The US Dollar – A History of Counterfeit Money, Morality, and Meaning

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"So constantly have the ideas currency and government been associated—so universal has been the control exercised by lawgivers over monetary systems—and so completely have men come to regard this control as a matter of course, that scarcely any one seems to inquire what would result were it abolished. Perhaps in no case is the necessity of state-superintendence so generally assumed; and in no case will the denial of that necessity cause so much surprise. Yet must the denial be made."

- Herbert Spencer, Social Statistics

Most everyone associates the word *"dollar"* as referring to a Federal Reserve Note (i.e. the green piece of paper featuring the portrait of a past president). Let's briefly explore why this association of terms is not only incorrect - it is a dangerous mistake.

A pound refers to sixteen ounces of weight. A foot refers to twelve inches of length. These are standards of measure. Similarly, the word "dollar" refers to a specific coin of a specific mass; one containing 371.25 grains of pure silver. A dollar is not merely worth some ever changing quantity of silver or gold – a **dollar is defined as** a specific amount of silver in the same way a foot is defined as twelve inches!

Today, the definition of "dollar" is frequently confused. This is largely based on the observable fact that one ounce of silver is exchanged on the **market** for approximately eighteen Federal Reserve Notes. Mistakenly, we tend to think that one ounce of silver is worth about eighteen dollars. Dollars do not refer to the same thing as Federal Reserve Notes. To make this point clear, we must first understand the history of the dollar as a unit of monetary exchange in the US and how the inaccurate terms and definitions have been smuggled into our vocabulary.

Origin of the Dollar in the US

During the late 18th century in America, the word *dollar* simply referred to the 371.25 grains of pure silver of the **Spanish milled dollar coins**. Our founding fathers did not arbitrarily decide to fix the exchange rate of our first dollars to silver. Rather, "dollar" was the term for a universally understood standard of measure.

The **Coinage Act of 1792**, establishing a Mint and regulating the coins of the United States, used this already universally accepted definition to officially designate a dollar (as referring to a measure of 371 4/16th grains of pure silver) as the monetary unit of the US:

- **Section 9:** *"DOLLARS – each to be of the value of a Spanish milled dollar as the same is now current, and to contain three hundred and seventy one grains and four sixteenth parts of a grain of pure, or four hundred and sixteen grains of standard silver."*

Signed into law by President George Washington, the Coinage Act of 1792 established the dollar as the monetary unit of the United States of America.

The Rise of the Gold Standard

Gold and silver came to be accepted as money throughout the world by a process of free exchange on the market. In fact, **Carl Menger and Ludwig von Mises** have shown that not only does money originate in the market, it is impossible for it to have originated any other way. No government or king "created" money (but once money arises on the market, rulers have historically been quick to find means to expropriate it).

While the Coinage Act of 1792 defined one dollar as 371.25 grains of pure silver (.7734 troy ounce), the act also established a fixed exchange rate of fifteen units of silver for one unit of gold. The exchange ratio between gold and silver had historically tended to be around 15:1. However, as **Larry Reed explains in an article about the events leading up to the *Silver Panic* in 1893**, the *"....government decided it would "help out" the market by interfering to "simplify" matters. The result was another of the many well-intentioned blunders imposed on a populace by force of law."*

Just like any other artificial price control, the pegging of gold to silver created a market imbalance that would prove to have significant economic consequences[1].

Gresham's Law states that bad money tends to drive out good money when the government artificially fixes the exchange ratio between two monies ("bad money" referring to artificially overvalued money and "good money" referring to money which is artificially undervalued). This is exactly what we observed with the artificial price fixing of gold and silver in the US. The market value of gold relative to dollars (dollars referring to a set quantity of silver) fluctuated even though the artificial exchange rate was fixed. Silver flowed into the mint and the quantity of gold in circulation decreased.

Instead of allowing gold values to be determined through a market of free exchange and repealing the artificial 15 to 1 ratio, Congress decided to remedy the imbalance by adjusting the fixed exchange ratio to 16 to 1. The **Coinage Act of 1834** revised the ratio of gold to dollars, making the artificial ratio of dollars to gold an official $20.67/oz where it would remain for several decades. Only this time gold was overvalued and silver was undervalued. **As Larry Reed noted**, *"Gold flowed into the mint, silver disappeared, and the country found itself on a de facto gold standard."* As we will see, this paved the way for the government to officially place the country on the gold standard at the end of the 19th century.

