

# The Attack on the Liberty Dollar

By Bruce Ramsey

LIBERTY

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From the fringes of the coin world comes something that looks like money ..

On November 14, 2007, the FBI raided a storefront in Evansville, Ind. It was labeled "LIBERTY DOLLAR," and it was located between a gun shop and an empty storefront. The FBI also raided the Sunshine Mint, a company in Coeur d'Alene, Idaho, that minted Liberty Dollars under contract. There government agents commandeered almost 200,000 ounces of silver and 150 ounces of gold.

In Indiana they carted away two tons of Liberty Dollars, including 50,000 copper \$1 rounds emblazoned with the image of presidential candidate Ron Paul.

The seizure made page one of the Washington Post, probably because it was an offbeat story and also because of the monetary-crank aura that some people see around Rep. Paul. When asked by the press about the incident, Paul said, "I like competing currencies. The market should decide what is money." But he hastened to add that he was not involved with the Liberty Dollar: "I do not know the people."

The person behind the Liberty Dollar — he calls himself its "monetary architect" — is Bernard von NotHaus, 63. Like Paul, he has been a hard-money man for a long time, and he has blended the doctrine into his career. But he has done it in a completely different way. Instead of advocating gold and silver currencies, as Paul does, he has undertaken to create one.

In researching this story, I talked to von NotHaus. It was a difficult conversation. He was vehement, argumentative, and much of the time he was grilling me. He was not kindly disposed to Liberty magazine. It annoyed him that its founder, the late R.W. Bradford, had not supported the Liberty Dollar, and when they talked, had undertaken to tell him what the Liberty Dollar was and why it wouldn't work. The Cato Institute people had not been any better, he said, nor the people at the Ludwig von Mises Institute. All were useless. These libertarians talked about hard money. He had done something about it — and, he said, "I'm facing federal prison right now."

The real issue of the Liberty Dollar, he said, is whether "we have a right to protect ourselves in a hyperinflationary era, or do we not? Are we relegated to using government money and being screwed by the invisible tax of inflation?"

"Welcome to the fascist states of America," he said, bitterly.

Von NotHaus would not talk to me about himself, though he has at other times. He told another interviewer that in 1974 he read Harry Browne's "How to Profit from the Coming

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Devaluation," and it had a great effect on him. He said that one of the major influences on his economic theory was Murray Rothbard (1926-1995), the libertarian economist and editor of Liberty; and he mentioned Rothbard's tract, "What Has Government Done to Our Money?" He also mentioned writing his first paper on monetary theory in September 1974. (In 2004, he would publish a 504-page book called "The Liberty Dollar Solution to the Federal Reserve," which is available on the internet.)

In the 1980s, von NotHaus cofounded a private organization that he called the Royal Hawaiian Mint. He made a business selling gold and silver medallions to collectors; he also nurtured a "secret project." He later wrote about it:

I wanted to create a totally new inflation-proof currency that met the demands of the free market in precious metals and would represent real gold and silver stored in an independent warehouse.

In 1998, von NotHaus came from Hawaii to the mainland and began producing Liberty Dollars in silver and gold, and in the form of paper "warehouse receipts" backed by the metallic Liberty Dollars. Later he offered electronic credits backed by metal.

For a long time, the federal government let him alone. But in 2005 it began investigating him, and on Sept. 14, 2006, the U.S. Mint issued a press release warning that Liberty Dollars were not legal tender and that their use in trade was a crime. In November 2007 came the raid. Von NotHaus now faces the possibility of federal prosecution under 18 USC 486, which reads:

Whoever, except as authorized by law, makes or utters or passes, or attempts to utter or pass, any coins of gold "or silver or other metal, or alloys of metals, intended for use as current money, whether in the resemblance of coins of the United States or of foreign countries, or of original design, shall be fined under this title or imprisoned not more than five years, or both.

Von NotHaus's defense rests on his denial that Liberty Dollars are coins. He writes:

Every effort has been made to promote and market the Liberty Dollar with educational tools by clearly and repeatedly pointing out that the Liberty Dollar is not United States Mint fiat money, is not legal tender, is not a coin ...

He argues that "coin" has a legal meaning: a disk of metal stamped by the government. And, of course, Liberty Dollars were not stamped by, or authorized by, the government. Therefore they are not coins.

But if that is true, then what does 18 USC 486 forbid? It seems to forbid unauthorized coins but, if anything unauthorized would not be a coin, the law would therefore forbid nothing.

