bet you've already figured it out. It's called the rate of interest.

You discount the future value to you of any good compared to what that same good is worth to you immediately, whether it's that Rolls-Royce or an ounce of gold from that piece of property. For me to get you to hand over the present good today (money), I have to promise to return it to you in the future, plus extra money or other benefit. In other words, I have to pay you interest.

In the parable of the talents, the master was angry with the fearful steward because the steward only gave him back his original coin. At the very least, the master said, he could have lent it to the money changers, and have received back some interest.

Banks, Risk, and Interest

Information isn't free of charge. Someone has to pay for it. You may be given it as a gift ("Let me give you a piece of my mind, friend!"), but people seldom value such free advice ("Buddy, I don't think you can spare a piece of your mind!") So, usually we have to pay for it. Nobody complains about having to pay for something valuable.

Say that you have a lot of cash. You're a frugal person and concerned about your future. You want to have a "nest egg" for the future. So, you're interested in loaning out some of the money.

I come to you and tell you that I know a businessman with a great idea for a profitable investment. He wants a partner to put up the money. He will pay the partner 25 percent of the profits. But if he goes bankrupt, the partner loses the investment. No, you think to yourself, that's too risky.

You counter with this offer: have the businessman guarantee me out of his own pocket a 10 percent rate of return on my money, whether the project works or not. Then I'll loan him the money.

What do I do? First, I go to the businessman. He thinks he will be able to make 30 percent on the money.

Second, I ask myself that magic question: "What's in it for me?" For my trouble in putting the deal together—that is, for my information of where the money is (you) and where the profit opportunity is (the businessman)—I should get something. So, I ask the businessman, are you willing to pay 13 percent for the use of the money? If he says yes, then I come back to you and get the money from you.

The businessman gets his money and the chance at making a lot more. You get your 10 percent rate of return (your discount of future goods as against present goods), and I get 3 percent on the deal for my trouble.

That's honest banking. It is the exchange of information. It is also the exchange of risk. You're worried about your risks in the future. You want more capital to deal with those risks. The businessman worries about the risks of guaranteeing the creditor (me) 13 percent, but he feels that the risk is worth it. I worry about the risks of the businessman going bankrupt and fleeing the country, since I have to pay you your 10 percent. But I figure it's worth my risk.

We have voluntarily exchanged risk. Each person is now more comfortable with his own fears. Each man gets something for his trouble. We all bear risk, but we bear an amount of risk that's closer to what we want than would have been possible if I, the deal-putter-together, had not come onto the scene.

As you have probably recognized, I am the banker in this example.

A bank is not an evil institution. It is a marvelous institution in principle. It allows the profitable exchange of information and the profitable exchange of risk. Those who participate all believe that they will be better off with this institution than without it.

The fact is, banking has been one of the crucial institutions in the development of the modern world. It fulfills a crucial function. It allows us all to deal more successfully with an uncertain (completely unknown) and risky (partially unknown) future. Banking allows us to spread our risks.

The Marks of Honest Banking

There must be a lender. We call him the depositor. He has to give up the use of his money for a specified period of time. In exchange, he is offered a specified rate of interest, to be paid to him in addition to the return of his original invested money when the loan comes due.

There must be a borrower. He is someone who believes that his opportunities for putting the capital to use outweighs the expense (and risk) of having to repay the principal plus the interest. He may be a producer. He may be a customer. But he brings collateral to the table (his past performance, his future prospects, his idea, etc.) and promises to repay.

There must be an evaluator. This is the banker. He assesses the risk of not being repaid. He bears the risk of paying off the depositor if the borrower defaults. He must evaluate the credit worthiness of the borrower. He gets paid for his trouble by the spread: the difference between the rate of interest the borrower pays him and the rate of interest he pays the depositor after the transaction is over.

There is nothing immoral about such transactions. The Bible nowhere prohibits them, with one exception: charity loans. (I shall cover these later on.) These sorts of transactions are expected to be beneficial to all the participants, or else the participants wouldn't enter into such transactions voluntarily.

In the next chapter, I will discuss some highly immoral aspects of a perverted form of banking. But as I have outlined banking here, there is nothing wrong with it. The key to bear in mind is the question of the use of the money. The depositor gives up the use of his money during the period of the loan. He can't get something for nothing. If he gets a rate of interest, he gets it because he doesn't have the use of his money in the interim. When he loans it out, it is no longer his money. He has given up ownership and use of present money in exchange for future money. He doesn't get something (a rate of interest) for nothing (no true transfer of ownership). Whenever this fundamental transfer of ownership is violated, banking becomes immoral, as I shall show in the next chapter.

What if the depositor needs "his" money back early? That shouldn't be too hard. He goes to the banker and makes a loan request. The banker knows that the businessman is probably going to repay the loan. The banker can make a loan to the depositor out of bank capital, or he can loan him money from another depositor's account, with the note from the original businessman as collateral.

But to get money now, the depositor either takes a discount (doesn't get all the money originally agreed to be repaid), or else he has to promise to repay the bank extra money when the repayment of the loan falls due. The point is, nobody gets something for nothing. The depositor is asking for money that has been loaned out. It isn't in the bank any longer. To get "his" money early, he has to borrow it from someone else, for during the period of the loan, it isn't his money any more.

All this is fairly easy to understand. There are no hidden secrets here. Banking fundamentals aren't mysterious. It's simply a method of exchanging present and future risks, present and future goods, with a middleman who puts the deals together. And it's all governed by this rule: "You don't get something for nothing."

Charitable Loans

The Old Testament forbade lenders from making interest-bearing loans to poverty-stricken brothers in the faith. "If you lend money to any of My people who are poor among you, you shall not be like a moneylender [usurer—KJV]; you shall not charge him interest [usury—KJV]" (Exodus 22:25). The New American Standard Version reads: "If you lend money to My people, to the poor among you, you are not to act as a creditor to him; you shall not charge him interest."

The Bible is not speaking here simply about money loans. Interest is a phenomenon that relates to all human action, so this prohibition applies on any sort of loan. "And if one of your brethren becomes poor, and falls into poverty among you; then you shall help him. . . . Take no usury or interest from him; but fear your God; that your brother may live with you. You shall not lend him your money for usury, nor lend him your food at a profit" (Leviticus 25:35a, 36–37). Notice: it speaks of the poor brother. This is not a prohibition against business loans.

The warning against profiting from charitable loans from those who share the faith is clear: "One who increases his possessions by usury and extortion gathers it for him who will pity the poor" (Proverbs 28:8). In other words, the evil man lays up treasure unjustly, but the righteous man will eventually earn it back. This is in line with another promise of Proverbs, "the wealth of the sinner is stored up for the righteous" (13:22b).

Yes, the lender who lends money to a poor fellow believer can legitimately ask only for a return of the principal. He may not ask for anything extra. This means that he forfeits the interest that might otherwise have been earned in some sort of business loan. The lender suffers a loss, for he forfeits the use of his capital over time, and bears the risk that the loan will never be repaid. But God will reward the generous lender, Proverbs says. In effect, God pays the interest payment to the righteous lender. God becomes a kind of heavenly co-signer of the poor man's note. Specifically, the generous lender will prosper at the expense of the unrighteous exploiter in a society which is governed by the law of God.

Charity loans in the Old Testament were supposed to be cancelled nationally every seventh year (Deuteronomy 15). Those who had defaulted on charity loans and had been put into servitude as payment were to be released in this year. This indicates that the zero-interest loan used the individual's own freedom as collateral. If he defaulted, he could go into servitude until the seventh year. So, men took debt seriously.

Conclusion

Lending money at interest isn't immoral and shouldn't be made illegal. It shouldn't be controlled by the State in any way. The Bible teaches that loans at interest to poor fellow believers should not be made, but the Bible is equally emphatic that it is God who punishes this type of loan. There is no mention of any civil penalties. It is a religious matter. Someone has to define "fellow believer" and "poor." This is not something the civil authorities should concern themselves with. At most, church authorities might penalize usurers, not the State.

But most loans in a society are business loans or loans made to people who have credit references and collateral. These are not poor people. They come with credit worthiness. This is a true capital asset. A man's reputation as an honest and efficient businessman who pays his debts (and has few of them) is certainly a valuable asset. It can be borrowed against under certain circumstances. Certainly, by putting collateral against the loan, he adds to his credibility.

