

Sound Money

“Congress shall have power...To coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures;...” (US Constitution, Article I Section 8, clause 5)

“No State shall...coin money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts...” (US Constitution, Article I, Section 10, clause 1)

In simplest terms, money is a medium of exchange by which goods which are desired are obtained. Since the beginning of time, mankind has exchanged goods and services through various mediums of exchange. Long before the Founders of this Nation set about establishing the Nation’s money standard, thousands of years of mankind’s experience had defined the requirements of a successful, stable money system. Barter systems initially prevailed (exchanging a cow for pigs). Challenges developed when one had a cow or a pig and wanted a few eggs for a meal. Multiple exchanges became necessary to come to an exchange which was fair to both parties. Facilitating easy exchanges necessitated finding an exchange medium (money) which was universally acceptable to all who may wish to exchange. Experience determined that money must have intrinsic value in order to be desirable for exchange. It must be easily divisible to assure that exact amounts could be given upon exchange. It must be durable so it would not be lost through exposure to the elements, or moth, or corrosion. And it must be relatively scarce. Precious metals met all requirements: intrinsic value, easily divisible, durable, and relative scarcity.

To finance the Revolutionary War, both the National government and the States had resorted to printing paper money which was backed by the “full faith and credit” of the government, but was not fully redeemable with “real” money. The money was not tied to precious metal. The experience was a disaster. The economy collapsed. Unbacked paper does not meet the defined qualifications for money: it does not have intrinsic value, it is not durable, and it certainly is not scarce.

In recognition of their painful experience with paper money, the Founding Fathers of this Nation sought to prevent future forays in this area, and to establish the Nation upon sound economic principles. During the 1787 Constitutional Convention, they debated the issue of paper money. James Madison’s Journal of the Federal Convention clearly indicates their “original intent” to preclude the Nation from suffering under a paper money supply. Noting the experience in the early history of this Nation, and of nations in Europe, it was suggested that allowing the government to print paper money “would be as alarming as the mark of the Beast in Revelation.” It was also noted that the entire proposed constitution would be a failure if the power to print money was allowed. The Convention voted in favor of preventing the issue of unbacked paper money.¹

Also, in Federalist Papers 42 and 44 James Madison briefly touches upon the issue of paper money.

Brevity necessitates that only a few statements by the Nation's Founders be noted:

George Washington wrote:

"I am well aware that appearances ought to be upheld, and that we should avoid as much as possible recognizing by any public act the depreciation of our currency; but I conceive this end would be answered, as far as might be necessary, by stipulating that all money payments should be made in gold and silver, being the common medium of commerce among nations."²

"Every other effort is in vain unless something can be done to restore [the currency's] credit... The liberties and safety of this country depend upon it; the way is plain; the means are in our power. But it is virtue alone that can effect it."³

"Experience has demonstrated the impracticality long to maintain a paper credit without funds for its redemption. The long depreciation of our currency was in the main a necessary effect of the want of those funds."⁴

"Uniformity in the currency [and in the] weights and measures of the United States is an object of great importance, and will, I am persuaded, be duly attended to."⁵

Thomas Jefferson also felt it critically important to keep the Nation's monetary system on a sound footing, saying:

"One of the great advantages of specie as a medium is that, being of universal value, it will keep itself at a general level....[quoting Adam Smith, Jefferson notes] that 'the commerce and industry of a country cannot be so secure when suspended on the Daedalian wings of paper money as [when] on the solid ground of gold and silver.'"⁶

"Specie is the most perfect medium, because it will preserve its own level; because, having intrinsic and universal value, it can never die in our hands; and it is the surest resource of reliance in time of war....The trifling economy of paper as a cheaper medium, or its convenience for transmission, weighs nothing in opposition to the advantages of the precious metals....[Paper money] is liable to be abused, has been, is, and forever will be abused, in every country in which it is permitted."⁷

Through the joint efforts of Washington and Jefferson, Congress stepped up to their Constitutionally mandated responsibility to establish a sound monetary system for the United States. Congress passed the Coinage Act of 1792, which firmly established gold and silver as the medium of exchange for the United States. Unfortunately, the Coinage Act of 1965 (which created the base metal coins we have in circulation today which have no intrinsic value), and several other tragic actions by both the Congress and the Executive branch have superceded and subverted the "self evident" truths of a proper monetary system, and the United States is now adrift in a boundless sea in which the financial stability of the Nation has been destroyed.

Inflation is rampant because the national government now creates unbacked debt-based paper money at will to "fund" profligate and wasteful programs which are not allowed under the limits

established within the United States Constitution. This dishonest practice distorts the economy, erodes personal savings, and places future generations in bondage.

The solution lies in returning to the limited scope and bounds within which the National government was originally established, turning from a process which creates unbacked printing press paper “money” upon the whim of national leaders, and a recognition of real money based upon the wisdom of the ages and the Founder’s original intent.

—Scott N. Bradley

1 - See James Madison, *Journal of the Federal Convention*, Vol.2, p.541-543 [Thursday 16 August 1787]) Later debates in the Convention confirm the concerns held about paper money. (See James Madison, *Journal of the Federal Convention*, Vol.2, p.620

2 - To the President of Congress. Fitzpatrick 11:217. [1778]

3 - To Edmund Pendleton. Fitzpatrick 17:52. [1779]

4 - To John Laurens. Fitzpatrick 21:106. [1781]

5 - First Annual Address to Congress. Fitzpatrick 30:493. (1790]

6 - To John W. Eppes. Bergh 13:412. [1813]

7 - To John W. Eppes. Bergh 13:430. (1813]