

Bucking the System: Liberty Dollars take on the Federal Reserve

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For the average American, spending money is like breathing. We don't even think about it. Sure, we may not always *enjoy* parting with our hard-earned dollars — especially when they go to student loans and parking tickets and absurdly high rent — but we typically don't ponder our cash except to miss it when it's gone.

But what if we did? What if we bothered to read up on the Federal Reserve, and we discovered our currency system was based on little more than smoke and mirrors — that a dollar was only worth a dollar because we all believed it was? And that our imaginary dollars would be worth a lot more if the government wasn't going off and printing more whenever the mood struck? What would we do?

Most of us would probably stand by our familiar greenbacks. We'd pay the bills, we'd put a little in the piggy bank, and we'd get on with our lives. Because, really, what *can* you do to contradict the most powerful status quo in the world? Invent your own currency? Most of us aren't even aware that we have the right to do such a thing.

Bernard von NotHaus, on the other hand, is intensely aware of his constitutional rights in this regard — and he can be quite intimidating when he gets all fired up on the subject. Right now, he's aghast that I've never actually handled an American Liberty Dollar (ALD), a currency he spent 23 years designing.

ALD currency is actually issued by NORFED (the National Organization for the Repeal of the Federal Reserve Act and the Internal Revenue Code), of which von NotHaus is the senior economist. Launched in 1998, as a protest against the debt-backed Federal Reserve System, the ALD is a silver-backed currency that trades on a one-to-one ratio with Federal Reserve Notes (FRNs), i.e. US currency as we know it. The silver that gives ALD currency its value sits in a warehouse in Coeur d'Alene, Idaho. And, according to the US Treasury Department, this is all perfectly legal.

Some 213 Maine businesses — ranging from hair salons to auto-body shops to almost anything else you can imagine — purport to accept ALDs as full or partial payment for their goods and services, but the Portland ALD distributor listed on NORFED's Web site, www.libertydollar.org, seems to have blinked out of existence. So on the morning I talk to von NotHaus, I've yet to get my hands on any of his cash.

"You know what that's like — seeing pictures of the currency, versus seeing it in person?" he asks breathlessly. "It's kind of like the difference between looking at — what do they call the woman's sex magazine? Not *Playboy* — the opposite one."

“*Playgirl?*” I offer, failing to stifle an uncomfortable giggle.

“They really call it that, huh? Well, it’s kind of like the difference between flipping through *Playgirl* and sleeping with Mel Gibson, for example. There’s nothing for being *live*, you know what I mean? I assume that you’re over 18?”

Spending spree

I meet James Duclos, a Saco-based ALD distributor, on a Saturday morning in downtown Portland. I trade him a Jackson for two fives and 10 singles in ALD currency, and he lets me palm one of the \$10 silver coins for a moment.

“Give it a heft,” he says.

It’s a Troy ounce of .999 fine silver, and, well — damn. The thing feels like it’s actually worth 10 bucks. I hand it back reluctantly.

The bills are handsome, too: the singles are printed in brown ink on cream-colored paper, with official-looking foil overlays, serial numbers, and signatures (von NotHaus’s and a warehouse official’s) on both the front and back. They’re shorter and slightly fatter than Federal Reserve Notes. The fivers are a fraction wider and a bit longer than the singles and printed in a plumish purple on a darker shade of cream paper. They feel . . . real. But will they buy a cup of coffee?

None of the Maine merchants listed on libertydollar.org as accepting ALDs are in Portland. Most aren’t even close. Duclos — who accepts the currency at his own business, the Maine Catch Lobster Company — says he simply tries to use ALDs wherever he goes. Some people take it, some people don’t.

“I used it at the movies last week,” he offers helpfully.

But logic tells me he’s lying; that such claims are part of some slick propaganda machine. Why would anybody take a form of currency they’d never heard of before? I mean, it’s not even *Canadian*.

I order a small iced coffee at Coffee By Design on Congress Street, and I proffer my frequent-buyer card to the young cashier before he has the chance to ring me up. *See, I intend to convey, I come here often. I’m not some freak with weird money in my wallet that I’m about to offer you.*

He rings me up — \$1.18 — and I pull the weird money from my wallet. I’m actually nervous about this.

