What is Money?

> *All of the perplexities, confusion and distress in America arises, not from the defects of the Constitution or Confederation, not from want of honor or virtue, so much as from downright ignorance of the nature of coin, credit and circulation.*
>
> *John Adams*

Needs and Wants

Being alive means having needs and wants. You need food and water. You need physical protection from the elements. You want comfort and recreation. Resources that satisfy needs and wants are known as goods. If people had to provide for all their needs and wants themselves, they wouldn't get very far. Goods are not just lying around waiting to be used in unlimited supply. They require effort and time and skill to gather, produce, refine, store, protect, combine, and use. Trying to get everything you need and want by yourself will result in mere subsistence, if you are lucky.

Barter and Trade

With other people around, you don't have to do everything yourself. You can focus your energy to be as productive as possible trade with others who do the same. This is formally known as "division of labor" and allows people "specialize" in doing specific things. With specialization comes increased productivity and technological complexity, and the surplus produced goods can be exchanged with others. If I focus on growing fruit and you focus on making great tools, we can exchange fruit and tools and both be much better off. This kind of exchange is called barter.

Barter is great, but it presents some problems. The first one is called the "double coincidence of wants". You need to find someone who has what you want and who also wants what you have to offer. To make it more complicated, there are also quantity issues. If I make a large wagon to trade, but I only need a few apples right now, how do I make that work with an apple grower? Then there are transaction costs. I can't carry a large wagon in my pocket to trade with, and it needs to be inspected and delivered for an exchange to be completed. There are also accounting and pricing difficulties. How much is a wagon worth, anyway? How does that compare to what it was worth yesterday?

The Development of Money

Money developed as a solution to barter problems and makes civilization possible. Without it, people would be unable to organize complex production and exchange systems. Money has three purposes: a medium of exchange, a unit of account, and a store of value.

> *The concept of the market as the essence of coordination of all elements of demand and supply, upon which modern theory does and must depend, is unthinkable without the use of money. Only with the use of money is it possible to compare the marginal utility of goods in all alternative employments. Only where money exists can we clearly analyze the difference in value between present and future goods. Only within a money economy can this value difference be comprehended in the abstract and separated from changes in the valuation of individual concrete economic goods.*
>
> *Ludwig von Mises*

In ages past, various goods were used as a medium of exchange such as seashells, grain, cattle, and metal. There is naturally high demand for the most marketable/saleable goods. The Latin word for money/property/wealth (*pecunia*) comes from the ancient word for cattle. Roman soliders were often paid with salt (Latin: *sal*) which is where the word “salary” comes from (as well as the old saying “worth his salt”).

Gold as Money

The word “money” comes from the Latin *moneta*, which is where coins of precious metal were made and stored. Precious metals naturally rose to the top of money markets because they are scarce, long-lasting, and valued by weight. Gold in particular became the standard for money because it is uniquely suited to serve the purposes of money.

Reasons why gold eventually became most widely accepted as money:

- The scarcity of gold earns it a quite stable market value due to limited and stable supply. While not strictly intrinsically valuable, gold also has a strong and stable demand for use in jewelry and various industries, making its value less dependent on changes in demand.
- The high value-to-weight ratio of gold makes it easy to transport and store. Even today, a one-ounce gold coin is valued at nearly two thousand dollars. You could buy a nice

new car for less than 30 of such gold coins.
- The homogeneity and fungibility of gold also give it distinct advantages, since every ounce (and even atom) of pure gold is identical. There is no need to worry about the quality of each ounce of gold like there is with diamonds, for example (let alone shells or cattle).
- The divisibility/malleability of gold is another reason for its stable value. It can be melted and reshaped in any quantity without losing its substantial value.
- The recognizability of gold (from the simple “bite” test of ages past to various sophisticated modern methods) make it difficult to pass counterfeits.
- The indestructibility and extreme stability of gold as a chemical element make it excellent for long-term storage. Most everything from centuries-old sunken ships has decayed or been dissolved by the ocean, but gold coins are completely unchanged.

