

HON. RON PAUL OF TEXAS IN THE HOUSE OF REPRESENTATIVES July 25, 2003

### Bring Back Honest Money

Mr. Speaker, I rise to introduce the Honest Money Act. The Honest Money Act repeals legal tender laws, a.k.a. forced tender laws, that compel American citizens to accept fiat (arbitrary) irredeemable paper-ticket or electronic money as their unit of account.

Absent legal tender laws, individuals acting through the markets, rather than government dictates, determine what is to be used as money. Historically, the free-market choice for money has been some combination of gold and silver, whenever they were available. As Dr. Edwin Vieira, the nation's top expert on constitutional money, states: "A free market functions most efficiently and most fairly when the market determines the quality and the quantity of money that's being used."

While fiat money is widely accepted thanks to legal tender laws, it does not maintain its purchasing power. This works to the disadvantage of ordinary people who lose the purchasing power of their savings, pensions, annuities, and other promises of future payment. Most importantly, because of the subsidies our present monetary system provides to banks, which, as Federal Reserve Chairman Alan Greenspan has stated, "induces" the financial sector to increase leverage, the Federal Reserve can create additional money, in Mr. Greenspan's words, "*without limit*." For this reason, absent legal tender laws, many citizens would refuse to accept fiat irredeemable paper-ticket or electronic money.

Legal tender laws disadvantage ordinary citizens by forcing them to use money that is vulnerable to vast depreciation. As Stephen T. Byington wrote in the September 1895 issue of the *American Federationist*: "No legal tender law is ever needed to make men take good money; its only use is to make them take bad money. Kick it out!" Similarly, the American Federation of Labor asked: "If money is good and would be preferred by the people, then why are legal tender laws necessary? And, if money is not good and would not be preferred by the people, then why in a democracy should they be forced to use it?"

The American Federation of Labor understood how the erosion of the value of money cheated working people. Further, honest money, i.e., specie, was one of the three issues that encouraged ordinary people to organize into unions when the union movement began in the U.S. circa 1830.

While harming ordinary citizens, legal tender laws help expand the scope of government beyond that authorized under the Constitution. However, the primary beneficiaries of legal tender laws are financial institutions, especially banks, which have been improperly granted the special privilege of creating fiat irredeemable electronic money out of thin air through a process commonly called fractional reserve lending. According to the Federal Reserve, since 1950 these private companies (banks) have created almost \$8 trillion out of nothing. This has been enormously advantageous to them.

The advantages given banks and other financial institutions by our fiat monetary system, which is built on a foundation of legal tender laws, allow them to realize revenues that would not be available to these institutions in a free market. This represents legalized plunder of ordinary people. Legal tender laws thus enable the redistribution of wealth from those who produce it, mostly ordinary working people, to those who create and move around our irredeemable paper-ticket electronic money which is, in essence, just scrip.

The drafters of the Constitution were well aware of how a government armed with legal tender powers could ravage the people's liberty and prosperity. That is why the Constitution does not grant legal tender power to the federal government, and the states are empowered to make legal tender only out of gold and silver (see Article 1, Section 10). Instead, Congress was given the power to regulate money against a standard, i.e., the dollar. When Alexander Hamilton wrote the Coinage Act of 1792, he simply made into law the market-definition of a dollar as equaling the silver content of the Spanish milled dollar (371.25 grains of silver), which is the dollar referred to in the Constitution. This historical definition of the dollar has never been changed, and cannot be changed any more than the term "inch," as a measure of length, can be changed. It is a gross misrepresentation to equate our irredeemable paper-ticket or electronic money to "dollars."

However, during the 20<sup>th</sup> century, the legal tender power enabled politicians to fool the public into believing the dollar no longer meant a weight of gold or silver. Instead, the government told the people that the dollar now meant a piece of government-issued paper backed up by nothing except the promises of the government to maintain a stable value of currency. Of course, history shows that the word of the government (to protect the value of the dollar) is literally not worth the paper it is printed on.

Tragically, the Supreme Court has failed to protect the American people from unconstitutional legal tender laws. Salmon Chase, who served as Secretary of the Treasury in President Lincoln's administration, when he was Chief Justice of the Supreme Court, dissenting in *Knox vs. Lee*, summed up the argument against legal tender laws in twelve words: "The legal tender quality [of money] is only valuable for the purposes of *dishonesty*." [emphasis added.]

Another prescient Justice was Stephen Field, the only Justice to dissent in every legal tender case to come before the Court. Justice Field accurately described the dangers to our constitutional republic posed by legal tender laws: "The arguments in favor of the constitutionality of legal tender paper currency tend directly to break down the barriers which separate a government of limited powers from a government resting in the unrestrained will of Congress. Those limitations must be preserved, or our government will inevitably drift from the system established by our Fathers into a vast, centralized, and consolidated government." A government with unrestrained powers is properly characterized as tyrannical.

Repeal of legal tender laws will help restore constitutional government and protect the people's right to a medium of exchange chosen by the market, thereby protecting their current purchasing power as well as their pensions, savings, and other promises of future payment. Because honest money serves the needs of ordinary people, instead of fiat irredeemable paper-ticket electronic money that improperly transfers the wealth of society to a small specially privileged financial elite along with other special interests, I urge my colleagues to cosponsor the Honest Money Act.