

Chapter 8

On the Redemption of Money

The term redemption as it will be used in this study refers to the only honest conclusion to the series of transactions initiated when a bank—any bank-of-issue anywhere—issues money which is accepted and which circulates until some one who holds it decides for any reason whatsoever to redeem or retire it. Retirement means not only redemption but extinction. If the redemption is to be honest, the bank must in the end deliver to the holder of the money the same amount of purchasing power as the amount for which it was originally issued. When the purchasing power is reduced by inflating the money supply on Keynesian principles, as it is being reduced in the modern world, the holder of the money is cheated. Redemption, unless it is to continue being dishonest, must be the act of restoring to the holders of money the value of what they gave—neither more nor less—when they accepted the money.

Though almost never explicitly stated on the money now issued and used today, redemption by the bank which originally issues it is always implied. No failure to state it on the money issued relieves the bank from the obligation created by its issuance. The fact that the users of the money

temporarily relieve the bank of its obligation by continuing to use and circulate it does not relieve the bank of the ultimate obligation of redemption and retirement.

What is involved becomes clear the moment a check is issued to someone with a claim against the writer of the check. If John Doe enters a clothing store, buys a suit of clothes for \$100 from the storekeeper, and gives the storekeeper a check in payment for it, he writes an order on a bank in which he has deposits instructing it to "Pay to the order of Richard Roe (the storekeeper) \$100. If Richard Roe goes to the bank, cashes the check, accepts from the teller \$100 on notes issued by the Federal Reserve System in settlement of his claim against John Doe, and later uses this \$100 to pay his grocer for groceries delivered to him, two claims have been temporarily settled and discharged by these transactions. But no matter how often the \$100 in notes is transferred (circulated) from one person to another, the Federal Reserve System and the government of the United States which is responsible for its original issue, is not relieved of the claim against itself which it created when it issued the \$100 worth of notes. The fact that in practice today the Federal Reserve System never finally redeems it does not relieve it of the obligation. What it does do is to make the whole practice of issuing money a fraud, and to justify designating such money as dishonest.

When American money was honestly issued, the gold and silver notes issued stated in the most explicit manner how they would be redeemed. They stated that the bearer would be paid (on demand) a certain weight and grade of gold or silver. As long as these notes were redeemed, they were honest money. When the Roosevelt administration in 1933 repudiated this promise, so far as its own citizens were concerned, and when in 1971 the Nixon administration repudiated the same kind of promise made at the Bretton Woods Conference to the IMF in 1944, these were grossly dishonest acts justified purely and simply in terms of expediency.

Because of the indifference to this kind of chicanery by the public which is not expected to know anything about monetary economics, but also by the established authorities who ought to know all about it—economists, bankers, and treasury officials—not only is this continuing dishonesty ignored, it is compounded. Custom permits, and the law enables, those responsible for the issuance of fiat money to multiply the losses and injuries this inflicts upon the users of the money being issued. When they inflate the total money supply and ignore the problem of redemption, they cheat those who earn money, save money, and lend money. They stimulate speculation by professional speculators, by businessmen and even to an extent by the public as a whole. When a housewife, for example, begins to hoard sugar because its price is going up, she is engaged in nascent speculation.

What professional speculators do to profit from the rise and fall in prices, and what they do to intensify fluctuations in prices, is bad enough. But what legitimate businessmen do to “overheat” the economy (a) by increasing inventories so as to avoid having to pay higher prices in the future, and (b) by the premature expansion of their plants, is much worse.

What is now being done to deal with this terrible situation and the even more terrifying catastrophe for which it is setting the stage never goes to the heart of the matter; it leaves untouched the causes which create it; it consists only of expedients which postpones the day of reckoning. Nothing is being done to provide for the honest issuance and the honest redemption of money.

Only on the notes (the paper-money) issued by a bank-of-issue is it possible to state in the most explicit manner the way in which the notes will be redeemed. It cannot be stated on checks drawn on commercial banks because the banks are not responsible for the issuance of the cash in which they promise to redeem the checks drawn by their depositors.

And it obviously cannot be stated on the coinage. It is my position that this should be stated in the most explicit and detailed manner on every note issued for monetary purposes. The issuer should be unable to disclaim ultimate responsibility for their redemption by failing to say in what way it will be redeemed.

It is my position that the issuers of money must provide for the redemption and retirement of the money they issue in one or more commodities which everybody wants and uses. Gold is such a commodity; that is the reason that money which is redeemable in gold is more honest than the fiat money which is now being issued. Like all the fiat money, the money now circulated by members of the International Monetary Fund is only redeemed (if that can be called redemption) when somebody, who still has confidence in it, most often either a storekeeper who accepts it in payment for goods which he has on sale, or an employee who accepts it in payment of his salary or wages. When confidence in it disappears, the willingness of anybody to accept it also disappears. Those who are then "stuck" with it discover what fiat money really is. They discover what an irredeemable currency has meant over and over again in the history of mankind.