The Family Heritage Series

A weekly discussion of Americanist truths and traditions for those "heirs of all the ages" who will have to preserve that most important inheritance of all – freedom. Produced by the Movement To Restore Decency.

Volume II

Lesson Ninety-Five

What Is Money?

LESSON IDEA

To study the origin of money, as well as its uses and abuses.

PREPARATION

Read *What Is Money?* by Robert Welch, as background information for the discussions and questions that may occur during and after this lesson. (See "During The Week" for the price and availability of *What Is Money?*)

* * *

HAVE YOU ever tried to carry a cow in your pocket when you went shopping? Probably not, but did you know that cows were used as money in ancient times?

Almost everyone wanted to own cattle in those days because they were valuable as both food and clothing. A cow could supply you with milk, butter, and cheese; and a husky steer made tasty steaks. You could make clothes from the hides and cutting tools from the bones.

Obviously cattle were valuable; but why were they used as money? [*Encourage each member of the family to give a reason.*] Cattle were used as money for two reasons: They had value in and of themselves, and this value was commonly accepted among the tribesmen.

To get a better understanding of what money is, imagine for a moment that your younger brother has suddenly developed a warm attachment to bumpy-backed toads. In fact, he spends most of his evenings during the summer crawling around on his hands and knees in the backyard trying to catch any of the bulge-eyed critters that happen along. After a few days he's collected thirty toads in a pillow case and marches off triumphantly to the nearest ice cream shop to buy some banana splits.

At the shop he steps up to the counter and gives the waitress his order for five banana splits. The toads in the pillow case at his feet aren't too happy, but they soon will be. After a few minutes his order arrives — five of the biggest banana splits he's ever seen.

Your brother is so excited he can hardly contain himself. He picks up his pillow case and hauls it up to the cash register, prepared to pay for his banana splits with his thirty frustrated toads. He tips the pillow case upside down on the counter and out slide the toads, hopping and bouncing around, thoroughly enjoying their new freedom.

The waitress, however, screams in horror and runs out of the door. Meanwhile the toads hop from stool to counter to table throughout the shop trying to find their way home. Your little brother gets so frightened at this unexpected reaction that he forgets his banana splits, his pillow case, and his toads, and runs home crying. He does not realize it, but he has just learned an important lesson: that whatever is used as money must be valued equally by the buyer and the seller.

Now if the waitress had valued toads as much as your brother did, everything would have been all right. But that wasn't the case. What he needed was something *she* valued as much as he did. Today, the forms of money most commonly accepted as a medium of exchange between people are paper

dollars, metal coins, checks, and credit cards.

To be a sound, reliable, and stable medium of exchange, money should either have *intrinsic* value itself, or should *represent* something that has intrinsic value. [***Have one of your children look up the dictionary definition of*** **intrinsic** ***and read it aloud.***] In ancient times, a cow had intrinsic value for both buyers and sellers because it was a source of food and clothing.

GRADUALLY, however, as more complex civilizations developed, many men stopped farming the land and went into business for themselves, producing shoes, wheels, and other items in demand; and it became more and more impractical for men to use cattle as money. After all, if you lived in an apartment above your blacksmith shop, what on earth were you going to do with a cow?

So other things that could be used as money had to be found. They had to be easily carried, to have intrinsic value, and to be valued equally among all the people in the community. For this reason, people started using various kinds of metals, such as gold, silver, bronze, and copper. At first they simply used the metal as it was mined, in the form of powder or nuggets; later they started pounding these lumps into metal coins of a definite weight, each with a definite value stamped on its face. These coins had intrinsic value because they could be melted down and made into jewelry, pots and pans, and even weapons in case of need.

As enterprising businessmen accumulated more and more coins, warehouses were established to give them a safe place to store their wealth. The warehouse owner would issue a receipt to the wealthy man, showing just how much money he had stored inside.

As time passed, it seemed natural that the wealthy men should use these paper receipts as money — as a medium of exchange. It was much more convenient to carry around in your pocket a piece of paper that said you had $100,000 in the warehouse, than it was to haul a cart behind you loaded down with gold and silver coins. It was much safer too. What we should remember about these paper receipts is that they *represented* something of intrinsic value stored in the warehouse.

The warehouses soon came to be known as banks, and the warehouse owners became bankers. It was not long before the bankers realized that few people actually withdrew their coins. Most preferred to use the paper receipts.

The bankers decided to take a certain percentage of the money on hand and invest it in order to increase the amount of money in the bank. They also decided to loan out money and charge a fee for the service. Very often the bankers took a chance and loaned out more money in the form of paper receipts than was actually stored in the bank in the form of real money. This was a dangerous practice, but it was safe as long as the bank's customers didn't suddenly demand their gold and silver. If that happened the bank would be in deep trouble.

