

Answering Question #6

6. The Federal Reserve is a government institution that is authorized by the Constitution to print or coin money.
- a. True
 - b. False

The correct answer is “False.” Take out a dollar bill and see what is written on it; it says “Federal Reserve Note.” So what is the Federal Reserve? The Federal Reserve is a private bank, not a government institution, though it has some degree of oversight by the federal government.

Although Article I, Sec. 8 of the Constitution authorizes Congress to coin (and print) money, our money is not printed by the United States government, but by a private bank held by private interests. Based on my general reading, here is a little history regarding private banks and national debt.

During the Civil War, both the North and the South sought to borrow money to finance the war from the same banks in Europe. However, these banks offered money to the South for one rate and to the North at another rate, a much higher one. Why? Because most of the European nations feared how powerful a unified United States of America would become and therefore wanted the South to win the war, thus dividing the nation.

The big banks in Europe had managed to establish themselves in virtually all the prominent nations in Europe except one – Russia – which was holding out against the powerful European money brokers. Seeing that these same bankers were seeking to divide and conquer the United States, Russia essentially aligned itself with the North. It is difficult to document, but it is rumored that the Europeans would have also helped the South militarily, had it not been for Russia who threatened them with war if they did.

So, Abraham Lincoln was faced with a money problem. He needed money to fight the South but refused to pay the high interest that the European bankers wanted. He then convinced Congress to authorize the printing of its own currency, which came to be known as Greenbacks because of the green ink used to print one side of the bills.

Before the Civil War, the only money used in the United States was gold and silver coin. Some paper currency was issued by private banks but the bills only had value if the bank that issued them could back them up with gold or silver. If the bank failed, the paper money it issued became worthless. Paper currency’s value is simply based on confidence in the bank that issues it and the willingness of people to use it in trade.

Lincoln’s Greenbacks were authorized as legal tender for all debts and Lincoln used the money to pay his soldiers and win the war. Because it was not backed by gold or silver, only by faith and confidence in the United States government, the value of the

Greenback fluctuated, but after the war it had a rebound and held a good value.

Unlike the privately issued Federal Reserve Note that we use today, official United States currency, such as Greenbacks, is inserted by the treasury directly into circulation, free of interest. However, no official United States currency has been printed since 1971. How the U.S. government was convinced to turn over the printing of money to one central private bank is a long story. But one question that this fact raises is this:

“Why does the United States government borrow money from a private bank and pay interest on it, when it could just print interest-free money itself?”

Note: Today, our money is not backed by gold or silver, only by the level of confidence that people and other nations have in it.