Banking

Banks were originally warehouses for the safekeeping of gold and silver. Receipts or certificates were issued for gold and silver deposits, redeemable on demand. People soon came to trade the paper notes instead of the gold and silver because it was much easier to trade pieces of paper with money on them, and you could always just turn in the notes for the real money later. In the United States, paper silver certificate dollars from as late as 1964 were redeemable for actual silver at the treasury. In fact, the word “dollar” comes from an abbreviated name for a large silver coin in northern Europe.

A Joachimstaler (abbreviated *taler* in German and “dollar” in English) minted in Bohemia (modern-day Germany) in 1525

1957 US silver certificate dollar. Note the words “THIS CERTIFIES THAT THERE IS ON DEPOSIT IN THE TREASURY OF THE UNITED STATES OF AMERICA ONE DOLLAR IN SILVER PAYABLE TO THE BEARER ON DEMAND”. The Federal Reserve Notes of today make no such claim.

Even today, many banks offer access to safe deposit boxes where you can store anything valuable for safekeeping. You can still pay a bank to store gold and silver coins for you, but banks came to offer other options that don’t require payment for safekeeping.

Lending and Borrowing

Historically, if you wanted to borrow gold and silver, you needed someone rich who had saved more than enough gold and silver to meet their immediate needs. They could then lend you their extra money for a time in exchange for what is called “interest”, or the cost of borrowing money over time. This is similar to the cost of borrowing other goods (say, a hammer or large truck) since they can’t be used by more than one person at once, and the lender takes the risk that their goods will be returned on time and undamaged. The amount of interest a lender could charge was influenced by supply/demand and marginal utility just like the price of other goods. The natural limits of lending and borrowing come down to scarcity. You can’t have your cake and lend it too, so to speak.

Rather than lending their own money, bankers realized that they could lend out the deposits of other people’s money and collect interest on it. This way, they wouldn’t have to charge fees for deposit safekeeping, and they could even share a small amount of the interest they make with depositors instead. If the bankers were honest, everyone could benefit from the services they provided: security of physical deposits, transaction processing, risk management of loan applicants, etc.

But with the rise of circulating bank notes as money in place of the scarce silver and gold they were supposed to represent, bankers realized that they could just provide receipts for deposits that didn’t exist and lend those out instead. This worked well enough as long as most depositors didn’t come to redeem their receipts for gold and silver at once. However, many a bank has failed when they were unable to provide the goods they claimed to have on deposit.

To protect against bank failure, rules for how much actual money must be kept in reserve for depositors were established. Banks were still allowed to make loans without having it all stored in reserves, but they had to have one unit of actual money in reserve for every two dollars of credit they extended in certificate form in a practice known as “fractional reserve banking”. The fraction of real money (gold and silver) that banks were required to have on reserve against loans they made as credit on their ledgers and issued as paper notes began to go down over time from the original 2:1 to 10:1, 100:1, and beyond.

When you deposit your money in a typical bank account nowadays, you are actually making a loan to the bank, for which they typically pay a small amount of interest over time. The bank can use that money to create credit to loan to others at higher interest. The difference between the interest the bank pays you for the use of the money you lend them and the interest the bank charges on loans it makes using credit created by that money is the bank’s profit.

> *The modern banking system manufactures money out of nothing. The process is perhaps the most astounding piece of sleight of hand that was ever invented. Banking was conceived in iniquity and born in sin. Bankers own the earth. Take it away from them, but leave them the power to create money, and with the flick of the pen they will create enough money to buy it back again.*
>
> *Take this great power away from them and all great fortunes like mine will disappear, and they ought to disappear, for then this would be a better and happier world to live in. But if you want to continue to be slaves of the banks and pay the cost of your own slavery, then let bankers continue to create money and control credit.*
>
> *Sir Josiah Stamp, Director, Bank of England 1928-1941*

The Debasement of Money

Fraud has always been a core strategy for thieves. If you can deceive someone into giving you what you want with a counterfeit good, you don’t have to do honest work. If someone is selling bags of wheat marked “one pound”, but those bags only have half a pound of wheat in them (or perhaps half a pound of wheat mixed with half a pound of sawdust), they are perpetrating fraud.