WITH THAT BACKGROUND in mind, let's examine the money situation in our country. First of all, when a new nation is formed, it is normal for the leaders to decide on a standard kind of money to be used as a basis for the nation's economic system. The United States was on a gold and silver standard for years. This meant that Americans could trade their paper dollars at banks for either gold or silver if they chose to do so. Few actually did, but the paper dollars in circulation were still backed by something of intrinsic value.

In 1933, however, President Franklin D. Roosevelt promoted, and the U.S. Congress passed, a law prohibiting Americans from owning gold. Of course, it also prohibited the government from exchanging gold for paper dollars. Under the administration of Lyndon Johnson, the government also removed the silver backing from our paper dollars. Today, the paper dollars we use as money have nothing of intrinsic value backing them and our metal coins contain no gold or silver.

What is disturbing to many responsible economists is that while American citizens have not been allowed to own gold until recently or to exchange their paper money for it, foreign governments have been permitted to exchange paper dollars they held for the gold which our government possesses.

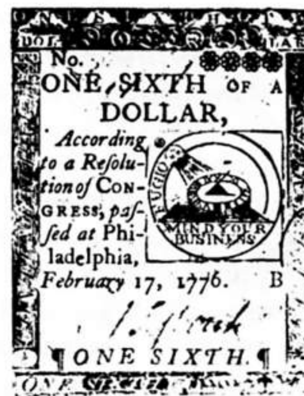
By removing the gold backing from the money held by citizens, the government had freed itself from the need to operate a responsible monetary system. Now that it was no longer necessary to keep a certain amount of gold on hand as something of intrinsic value to back each paper dollar that was

issued, the government could keep its printing presses running indefinitely, churning out more and more dollars. And so it has been doing ever since.

When these unbacked paper dollars are poured into the money supply, they *inflate* the amount of money in circulation. To understand what this does to the economy, let's look at a game of Monopoly. When you play Monopoly, you are given the same amount of money as every other player when the game starts. From that point on, it is your purpose to earn as much money as you can by buying up real estate and building hotels and homes on your properties. As the game progresses, some of the players are losing money rapidly when suddenly your mother walks into the room with a handful of crisp new hundred-dollar bills. She gives each of the losers $700 so they can continue playing. What does that do to the value of the money you have earned? [*Encourage discussion.*] By giving the losers unearned money, your mother has inflated the money supply and has thus reduced the value of the rest of the money on the board. This is what inflation always does.

WHEN WE SPEAK of inflation, we mean that the money supply has been increased. Many people think that inflation is rising prices, but this is not true. The economy is like a giant auction, and if the buyers at the auction are suddenly given more money, they will bid up the price of the goods being auctioned. Thus, inflation causes high prices, but the cause of inflation — the increase in the money supply — is the government's printing unbacked dollars and distributing them to those who have not earned them.

Unfortunately, however, by inflating the money supply the government is not only providing itself with money to distribute as foreign aid and welfare, it is taxing Americans as well. How long would you continue playing Monopoly if this situation occurred: You have been winning the game all day, even though the losers have been given extra hundred dollar bills every hour or so. Suddenly your mother says that, to be fair, she is going to take one hundred dollars from you for every four hundred you earn, and give it to your opponents. On top of that she has decided to tax you a hundred dollars for every house and hotel you own, as well as another sum for the land you hold. Moreover, in the future,



PRINTING PRESS CURRENCY was tried by the Continental Congress in 1776 as a way of financing the Revolutionary War. The results were disastrous; prices went up and the value of the paper "Continentals" went down. Many storekeepers refused to take them, demanding instead gold and silver. Congress called a halt to printing press currency in 1781; and since that time, the phrase "Not worth a Continental" has been used to describe anything worthless.

for every hotel you wish to buy, you will have to write out a long report explaining in detail why you wish to build it on your land and proving that your hotel will not harm the environment.

But that's not all. With the money your mother has taken from you in taxes, she has bought up the choicest lots and made many of them into national parks. On others she has built housing projects, so every time you pass her property you have to pay her rent. How long would you continue playing the game if you were subjected to such unfair restrictions? Probably not long. Unfortunately every enterprising businessman in American finds himself in just such a position because of government interference in his private affairs.

With taxes, federal guidelines, environmental impact statements, and minimum wage laws, the federal government is driving many businessmen into bankruptcy. When government restrictions continually reduce a company's profit, the businessman is finally faced with no other alternative than to close his doors. When he does that, his employees lose their jobs and are forced into idleness, or into welfare and unemployment lines.

It is only by making a profit that a businessman can stay in business, providing jobs and producing products in demand. The opportunity to make a profit is what gives men the motivation to go into business for themselves.