“Will you take this?” I ask. I’m about to launch into the pared-down, apolitical explanation I’ve prepared — it’s legal, it’s backed by silver, you can redeem it if you want to — when the cashier excitedly whisks the bills from my outstretched hand.

“Wow! Cool! What are these?” he asks.

I recite my explanation, and he's nodding his head in enthusiasm. But he's also standing behind the register in a store he doesn't own, and he looks like he's about to remember that fact. I lean in for the kill.

"I'll give you one as a tip if you'll take them," I say, as enticingly as I can with my bemused husband looking on.

"Cool! Sure!" he says. "Thanks!"

He curls the bill gingerly into the tip jar, and I walk out with my coffee.

The cashier at the Congress Street Starbucks is a little more reserved. She seems to take my explanation of the currency at face value, though, and she examines the bills with interest. Her co-worker coos about how pretty they are.

"I don't have a button for these," she concludes, finally. She scans the face of her register, as if to double-check.

"They're cash, basically," I reply.

"Hmmm," she says. She studies one of the bills a little more closely.

"Okay," she says, after a moment. "I don't see why not."

I hand my husband his coffee, and when she hands me my change I drop it in the tip jar. I can't keep giving the damn things away, after all.

Sunday afternoon, we hit the Dunkin Donuts on outer Congress Street. The older woman behind the counter eyes the ALDs with suspicion when I offer them to her, and I barely get through the first sentence of my explanation before she's got the bills in her hand and a manager over her shoulder.

"We don't take those," the young manager says, with a cursory glance at the bills. "We only take travelers checks, and even those we hardly ever take."

She bustles away, but the cashier is still squinting at me with distrust. I pull a handful of greenbacks from my wallet, swiftly, and offer them with a smile.

"It's okay," I say brightly. "Not a lot of people have heard of them. They're still sort of new. The founders are really political about it, but I just think . . ."

"I wouldn't even touch them," she interrupts, taking my FRNs with a deadpan expression. "They just look wrong. They don't look right at all."

I smile again and hurry out, before she decides to call the FBI.

The run-in at Dunkin Donuts notwithstanding, I'm astounded. Some people are actually *taking* this money. The guy at Joe's did refuse to take ALDs for my pack of smokes, but, interestingly, he said he'd seen them before.

“Real young girl, about 18, a couple of months ago,” he explained. “But Joe’s bookkeeper won’t let me take ‘em. Too complicated.”

And Casco Bay Books took a whole \$5.95 for the summer fiction issue of *Ms.* — the largest purchase I made with ALDs.

Duclos says he’s had increased success using ALDs lately, too.

“I’ve had a few people not accept it, a few merchants,” he says. “But that’s mostly out of ignorance, I think. They just don’t know what it is and why it is there.”

Ironically, in places like Bangor, which NORFED lists as having 16 ALD-friendly merchants, most business owners have never had a customer offer the currency.

“We agreed to do it with the understanding that no one was probably ever going to bring one in here,” says Bangor Ski Rack owner Jeff Peet, who was approached about becoming an ALD merchant about a year and a half ago. “The guy that was doing it works for one of the small-business associations, and that’s kind of what precipitated the whole thing.”

Peet says he thinks the motives behind the ALD — returning America to a commodity-backed currency, is “a pretty good idea.”

In Glenburn, Tam’s Upholstery Owner Tami Quintal says she started accepting ALDs about four months ago, “but I’ve never had anybody bring any in.”

She, too, was approached by a local NORFED rep, and agreed to put the ALD sticker in her window “‘cause it’s cool-looking money!”

“I have 40 bucks in it,” she says, “and I bought an extra \$25 for my father-in-law, just because he collects weird money.”

Although there are several merchants in Glenburn in addition to Quintal who accept ALDs, she says she’s never spend it.

“Good Lord, no! I love it,” she explains. “I’ve showed it to a lot of people, though.”

