

**UNITED STATES HISTORY
IN CHRISTIAN
PERSPECTIVE:
HERITAGE OF FREEDOM**

A Beka Book
Pensacola Christian College
(1996)

Absence of Biblical principles of money and banking in treatment of history of U.S. money and banking; coverage of the first and second Banks of the United States omits the original intent of the Constitutional Convention in voting down a bid to empower the federal government to charter corporations, such as banks; no mention that the Federal Reserve System provided for an "elastic" money supply, with price controls on credit to insure its expansion, despite a Constitutional Convention vote not to authorize federal emission of bills of credit

NO GOVERNMENT SOVEREIGNTY OVER MONEY & BANKING

— in the Bible —

- Deliberate currency debasement/inflation ("deceitful weights") is wrong. (Lev. 19:35-36; Deut. 25:13-15; Prov. 11:1, 16:11, 20:10, 23; Amos 8:5-6; Mic. 6:10-11) The root word for shekel means "to weigh." The term "weights" is a Biblical equivalent for "money."

"... neither shall he [the king] greatly multiply to himself silver and gold." (Deut. 17:17b)

- Q₁** What does the phrase "silver and gold" signify?
A₁ Israel's economy was on parallel standards (not bimetallism). (Gen. 23:16, 1 Chron. 21:25, Jer. 32:9-10) Everything had one price in silver and another in gold. The market set the exchange rate.
A₁ Government could greatly multiply either silver or gold at any one time, but not both at once.

- Q₂** What does "to himself" mean here?
A₂ It distinguishes productive from unproductive consumption. It bars the simultaneous great increase of both silver and gold in government hands (the unproductive sector). It does not ban the increase of silver and gold in private hands (the productive sector).

- Q₃** Where does it draw the line between "greatly" and "non-greatly"?
A₃ In loans backed by one's labor in case of default, one could borrow up to 6 years' wages between Sabbath years. If government greatly increased silver, it could not increase gold enough to devalue the gold shekel during that 6-year period lest it defraud creditors and oppress debtors (in inflation, cost of living rises faster than wages).
A₃ Thus, within this timeframe, government could hardly increase the supply of the non-greatly multiplied metal at all. "Greatly" means "enough to affect the price level."

- Q₄** How could government greatly multiply to itself a precious metal?
A₄ By taxation, external tribute, or foreign plunder.

- Q₅** How would this rule affect the private sector?
A₅ Contracts would stipulate payment in the metal whose supply was more stable.
A₅ It would shield commerce, interest rates, insurance, pensions from risk due to government's propensity to inflate.

- Q₆** How would this rule affect the public sector?
A₆ It distinguishes tax rates from tax revenue. The more government taxed transactions in the greatly-multiplied metal, the more its revenue would fall as the private sector shifted to the other metal.

- A₆** The more government spent its greatly-multiplied metal, the more its purchasing power would fall.



**Economic behavior is not value-free.
The Bible is an economics textbook
in Christian education.**

— in the Constitution —

- States cannot "emit bills of credit" (i.e., circulate unredeemable paper money). The Constitutional Convention rejected a bid to empower the federal government to emit bills of credit, and refused to authorize it to charter corporations (such as banks).
- Congress can coin money and define the precious metal content of the monetary unit(s). This allowed *bimetallism*, where gold and silver exchanged at a legally-set ratio. From 1792 to 1873, bimetallism worked poorly. The fixed legal ratio lagged behind the fluctuating market ratio, so the overvalued metal drove the undervalued metal out of circulation, putting the U.S. on a de facto gold or silver dollar standard. Biblical parallel standards and hard money would have provided more money without the instability, which became a pretext for federal control over money and banking.

how these Christian school texts might improve:

Note **conformity to** and **violation of** constitutional/Biblical principles in the **blue** and **red** passages below.

HISTORY OF U.S. MONEY & BANKING

strict construction 1791-1861

A. *McCulloch v. Maryland* constitutionalized the federally chartered Bank of the U.S. and implied federal sovereignty over money and banking. Hamiltonians/Whigs/Republicans favored this. Jackson's abolition of the Bank, however, and the independent treasury system, ended federal involvement in money and banking until 1861. There were hard money and soft money Jeffersonians/Jacksonians. In emergencies such as wartime, the Treasury borrowed money by issuing short-term, interest-paying promissory notes in large denominations.