Why should someone with a great idea to serve customers but without enough cash on hand to finance the initial delivery of this service or product not be allowed to seek out other people to put up the money? Why shouldn't others be allowed to share this vision and share in the rewards? Some people may want an "equity" position: shares of ownership in the business, rain or shine, boom or bust. Others may not want to become entrepreneurs, but they are willing to forgo the use of their money for an interest return. Jesus teaches in His parable of the talents that both kinds of investments are legitimate: higher-risk profit seeking, as well as guaranteed-return interest seeking.

Summary

The fundamentals of Biblical banking are these:

1. The King James translators erroneously translated the Greek word for "interest" as "usury."
2. Usury in the Old Testament refers exclusively to interest taken from a poor fellow-believer.
3. Jesus described the kingdom of God in terms of profit seeking and interest seeking: a positive rate of return.
4. Interest is a basic category of human action; it is inescapable.
5. It arises from the fact that we discount the present value of future goods as against what those same goods are worth to us right now.
6. Information isn't a free good; someone pays for it.

7. Some people prefer to lend money at a high enough rate of interest, as a means of providing for themselves in the future.
8. Other people have needs and opportunities that they prefer to satisfy now, and pay for through interest owed in the future.
9. Middlemen bring these two sorts of people together; these middlemen are called bankers.
10. Their information isn't free.
11. They make their money through the "spread": the difference between interest promised to them by the borrower and interest promised by them to the depositor.
12. Through lending and borrowing, people exchange degrees of risk.
13. The key to honest banking is the transfer of ownership of the capital asset: what is lent to the borrower cannot simultaneously be used by the lender.
14. Charity loans to poor fellow believers should not have any interest payment attached to them.
15. God rewards the generous, zero-interest lender to the poor.

CHAPTER EIGHT

FRACTIONAL RESERVE BANKING

> *If you ever take your neighbor's garment as a pledge, you shall return it to him before the sun goes down. For that is his only covering, it is his garment for his skin. What will he sleep in? And it will be that when he crieth to Me, I will hear; for I am gracious.* (Exodus 22:26–27)

The context of this verse is the general prohibition of interest taken from a poor fellow believer. He has been reduced to such abject poverty that he asks the neighbor for a loan so small that his coat can serve as collateral. He has nothing else of value that can serve as collateral. This is not a business loan.

But think about the purpose of collateral. If I give you a loan, I want some security that I will get something from you if you refuse to repay it or are unable to repay it. Perhaps I loan you money against an automobile you own. If you default on the loan, I can repossess the automobile and sell it. Maybe I can get my money back this way.

Also, I know that you don't want to lose that automobile. You will work hard to earn enough money to repay me. I know that the pain you will experience by losing your collateral spurs you on to greater efforts. I don't have to take physical possession of the property, if I have taken possession of legal title which entitles me to take physical possession, should you default on the loan.

But what about a poor man who has no collateral besides his cloak? I want to get him to pay off the loan. Still, the cloak is useless to me personally. I would want to use it at night, when it gets cold, but I can't. I have to return it to him every evening. So, it is useless to me. Or is it?

Obviously, it is useful to him. He gets cold at night, so he comes to get it. It is a lot of trouble for him (and a bit humiliating) to have to come to my place every evening to get back his cloak. He wants to get out of debt as soon as possible. So, it does serve as an incentive for him to repay, which also means that it is an asset to me.

There is another aspect of this sort of collateral which most people never think of. What if the borrower is corrupt in his heart? What if he went out and borrowed money from a dozen people, with the cloak as collateral? He promised each lender: "Look, if I default, you may have my cloak. I want my cloak, so I surely won't default." But if he has borrowed against the cloak twelve times over, he may be perfectly willing to default on that cloak. Let the lenders decide who gets the collateral.

The corrupt debtor shouts, "Tough luck, suckers. Sort it out among yourselves. The money is gone. All I have left is the cloak. I'll be cold without it, but I had fun with the money. It was worth it!"

What the Bible teaches is that it is immoral to secure multiple loans with the same piece of collateral. To reduce the possibility of someone indebting himself several times over, the Bible allows the lender to take physical possession of the collateral daily. Since only one lender can do this per day, the debtor is not able to indebt himself many times over on the basis of one piece of collateral.

Just because a piece of collateral is physically useless to the lender does not mean that it is economically useless to him. It may be very useful to him economically, first, to motivate the debtor to repay the loan, and second, to prohibit the borrower from indebting himself several times over.

Multiple Indebtedness

In chapter 3 I discussed the creation of a warehouse receipt for storing gold or silver. A person brings in ten ounces of gold to the warehouse for safekeeping, and the warehouse issues a receipt for ten ounces of gold. The owner pays a fee for storing the money, but he presumably increases the safety of his holdings. The warehouse specializes in protecting money metals from burglars. The depositor pays for this specialized service. It is somewhat like a safety deposit box in a bank, except that the warehouse issues a receipt.

The receipt may begin to function as money. If people trust the warehouse, they will accept a receipt for all or part of this gold in payment for goods and services. Why not? A piece of paper authorizing the bearer to collect a specified amount of gold is just about the same as the actual ounce of gold. Besides, the gold is safer in storage, and paper is a lot more convenient than pieces of metal.

But a problem threatens the system. What if the warehouse owner recognizes that people in the community trust him? They know that he has a lot of guards watching everything, and that he has always been scrupulously honest. He then betrays this trust. He issues warehouse receipts for gold for which there is no gold in reserve.

He then loans these receipts to borrowers. The receipts serve as money. People accept them in exchange for goods and services. These warehouse receipts are considered "as good as gold." Why not? They are always exchangeable for gold upon demand. Just take the piece of paper to the warehouse, and get your gold. No problem!

But now there is a problem. There are more receipts for gold than gold in reserve to pay all the potential bearers on demand. These "demand deposits" are now vulnerable to that most feared of financial events, a bank run. Depositors who have receipts come down and demand repayment. But there isn't enough gold in reserve to meet the total demand.

The warehouse has placed itself in a similar position as the poor man who immorally secures loans from a dozen lenders on the basis of one piece of collateral. The warehouse owner has become a banker. He makes loans, for which borrowers agree to pay him interest in the future, along with a return of the principal. But the money, once loaned out, is gone until the day that repayment comes. The warehouse is vulnerable to a run on the deposits. The warehouse owes gold to the depositors. It is indebted to them. The deposits are legal liabilities to the bank. The bank has become indebted many times over. It has in reserve only a fraction of the assets promised to depositors.

There is a name used by economists to describe such banking practices: fractional reserve banking. Banks do not have 100 percent of all their liabilities on hand as assets against those liabilities. In short, their reserves are only a fraction of their liabilities (deposits). They have loaned out the money long term, but their clients (depositors, lenders to them) can demand their money short term. Thus, the time factor intervenes. This is the weak point of all modern banking.

The Creation of Money

Remember, I said that the warehouse receipt circulated as if it were gold. Therefore, if gold serves as money in that society, the pieces of paper will also serve as money.

When these pieces of paper are pure money-metal substitutes, nothing changes. Physical gold is taken out of circulation and put into a warehouse. A piece of paper (a warehouse receipt) substitutes for the physical gold. No new money has come into circulation. No money has been taken out of circulation. Nothing fundamental changes, except for convenience.

But if the warehouse owner writes up a warehouse receipt for gold when there is no new gold on deposit, then he has increased the money supply in the community. No one has come to the warehouse and deposited gold (taken it out of the day-to-day economy). So, the warehouse receipt is inescapably inflationary. It is an addition of money into the economy. (I am defining "inflation" as "an increase in the money supply," the way dictionaries and economists defined it 50 years ago. The result is rising prices, or else prices will not fall as far as they would otherwise have fallen.)

Here is what normally would happen. The warehouse receipt circulates as if it were gold. If the warehouse owner is very cautious, and issues only a few extra receipts, probably nobody will find out. He will collect a little interest from borrowers, and everyone will be happy. Prices may rise only a little, or perhaps not at all.

But other warehouse owners hear about their competitor. So, he's lending out money, is he? Well, two can play that game. So, they begin to issue their warehouse receipts to borrowers. They too get in on the banking game. The money supply now starts to increase.