Economic alternatives

Though American Liberty Dollars are certainly unusual, both in appearance and in the scope of their use, Bernard von NotHaus is hardly the first person in America to come up with the idea of an alternative currency system.

Back in 1991, for example, the city of Ithaca, New York made famous a concept that has since taken root in Maine and elsewhere: a time-dollar network that lets people within a community trade their skills without the exchange of money. The concept has proven so popular that Portland West is launching its own West End Time Dollar Program this weekend (see “Time *Is* Money,” page 17).

Then there are de facto currencies; commodities that enter the cash stream with little planning or motivation behind their use.

“For example, in New York City, subway tokens in effect became currency, in that people used them to tip cab drivers and stuff like that,” recalls Howard Gray, bank superintendent of the Maine Bureau of Financial Institutions. “This was ages ago, when they had tokens.”

“Everyone knew what the value of a token was, because everyone knows what the value of a subway ride is,” Gray adds. “And even if someone was not going to use the subway, they knew someone who *would* be using the subway or bus, so therefore would be willing to purchase it for cash.”

It’s precisely this concept, of a currency based on something tangible, that von NotHaus is pushing. He takes issue with the fact that Congress has progressively weakened the commodity backing of the Federal Reserve System, eventually leaving Americans with a currency no longer supported by anything other than the government’s promise to pay back its massive debt to itself. (Congress switched from a gold standard to a silver standard in 1933, and abandoned the silver standard altogether in 1964.)

Von NotHaus claims ALDs are superior to the Federal Reserve because NORFED issues new silver certificates into circulation only when somebody comes along and gives NORFED the conventional money to buy the silver that backs the new ALDs.

“What happens is, we take your [FRNs], and we go to the shmucks in New York City — the New York Commodity Exchange — and we buy more silver. We have that transferred to the warehouse, and the warehouse issues more silver certificates to distribute.”

Von NotHaus says there’s about \$500,000 in certificates in circulation right now, which translates to 50,000 ounces of silver in the warehouse. The certificates are actual receipts, which means, in theory, that you can demand silver from NORFED in exchange for the certificates. You can’t, however, get silver from a redemption center affiliate, like Duclos, because the silver is legally required to be in the warehouse. Nor will NORFED exchange ALD bills for Federal Reserve Notes. That conversion requires you to redeem the actual silver and sell that for federal cash.

In contrast, FRNs aren’t redeemable for squat. They’re backed by a small amount of gold, but mostly by United States securities, which are basically government IOUs to itself.

The structure of our monetary system bears some explanation. For starters, the Federal Reserve, created by Congress in 1913, is not technically “federal.” The seven members of its Board of Governors, including chairman Alan Greenspan, are nominated by the President and confirmed by the Senate to 14-year terms. The Board of Governors constitutes an actual government agency that creates and implements the country’s economic policy. (But requires zero ratification of its actions from either the executive or legislative branch of the federal government.)

The 12 Federal Reserve banks comprising our country’s economic infrastructure, however, are private institutions. They buy money from the Treasury Department’s Bureau of Printing and

Engraving for roughly five and a half cents per bill, and lend that money back to the government at its full face value. The Board of Governors determines the banks' interest rates.

By mandate, the Federal Reserve is not a for-profit institution. It's required to turn over roughly 98 percent of its profits to the Treasury Department, which last year amounted to a \$27-billion return to the federal government. Its stated mission is to draft sound economic policy for the country.

But profiteering isn't exactly what protesters like von NotHaus are accusing the Fed of. It gets a little more philosophical than that.

"Under a gold standard, the amount of credit that an economy can support is determined by the economy's tangible assets, since every credit instrument is ultimately a claim on some tangible asset. But government bonds are not backed by tangible wealth — only by the government's promise to pay out of future tax revenues — and cannot easily be absorbed by the financial markets. A large volume of new government bonds can be sold to the public only at progressively higher interest rates. Thus, government deficit spending under a gold standard is severely limited. The abandonment of the gold standard made it possible for the welfare statist to use the banking system as a means to an unlimited expansion of credit."