B. Banking in this era was not laissez-faire. To raise money, states sold *state bank* charters, which let a bank operate only in a certain territory, and forbade branch banking. This "unit banking" rule hindered asset-diversification and risk-spreading, yet state banks supported it because it restricted competition. Some states provided deposit insurance funds to prop up weak state banks, encouraging state bank irresponsibility. But where branch banking existed, or banks formed and monitored their own insurance associations, state banks did well.

C. In *free banks*, organized under Jacksonian general-incorporation laws, states created a market for their debts. Free banks had to buy state bonds, which they could use as collateral for issuing paper money redeemable on demand. Free banks were stable where state finances were sound. If state finances were shaky, state bond prices (and hence the value of free banks' assets) fell, causing "runs" and bank failures. Private "clearinghouses" redeemed distant banks' notes — often at a discount — and helped restrain inflation.

loose construction 1862-1932

D. Between 1862 and 1865, the North issued \$400 million in "greenbacks" to help finance the Civil War. This was the first unredeemable federal paper money, declared legal tender for all debts public and private. In 1871 the Supreme Court constitutionalized federal legal tender paper money in emergencies, and in 1884 in peacetime, as a sovereign right of government, except where contracts specified repayment in gold. \$346.7 million of these greenbacks remained in circulation, and became redeemable in gold in 1879.

E. In the National Banking System (1863-1913), federally chartered "national banks" bought federal bonds and issued paper money against them. That meant deflation in the Gilded Age, as federal surpluses retired old debt. These banks accepted each other's "national bank notes" at face value. This led to fewer bank runs, but more severe runs when they did occur, since the whole system would be suspect, as in the Panic of 1873. Unit banking continued. Strong banks formed private clearinghouses from which to borrow in times of need.

F. From 1873 to 1933 the U.S. was on a fractional-reserve gold standard, backed by a readiness to sell bonds for gold in world markets if U.S. gold reserves to redeem the dollar fell below a \$100 million minimum threshold. Though inflationists tried in 1878 and 1890 to raise prices through "free silver," the U.S. remained on a de facto gold standard because the Treasury redeemed silver dollars and silver certificates in gold. The national financial Panic of 1893 occurred when U.S. gold reserves dipped below \$100 million.

G. Congress taxed state bank paper money out of existence in 1865. Under the National Banking System's "inelastic" money supply, long-term stock and bond returns were more stable and short-term interest rates more volatile. The opposite occurred under the Federal Reserve System's (FRS) "elastic" money supply. This was because interest rate regulation by the FRS put *price controls* on credit. The market rate of interest (the price of money) is investors' guide to future demand. Overriding it made investing riskier.

H. The FRS at once also undermined the gold standard. During WWI, it cut reserve requirements. From 1921-29, it increased the money supply by 62% while gold reserves rose 15%. It did this by expanding bank credit through below-market interest rates, and by buying federal bonds. That began a boom-bust cycle, and let Europeans delay deflating or devaluing their currencies, which since 1914 were overvalued in gold relative to the dollar. U.S. prices in the 1920s were stable. Rising productivity concealed monetary inflation.

federal sovereignty since 1933

I. In 1933-34, the federal government declared its ownership of all U.S. monetary gold, ordered citizens to surrender it for paper money, outlawed acquiring it "except under license," and required those still holding it to swear in writing what they had and where it was. Americans could no longer redeem dollars in gold. Ending the domestic gold standard increased federal power to tax through inflation. Inflation shifts purchasing power to government, which spends first the new fiat money it creates, before the resulting price rise.

J. The "gold exchange standard," adopted in international trade in the 1920s and again after WWII, undercut the classical gold standard. When they experienced trade deficits, "key currency" countries (for internal political reasons) inflated in order to hold prices up and interest rates down, instead of deflating to equalize the balance of payments. That exported inflation, internationalized unsound investments, entailed chronic trade deficits, and in 1971 dissolved all gold constraints and fixed exchange rates in foreign trade.

what it says now:

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No info on the alignment of original intent of the Constitution with Biblical monetary and fiscal principles that deny human sovereignty over money and banking, and the cautionary lessons from their neglect in American History