Prices start to rise as denominated in gold. But gold's price doesn't rise, for all the receipts are "as good as gold" and therefore identical to gold, supposedly. So, those who hold gold get hurt. They see the price of other goods rising, but stodgy old gold stays the same. So, they do the rational thing: they start buying goods before the price of these goods gets any higher. They go down to the store and start buying goods with warehouse receipts. All of a sudden, the store owners see a lot of paper receipts. Where did all these receipts come from? Maybe it would be smart to cash in these receipts and demand delivery of gold. Something funny is going on.

They go to the warehouses and start demanding gold. All of a sudden, the run on the warehouse begins. The warehouse receipts begin to fall in value compared to gold. Other people rush down to get their gold (which is now rising in value compared to the warehouse receipts they are holding). The bank collapses. Or else it is forced to delay repayment to receipt owners.

It is similar to the wicked cloak owner who has indebted himself many times over, and then leaves his creditors standing out in the cold.

The Shrinking of Money

A few days before the bank run, business had been booming. Everyone seemed to have lots of money to spend. It was terrific for businessmen.

A few days after the bank run, reality sets in. Many depositors can't get their money. People who have borrowed from the banks because business was so great discover that their investments have gone sour. They had begun building new factories, but now there is no more demand for the goods produced by these factories. They had been lured into making the investment (borrowing the money) because the economy seemed to be booming, and interest rates were nice and low.

The reason interest rates were so low is that the banks were counterfeiting money and lending it out. They didn't have to pay depositors any interest, and they were taking in interest. It was so easy.

The day of economic judgment arrives. Businesses go bankrupt. Others lay off employees. Everyone has to adjust to the new conditions of supply and demand. The inflation is over; deflation has come. Some bank notes (warehouse receipts) are worthless. They aren't money any more. People who held them have lost their money. They stop spending as much as before.

Does this sound familiar? It should. It's called a depression. And there is one cause, and only one cause, of depressions: prior inflations. The good days looked so good; the bad days look so bad. People were lied to. The counterfeit warehouse receipts were promissory notes, and these promises were lies. The reality of the post-lying era is like a hangover after a night of reveling. But it is reality. The drunk, like the businessman, should be thankful for it. They seldom are.

Look, depressions are hard to explain. Why should virtually every businessman in the country—even in the world (1930s)—all make the same mistakes at about the same time. Sure, businessmen make mistakes. Some buy when they ought to be selling. But never forget: there's always another businessman who sold to the one who was buying. Why don't their mistakes offset?

The answer is the money system. All businessmen are tied to money and interest rates. If we want to explain why almost all of them think a boom is going to continue when a bust is about to occur, we need to look at money and interest rates. The businessmen make the same mistakes because interest rates are giving them incorrect signals.

Borrowing rates are low because bankers are creating counterfeit money—legal counterfeit money—and loaning it out. Then inflation hits, the economy booms, and then craters when the bankers slow down the printing of money in self-defense against bank runs: too many receipts for too few reserves. Money shrinks (or even just slows down), and the depression hits.

We've seen it before: the boom of 1964–69 turned into the bust of 1969–71. The boom of 1972–74 turned into the bust of 1975–76. The boom of 1977–79 turned into the bust of 1980–82. It will happen again. It always does.

That's the curse of counterfeit money.

Pure Counterfeit Money

The modern banking system has gone a long way in the last fifty years. All over the world, nations abandoned the gold standard. The citizens are no longer given legal access to true warehouse receipts (gold-backed money). They can't take their paper receipts to a bank or the national treasury and demand a fixed, predictable quantity of gold (or silver) on demand.

Now the bankers don't have to worry about a "bank run" against gold. Neither do the politicians. The result has been mass inflation all over the world. You could buy a three-bedroom home in 1913 for under $3,000.

Today, the game is played differently. Let's see how it works. Say that you take in $100 cash and deposit it in your bank. The central bank (in the United States, the Federal Reserve System) requires banks to keep varying percentages of money on reserve at the Fed itself, in non-interest-paying accounts. A 10 percent reserve makes it easy to compute, though for many accounts it's under 5 percent.

The bank takes your $100 and issues you a receipt (bank deposit slip) for $100. It then takes $10 and wires it to the regional Federal Reserve bank. Then it loans out the remaining $90.

The guy who borrows the $90 deposits it into his account. Presumably, he then writes a check for the $90. The person who gets his check deposits it. His banker takes 10 percent, or $9, and wires it to the regional Federal Reserve Bank. Then he loans out the remaining $81. The borrower writes a check to someone who deposits it in his bank. His banker takes 10 percent, or $8.10, wires it to the Federal Reserve Bank, and loans out $72.90.

And so it goes, from bank to bank, merrily multiplying. In theory, the original $100 cash deposit (or check) creates an additional $800 in loaned money, plus your original $100.

And you wonder why we have inflation?

Isn't legalized counterfeiting wonderful? Something for nothing. We'll all be rich soon. Millionaires. But bread will cost $40 a loaf.

Then we'll have a depression. The politicians will blame businessmen. The bankers will blame anyone. Everyone will blame capitalism. But capitalism wasn't the cause of the boom or the collapse; fractional reserve banking was: too many warehouse receipts with too little money in reserve.

Conclusion

Banking as a purely lender and borrower operation is a wonderful institution. But pure banking is not inflationary. If I loan you $100, I can't use that $100 while you're using it. I don't have a "demand deposit." When your banker takes in your deposit, he can't loan it out. It sits in his vault until the borrower spends it. Once it's spent, it isn't his anymore. He has to wait until his business starts paying him money before he can repay the loan. The same $100 goes through the economy without multiplying.

Not so in a fractional reserve banking system. I have the right to spend the money I deposited at any time, even though 90 percent of it (or more) was loaned out already. Where does the banker get the money to honor my check? From some depositor who deposited his paycheck today.

It's just like the fellow who owns that warehouse. He issues lots of extra warehouse receipts to money (gold) because he knows that very few depositors will come down on any day and demand their gold. If someone does, probably this will be offset by some other depositor who is depositing gold in the warehouse. It all looks so easy, until the run occurs.

Fractional reserve banking violates the Biblical principle against multiple indebtedness. When bankers violate this law (with the consent of the State), it leads to inflation and economic booms, followed by deflation and economic depressions. Fractional reserve banking is a form of fraud, as surely as a borrower who uses one piece of collateral to get a dozen loans is fraudulent. But at least "cloak banking" isn't inflationary. Fractional reserve banking is. A single piece of collateral (deposit) is used by the banking system as a whole to create multiple liabilities against the banks as a system.

Summary

Here is how the system produces evil:

1. Using a single piece of collateral to borrow money and therefore to create multiple indebtedness is prohibited by the Bible.
2. A lawful warehouse receipt must have whatever is promised on reserve for immediate delivery.
3. A warehouse receipt to any item which serves the community as money must also be fully backed with the weight and fineness promised on the receipt.
4. The issuing of unbacked warehouse receipts to a money commodity is a form of counterfeiting.
5. Counterfeiting is an addition of new money into the economy.
6. The addition of new money into an economy is inflationary.
7. The new money creates an illusion of prosperity: economic boom.
8. The boom leads to further borrowing by businessmen.
9. Interest rates stay low temporarily because counterfeiters are creating new money to loan.
10. Prices rise.
11. People get suspicious of the warehouse receipts.
12. A run on the warehouse occurs.

13. The public loses confidence in the warehouse receipts and the boom.
14. The money supply shrinks.
15. The boom turns into a bust: deflationary depression.
16. The depression brings everyone to economic reality.
17. People hate painful reality.
18. The government is tempted to create new money, or have the banks do it for them, to stimulate a new boom.
19. Capitalism doesn't cause depressions; fraudulent banking and government inflation cause booms, then depressions.

CHAPTER NINE

PROTECTING THE COUNTERFEITERS

You shall do no injustice in judgment: you shall not be partial to the poor, nor honor the person of the mighty: but in righteousness shalt you judge your neighbor. (Leviticus 19:15)

Three counterfeiters are discovered. The first one is a middle-class man who owns a cheap offset printing press. He has printed 500 $20 bills and spent them into circulation.

The second one is a U.S. government official. He works for the Bureau of Engraving and Printing. He has printed up a million $20 bills, and the government has spent them into circulation.

The third is the Chairman of the Board of a multi-billion-dollar New York bank. His bank has loaned a billion dollars of fractionally reserve bank money to Mexico's government-owned petroleum company, Pemex. The price of oil has collapsed, so Pemex can't pay its bills.