Set that aside. The metallic Liberty Dollar is in the form of a coin. The design on the obverse side looks like U.S. coins of a century ago. Most Liberty Dollars have a profile of Miss Liberty and the word "LIBERTY" above her head. Stamped below her neck is the date. On the reverse side are a torch, the name "Liberty Dollars" in script, the denomination in dollars, and the weight and fineness of the metal. There are variations. Some Dollars bear the names of states. One bears the likeness of King Kamehameha and is called the "Hawaii Dala."

Obviously this is not the government's money. The government does not circulate \$5, \$10, \$20 or \$1,000 coins. The U.S. Mint has never made circulating currency out of pure silver or gold. Its money says "United States of America," "E Pluribus Unum," and "In God We Trust." Liberty Dollars don't say those things. Some say "USA," and most of them say "Trust in God," except for one version that makes no mention of the Almighty. That one is marketed on eBay as the "godless" Liberty Dollar.

In its press release, the U.S. Mint took care to call metallic Liberty Dollars medallions. Lots of companies have minted medallions, and von NotHaus doesn't use that name for Liberty Dollars. In court papers he has described the

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Liberty Dollar as a "private voluntary barter currency" and not "'legal tender,' a 'coin,' or 'current money.'" On Nov. 21, 2007, when Larry Kudlow of CNBC's "Kudlow & Co." asked him if Liberty Dollars weren't really investments, he said no, they were "circulating currency."

In its press release the Mint asserted that von NotHaus's company was marketing Liberty Dollars "to compete with the circulating coinage of the United States." He had said as much many times; to me he compared the Liberty Dollar to the competition of Federal Express against the Post Office. He had named his company the National Organization for Repeal of the Federal Reserve Act and Internal Revenue Code (NORFED), though after the Mint's press release he changed the name to Liberty Services.

He also took the "USA" off his medallions, partly to put the date under the bust of Liberty and partly, he said, "to be responsive."

The Mint said that under the U.S. Constitution, "Congress has the exclusive power to coin money of the United States and to regulate its value." Von NotHaus replied on Sept. 20, 2006, that the Constitution's grant of power — "to coin Money, [and] regulate the Value thereof" — is not exclusive. About the Constitution, he said,

the states are restricted from coining money. The people are not, and in fact numismatists are aware that the United States has a rich and well-documented history of private mints producing private circulating currency which, while not "legal tender" was "lawful money." Americans create new forms of private money all the time, from casino tokens to debit cards to PayPal to GoldMoney.

Probably he is right about the Constitution and Americans' practice of creating their own money. Regarding the statute, he has said that 18 USC 486 was originally meant as "an anti-counterfeiting law, not to ban private currency." Still, it says what it says.

The law does not apply to private paper currencies, of which there are several in the United States. One is Burlington Bread, based in Burlington, Vt. Another, backed by the E.F. Schumacher Society and circulating in southern Massachusetts, is BerkShares. Both are projects of left-liberals who want to fight distant corporations and reduce their carbon footprint by encouraging localism. They are issued to be spent only in local communities. A BerkShare dollar is redeemable by a regional merchant at 90 U.S. cents. Essentially it is a 10% discount coupon.

None of these projects produces gold and silver currency that looks like old U.S. money, and none seems to have attracted the FBI.

In March 2007, in anticipation of some kind of crackdown, von NotHaus filed a lawsuit against the Treasury in U.S. District Court in southern Indiana. He petitioned the court for an injunction to stop the government from moving against the Liberty Dollar. At press time, the court had not issued any injunction.

To obtain a warrant for the November 2007 raids, FBI Special Agent Andrew Romagnuolo of Charlotte, N.C., swore out a 34-page affidavit. According to it, the

FBI had sent three undercover agents to sign up as Liberty Dollar distributors, to receive von NotHaus' book, and to attend his Liberty Dollar "university." Referring to one of these agents, von NotHaus said, "We knew about Karen from day one. We knew who she was. It was obvious."

He said he sold her a Liberty Dollar T-shirt.

The FBI took a silver Liberty Dollar to its laboratory and tested it to verify that it was really .999 fine, as it claimed to be — and it was. Nonetheless, Romagnuolo's affidavit calls

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the Liberty Dollar fraudulent because it claimed to be "100% backed" by silver, and the amount of silver — one ounce per \$20 in Liberty Dollars — was less than the face value. As of Nov. 8, 2007, Romagnuolo noted, one ounce of silver was worth only \$15.34.