This crisp indictment of our current monetary system comes not from von NotHaus, but from a 1966 essay by Alan Greenspan, titled "Gold and Economic Freedom." The famous essay goes on to explain that our greenbacks become worth less and less as the government prints more money for its own personal use, because "there are now more claims outstanding than real assets.

"The law of supply and demand is not to be conned," he continues, noting that "prices must eventually rise" when there's more paper money on the market than there are assets to back it.

"Thus the earnings saved by the productive members of the society lose value in terms of goods," he concludes. "When the economy's books are finally balanced, one finds that this loss in value represents the goods purchased by the government for welfare or other purposes with the money proceeds of the government bonds financed by bank credit expansion."

Silver lining

While Greenspan has gone on record lamenting our abandonment of the gold standard, economists staunchly reject the claim that we need a commodity-based currency. University of Southern Maine economics professor John Bay says there's no advantage to such a system, and takes an if-it-ain't-broke approach to the Federal Reserve.

"If you take a look at the inflation rate over the past 10 years, it's gone down substantially," he says. "And part of that is because the Federal Reserve has made a much stronger commitment to price-level stability."

But Bowdoin economics professor Michael Jones acknowledges that some people think the Fed's hands should be tied a little more tightly, and that a commodity-backed currency would accomplish that goal.

“If you think we need a Federal Reserve System that has some flexibility and can attempt to manage the economy, then you don’t want to constrain them,” he says. “If you think the Federal Reserve System is just prone to printing money and creating inflation, then that’s exactly when you do want — to constrain them and force them to print no more money than their gold or silver backing would allow.”

Still, Jones contends that keeping so much precious metal stashed away in warehouses is counterproductive.

“The biggest problem is that it is a horrible waste of resources to have precious metals tied up in the monetary system,” he contends, “and not going to industrial and other sorts of purposes. Those are resources that could be used for other things.”

Even von NotHaus would be hard-pressed to argue with such logic, considering he uses similar arguments to defend his currency system.

“Silver is valuable because it has intrinsic value,” he asserts. “Every burn treatment ever invented uses silver. Thousands of other applications use only silver, because of silver’s unique properties. It has value in and of itself. That \$10 bill you have in your pocket does not have \$10 worth of value attached to it, whatsoever at all.”

Fair exchange

The American Liberty Dollar has at least two major hurdles to overcome if it’s ever to achieve its goal of replacing the Fed. First, NORFED needs to mint pocket change; right now the smallest ALD denomination is a dollar. But here the organization is caught in a bit of Catch-22, because coins are expensive to mint, and small change will have little use until acceptance of the currency is more widespread.

Second, and even more of a conundrum, is the ALD’s exchange rate. FRNs are the only currency that American merchants are required to accept, and as such, our tax base is structured on the dollar. As Treasury Department spokesperson Tony Fratto explains, this has some interesting implications for merchants and would-be currency architects.

“You couldn’t pay your income tax in say, apples,” he says, “but if 7-11 is willing to accept apples in exchange for Big Gulps, they can do that. Now, retailers do have to have a dollarized value to whatever they’re selling, because it’s all taxable. So if they were going to accept apples for Big Gulps, they would have to put a dollar value on the apples, so they know how much state income tax to pay and how much income was brought into the 7-11 corporation. But they can accept anything they like.”

So, framing ALDs as the proverbial apple, NORFED is wise to match its currency’s value exactly to the dollar — because what clerk in her right mind is going to calculate exchange rates in her head just so you can use your weird new money? How many merchants would bother to retrofit their registers with a conversion function?

But the downside to this convenience is that ALD users are still paying Federal Reserve prices for whatever they buy — a system that, if you recall Greenspan’s logic, robs average

Americans of the full value of their dollar by letting the government overspend it into inflation. There's some relief for people like Duclos, who gets a five-percent discount on his ALD currency by virtue of being a redemption center, but how feasible is a currency if *everyone* decides to get on the discount bandwagon?

Perhaps as feasible as a currency backed by nothing. If not, you can always cash in your ALDs for pocketful of silver.