What happens to the three counterfeiters? The first man is convicted of counterfeiting and is sent to jail. The second man works until age 65 and is given a pension.

But what about the third man, the chairman? Here is where it could get interesting. The third man goes to the nation's central bank, the Federal Reserve System, which in turn calls the Mexican government, which immediately prints a Mexican bond for $25 million, which is then bought by the Federal Reserve System with electronic money created out of nothing. This Mexican bond then becomes part of the "legal reserve" which supposedly undergirds the U.S. monetary system. (This was made legal in the infamous Monetary Control Act of 1980, against which only 13 congressmen voted.)

The Mexican government sends the money to Pemex, which then remits $25 million to pay this quarter's interest payment to the New York bank. Three months from now, another $25 million will fall due. The chairman of the New York bank gets a round of applause from the bank's board of directors, and perhaps even a $100,000 bonus for his brilliant delaying of the bank's crisis for another three months.

The $25 million then multiplies through the U.S. fractional reserve banking system, creating millions of new commercial dollars in a mini-wave of inflation.

This scenario could really take place, given United States law. Is this system just? Would you say that the law respects neither the mighty nor the poor man?

The Federal Reserve System

In late November of 1910 (probably November 22), a private coach carrying some of the nation's leading bankers and a U.S. Senator pulled out of the Hoboken, New Jersey, train station and headed for Georgia. Their ultimate destination: Jekyll Island, which was owned by some of the richest men on earth as a hunting club. Membership in the club was by inheritance only.

On board that train was Senator Nelson Aldrich, the maternal grandfather of Nelson Aldrich Rockefeller. Also aboard: Henry P. Davison, a senior partner in the powerful banking firm of J.P. Morgan Co., Benjamin Strong (another Morgan employee), and a European expert in banking, Paul Warburg. Representatives of two other major New York banking firms were also present.

The reporters who gathered at the train station were told nothing, except that the men were all going duck shooting. Six years later, Bertie Forbes, the man who founded Forbes magazine, reported briefly on the meeting, and most people thought the whole story was just a "yarn." Very little has been written on it since 1916. (Probably the most detailed account is chapter 24 of the highly favorable biography, *Nelson W. Aldrich,* by Nathaniel W. Stephenson [Scribner's Sons, 1930; reprinted by Kennikat Press, 1971].)

At that secret meeting, these men designed what became the Federal Reserve System, the central bank of the United States.

As they were returning, they were met by reporters at the Brunswick, Georgia train station. Davison went to meet with them, and when he returned, he informed the group that "they won't give us away." They never did. The press never mentioned the meeting.

Senator Aldrich, a Republican, was the political middleman. His biographer reveals this information:

> How was the Reserve Bank to be controlled? The experience of the two United States Banks, in our early history, pointed a warning. The experience of a life time spoke in Aldrich's unconditional reply. It was to be kept out of politics. It must not be controlled by Congress. The government was to be represented in the board of directors, it was to have full knowledge of all the Bank's affairs but a majority of the directors were to be chosen, directly or indirectly, by the members of the association. (p. 379)

Republican Aldrich did not succeed in getting his version of the central bank through Congress in 1911 and 1912, but Democratic President Woodrow Wilson got a very similar version passed in December of 1913. Thus, in the year of the income tax was also born the Federal Reserve System, our nation's central bank.

A Big Bank Insurance Company

The Federal Reserve Bank is the most powerful insurance company in the United States, and perhaps in the world. Its function is to control the money supply of the U.S., inflating or (hardly ever) deflating at will the total money supply. It was created, the founders promised, in order to eliminate "panics," as recessions and depressions were called in those days. The result:

The "panic" of 1920–21
The depression of 1929–39
The recession of 1953–54
The recession of 1957–58
The recession of 1969–70
The recession of 1975–76
The recession of 1980–82
The recession of 1991
The recession of 2001

The Federal Reserve System was created, we were told, in order to supply a so-called "elastic currency" to meet the seasonal needs of business. This "elastic currency" has stretched into the hundreds of billions, ever upward.

What it was really created for was to prevent the bankruptcy of any major commercial New York bank, and other major banks around the country. Only one major bank in the United States failed in the Great Depression, the private commercial bank with the official-sounding name, the Bank of the United States. But more than 9,000 small banks suspended payments.

Even in the case of the Bank of the United States, we can see the hand of the big banks. This bank was financed primarily by small merchants, especially Jewish merchants. It was not an "insider's" bank. The Clearing House banks, made up of the major New York banks, at first promised to allow the faltering bank to merge with more solvent institutions, but at the last moment they pulled out of the bail-out, allowing the besieged bank to suffer more runs by depositors. This created a wave of runs on other banks. Finally, in December of 1930, the State of New York shut it down to prevent total bankruptcy. It eventually paid off more than 83 percent of its liabilities after it liquidated its assets. The question can at least be raised concerning the reasons for the Clearing House banks' refusal to help it in the moment of crisis. Was it their fear of its total collapse? Or were they simply eliminating a "non-traditional," more speculative rival that had profited from the boom of 1924–29?

This rival eliminated, there were no more big-bank failures for the remainder of the depression.

In any case, this bankruptcy indicates the Achilles's heel of fractional reserve banking: the money was "invested long" in long-term mortgages, but the bank's liabilities were short-term: cash on demand. But the cash was gone. Such is the reality of issuing more receipts for short-term money than there is short-term money in reserve.

The Fed was also created to supply funds to keep a bank panic from spreading to the major banks. They key phrase is "supply funds"—a synonym of inflate.

The Federal Reserve Bank is a privately owned corporation whose shares of ownership are held by the member banks. It is quasi-public, in that the president of the United States appoints the members of the Board of Governors of the FED, but the directors of the 12 regional Fed banks, and especially the powerful New York Federal Reserve Bank, are not appointed by any political body. There are nine directors of each regional Federal Reserve Bank; six are appointed by local bankers, and three by the Board of Governors of the Federal Reserve System.

Can the government tell the Fed what to do? If Congress and the president are agreed about what to do, yes. If there is disagreement over monetary policy—and there usually is—then the Fed does pretty much what it wants. What the origin of the Fed indicates is that the Fed does what the major multinational banks want. What the House and Senate committees on bank regulation want is usually unclear, and a majority of the members barely know what a central bank is, let alone how it functions or—wonder of wonders—who actually owns it. They don't even ask. It's considered "bad form," a breach of etiquette. I know from experience. I served as a research assistant for a Congressman who was a member of the House Committee.

The Monetization of Debt

This is an invention of the modern world. A government needs money. It fears a tax revolt if it raises taxes. It cannot afford to pay more interest, so it can't borrow money from the general public. It therefore goes to the central bank and says, "Buy our Treasury debt certificates."

The Treasury creates the debt certificates (usually on a computer entry: liability). The central bank buys them by creating another entry: money. The computer blips are swapped.

The government has just monetized some of its debt. It pays a lower rate of interest initially to the central bank than it would have to pay if it went into the free market to compete for borrowed money.

What's wrong with this? Who gets hurt? Holders of money will be hurt. The central bank creates a reserve asset when it buys the government bond. The money is then used by the government to buy whatever it wants (mainly votes). This new money goes through the economy. If the banking system is a fractional reserve system, the money multiplies many times over. This is the process of legalized counterfeiting we call inflation.

The government never gets something for nothing. That means that you and I aren't going to get something for nothing. More likely, we'll get nothing for something. We will get higher prices, higher long-term interest rates, and then a recession. We will go through the boom-bust cycle that the inflated money creates.

The monetization of debt is the easy way out for the government, meaning the easy way into our capital.

The best solution: no more government debt. Owe no man anything, including as a taxpayer.

When the Fed purchases any asset (most of its assets consist of U.S. 90-day Treasury Bills), it creates the money. But it buys the bonds from a favored group of about 20 major banks and securities trading houses that deal in U.S. securities, and which in turn collect commissions on each transaction. (The process is described in a booklet, *Open Market Operations*, published by the New York Federal Reserve Bank; it is sent free of charge or can be accessed at http://www.newyorkfed.org/aboutthefed/fedpoint/fed32.html)

On November 21, 1985, one day short of 75 years after that train pulled out of the Hoboken station, the Bank of New York, a private commercial bank, experienced a computer failure. That day it had purchased $22.6 billion in U.S. government securities from other banks and securities dealers, to be transferred to the Federal Reserve. The sales orders came in, but they couldn't get the money back out when the computer system "crashed." The Fed had to loan that bank $22.6 billion over the weekend to cover the payments it owed to the other banks and dealers. The Fed paid off the other banks directly. (The Bank of New York did have to pay the Fed interest for the weekend use of the money, which amounted to several million dollars. Some computer error!)