It is true that the Liberty Dollar's metallic backing is not set at 100% of denominated value. It cannot be, because of the way the Liberty Dollar is defined. A simple silver-standard currency would be a unit defined as an amount of silver. The Liberty Dollar defines itself as a dollar, asserts a trade value equal to the U.S. dollar, and is backed by an amount of silver worth less than a U.S. dollar.

This brings up the issue of gain. Liberty Services sold its private currency for U.S. dollars at a mark-up over the silver value but at less than face value. It made its sales to its Regional Currency Officers and Liberty Dollar Associates. These were expected to sell Liberty Dollars at a lesser discount to member merchants, who were offered the right to reverse these transactions.

The Liberty Dollar was, therefore, part of a business. Says the affidavit:

NORFED uses Federal Reserve Notes (FRNs) to conduct business. FRNs are used to buy Liberty Dollar currency. This reliance upon FRNs by a group opposed to FRNs demonstrates that the American Liberty Dollar monetary system is simply a drain on the United States Government's monetary system for financial profit. ..

There was profit in it, though von NotHaus says he didn't take a penny in the first five years. The affidavit lists various checks and wire transfers to von NotHaus, office manager Sarah Bledsoe, and others. From December 2006 to August

2007, the affidavit reports checks from the company's bank account to von NotHaus for \$65,250 and to Bledsoe for \$27,300. There is a small check to NotHaus' son, Random von NotHaus. The affidavit does not say which of these sums were for living expenses and which for expenses of the business, but even if they were all living expenses they are not huge amounts. It says that von NotHaus and his wife Mary own "a luxury vehicle" — a silver Cadillac deVille. It is, however, a 1999 model, and von NotHaus says it is worth only \$2,000 to \$3,000.

Liberty Dollar's business model pencils out only if the price of the underlying metal stays within certain ranges. Originally the one-ounce silver Liberty Dollar was stamped \$10. In November 2005, when silver rose above \$7.50, the Liberty Dollar was "rebased" at \$20 — and suddenly became more profitable to sell. The affidavit said that the next rebasing, to \$50, would occur when the 45-day moving average price of silver crossed \$16.50.

Agent Romagnuolo's affidavit makes the rebasing sound like part of a "profit scheme," and you could call it that in a courtroom. It also is a kind of money that, in respect to its eBay price, has risen in value against the U.S. dollar — a fact von NotHaus does not let pass. "Would you rather have your savings in a currency that depreciates, or one that appreciates?" he says.

The affidavit makes claims about von NotHaus's political motivation, quoting from company materials. Says Romagnuolo:

These statements highlight the intent of NORFED ... to replace and/or compete with the financial systems of the United States of America to undermine the existing economic system.

The intention was there, certainly; but it was never very likely that the Liberty Dollar was going to accomplish all that. Von NotHaus has been promoting Liberty Dollars for nine years. The affidavit says he claimed that \$21 million was in "circulation"; he says it's more than that. But how much is circulating in trade?

Who takes the Liberty Dollar in trade? In the affidavit, Agent Romagnuolo says he was told that the three communities where the Liberty Dollar had made the greatest inroads were Austin, Texas (pop. 709,893), Asheville, N.C. (pop. 68,889), and Berryville, Ark. (pop. 4,500).

Romagnuolo's affidavit tells about his investigation of Kevin Innes, a music teacher in Asheville who, it says, drives a 1992 white Volvo sedan. Like the three undercover agents, Innes paid \$250 to become a Liberty Dollar Associate. And what

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did undercover FBI agents find out about this threat to the Republic? For a while Innes rented a storefront in Asheville for his Liberty Dollar business, then gave it up and worked out of his house. An undercover agent bought Liberty Dollars from Innes at his house and in a parking lot of a Target store. The agent reported that Innes had sold Liberty Dollars at a gun show, at several meetings of the Patriot Network, and at the 2005 Atlanta Freedom Conference. The affidavit quotes from a news story about Innes in the Asheville Citizen-Times, Nov. 13, 2006. In it, Innes expresses some frustration at the difficulty of convincing people to take Liberty Dollars; he says he leaves them in restaurants as tips.

The New York Sun quoted Ron Goodger, a Liberty Dollar distributor in Michigan, as saying, "It never did do what the organization really wanted it to do — become widely accepted as a medium of exchange." Goodger said, "It's a tremendous amount of work to get the public to accept something it wasn't familiar with."

