State Education: Money

"Finding the Challenges" is an original column appearing sporadically, by Verbal Vol.

> *If only it were taught in government schools that currency should be on the free market, like everything else, that competition between consumer chosen currencys is the only way it can't be used against the users of currency. government monopoly currency is designed through being a monopoly, is made for abuse, theft, and is the dirtiest of money ever, ever, funds illicit wars, is printed to rob the masses, and other abuses of the people using the monopoly currency. And yet the government turns round and says any money that competes with it is illegal, counterfeit, and criminal. Hahahahahahaha, Oh the cruel evil irony. (Please add to this thought your wisdom on the topic.)*
>
> *— Freya Wilde*

Thanks to Freya, for this excellent analysis, and her agreement to let me share it here.

The principle of Freya's holding serendipitously put me in remembrance of a particularly fine piece by Murray Rothbard, in which he lays out how paper currency appeared in the western hemisphere. I have not found a specific citation or occurrence of the piece, but I remember it vividly. It is my plan to give to you a summary.

The summary — Rothbard contends that money in colonial America was entirely based on the market value of the commodities behind it. The simplest example was gold coinage, and for larger amounts, gold bars. The colonial governors of Massachusetts were "wag the dog" guys. Whenever they needed a popularity bump, they recruited some ruffians, rode off in a cloud of dust, and created fables (perhaps even true) of vanquishing Acadians or Indians (as they were negligently labeled in those days). I suppose there was a moderate risk of injury or death for these ruffians, so there were substantial recruitment incentives provided. First there were offers of land. But land was extremely limited, and land once obtained needed wealth for development. Quickly the adventurers-in-chief had to turn to portable wealth for further incentives to rouse the rabble. Enter gold and silver. But there were only promises, because why give bling in advance to fools who might die mid-adventure. I suppose there was a moderate risk of injury or death for these ruffians, so there were substantial recruitment incentives provided. First there were offers of land. But land was extremely limited, and land once obtained needed wealth for development. Quickly the adventurers-in-chief had to turn to portable wealth for further incentives to rouse the rabble. Enter gold and silver. But there were only promises, because why give bling in advance to fools who might die mid-adventure?

Remember, these govs were making "air promises" to boost their political status, not to defend life and property. In other words, fraud. (See Mission Accomplished)

Eventually, per Rothbard, the pols saw that leaving the marching minions holding promises instead of solid specie was a dream come true. But they did also realize that an honorable verbal promise was an oxymoron. Enter the written promise, aka the IOU, aka scrip, aka paper currency.

The typical note promised exchange for the purported full amount in gold, not sooner than 1 year hence.

Many of the veterans began to barter these slips of paper for those things for which they could not wait a year — things like food!

If the mercenary could only get 25% of the face value of the scrip, that meant that he was effectively paying a 75% tax.

I could go on, but I will close by asking how surprised you would be if the government had issued financial notes, paper currency, to cover the speculators' demands for specie? This was a tacit acknowledgement from both sides that someday the paper currency would not be worth the paper on which it was written. But as long as the politicians dodged the bullet, and the speculators got a bearable rate of return, who was going to rock the boat?

Thus was born what eventually became the world's standard for the value of a government's promise — a revolving theft. Paper currency was born in fraud, fraud that could be sustained only by more fraud.

After awhile, I find this — a link to Rothbard's "What Has Government Done to Our Money?" free and online at the Mises Institute, Mises.org.

The passage I specifically refer to begins on page 51 of my downloaded pdf version of *History of Money and Banking in the United States*: The Colonial Era to World…

> *Apart from medieval China, which invented both paper and printing centuries before the West, the world had never seen government paper money until the colonial government of Massachusetts emitted*

a fiat paper issue in 1690.4, 5 Massachusetts was accustomed to launching plunder expeditions against the prosperous French colony in Quebec. Generally, the expeditions were successful, and would return to Boston, sell their booty, and pay off the soldiers with the proceeds. This time, however, the expedition was beaten back decisively, and the soldiers returned to Boston in ill humor, grumbling for their pay. Discontented soldiers are ripe for mutiny, so the Massachusetts government looked around in concern for a way to pay the soldiers. It tried to borrow £3,000–£4,000 from Boston merchants, but evidently the Massachusetts credit rating was not the best. Finally, Massachusetts decided in December 1690 to print £7,000 in paper notes and to use them to pay the soldiers. Suspecting that the public would not accept irredeemable paper, the government made a twofold pledge when it issued the notes: that it would redeem them in gold or silver out of tax revenue in a few years and that absolutely no further paper notes would be issued. Characteristically, however, both parts of the pledge went quickly by the board: The issue limit disappeared in a few months, and all the bills continued unredeemed for nearly 40 years. As early as February 1691, the Massachusetts government proclaimed that its issue had fallen “far short” and so it proceeded to emit £40,000 of new money to repay all of its outstanding debt, again pledging falsely that this would be the absolute final note issue.