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Money & credit explained

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INTRODUCTION

The purpose of this leaflet is to dismiss preconceptions about money and credit. It is commonly believed that gold is money conforming to a natural law, and that humanity selected it for the role. This is true, but it misses the crucial point that gold's role as money in final settlement of a debt obligation has been defined in Roman law for the last 2,500 years.

Roman law firmly established that credit is always the other side of a debt obligation only to be extinguished by final agreement between creditor and debtor, settled in physical money which is gold or silver without counterparty risk.

Hence, money is gold, and all else is credit. And the value of credit is always a matter of faith that it will be finally settled in money.

Over a thousand years before the Romans introduced their laws, the Phoenicians were trading throughout the Mediterranean and beyond without a form of money. They would have relied on credit to finance their trading expeditions. This credit would have been settled by sharing the spoils of success in the distribution of physical goods as final settlement. The Phoenicians only started to issue silver coins at the time when the first Roman coins in bronze came into existence.

Roman law evolved and expanded from that time with the empire. Money also altered from bronze to silver and finally gold. When the Empire split into West and East, the entire known world was under Roman-based common laws. From the Urals to Cape Trafalgar, Rome's successor nations adopted it. And as they established colonies and dominions around the world, the Europeans took their common laws with them.

Following independence and prior to the framing of the constitution, the US adopted UK common law through Blackstone's Commentaries on the Laws of England, including the inherited relationship between money and credit crystallised in Roman law. And when in evidence to Congress in 1912, John Pierpont Morgan the greatest banker at that time said that "Credit is evidence of banking, but it is not the money itself. Money is gold, and nothing else", he was stating correctly the legal position defined in common law from Roman times.

The history and extent of our common laws with respect to money and credit should remove any doubt about the distinctions between the two. Furthermore, it follows that any attempt to separate credit from final settlement in physical money is doomed to fail. This is confirmed in every historical case when a government currency's value is separated by fiat from that of gold or silver.

Today's global fiat currency system based on the US dollar is showing signs of teetering on the edge of credibility, overburdened by an accumulation of debt which is proving increasingly difficult to finance. Understanding why the current fiat currency system is probably reaching the end of its life will be vitally important to anyone seeking to preserve their wealth in an environment of escalating credit risk.



Fiat currencies always fail

The purpose of declaring a currency as fiat is to remove the constraints imposed on the issuer to maintain the currency as a credible gold substitute.

Fiat currencies are legislated into existence because states require more funds than they can raise from their citizens through taxation. Furthermore, modern governments intervene in an attempt to stimulate economic activity by deliberately running budget deficits and accumulating non-productive debt.

As government debt accumulates, the risk of its eventual failure increases. It is not just a matter of the increase in its quantity, but of the faith its holders and users have in its value as a medium of exchange.

For a while, currency debasement succeeds without creating undue public alarm. Prices of goods rise to reflect its dilution of value, usually

wrongly attributed to other economic factors. Consequently, the state accelerates the rate of debasement to cover its rising costs as the accumulation of future liabilities come due. This is reflected in the widening gulf between money, which is gold, and its value expressed in depreciating currency.

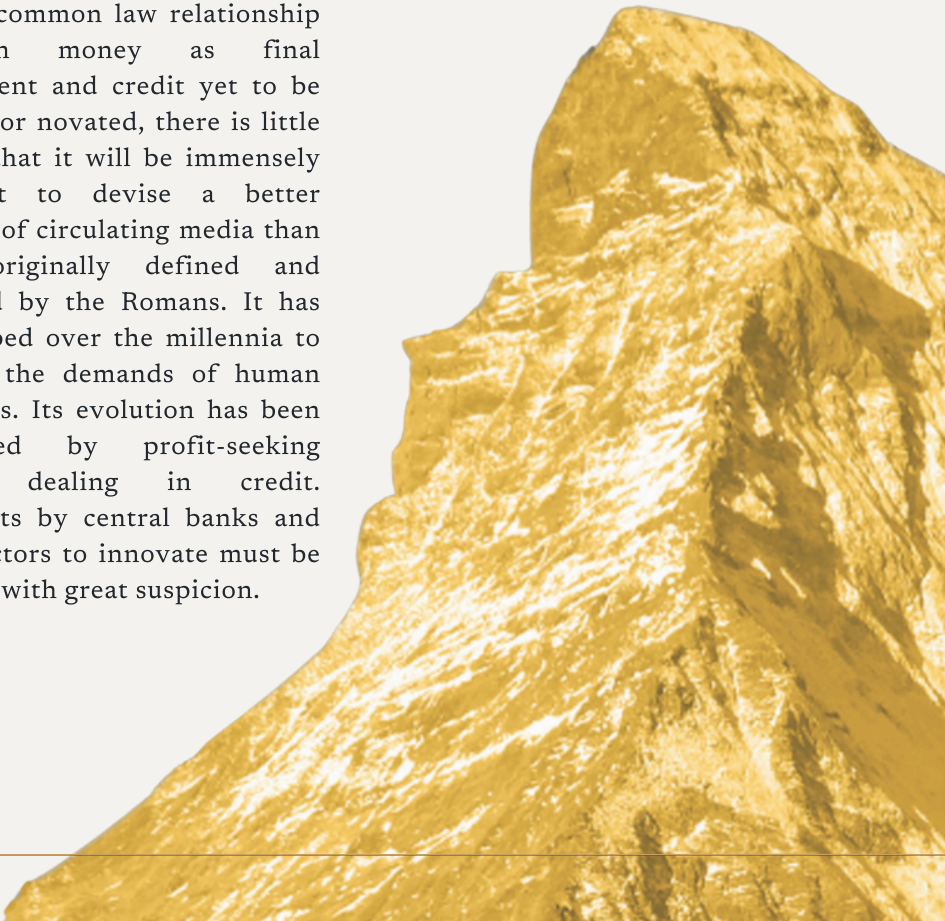
Between 1971–2026, the dollar has lost over 99% of its purchasing power measured in gold. Alarmingly, the rate of the fiat dollar's depreciation has accelerated recently, indicating that the end of its life as imaginary money is approaching. Yet, there appears to be very little recognition of this fact in the Federal Government, its central bank, and among almost all economists in state institutions and universities.

Concluding remarks

The Roman basis of the relationship between money and credit has survived for over 2,500 years. In furthering their users' economic development, the Roman system incorporated in its earliest laws has never been bettered.

For those with an understanding of the common law relationship between money as final settlement and credit yet to be settled or novated, there is little doubt that it will be immensely difficult to devise a better system of circulating media than that originally defined and evolved by the Romans. It has developed over the millennia to satisfy the demands of human progress. Its evolution has been governed by profit-seeking banks dealing in credit. Attempts by central banks and state actors to innovate must be viewed with great suspicion.

All fiat currencies detached from gold's value eventually fail. It is not solely a matter of increasing quantities of currency in circulation, but of human faith in a currency's future value when there is no promise of final settlement in gold.



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Arrange a consultation

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