In an interview in 2001 with Jacob's Libertarian Press, von NotHaus said:

I tell people this over and over again. You don't talk people into an alternative currency. The currency is a clever device to get the choir to identify themselves.... We use the currency as a way of coaxing people out of the closet to identify themselves as being part of the choir, because when you show the currency to people, people invariably say something, they respond. "Oh what a bunch of bullshit." Ah, you're not part of the choir. Some people say, "That's pretty neat, we ought to have currency like that." Then they probably are part of the choir. So it's under those sort of auspices that the currency functions. The currency functions as, you've probably read, a proactive educational tool. Well, it actually acts as a device to get people to identify themselves, to pull together a consensus of people that are dedicated to return the ownership of the money to the people as a means of returning control of the government to the people. That's it in a nutshell.

In his affidavit, Agent Romagnuolo sounds like a man ferreting out counterfeit money. He warns that businesses might give Liberty Dollars in change "and the recipient . . . may assume that it is United States coinage."

That seems unlikely, with the possible exception of the one-dollar copper piece. On Feb. 15, 2007, the U.S. Mint began circulating new presidential dollar coins. They had a brassy color, different from that of other U.S. coins and unfamiliar to the public. Some of them carried the bust of John Adams. Like the one-dollar Liberty disc, they were stamped with "\$1." Still, the copper Liberty Dollars were

about 50% bigger in diameter, were a different color, and carried the likeness of Ron Paul — who is not, despite his libertarian political philosophy, one of the Founding Fathers.

You'd have to be a fool to take Liberty Dollars as legal tender. But that statement works against von NotHaus as well as for him.

All silver and gold Liberty Dollars are of 99.9% pure gold or silver, which is what medallions, not coins, are made of. I put it to von NotHaus that this shows he did not design them as a circulating currency. The old U.S. coins, designed to be used in trade, were never more than 92% silver or gold in an alloy hard enough to bang around in people's pockets. Besides, eBay always has lots of Liberty Dollars offered for sale, some of them seven years old, and every one I've seen has been offered in brilliant, proof-like condition. All are uncirculated.

Therefore, Liberty Dollars are not currency.

Maybe this is what R.W. Bradford said to von NotHaus years ago - I don't know but it sure set him off.

"We are not a collector organization," he insisted. "We are not a numismatic organization. At least we were not until we were raided. We are a currency."

Why, then, are most Liberty Dollars made of .999 fine silver?

"Do you know how much an alloy piece costs? A lot," he said. "It comes down to the marketplace. Everything about the Liberty Dollar is about the marketplace. It would not function in the marketplace as an alloy. People want silver. They don't give a damn about for an alloy."

As for the Liberty Dollars on e-Bay, he said, "If you go to eBay, what do you think you are going to find but collector stuff? You're looking in the wrong place. Talk to the people that are using them. Wal-Mart, Pizza Hut. Do you have any of those stores in Seattle? All those stores are using them. People are using them. It's exciting. Pull your head out! Bullshit!

I have never seen anyone offer or receive a Liberty Dollar in trade or seen any business say that Liberty Dollars were welcome - or unwelcome. Nor have I seen one in the drawer of a cash register, or in anyone's coin purse. I conclude that Liberty Dollars are a pretend money. They are medallions for sale to hard-money conservatives and libertarians who will pay a premium over the metallic content because von NotHaus has stamped a special monetary and political meaning on them. He has made his medallions look and feel like money, partly because he has denominated them in dollars.



"If it [the Liberty Dollar] didn't have a denomination, it wouldn't function," he says. He denies it is denominated in U.S. dollars. "It's denominated in Liberty Dollars. Do we mention U.S. dollars on there?"

Well, no. It says dollars. But in the United States, what is a dollar? If von NotHaus meant to denominate his currency in a unit other than the government's dollar, he might have called it a peso, a silvercredit, or a NotHaus. He called it a dollar and declared that it trades at par with the government's dollar.

That is what the market wanted. But the market for money used in commerce also wants a unit accepted by the banks as a dollar, and no bank will accept the Liberty Dollar as anything. As long as that is so, the market for Liberty Dollars is the collector market, and Liberty Dollars will have no ability to undermine the Federal Reserve or "the existing economic system" of the United States.

Libertarians may wish von NotHaus well, and those feeling this strongly may send him some dollars. He is hoping to embarrass the government if it takes him to trial, and hoping also to stay out of federal prison. His case may make monetary history, not because the Liberty Dollar was itself a threat to the economic system, which it was not, but because what von NotHaus has done in a small way may someday be done in a big way, by a bank or consortium of banks. You never know.

Meanwhile, eBay has some beautiful coins for sale. We can call them that, even if their creator cannot.