Do you think your local bank could get a tide-me-over loan of $22.6 billion?

Question: Why doesn't the Fed buy these bonds directly? Answer: Because it couldn't generate commissions for the favored 20 banks.

The government allows the central bank, legally a private organization, to manipulate the money supply of the United States. The central banks of every nation possess this same prerogative. Why do the governments tolerate it? Because they always need money. The central banks stand as "lenders of last resort" to the government.

The government pays interest on the Treasury bills held by the Federal Reserve. It amounts to about $15 billion a year these days. At the end of the year, the Fed sends back about 85 percent of this money to the U.S. Treasury.

It keeps 15 percent for "handling." (It pays for all check-clearing transactions in the U.S., for example.)

The Fed's Declaration of Independence

The Fed has never been audited by any agency of the United States government. The Fed's officials have resisted every effort of any congressman or senator to impose an audit by the Government Accounting Office (GAO).

The Federal Reserve Board meets to formulate U.S. economic policy every few months. No information of the Board's decisions can be released to anyone, including the president of the United States, for 45 days. The Fed says so, and Congress won't call the Fed's bluff. It used to be 90 days, but Congress forced the Fed to speed up the reporting date. Fed chairman Paul Volcker protested strongly. He said such a release of information interferes with the decision-making ability of the Fed.

The U.S. money supply is totally regulated by decisions of the Board of Governors of the Federal Reserve System. The Fed establishes the "reserve requirements" of the commercial banks (10 percent, 5 percent, 1 percent, or whatever, depending on where the bank is located, and whether it's a checking account or a savings account). The Fed buys or sells U.S. Treasury bills (U.S. government debt certificates). When the Fed buys, it increases the money supply (multiplying because of fractional reserves). When it sells, it deflates the money supply (shrinking by this same multiplication number).

But it never sells for more than a few weeks. It is almost always buying. It is almost always inflating.

Thus, the American business cycle ("boom and bust") is controlled by a handful of men who are not responsible to the president or the Congress, except in those rare instances when the Legislature and the Executive agree completely and press their decision on the Fed.

Oh yes, I forgot to mention that the Fed owns the entire U.S. gold stock. Legally, there is no "United States" gold stock. There is only the Fed's gold stock. It is stored, not in Fort Knox, Kentucky, but at 33 Liberty Street, New York City, New York. The U.S. government always sold its gold to the Fed, beginning in 1914.

Where did the Fed get the money to buy the gold? It created it, of course. In short, it counterfeited it. But it's legal.

What is really choice is that in 1933, the U.S. government outlawed the private ownership of gold. It bought all the gold it could forcibly collect from the public, paying the going price of $20.67 per ounce. Then it sold it to the Fed at $20.67 per ounce. The next year, the government raised the price of gold to $35 an ounce. Net profit to the Fed: 75 percent.

This raised the legal reserves for banks, and the money supply (so-called M-1) zipped upward by 30 percent, 1933 to 1935.

"No!" you say to yourself. "It couldn't be true. The government confiscated our gold in 1933 so that a private corporation owned by the member banks could buy it at a discount? Impossible!"

All right, my skeptical friend, pick up a copy of any Friday edition of *The Wall Street Journal*. Somewhere in the second section (they always shift it around) you will find a table called Federal Reserve Data. Check the listing under "Member Bank Reserve Changes." You will see a quotation for "Gold Stock." It never changes: $11,090,000,000. They don't sell it, and it's kept on the books at the meaningless arbitrary price of $42.22 per ounce.

Whose reserves? Member banks. Who holds title? The Federal Reserve System. Who owns the Federal Reserve? Member banks.

This leads me to conclude that if you're going to become a counterfeiter, you might as well become an audacious one. The backyard operators risk going to jail. Central bankers don't.

Sure, by law, Congress and the president could demand that the Fed sell the gold back at $42.22 per ounce. By law. Have you ever seen anyone propose such a law? Has Congress ever brought it up for consideration since 1913? Have you seen anyone discuss the wisdom, or even the possibility, of such a law, except for "kooks" who write newsletters and paperback books? Have you ever heard of a Ph.D.-holding university economist recommend it? No? Neither have I.

Sure, Congress controls the Fed. Legally, the Fed must report to Congress. Just as the Politburo in the Soviet Union must report to the Russian people.

Congress can get its gold back anytime it wants to. Just as an alcoholic can quit drinking any time he wants to. Just as American private citizens can get their gold back from Congress at $42.22 per ounce (or even at a market price), any time we want to. If you believe this, I've still got that New York bridge to sell you.

The Depositors' Insurance

The Federal Deposit Insurance Corporation came into existence in 1934, the year after the government confiscated the public's gold. The FDIC is promoted as a government-guaranteed insurance program for private citizens' bank accounts. Well, as they say, yes and no.

No, it isn't an agency of the Federal government. No, the government has never promised to bail it out if it gets swamped with banks that are going bankrupt. No, the Joint Resolution of Congress in 1980 to insure every bank account up to $100,000 isn't a law. The president never signed it, so it isn't a law. There has never been any such law.

Yes, if the FDIC really did look as though it was about to go bankrupt, either the Fed or Congress would almost certainly act to bail it out. The Fed would print the money, just as it did when the Continental Illinois Bank almost went under in 1983, and it had to pump about $4.5 billion into it. The bankers don't want a bank run.

Could the FDIC bail out the banks in a panic? Of course not. It has about $1 on reserve for every $100 in deposits. This "reserve" is in fact nothing except U.S. Treasury bills: government bonds, in other words. To get the cash, the FDIC has to cash in these bonds and get the U.S. Treasury to pay cash. Two bankruptcies the size of Continental Illinois would deplete the FDIC's reserves to zero, or close to it.

The FDIC is an illusion whose purpose is to calm down depositors who might otherwise make runs on weak banks and crash the economy into a depression. The FDIC was created to reduce risks for bankers, so that at least the biggest banks don't face such crises. Then the bankers can go out and loan hundreds of millions of the depositors' dollars to "Third World" nations that never intend to pay back any of the money.

In a gold-standard country—none exists any more—the people can put the pressure on banks and the government to stop inflating the currency, simply by going down to the bank or the Treasury and buying gold at the fixed, government-defined price. Pretty soon the government has to stop inflating. Pretty soon, a bank which has issued too many phony warehouse receipts gets threatened by a panic run.

Then one of two things happens:

1. The bank (or Treasury) stops creating unbacked paper money, or loans, or checks. (Recession usually follows.)
2. The bank (or Treasury) closes the withdrawal window. No more gold on demand. (Inflation usually follows.)

The second event happens at the beginning of every major war. It did in the United States in December of 1861, when the North invaded the South. It did during World War I when the U.S. entered the war that President Wilson had promised to keep us out of in the election of 1916. They just change the rules. No more gold on demand.

Then they inflate the currency to pay for the war without raising visible taxes to cover all expenses.

Since 1933, the United States hasn't been on a gold standard for U.S. citizens, and since 1971, it hasn't been on a gold standard for foreign central banks. This keeps embarrassing runs on banks from occurring as often. But some day, Mexico or Brazil or some huge-debt foreign nation will default, and the biggest banks in the country will become officially bankrupt. The runs will begin. Then the Fed will step in and create the cash to stem the runs. Fed officials will inflate their way out of the crisis. On that day, you had better own gold, silver, and other similar non-paper assets. The dollar will die.

Conclusion

As the system of fractional reserve banking has become universal throughout the world, and as the banks have become more vulnerable to bank runs, governments have changed the rules in order to reduce risks for bankers, at least the biggest bankers.

The central banks gained the power to establish reserve requirements: the money that banks must keep on hand against deposits. Then the Fed lowered these reserve requirements. The Federal government abolished the gold standard in 1933. The FDIC was created as an illusion of government-guaranteed bank deposits in 1934. The international gold standard was abolished in 1971, to reduce the pressure placed on the Fed by foreign central banks to give up the gold it holds, supposedly in the name of the Federal government.