Although the artificial price controls instituted by the Coinage Acts of 1792 and 1834 created a market imbalance between gold and dollars, the competition of foreign gold and silver monies in the US market proved to be an effective system for facilitating exchange and storing wealth. During this time it was quite common to find foreign coins of gold and silver being used as money in the US. Since the amount of precious metal contained in foreign coins was commonly known, monetary conversions were quite simple. Foreign coins from Europe circulated freely in America, and as Murray Rothbard notes, **"...there is, indeed, no economic reason why they should not do so."**

The competition of gold and silver monies facilitated the growth of an increasingly productive, industrialized economy. **America enjoyed a period of unprecedented growth in production after the War of 1812. The purchasing power of the dollar doubled in 35 years (1815-1850).**

Free competition of stable money facilitates economic prosperity, but it also makes government manipulation of the money supply very difficult. "Perturbed at this slap to its sovereignty..." , explains Murray Rothbard in **The Mystery of Banking**, Congress passed the **Coinage Act of 1857,** outlawing the use of foreign coins in the US.

By outlawing the use of competing foreign monies in the market, Congress removed the first crucial obstacle that was preventing the State from taking monopolistic control of the nation's money supply. To eliminate the second obstacle, the domestic competition of bimetallism, Congress passed the **Coinage Act of 1873** and later the **Gold Standard Act of 1900** to demonetize silver and set gold as the official basis of US currency.

- **Section 1 of the Gold Standard Act of 1900:** *"Be it enacted . ., That the dollar consisting of twenty-five and eight-tenths grains of gold nine-tenths fine, as established by section thirty-five hundred and eleven of the Revised Statutes of the United States, shall be the standard unit of value, and all forms of money issued or coined by the United States..."*

Conveniently, the Coinage Acts of 1857 and 1873 also corresponded with the panics of 1857 and 1873 (no good crisis should be wasted). Don't be surprised when the government uses the coming monetary crisis as an excuse to further centralize the control of money. They will.

From 'Good as Gold' to Increasingly Worthless IOUs

> *"Whoever controls the volume of money in our country is absolute master of all industry and commerce... and when you realize that the entire system is very easily controlled, one way or another, by a few powerful men at the top, you will not have to be told how periods of inflation or depression originate."* - ***James A. Garfield***

The year 1913 saw a tremendous leap toward **our current system of government-granted special privilege,** creating giant political/corporate machines that benefit the few at the expense of the many.

The **Federal Reserve Act of 1913**, also called the Glass-Owen Bill, unconstitutionally delegated to the Federal Reserve, a private banking cartel, the power to *"coin Money and regulate the Value thereof."* Despite what most American's think, the Federal Reserve is NOT part of the US Government.

For the sake of brevity, below is a list of a few major turning points as the US economy went from using a sound money system to a fiat currency system backed by irredeemable IOUs:

- Prior to **1934**, the Federal Reserve Notes carried the inscription *"Redeemable in gold on demand at the United States Treasury, or in gold or lawful money at any Federal Reserve Bank."*
- In **1934**, citizens could no longer redeem dollars for gold. Furthermore, the dollar was redefined as 1/35 oz of gold redeemable only by foreign central banks.
- Until **1950**, Federal Reserve Notes carried the obligation: *"The United States of America will pay to the bearer on demand [some number of] dollars."*
- Starting in **1963**, the words *"will pay to the bearer on demand"* no longer appeared on Federal Reserve Notes; each merely stated its denomination. *Dollar bills* were no longer redeemable for *dollars*.
- The **Smithsonian Agreement (1971)** repealed the Gold Exchange Standard and fixed foreign currency exchange rates without any gold backing.
- After **1973**, the gold standard is completely abandoned in favor of inflationary fiat currency and floating exchange rates.

Under the Federal Reserve System of fiat currency, the absolute quantity of **wealth expropriation and redistribution** that has occurred (wealth taken from the citizens of our nation by the government and the politically connected) is unmatched in the history of the world.

> "*Give me control of a nation's money and I care not who makes it's laws."* - **Mayer Amschel Bauer Rothschild**[2]

Additional Food for Thought: In the **Economics and Ethics of Private Property**, Hans-Hermann Hoppe outlines the four steps governments have historically used to monopolize the money supply in order to expropriate wealth from their citizens:

1. Minting of money (silver and gold) must be monopolized by the state *(√ - Coinage Acts)*
2. The use of money substitutes (other than silver and gold) must be systematically encouraged and backed up by the enactment of legal tender laws *(√ - Coinage Acts)*
3. Gold must be nationalized, and the State must require all banks deposit their gold at the central bank and conduct business exclusively with money substitutes instead of gold *(√ - Federal Reserve Act and Executive Order in 1934)*.
4. The State must cut the last tie to money (gold) by reneging on its contractual obligations and declaring its notes irredeemable *(√ - 1963, 1971, and 1973)*.