Fraud takes many forms, and various techniques and technologies are used to guard against it. Nowhere is this more true than with money. Precious metals can be mixed with base metals. The edges of coins can be shaved or clipped off and melted down for resale (which is why many coins historically have had ridges on the edge – to show that they have not been shaved or clipped). Certificates and other documents can be forged.

If it is wrong for an individual thief to counterfeit money, then it is wrong for banks and governments to counterfeit money. A pledge to give something that doesn't and will never exist is not a promise; it is a lie. But the privilege of collecting interest on money that doesn't exist and creating debt out of thin air (whether as printed certificates/IOUs or as a credit record in an electronic system) is too powerful a genie to keep in a bottle, especially for the extremely ambitious leaders of large banks and governments who have no qualms about using counterfeit money to bid resources away from others without having to actually produce anything.

> *Throughout the ages, the devices of cunning men have turned money to their nefarious purposes. Money, beginning with private enterprise as a means of escaping the limitation of barter, soon developed the cheat to exploit the honest trader who, in an effort to protect himself, turned to government for protection, only to find that now he had two thieves, the private money changer and the political plunderer working hand in glove against him. By this combination the money changer gained the prestige of political sanction through legislative license and the state secured a deceptive device for laying taxes upon the citizenry (by means of the hidden tax called inflation). It was and remains a vicious alliance.*
>
> *E.C. Reigel*

Gold and silver coins from other countries like Germany, France, England, Portugal, and Spain were naturally circulated and used as money throughout the United States until the US Congress outlawed their use in 1857. Once the US government granted itself a territorial monopoly on the circulation of money, they could use that privilege to prohibit money altogether and replace it with a fiat substitute ("fiat" meaning "arbitrary order or decree"). This is exactly what they did in 1913 when President Wilson signed the Federal

Reserve Act and the international banking cartel was put in control of US money through the ironically-named Federal Reserve Bank and the prohibition of using gold and silver as money. To make things worse, the 16th amendment was added to the constitution that same year to allow the federal government to collect income taxes to go with the new inflation taxes.

> *I am a most unhappy man. I have unwittingly ruined my country. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men. We have come to be one of the worst ruled, one of the most completely controlled and dominated governments in the civilized world, no longer a government by free opinion, no longer a government by conviction and the vote of the majority, but a government by the opinion and duress of a small group of dominant men.*
>
> *Woodrow Wilson, US President 1913-1921*

When that system was used to finance US involvement and escalation in World War I and inflate and deflate the money supply (and consequently prices) in favor of financier masters and cronies, the great depression was the result. The Federal Reserve Act of 1913 required the Federal Reserve to have 40% gold backing of the notes they issued. They were approaching that limit by the late 1920s. President Roosevelt issued Executive Order 6102 in 1933 making it illegal to privately own gold (whether coins, bars, or certificates for such) and forcing anyone who had any to turn it in to the Federal Reserve to prop up the failing system. This prohibition on private gold ownership was in effect until 1974. That timing was convenient, given that only three years earlier in 1971 President Nixon officially abandoned the gold standard entirely by announcing that the US dollar would no longer be backed by or convertible to gold at all. The dollar’s value plunged by over 30% in the 1970s as a result. Since then, the value of fiat currencies like the US dollar have floated up and down based on exchange rates between them (as well as various geopolitical and financial schemes I will save for a separate post).

What’s Next?

Today, most of what we call money is simply created as debts to be repaid (with more debt promises) in the future. Money has been entirely replaced with debt and empty promises. It is an unsustainable house of cards that continues to be propped up by inflation at nearly unbelievable rates as reserve requirements have been essentially eliminated entirely and central banks are purchasing debt (and even real assets) with money they create with the push of a button. If history is a reliable guide, the endgame of this crazy scheme will come down to hyperinflation, demonetization, and debt repudiation. Talks of a “great reset” by the world’s financial elites in the midst of current and looming crises make it clear that they intend to remake and restart their schemes again on a global scale.