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Preserving their monopoly on monopoly money

The feds stamp out innovative currencies that threaten their financial control

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“The need to slough off the outworn old to make possible the productive new is universal. It is reasonably certain that we would still have stagecoaches — nationalized to be sure, heavily subsidized and with a fantastic research program to ‘retain the horse’ — had there been ministries of transportation around 1825.”

Entrepreneurs are trying to create superior money, which is needed for global economic well-being, to replace the dollar and other failing government-created currencies. Unfortunately, these innovations are being strangled in their cribs by power-hungry central bankers and politicians. The best known of these new experimental currencies — “Bitcoin” — is now under attack by several U.S. governmentagencies.

The U.S. Federal Reserve System is responsible for creating and maintaining the value of the U.S. dollar, yet the dollar is now worth only one-23rd as much as it was when the Fed was created in 1913. Of late, the Fed has been keeping interest rates below the rate of inflation, which means that savers are suffering from a loss of real capital (equivalent to a large tax increase on savings), while, at the same time, small businesses and individuals are finding it is nearly impossible to obtain reasonably priced loans unless they are homebuyers. Similar situations are true with the other major world central banks.

Governments the world over are financing massive deficits by selling their debt to the central banks — the ultimate global Ponzi scheme. Smart people see the coming disaster and are looking for alternatives to government-created (central bank) money. Some are buying gold, which served as largely successful, global, nongovernment-created money for much of time before the World War I. Gold buyers, while feeling more secure about holding something real, are at risk because governments hold more than 20 percent of all gold, and even relatively small sales of gold by one or more governments can cause the price to drop substantially. Government officials hate the idea of private people using alternatives to the government monopoly money. From 1933 until 1973, the U.S. government even prohibited private individuals from owning gold coins or bullion.

In the age of the Internet, it is possible to create digital money with or without backing of something real. This possibility gives hope to most people because they could be liberated from the yoke of government money.

As you probably have read, Bitcoin is a brilliant software innovation, whose developers, for good reason, have chosen to remain secret. Bitcoin enables individuals to sell and buy goods and services using a privately created digital currency, which allows a high degree of privacy and anonymity. The maximum number of Bitcoins is fixed, and the current market value is determined by supply and demand. The use of Bitcoins has been growing rapidly, but the total value is minuscule compared to the dollar and other major currencies. As an economist, I see many problems with Bitcoin as a true money substitute, even though I very much applaud the innovation.

About two weeks ago, the Department of Homeland Security obtained a warrant to seize an account tied to the largest Bitcoin exchange with the allegation that the transactions were "part of an unlicensed money-services business," even though Bitcoin is not issued by a central bank and hence is not legal tender. (Those of you who still play the board game Monopoly — beware. The Obama administration may soon be after you.) The Obama administration's Treasury Department, run by the same folks responsible for the IRS, claim that the holder of the Bitcoin account did not register with the Treasury's Financial Crimes Enforcement Network. The network claimed that the account could be used for "money laundering."

Money laundering has no precise legal definition because it is based on so-called "intent" rather than an actual activity. For example, you and a friend could engage in identical money transactions. However, if you had the "intent" to not reveal the source of the money, and your friend did not have that intent, you could be sent to jail, but not your friend. Intent is very hard to prove, and that is why very few people are convicted of the primary crime of "money laundering." It is almost always an add-on charge for someone who is charged with some other primary crime. Money laundering is a new crime. There was no prohibition until 1986. This kind of vague law is the type of law loved by totalitarians because it makes it easy to go after one's political or other opponents. As Stalin's longtime head of the NKVD, a predecessor of the KGB, Lavrentiy Beria was reported to have said, "You name the person, I will find the crime."

If statutes against money laundering can be applied to something that is neither legal money, nor even a physical good, but a software innovation, then there is absolutely no limit to the power of those in government to shut down any activity they do not like, for whatever reason. Perhaps, in order to distract the media from his own well-publicized conflict-of-interest problems, Gary Gensler, Obama-appointed chairman of the Commodity Futures Trading Commission (CFTC), just announced that the commission might also try to regulate Bitcoin as if it were soybeans.

I have a long list of government agencies that need to be shut down in order to protect innovation, economic growth and, most importantly, liberty. After the recent Bitcoin outrage, the Financial Crimes Enforcement Network and the Commodity Futures Trading Commission just shot up to near the top of the list — next to the IRS.

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