

Alternative Money Has Redeeming Value

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Proponents of the repeal of the Federal Reserve Act accuse the Fed of enslaving Americans with debt and are promoting a new currency to replace the greenback.

More than \$3 million worth of them are in circulation throughout the United States, with an estimated 30,000 people using them in place of the dollar at an unknown, yet apparently increasing, number of business establishments.

No, they aren't Disney Dollars, but the principles are similar to those of mouse money and, surprisingly, to Federal Reserve notes. Those who use them claim that they are the "real" money, backed by something of value. They mean to make a statement about their lack of faith in the greenback, the world's premier currency.

Five years ago economist and retired mint master of the Royal Hawaiian Mint Bernard von NotHaus began the National Organization for the Repeal of the Federal Reserve Act and the Internal Revenue Code (NORFED) and started providing an alternative to the Federal Reserve notes commonly called dollars. "We have an obligation — a moral obligation — to tell people about the history and consequences of past fiat currencies and to draw an analogy of what is going on today in this country," von NotHaus tells INSIGHT.

Von NotHaus contends that the Federal Reserve is not a "federal" agency at all but a cabal of private and international banks that does not answer to the U.S. government. He says it is "shadowed in deceptive origins and fraudulent policies."

According to NORFED literature: "Hundreds of authors and commentators have gathered an impressive body of facts and documentation to show how the Constitution of the United States was circumvented to allow the central bankers control over our money. ... These students of the nation's monetary system aren't kooks — they're professors, political scientists, judges, senators and even presidents. It is only a matter of time before the truth is revealed that the Federal Reserve is nothing more than a national scam that has ripped off the American people and enslaved them with perpetual debt."

That is, of course, one view going back to the scrap between Alexander Hamilton and Andrew Jackson, and it is a minority opinion. But it is one around which hard-money advocates have been circling their wagons for nearly two centuries. Now and then someone such as von NotHaus will come along and go so far as to produce his own private money. Von NotHaus isn't alone in his contempt for the Federal Reserve, nor is his currency the first of its kind. Currently there are approximately 60 different forms of private currency in circulation throughout the United States, most notably the "Ithaca HOURS."

Ithaca HOURS are issued by a local community organization and are as valid as Fed notes for payment or settling debts among consenting parties. Five denominations of Ithaca HOURS

have been issued, one Ithaca HOUR being regarded as equal to one hour of basic labor, or \$10. The lowest denomination is one-eighth of an Ithaca HOUR, which is equal to one-eighth of an hour of basic labor, or \$1.25. Nearly \$85,000 worth of Ithaca HOURS have been issued, with an estimated transaction value of several million dollars added and kept within the local community.

Unlike the Ithaca HOURS, which are used within a specific community, or the Disney Dollar, which must be used exclusively within Disney facilities, the von NotHaus currency is accepted by businesses nationally and internationally and is exchanged in denominations that are one-to-one with Federal Reserve notes. Von NotHaus' currency comes in units of \$1, \$5 and \$10 silver, and a \$500 gold certificate, all redeemable in precious metal.

Everything about NORFED's American Liberty Currency (ALC) is perfectly legal and is explained on the organization's Website www.libertydollar.org. Claudia Dickens, a spokeswoman for the U.S. Bureau of Engraving and Printing, tells INSIGHT: "Any merchant who wants to accept [the ALC] can do so as long as the people circulating it do not indicate that it is backed by the federal government. Where private currency is made for use, and businesses accept it knowing this, it is perfectly legal."

What sets the ALC apart from other alternative currencies, says von NotHaus, is that "it is 100 percent backed and redeemable in gold and silver," which is what this nation's founders constitutionally mandated for the official currency. "We don't sell currency," explains von NotHaus, "we exchange it. We have the \$10 silver base, which means that while silver is under \$10 an ounce, every liberty dollar is backed up by one-tenth of an ounce of silver. That ounce of silver is in the warehouse before the certificate is issued.

NORFED doesn't issue the certificate; we distribute the currency. The warehouse receipt, which is a legal binding contract as defined by the Uniform Commercial Code, actually is issued by the warehouseman whose signature is on the back of every certificate.

Fresh mint: Unlike Fed currency, Liberty Dollars are redeemable in gold and silver.

"With the Liberty Dollars \ what people do is currency 7 exchanges — they aren't purchasing money. There is no | sales tax on currency ex- 1 changes, and this currency is 1 designed specifically to function on a one-to-one basis with Federal Reserve notes, regardless of where the price of silver may go. That's why we call this America's inflation-proof currency.' It protects from the inflation of the Federal Reserve notes."

So how does the ALC work? According to von NotHaus: "More likely than not, a merchant will accept the currency from you and do the exact same thing they do with Federal Reserve notes — they would exchange it with another customer. If the customer doesn't want the ALC then the merchant makes change in Federal Reserve notes." Von NotHaus continues: "If the people or merchants who have accepted the ALC don't want it, they can turn it in for silver and they will get exactly what is specified in the terms on the back of the certificate, or they can get Federal Reserve notes. That there are some who may not want the currency isn't surprising. After all, not even- merchant accepts American Express. The fact remains that this currency has real value because it is redeemable in silver or gold and the Federal Reserve notes are not."

While all of this sounds like Utopia to advocates of hard money, not everyone is convinced of its practicality. Richard Rahn, a senior fellow of the Seattle-based Discovery Institute, an adjunct scholar of the Washington-based Cato Institute and author of *The End of Money and the Struggle for Financial Privacy*, tells INSIGHT. "There are people out there experimenting with alternative forms of money, and they all hope that people will start using this money. Back during the Carter administration when inflation was very high you could make the case for alternative or gold money, but for the last 20 years or so inflation has been about 2 or 3 percent. Over time, the value of the dollar erodes, but if you put your dollars into say CDs [certificates of deposit] or Treasury bills, you can earn at least a little interest."

The problem with these schemes, continues Rahn, "is that the transaction costs going into and out of them are pretty substantial and there are holding costs as well. They [alternative money and private currencies] may make sense in places where you have high rates of inflation. For example, Argentina would have been better off in gold money. There are certain advantages in the international arena, but nobody has really worked the thing to get the transaction costs down far enough to be really useful. And the reality is that for the last 30 years the prices of both silver and gold have steadily fallen."

Rohn continues, "While private money is available, it is not a growing trend. People started talking about it in the 1970s because there was very high inflation. There were a lot of private currencies and coinages then and there were many legislative changes making it legal, but there hasn't yet been a truly successful alternative currency. Maybe at some point people will figure out how to do it effectively. But if such monies ever became a competitive threat to the dollar, the government would probably react the way it normally does and make it illegal."

Von NotHaus argues that using the ALC isn't about investing in commodities.

"Remember," he says, "the spot price of silver in New York is for a 5,000-ounce ingot. One-ounce silver pieces [U.S. Mint] are sold for spot plus \$2 to \$4. So at \$5 silver, one-ounce pieces run \$7 to \$9, which is about the same as the \$10 certificate. The price of the certificates includes not only the market value of the underlying silver, but also the minting, storage, insurance, printing and distribution. Paying \$10 or less for \$5 in silver is very reasonable given the costs involved in producing the currency, and don't forget that it's far better than the Federal Reserve notes [dollars] whose raw materials [ink and paper] are worth about 3.5 cents."

There is no telling how successful the ALC will become, but few who are watching it doubt that its popularity is based on the faith of the people using it, very much like Federal Reserve notes. To understand the premise behind the desire of von NotHaus and others to go to silver- and gold-backed currencies, one need only compare an ALC certificate with a Federal Reserve note. One is redeemable in silver, and the other is not redeemable.

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