And with each reduction in risk for big bankers, they have made wilder and riskier loans. Today, the international commercial banking system has loaned over one trillion dollars to nations and major debtors. The Eurodollar market (a giant, unregulated, almost zero reserve requirement debt market) is over a trillion dollars now. It was under a billion dollars in 1959.

Thus, the world faces a crisis: either more debt to insolvent debtors, or a default. Either more inflation to make the loans, or a giant international bank run. And all of it has come about because the masters of finance and the politicians they buy refuse to honor basic Biblical principles of debt, honest weights and measures, and zero multiple indebtedness.

Summary

Here is why the U.S. Government protects the official counterfeiter:

1. The Federal Reserve System was created by the government in 1913.
2. It functions as an insurance agency for commercial banking.
3. In 1913, it supposedly was going to prevent recessions.
4. The Federal Reserve System is owned by commercial banks.
5. The U.S. Government appoints members of the Federal Reserve Board.
6. The central bank monetizes U.S. Government debt.
7. This creates bank reserves, which banks lend into circulation.

8. The Federal Reserve System is a legal monopoly.
9. Technically, the Federal Reserve owns the U.S. gold stock.
10. The FDIC, which insures bank accounts, is not a government agency.
11. Without a gold coin standard, citizens cannot pressure banks.
12. There have been no U.S. gold coins in circulation as money since 1933.

CHAPTER TEN

A BIBLICAL MONETARY SYSTEM

Owe no man anything . . . (Romans 13:8a)

In chapter 7 of *Inherit the Earth,* another book in the Biblical Blueprints series, I deal with debt bondage. The Bible regards debt as a form of servitude: "The borrower is servant to the lender" (Proverbs 22:7b).

No monetary system which is based on debt is Biblically legitimate. Such a system enslaves the economy to those who set the monetary rules of the game. If money were not debt money, the Federal Reserve System and other central banks could not exist. The profit-seeking elites that control a nation's monetary policies could not exercise any power at all. The market would determine what money is and what isn't. The market would determine what the prevailing rates of interest should be.

The Biblical principles of money are quite simple:

1. Standard weights and measures, with penalties imposed by the civil government against those who tamper with the scales.
2. A prohibition on all forms of multiple indebtedness, meaning fractional reserve banking.
3. Competitive entry into the silversmith, goldsmith, or any other smith business.
4. No one is to be compelled by law to accept any form of money. (This is not stated in the Bible, but it follows from the first three principles, which are based on voluntarism.) This means no legal tender laws (compulsory acceptance).

The Biblical view is clear: the State is not to be trusted with the right to issue money.

This is a radical view of money today. It would have been equally radical in any of the ancient empires. They were States that demanded full sovereignty. They centralized power. They claimed to be divine orders. They therefore claimed a monopoly over the issuing of money.

The State that claims the authority to issue money, and especially the sole right to issue money, is claiming the right to misuse the people's trust. Furthermore, throughout history, few States have been able to maintain this right without defrauding their citizens. In fact, there is only one example in human history of long-term stable money: Byzantium (the Eastern Christian Roman Empire: 800 years of gold coins).

Besides, the fractional reserve bankers almost always succeed in gaining from the State the power of money creation. Central bankers eventually replace the State as the dominant influence over money. The politicians are too busy buying votes with tax money to pay much attention to the subtleties of central banking. So, State money becomes bankers' money eventually.

Silver or Gold?

One of the common mistakes that amateur, self-taught economists tend to make is to imagine that the value of anything is fixed. "Gold doesn't change in value; everything changes in relation to gold." I have read too many pamphlets that say things like this.

Only one thing has fixed value: the Bible, the Word of God. But even it doesn't have fixed market value.

People discover gold. They also find cheaper ways to get more gold out of ore. People discover silver, too. Therefore, the supply of gold changes, and so does the supply of silver. Demand also changes for both metals. So, how could they possibly not change in value? They change in value every day on the world's commodity markets, and their prices change in relation to each other. Any so-called 16-to-one ratio between silver and gold is a figment of people's imagination; it's a legacy of an early price control of the U.S. government in the late 1700s—a legacy that called Gresham's law into effect, alternately driving out of circulation either silver or gold, depending on which one was artificially undervalued by the Federal government at any point in U.S. history.

The problem is people think there has to be only one "supreme" money defined in value by the government. Yet we voluntarily use paper money, checks, credit cards, and token coins: pennies, nickels, dimes, etc. We used to use silver coins, and before that, gold coins. We once used private banknotes, before the Federal government started taxing them, and the banks switched to checks (untaxed).

Why do we think we need one "supreme" form of State-defined money? The only State-defined form of money that is legitimate is tax money. The government has the authority to determine what it will accept as payment from among the various types of privately produced moneys that become established through market competition. But the State cannot be trusted to establish its own money. It always betrays this trust. It counterfeits its own currency. It inflates.

The U.S. Constitution specifies that gold and silver alone may be issued by the state governments as legal tender currency (Article I, Section 10). The Founding Fathers clearly recognized the limits that metal moneys place on governments. Unfortunately, they neglected to place the U.S. government under a similar restriction. The first great political battle of the Federal government after the Constitution was over the establishment of a privately owned central bank, which Alexander Hamilton wanted and Jefferson opposed. Hamilton won, and the U.S. began its long, though intermittent, history of fractional reserve central banking.

The important point is that the State must not be allowed to establish any fixed price between any two forms of money. I am not speaking here of warehouse receipts that function as a substitute for metal money. If a warehouse receipt promises to pay one ounce of gold, it must have one ounce of gold in reserve. I am speaking here of the exchange price between two market-created moneys: gold vs. silver, copper vs. silver, dollars vs. yen, etc. The government must not enforce price controls on anything, including money.

To fix a price between silver and gold brings Gresham's law into operation. The artificially overvalued currency will drive out of circulation the artificially undervalued currency. Gold and silver aren't immune from this law of price-controlled moneys. Governments, including the U.S. government, have tried to discover "the" price between gold and silver, and invariably this has led to the disappearance of one of the two metals. One of them will be artificially undervalued in comparison to what the free market determines. Fixing the exchange value between two forms of money is just another fruitless example of government price controls.

Never forget, there's no such thing as a price control. There are only people controls. Price controls in fact restrict what people are allowed to do. It interferes with their freedom.

Similarly, the government is not to set up price controls over interest rates. Interest rate ceilings restrict the voluntary agreements between borrowers and lenders. The State should enforce all moral contracts, and there is nothing in the Bible that indicates that any particular rate of interest is immoral.

The Gold Standard

The gold standard is not theoretically preferable to any other honest money standard. The only standard that matters is the no fractional reserves standard, coupled with the no false balances standard.

Gold historically has been one of the two most preferred standards, along with silver. It has all the characteristics of money: divisibility, transportability, durability, recognizability, and scarcity (high value in relation to weight and volume). It has been a money standard.

Most important, gold is a rare metal. It is therefore expensive to mine. Not much new gold comes into circulation every year. This keeps its price relatively stable but normally appreciating in relation to mass-produced goods and services. Prices of goods denominated in gold should normally be slowly falling in a productive, growing economy. (The hand-held calculator for example.)

Governments should probably collect taxes in gold. Gold is convenient. Income in other moneys can be computed (with market prices day by day, or month by month) in terms of gold. Governments should pay in gold, too.

If the State begins to issue "tax coins," it has begun that slow, grim process of recapturing sovereignty over money. Better for the State simply to specify so many ounces of pure gold, and allow the taxpayer to select the form. If some firm is cheating, the government then has a high incentive to prosecute. It's good for the government to prosecute those who violate the requirement of honest weights and measures.

For the State to say that only gold should circulate is a restriction on individual liberty. For the State to say that only gold is legal tender (a legally mandatory form of money) is also a violation of individual liberty. Let people decide how and what they use as money provided that no fractional reserves are involved.

A traditional gold standard requires the State to define its official currency in terms of weight and fineness of gold, and then to buy and sell gold at this defined price. This gets the State into the money business. There is no warrant for this practice in the history of Old Testament Israel. The New Testament example is the Roman Empire—not a morally uplifting example.

