Real World Graduation: Question 41: U. S. Currency

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Question 41

The basic currency unit of the United States is called the dollar. The word "dollar" is a modification of the word "taler", which is a nickname for "thaler", which was the name of a coin minted by the Dutch which contained one ounce of 0.999 pure silver. Therefore, a dollar was originally devised in 1786 to designate a coin containing 375.64 grains of pure silver. There are 480 grains in a troy ounce, so the dollar consisted 0.7825 troy ounces of silver. There are 31.103 grams per troy ounce, and therefore the dollar was 24.3406 grams of pure silver. Silver was traditionally regarded as 1/15th the value of gold, hence the dollar, although defined in silver, was equivalent to 1.622 grains of gold.

In 1834, the U. S. government decided to reduce the weight of gold in the gold coinage, so it altered the value of silver to be 1/16th of the value of gold, thus one dollar was devalued to 1.521 grams of gold. This put the dollar implicitly on a gold standard, although coins of both types circulated (and the dollar remained at 0.7825 ounces of silver).

In 1900, the dollar was formally converted to a gold standard, in which one dollar was worth 23.195 grains (which is 0.0483 troy ounces or 1.503 grams) of pure gold. The dollar was thus valued at 20.694 dollars per troy ounce.

In 1934, the dollar was devalued to $35 dollars per troy ounce of gold (13.71 grains or 0.02857 troy ounces or 0.8886 grams).

In modern times, dollars are issued as paper Federal Reserve Notes by a consortium of private banks acting as a central bank, called the Federal Reserve Bank. The dollar is backed by the "full faith and credit of the United States Government". Therefore, the paper dollar, while itself is nothing more than paper and ink, is simply a representation of real value. How is the "full faith and credit of the United States Government" manifested when redeeming the paper dollars (in other words, for what things of value may paper dollars be exchanged at any Federal Reserve Bank)?

a) Gold, at the rate of 1/16th troy ounce per dollar
b) Silver, at the rate of 0.7825 troy ounces per dollar
c) Stock in the Federal Reserve banks
d) Land held in trust by the Government, mostly in the western states
e) The citizen may choose either gold at 0.02857 ounces per dollar per the 1934 gold standard, or silver at 0.7825 ounces per dollar per the revised 1834 silver standard.

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Answer to Question 41

This is a trick question; none of the answers are true. Since 1933, the U. S. dollar has been what is known as a "fiat currency", which is paper currency that has no value in and of itself, and cannot be traded in for anything else of value. Former Chairman of the Federal Reserve Alan Greenspan confirmed in testimony before Congress that the U.S. dollar is in fact such a fiat currency [1]. If you attempt to trade your "Federal Reserve Note" so-called "dollars" into something of value at any bank, you will receive a vacant stare from the teller before she bursts out laughing, because Federal Reserve Notes are not redeemable for anything of actual value. Examples of "actual value" would be a commodity such as gold, silver, oil, land, or other items of value which would normally provide security for a paper currency.

The federal government routinely sells U. S. Treasury bonds that are denominated in Federal Reserve "dollars". The Treasury Bonds and the Federal Reserve Notes are backed by the "full faith and credit" of the U. S. Government. How can this be? If the dollars are not secured by commodities held by the government in trust, how would the federal government pay off a large holder of U. S. Treasury bonds if the holder will not be satisfied by more slips of worthless (Federal Reserve) paper? The holder of the bonds will be compensated through Congress' unlimited ability to levy a tax. In other words, the federal government does not have enough gold to pay the bond holder, but you and all the other taxpayers do, because you have sufficient wealth (future earnings and savings) that can be taxed. The federal government does not hold stocks in profitable corporations that have actual value to pay the bond holder, but you and all the other taxpayers do. So, if the time should come when creditors lose faith in the Federal Reserve Notes and Treasury Bonds, and begin to demand actual payment in commodities for money lent, Congress will pay them by taxing all U. S. citizens as much as is required to pay the bond. The federal government will never give up title to the land in the western states, because that would constitute a loss of stature and sovereignty. The politicians will never allow the bonds to go into default, because that would constitute for them a loss of prestige. As usual, the taxpayers will pay the charges, plus interest, for the excesses of the Federal Reserve and the enabling politicians. Incidentally, the Federal Reserve is not an agency of the federal government; it is a consortium of private banks. It is called the Federal Reserve to give the illusion that you, the citizen, have a say through your representatives in Congress as to how the nation's finances are handled. In fact, there is no control of the Federal Reserve by Congress except for the occasional confirmation of an appointment made by the President. The most recent example is the confirmation on 23 Jan 2018 of Jerome H. Powell as the Chairman of the Board of Directors of the Federal Reserve System

The important point here is that the Federal Reserve is a leading member of the international banking cartel, and it does what is best for the cartel, not for the American people. It's claimed duty is to manage the money supply to prevent recessions, supervise the banking system, stabilize the value of the dollar, increase the general standard of living, and at the same time, to maximize employment [2]. These are mutually contradictory objectives. The Federal Reserve has in reality become a means to institutionalize inflation, which is a hidden tax on all working people, to finance the excesses of the federal government.

[1] Alan Greenspan, Chairman of the Federal Reserve, in testimony before Congress, 11 Feb 2004: "We have statutorily gone into a fiat money standard, and as a consequence of that it is inevitable that the authority, which is the producer of the money supply, will have inordinate power." The "producer of the money supply" that Greenspan is referring to is the Federal Reserve, of which he was the head at the time.

[2] *The Federal Reserve System: Purposes and Functions*, Washington DC: Board of Governors of the Federal Reserve, 1963, pp. 1 - 15

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