

THE SECOND PILLAR OF SOUND MONEY AND CREDIT

THE PRINCIPLE OF FREE COINAGE

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A Chinese Tale

Once upon a time money in China consisted of silver coinage issued by the Imperial Treasury. Since time immemorial, the main source of imperial revenue has been seigniorage, due to the limit the emperor placed on the number of silver coins in circulation. Consequently the Imperial Treasury could buy two pounds of silver from the people in exchange for coins containing only one pound, then turn around and mint it into twice as many silver coins. The difference was simply expropriated by the emperor. As a result of this cruel exploitation, people of the Celestial Empire fell into the direst poverty. Money was exceedingly scarce. Parents were selling their children into slavery, and they killed their baby daughters when no takers were found.

The chief mandarin, Kwang, threw himself at the feet of the emperor, pleading thus: "Son of Heavens, have pity. People are suffering. Money is scarce."

The emperor made an edict providing for free coinage. From then on, people could take all the silver to the Treasury and get the same weight in silver coins in exchange. Seigniorage was abolished. There was a great relief all over the Celestial Empire. A tremendous resurgence of agriculture and industry took hold. The humblest of coolies could pick and choose between jobs. People were becoming so prosperous that husbands

started to embellish their wives with choice silver jewelry. Hardly twelve moons had passed when Kwang threw himself at the feet of the emperor once more and pleaded thus: "Sire, money is still scarce. The people want you to issue paper money in order to augment the circulation of silver coins."

The emperor, who was a wise man, answered: "Kwang, you are talking like a fool. You ask me to restore poverty that I abolished in this country twelve moons ago. I have given people the right to put their silver where their mouth is. If money is still scarce, they have only themselves to blame. Let them bring their jewelry to the Treasury, and we shall give them silver coins, pound for pound. If they really think that money is scarce, they have to prove it not by words, but by deeds. Remember, Kwang, it is not the abundance of money that makes people prosperous, but the unencumbered fruits of their own effort. By the same token, it is not the scarcity of money that impoverishes them, but exploitation that you now try to advocate."

And Kwang went off, tearing his beard, as he lamented: "O Wo! O Fu! O Pe! O Li! And all the two-letter named gods of Cathay! Take pity on our people! For there has come to us an emperor of the Austrian School, who believes that people can lift themselves out of their misery by their own bootstraps! The emperor is deluded by the idea that wealth is created by the coolies! He no longer believes that the source of all wealth lies in the power to regulate the money supply."

Beat scarcity

There will always be people who complain that money is scarce. Today, there is no answer to these complaints. In a true sense of the word, everything of value is scarce. The only way to abolish the scarcity of the dollar is to make it lose all its remaining value. And there is a real danger that this is exactly what we are doing.

Money and money-substitutes have never been so abundant as they are today in the United States. Yet, if we are to believe the officers of Continental Illinois, and the directors of the savings banks in Ohio and Maryland, money is excruciatingly scarce in this country.

The only way to stop the vicious agitation against the scarcity of money is to put the power of issue where it belongs, namely into the hands of the people. This means free coinage of gold. When this is done, every citizen who believes that there is too little money in circulation can do something about it. He can take his old jewelry or his newly mined gold to the U.S. Mint, and convert it into the gold coins of the realm. After this fundamental right - guaranteed by the Constitution but abolished in 1933 - has been restored to the people, all cries about the scarcity of money can be exposed as frivolous gibberish.

Latter-day slaves

The principle of free coinage also exposes the cruel exploitation to which the people of the United States have been subjected by the mandarins in the Treasury and on the Federal Reserve Board. The Constitution abolished bondage embodied by seigniorage in this country, but the bureaucrats have reimposed a more cruel seigniorage through the back door.

The rate of exploitation in the Celestial Empire of old was 2:1, as silver in the hand of the emperor was worth twice as much purchasing power as the same silver in the hands of the people. Today the rate of extortion in the United States is 35:1. As reported in The New York Times on July 21, 1985, Michael Brown, a spokesman for the United States Mint in Washington, D.C., explained that the Susan B. Anthony dollar, introduced in 1979, costs 3 cents each to make, allowing the government to pocket a profit of 97 cents. Thus resources in the hands of the Treasury can create 33 times more purchasing power than the same resources in the hands of the people. The extra purchasing power is not created out of thin air: it is simply extorted from the people.

Mr. Brown used these figures to support his argument against melting down half a billion Anthony dollars which nobody seems to want. If the coins were melted down for the metal, the government would have to take a loss. "And we don't want to add half a billion dollars to the deficit," Mr. Brown was quoted as saying.

The rate of exploitation in the United States would be much higher if the calculation was based on the cost of printing bonds, which the Treasury can turn into cash at the Federal Reserve banks.

Moloch of Managed Money

Irredeemable currency could be made to work in a free country only if every citizen were given the right to print and to dispose of his bonds on the same terms as the Treasury. But this would make the bonds and ultimately the dollar lose their remaining value. Therefore the regime of irredeemable currency can never be made to work, nor can it be made compatible with freedom.

The usurpation of the Constitutional right of the people to free coinage, and the reimposition of bondage embodied by the seigniorage, makes free citizens into slaves of the government. Moreover, the unemployed are like the innocent female infants in China, earmarked to be sacrificed on the altar of the Moloch of Managed Money.