A traditional gold standard is better than a fiat (unbacked) money standard, but it transfers too much sovereignty to the State. It also allows the State to "change the rules" at its own convenience, that is, to redefine the currency unit (usually by defrauding present holders of the paper currency: less gold per currency unit), or to cease allowing citizens to make withdrawals. Better to have the State policing private issuers of gold and warehouse receipts to gold, and then to collect its taxes in a specified form of private currency. Under such an arrangement, the politicians have a greater incentive to police the State's source of tax revenues than they do to police the State's own monetary practices.

What freedom produces is parallel standards. Various forms of money compete with each other. The State is to establish no fixed, bureaucratic price between moneys. The decisions of free men can then determine which form or forms of money become most acceptable. There is nothing magic about money. It is simply the most marketable commodity. The market establishes this, not the coercive power of the State. Money is the product of voluntary human action, not of bureaucratic design. Money is the product of freedom, and it reinforces freedom.

Banking

What would 100 percent reserve banking look like? Businessmen are creative. We cannot be sure. They will find ways to cheat, too. But we can sketch the basic outlines.

Most important, there would be no state or Federal charters for banks. The State-granted monopoly of money creation would end. Do-it-yourself banking would become the model. Only one legal rule would restrict banking: no fractional reserves.

What would this mean? First, every depositor will have choices. First, he can deposit his money in a bank for safekeeping, and pay a fee for the service. Presumably, this would be an extension of the safety deposit box function. The bank would segregate these accounts and not allow the money to be loaned out. Not only would no interest be paid on these accounts, but a fee would also be imposed. A "free" service indicates theft somewhere in the system: a violation of the 100 percent reserve rule. The only way for the bank to profit on such deposits would be through charging the user for services rendered. An obvious service would be check-writing privileges.

Second, there would be another type of deposit from which loans could be made. These loans would be of a specified period at an agreed-upon rate of interest. The depositor might be given a choice: a higher rate of interest, but without the bank's guaranteeing repayment from the lender, or a bank guarantee of repayment, at a lower rate of interest.

The loans would be true loans. There would be no provision for early withdrawal by the depositor. The loaned-out money is gone. Two people cannot write checks on the same deposit, depositor and borrower. If the depositor needed money before the loan came due, he could borrow the money from the bank, using his note as collateral.

Both sides of the loan would be of equal time length. This way, bankers would not be able to "lend long" and "borrow short." They would not be able to loan out money for long periods, yet also guarantee to return deposits on demand. This is what corrupt warehouse owners do when they issue more receipts for gold than they have gold on reserve, and then use gold deposited by one person to pay off the gold withdrawer. Every transaction would be time-specific. There would be no long-term loans without long-term lenders.

This would protect the banking system from bank runs. It would also protect the community from counterfeit money being created by fractional reserve bankers.

Government bank examiners would check the banks in the same way that they check scales of retail sellers. They would see to it that every loan had a corresponding deposit. Although the bank would be allowed to pool loans of the same length of maturity (in order to decrease the risk to a depositor that "his" debtor might default on the loan), no lending depositor would have check-writing privileges. Check-writing privileges would be offered only to those people who put their money in a fee-for-service safekeeping account.

This may sound confusing, but it's not nearly so confusing as central banking, fractional reserve requirements, the monetization of debt, and other horrors of the modern banking system.

A 100 percent reserve banking program is simple in principle: something for something, and nothing for nothing. No "free" anything. No impossible promises: "You can write checks at any time against money that we already loaned out, so that we can pay you interest." When you are promised the use of money that has been loaned out, you know you're getting conned. When they also pay you interest on the money you can use any time, you really know you're getting conned.

If Blondie comes to Dagwood and asks to borrow money from him so that she can buy some new hats, but she also promises him that he can have his money back at any time, plus she'll pay him interest on it, he would probably know better. Even Dagwood isn't that stupid. But he'll deposit his money in an interest-paying NOW account. Why? Because the bank promises him that there are 5,000 other Dagwoods just as stupid as he is, so they offset each other, and the deal will work.

Just as it worked in 1930–33, when 6,000 banks failed in the U.S. Or just as it worked in the mass inflation of Germany in 1923, when a dollar at the end bought eleven trillion German marks on the black market.

Banks and Dominion

The Bible says to owe no man anything. This is a good rule for Christians. But it also says that the sign of a God-prospered nation is that people will loan to foreigners, thereby bringing them under some degree of submission.

The Hebrews were allowed to loan money to strangers in the land and foreigners and still collect payment beyond the seventh year. Why? Because debt is a means to bring other people under your authority. The Bible teaches that evil people should be under the authority of God's law, as administered by God's people. Extending loans to others was a means of dominion.

In times of God's blessings, Israel was to lend abroad. "The Lord will open to you His good treasure, the heavens, to give the rain to your land in its season, and to bless all the work of your hand. You shall lend to many nations, but you shalt not borrow" (Deuteronomy 28:12).

In times of God's cursings, Israel would fall into debt to foreigners: "The stranger that is within thee shall get up above thee very high; and thou shalt come down very low. He shall lend to thee, and thou shalt not lend to him: he shall be the head, and thou shalt be the tail" (Deuteronomy 28:43–44).

The pattern is clear: extending credit is a tool of oppression in the hands of evil men, but extending credit is a tool of dominion in the hands of God's people. God's kingdom is to be extended over ethical rebels. Ethical rebels are snared and brought under God's authority by means of debt.

But Christians must not be foolish. They must not loan to those unwilling to repay. That would trap them. Their representatives, profit-seeking bankers, will be more careful in selecting credit-worthy bondsmen if the State and State-chartered banking monopolies do not insure bad banks at the expense of the taxpayers. Christians should be willing to deposit money in 100 percent reserve banks, thereby allowing non-Christians to learn service through debt bondage. Like apprentices, debt-burdened pagans can learn what it means to work hard for a demanding taskmaster. They will think twice before going into debt again.

Conclusion

The Biblical case for freedom in money is the same as the Biblical case for freedom in general. The State is to prohibit fraud and violence. The rest is up to individuals.

Fractional reserve banking is fraudulent. It is a violation of the Biblical principle of honest weights and measures. Debasing metal coinage is fraudulent. It is also a violation of the principle of honest weights and measures. Government-issued money is a violation of customer authority sovereignty in money. It is a power that the State invariably violates eventually.

Within these general guidelines, “anything goes.” Silver money, gold money, platinum money, salt, wampum, anything. Let the buyer decide, and let the buyer beware. Contracts should be written in any way chosen by the parties involved, in whatever form of currency they agree to use.

Summary

The development of a Biblical monetary system is based on these concepts:

1. The borrower is servant to the lender.
2. Uncollateralized debt is to be avoided.
3. Money must not be based on debt.

4. Honest weights and measures are to be enforced by State law.
5. Multiple indebtedness is fraudulent, and therefore illegal.
6. Fractional reserve banking involves multiple indebtedness.
7. No one should be compelled to accept any form of currency (no legal tender laws).
8. The State can legitimately establish the form of privately issued currency it will accept as payment of taxes.
9. The big banks eventually capture the control over government monetary policy.
10. There is no fixed value of gold or silver.
11. The State must not fix the price of anything, including the exchange ratios between moneys.
12. Many moneys can exist in an economy.
13. A gold standard has been popular in history.
14. Gold and silver are expensive to mine; hence, they maintain their value relatively well.
15. Traditional gold standards are nevertheless State standards.
16. Freedom of money leads to parallel standards: no fixed price between any two moneys.
17. Bank charters interfere with freedom.

18. For every loan there must be a deposit of correspondingly maturity.
19. Banking can become a means of Christian dominion.
20. Christians extend credit; non-Christians borrow.

CONCLUSION

Diverse weights are an abomination to the Lord, and a false balance is not good. (Proverbs 20:23)

The question of honest money is really the question of the necessary conditions for human freedom. Honest money is the product of honest people who live and act within the framework of a public law-order that punishes fraud and violence. Honest money requires honest law and people who are self-disciplined. Let the people have what they want, just so long as it is morally valid, non-fraudulent, and non-coercive.

Defining "fraud" and "coercion" is a continuing task of social philosophers. Theologians used to work at it, too, but for the last century or more, they have tended to avoid the difficulties of this task. This is one reason why Christianity has fallen into the historical shadows.

In the past, we have seen brief periods in which relatively honest money has existed. The period of the classic gold standard, from about 1814 until the outbreak of World War I in 1914, is the best example. The wholesale price level in England was about the same in 1914 as in 1815—a remarkable period of price stability.

