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## **“Bad Money Drives Out Good”**

**by Charles Adams**

This is what has been called Gresham’s Law. It was formulated by Sir Thomas Gresham to explain to Queen Elizabeth I what was happening to the English shilling. Her father, Henry VIII, had been adulterating the English shilling, the basic coin of the realm, by replacing 40 percent of the silver in the coin with base metals — a clever way, so he thought, to increase the government’s income without raising taxes. It was, in short, a sneaky devaluation device; hopefully the people wouldn’t notice. Of course it *was* discovered and this “bad money” drove out the pure silver shillings then in circulation. Astute English merchants and even ordinary subjects would save the good shillings and circulate the bad ones; hence, as Gresham observed, the bad money (Henry’s adulterated coinage) would be used whenever possible, and the good coinage would be saved and disappear from circulation.

Queen Elizabeth realized that Gresham was right and formulated a bold plan to restore the shilling with pure silver. She called in all the adulterated shillings her father had minted, melted them down, removed all the base metal, and minted pure silver shillings to replace the “bad money.” The English shilling became the most sought-after coinage in international commerce and put Britain on the road to become the superpower of the world for centuries to come. For the next 300 years it was the basis for long-term prosperity, economic stability, the expansion of trade and industry, the development of natural resources, and the founding of a colonial empire stretching over the globe — so that the sun never set on the British Empire — until, of course, the British revenue authorities in the 20th century emulated Henry VIII and ignored the wisdom of his daughter.

Elizabeth’s fiscal policy did not come easy, for she had to replace the pot metal with pure silver. To carry out her plan to restore the currency, she had to borrow heavily from the City of Antwerp to finance the cost of the new shillings. She also felt it necessary to increase the number of shillings in a pound sterling, since her father had pulled off an international rip-off — reducing the number of shillings in a pound on his foreign debts. Her policy of sound money was not new; it was first brought to the attention of the world 2,000 years before by the ancient Greeks.

Gresham had more than a thousand years of fiscal history to observe this phenomenon. The commerce of the ancient Greeks was based on a pure silver drachma, and they passed stringent laws protecting the coin, which the Romans took over. They too started their rise to superpower status with trade based on the pure silver drachma. But the Romans, like Henry VIII, started putting copper in the once-pure drachma, now called a denarius. It was so easy, but, again, the Roman fiscal authorities — *like all fiscal authorities since the beginning of time* — did not fool anybody with their debased coinage. (Today, of course, the whiz kids in the U.S. government have debased U.S. coinage and currency far beyond anything Henry VIII had done in England, and the frightening thing is that no one has said a word.)

To give the reader some idea of what happened in Roman times, consider the cost of a bushel of wheat as the Roman fiscus started adulterating the money, bit by bit over a few centuries. In A.D. 100, when the drachma was pure, it took 3 drachmas to buy a bushel of wheat. In A.D. 200, as the coinage was adulterated with some copper, it took 10 drachmas to buy a bushel of wheat. But the adulteration kept accelerating, and by A.D. 270 it took 200 drachmas to buy a bushel of wheat; by A.D. 314 it took 10,000 of the debased drachmas to buy a bushel of wheat. But it took a few centuries for this to take place, and in the end the Roman government had to go back to gold and mint a new gold denarius.

Since then, gold has remained the basis for all sound revenue systems, and, despite arguments to the contrary, most governments today have pursued a policy of minting phony coinage or printing worthless paper. No longer do Americans have gold certificates, or even silver certificates, redeemable at the U.S. Treasury, as they once did. If history is any guide, these stacks of fiscal cards will collapse and nations will be forced to return to pure gold and silver coinage once again.

The United States has been on a policy of phony money for only 70 years; it took the Romans a few hundred years for their fiscal stack of cards to collapse, so we can anticipate a long decline in value until the inevitable collapse, maybe two or even three centuries hence.

When I was young, American coinage was silver, and it felt nice to handle, unlike the pot metal coinage we have today. But now, the good money — the silver dollars, 50-cent pieces, quarters, and dimes — has all disappeared as the bad money has driven out the good, as Gresham's law predicted. Up until the early 1930s, gold was the coin of the realm. But the U.S. government, using the police power of the state, repudiated all debts and obligations based on gold and even prohibited Americans, with threatened prison sentences, from owning gold. Not even Henry the VIII was that brazen.

To prove that gold was of no real value except for jewelry, 30 years ago the U.S. Treasury started selling gold in Fort Knox at about \$150 an ounce. Guess who bought the gold at that price? The Swiss bankers — not so dumb as to believe the U.S. fiscal authorities that gold had no monetary use. As it turned out, the Swiss remained true to the monetary value of gold by

requiring that all Swiss francs be backed by a certain percentage of gold. No runaway printing-press francs for the gnomes of Zurich.

Right now, the Swiss have made a bundle on the monetary antics of the U.S. Treasury and the Federal Reserve. Well, at least Henry VIII would be proud of U.S. officials, and his wise daughter Elizabeth would be shaking her head in disbelief that anyone could be so dumb. Of course, she had a brilliant Sir Thomas Gresham to advise her; and Americans have the officials at the Fed playing fiscal games with our money, neo-Henry VIII style.

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**This article was originally published in the December 2003 edition of *Freedom Daily*.**