The Root of Money is Good, Coercive Control of the Money Supply is the Root of Evil

"There are a thousand hacking at the branches of evil to one who is striking the root." - ***Henry David Thoreau***

John Maynard Keynes, an open supporter of Socialism, astutely noted in his book titled the **The Economic Consequences of the Peace** *"...that the best way to destroy the Capitalist System was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."*

Under the disguise of an institution created to *"...furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes"*, the Federal Reserve has destroyed **over 95%** of the purchasing power of the dollar bill since its inception in 1913. It has created cyclical boom and bust business cycles by artificially expanding the money supply(like the current financial crisis).

The dollar is the subject of the greatest counterfeiting scheme in the history of the world. Naturally the process of counterfeiting creates victims. As Hans-Hermann Hoppe points out in the **Economics and Ethics of Private Property**, to be successful on such a scale, the counterfeiting power must be accompanied by social redistributive measures that generate the support necessary to overcome any resistance. The Federal Reserve is the engine that allows the government to play Santa Claus to certain privileged groups at the expense of everyone else.

- *"Modern money has become a means for the total confiscation of private property by the government...It is, therefore, incumbent on those of us who understand this issue to make the truth known to others. Nothing could be more vital than to restore the monetary system..."* **- What Is A "Dollar"? An Historical Analysis Of The Fundamental Question In Monetary Policy by Edwin Vieira, Jr.**

The physical counterfeiting of dollars has cost the people of the United States 95% of their wealth in less than one hundred years (not to mention the unseen advances that could have been made).

What is all too often forgotten or over looked is that wealth has to be created and produced by someone before it can be looted and plundered by force. It is for this reason that **"....the words 'to make money' hold the essence of human morality."**

Our current system of government-granted special privilege to exploit promotes a counterfeit morality that explicitly confuses the unearned with the earned. It replaces the moral virtues of integrity, honesty, productiveness, and justice with cries of entitlement to an ends without relation to a means; a misguided and false battle pitting poor against rich. The correct moral battle is not the seemingly virtuous defense of poor versus rich...**it is, as it has been throughout human history, a battle of the exploited versus the exploiter.**

"He who controls the money supply of a nation controls the nation" - **James A. Garfield**

It is only through an understanding of the history and meaning the dollar can we begin to fight the State sanctioned exploiters and counterfeiters. The coercive monopolization of the money supply, accentuated by the Federal Reserve System, is the root of the exploitative power of the ruling class. It is for this reason that understanding the story of the dollar is essential.

An economy that does not have free choice of money is neither a free market nor a free society. For the same reasons the State should not control the type of shoes you buy, where you get your hair cut, or what kind of food you eat – the State, in a society that consistently respects human rights, should not control the money used in transactions of voluntary exchange. Any and all monetary intervention by the State is incompatible with human rights and should be eliminated.

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

Perhaps it is time for that revolution. Perhaps it is time for the American people to learn the history of the dollar and understand the banking and monetary system. Perhaps it is time we learn that the Federal Reserve System and the government's redistributive social programs are enriching the richest of the rich while destroying the middle class and locking the poor into a state of dependent poverty. **In the case of the dollar, ignorance is not not bliss. Ignorance is the essence of our self-destruction.**

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Additional Suggested Reading:

What Has Government Done to Our Money – Murray Rothbard

In his essay **A Constitutional Dollar**, Michael Rozeff explains how the term *dollar bills* "...obscures the actual and tangible meaning of "dollar" as a specific weight of silver." Rozeff goes on to explain that this is more than merely a theft of terms:

- "The dollar sign, "$," ...means 1 silver dollar of the official weight of 0.7734375 troy ounces of pure silver...the government has illegally and unconstitutionally removed silver as currency and replaced it with the Federal Reserve notes that we know as dollar bills."

Notes:

1. "Unfortunately, governments invariably tried to force a fixed exchange rate between the two metals, a price control that always leads to unwelcome and even disastrous results"– Murray Rothbard, The Mystery of Banking, p. 9
2. In 2005, Rothschild was ranked 7th on the *Forbes* magazine list of "The Twenty Most Influential Businessmen Of All Time"