While monetary systems were more honest than today during earlier periods, they were not Biblical. There was fractional reserve banking. Also, Gresham's law operated because governments established fixed prices between gold and silver, so "bad money drove out good money." But at least the "bad" money—the artificially overvalued money—was either gold or silver, and it was not easy to mine either one. Geological limits were therefore placed on the rate of monetary expansion. Geological limits were therefore placed on monetary fraud. Governments and banks tampered with monetary weights and measaures on a minor scale only.

What does the average person need to remember in order to understand the fundamental principles of Biblical money? Not much.

1. We shouldn't expect something for nothing, such as the depositor's withdrawal on demand of loaned-out funds, or counterfeit money making everyone richer.

2. The State shouldn't interfere with private non-coercive decisions (contracts).

3. It is cheaper to print paper money than it is to mine metals.

4. Money isn't money unless people expect other people to accept it in trade later on, meaning:

5. Money requires continuity of acceptance over time.
6. Debasing money is a form of tampering with weights and measures.
7. Debasing money reduces its value in trade.
8. Debasing money therefore reduces the wealth of people who hold money.
9. Warehouse receipts should be backed 100 percent at all times by whatever is promised by the receipt.

There are other subtle distinctions that are useful, but these are the basics. Any society which enforces civil laws against any violation of fixed, defined weights and measures, and any violation of the rule against multiple indebtedness (unbacked warehouse receipts) will have honest money.

The problem comes when the State, as the enforcer, gets into the business of stamping its mark on "certified money." This process soon becomes money creation, then a monopoly of money creation, then debasing the money, and finally elitist private control over "government" money by central bankers. We have seen this again and again. The control over "government" money by private central bankers is a universal feature of modern economies. So is unstable money.

Monopoly

Men cannot be trusted to possess monopolistic power. No human agency can safely be trusted with absolute power. An absolute monopoly over anything is exclusively

God's prerogative, for He alone has an absolute monopoly over everything. All of men's possessions and powers are to be limited.

The so-called "natural monopoly" is very nearly mythical. Very few of them exist. Water in a desert might be one, but most people choose not to live in deserts or walk through them, so such a monopoly is not economically relevant. Almost all economically relevant monopolies are created by, granted by, and sustained by the institution that possesses God's delegated monopoly of violence: the civil government. This is why it is necessary to have numerous competing civil governments. The Tower of Babel was the incarnation of institutional evil.

The monopoly over money is perhaps the most dangerous of all strictly economic monopolies. Money is the common link in almost all economic transactions. When monopolists tamper with the monetary unit, they send information signals to every participant in the market. When these signals are not created by competitive market forces, they misinform buyers and sellers, savers and borrowers. This misinformation can result in economic crises: mass inflation or disguised inflation (price controls), and then depression.

There is no known way to protect people from erroneous monetary information if money is controlled by the State or by any agency licensed by the State. Only competitive market forces can produce accurate, reliable information on a consistent basis, for competition will put economic pressure on the producers of false and misleading information. People who sell better information appear on the market, and the misinformers start to experience losses.

Thus, what is needed is a market-produced monetary system. Historically, gold and silver have been "the people's choice." This could change in the future. But it is difficult to mass-produce gold and silver. It is impossible to have mass inflation with a currency based on any metal. It costs too much to dig metal out of the ground.

In contrast, paper and ink are cheap. So are blips on computers. If something is cheap to produce, you find that people try to make profits by mass producing it. This is as true of money as it is of hand-held electronic calculators. But additional hand-held electronic calculators constitute an economic asset. Additional money constitutes a redistribution of assets, where the ignorant and vulnerable are most likely to be harmed.

Not Quite Honest Money

It is not my job or your job to tell other people what money they ought to use. It is not the State's job, either.

It is the State's job to enforce honest weights and measures, and also to prohibit the issuing of warehouse receipts that are not immediately backed by whatever is promised by the receipt. If the warehouse promises to redeem the receipt on demand, there must be an asset on reserve for every such receipt.

If the State does these two tasks, society will have honest money. If it doesn't, society can have only semi-honest money. A traditional gold standard is an example of semi-honest money: fractional reserve banking with full redemption of gold coins on demand. This also involves the government's pledge to buy or sell gold coins at a specified (definitional) price. But bankers cheat, and governments cheat, and the traditional gold standard survived for only about a hundred years, 1815–1914.

The one monetary power that the State legitimately possesses is its right to specify a form of payment for taxation purposes. To that extent, the State can influence the selection of monetary units. But the State does not want to be paid in debased money, so it becomes a watchdog for the public because of its own self-interest in protecting itself from unscrupulous counterfeiters.

For decades, small conservative groups have campaigned for a return to the traditional gold standard. These campaigns have been about as successful as promoting a national treasure hunt for pots of gold at the end of rainbows. They have been futile. They are the equivalent of campaigns to get prayer back into the public schools. They miss the point.

What is the point? Simple: a government-imposed gold standard is not a long-term answer. It didn't work well in the past, and it won't work well in the future. It is still a government standard. Our political goal should not be a government-imposed gold standard; it should be the abolition of fractional reserve banking and the enforcement of fixed weights and measures. The goal is to remove the monopoly of money from the civil government and its licensed agents. Nothing else will work to restore honest money. Every other recommendation is a half-way measure. Why devote our lives to half-way measures?

Campaigning for a government-imposed gold standard is impractical anyway. Such a campaign faces tremendous obstacles. First, even a tiny handful of professional economists who favor the gold standard do not agree about which kind of gold standard should be imposed. There are several competing versions. The better versions have fewer promoters.

Second, there is no agreement among the advocates concerning the single most important practical issue: What price should the government set as the official, permanent price of gold? If we adopt a gold price in terms of today's money supply and today's prices, how can we expect the official price of gold to be economically rational when the inflation stops, banks collapse, and prices drop? Will the government have to lower the official price later on—that is, will it have to redefine the currency unit repeatedly? What kind of fixed gold standard is that? But if the price is kept at the original level, it will be high and rising in purchasing power compared to all other goods. Everyone will then go to the Treasury to sell gold to the government in exchange for paper money, thereby removing gold from circulation and creating a huge hoard of gold in the government's warehouse. Is this wise, placing the nation's gold supply in the care of the State? Isn't this what got us in trouble in the past?

Third, there is no political constituency for any kind of gold standard. The topic is too confusing, and the effects of dishonest government money are not understood by the average voter. The voters are uninterested. It would take a fortune to educate them, and a fortune would probably not be sufficient.

A New Constituency

Since there is virtually no hope of getting even a half-hearted gold standard back into operation, why waste any further resources in promoting one? Why not assume that there will be a new constituency that will accept and promote a true free market Biblical money system? Why not aim our appeal at this coming constituency? Why not promote the best alternative rather than a compromise that has failed in the past to produce the monetary stability we want?

How will this new constituency come into existence? I would suggest the following scenario. First, the bankers and the politicians will continue to try to make the present system work. This will make the present system worse. Second, there will be a collapse in stages: inflation, then mass inflation, then price controls, then tyranny, and finally a worldwide deflationary depression. At that point, there will be new demand from the voters for answers.

Third—and this is my hope and my prayer—people will at last decide that they have had enough moral and legal compromise. They will at last decide to adopt a simple system of honest money, along with competitive free market principles throughout the economy. They will stop stealing from each other. They will stop trying to get something for nothing politically.

If voters don't experience this sort of repentance, then we will go through the same destructive business cycles again: inflationary boom and deflationary bust. We will be like the fools described by Peter: "But it has happened to them according to the true proverb: 'A dog returns to its vomit,' and, 'a sow, having washed, to her wallowing in the mire'" (II Peter 2:22).

There is always one other possibility. Voters will change their minds and demand that politicians change their ways before some grim inflationary-deflationary scenario takes place. I think this is unlikely, but the possibility does exist. Voters could look at the arguments of this book and accept them. They could see that something principled is the only way out. They would then bite the deflationary bullet and not let loose until we have honest money. This seems like a remote possibility, but we can hope, and we can pray. Better to go through a principled economic wringer now and thereby avoid the coming unprincipled wringer that is far, far worse in its effects.

We have never had honest money. We have also never had a society fully committed to Biblical law. When we do, we will have at least an opportunity to attain honest money. As the old advertisement said: "Accept no substitutes!"

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