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Subcommittee on Domestic Monetary Policy and Technology

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This document has been slightly edited and reformatted for clarity.
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Short Bio

Lawrence Parks

Lawrence Parks is the Founder and Executive Director of the Foundation of the Advancement of Monetary Education (www.fame.org). He is also the host of the Larry Parks Show, aired weekly on Time Warner Channel #56, Verizon Channel #34, and RCN Channel #83 in Manhattan. He has broad experience in academia, business, and finance. He holds a Ph.D. in Operations Research from the Polytechnic University, where he held a National Science Foundation Fellowship and was an adjunct professor teaching at the graduate level.


He has authored and produced more than 200 videos on topics dealing with the U.S. monetary system. He is an active member of many civic and social organizations. He is a frequent speaker about the fight for honest monetary weights and measures.

His focus is on: (1) how our present fiat monetary system is destroying savings, pensions, and jobs for hundreds of millions all over the world; (2) how it threatens freedom; and (3) what to do about it.

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Opening Statement:

Thank you for the opportunity to testify in support of H.R. 1098, *The Free Competition in Currency Act of 2011*. I am honored to have been invited.

It may sound like hyperbole, but I believe that H.R. 1098 is the most vital legislation to ever come before Congress. H.R. 1098 is necessary to transition from the inevitable catastrophic collapse of our unauthorized (by the Constitution), dishonest, and unstable legal tender irredeemable paper-ticket-electronic monetary system.

I suspect this committee will be most interested in how this bill will affect jobs, debt, economic growth, capital markets, pensions, and many other important and timely topics. I will focus in my opening statement on where we are headed and on the dishonesty of our present system. I will highlight some of the many misrepresentations about our money. There are three takeaway points. Our current monetary system is:

1. Not in conformity with the Constitution;
2. Dishonest; and,
3. Unstable and blowing up, perhaps while I am testifying today.

One can be sure of a complete collapse because no market-based self-correcting mechanism provides negative feedback against an increasing money supply, debt, and leverage. Any system without a self-correcting mechanism is unstable and blows up.

Where we are headed:

With no exceptions, the history of legal tender irredeemable paper-ticket-electronic money is that its purchasing power always approaches its cost of production: near ZERO! Here are some scenes that illustrate this point:

Exhibit 1: Sweeping Hungarian money into the sewer circa 1946.
The paper money had more BTU value than nominal value!

Exhibit 2: Burning German money for heat circa 1923.

They are not playing with blocks

Exhibit 3: Children playing with bundles of German money circa 1923.
A lesson in high finance

Exhibit 4: Children playing with bundles of German money circa 1923.

A cheaper way to heat food

Exhibit 5: Burning German money to heat food circa 1923.
Money not worth the paper it is printed on

Exhibit 6: Weighing paper money for value rather than nominal value, Germany circa 1923.

Buying lunch in Zimbabwe today.

Exhibit 7: Using depreciated paper money in Zimbabwe to buy lunch circa 2008.
The collapse of the monetary system

With gold-as-money, and without the banking system creating money out of nothing, the amount of financial leverage would be \textit{de minimis} with no possibility of collapse. Because legal tender irredeemable paper-ticket-electronic money can be created without limit, there is no market-based self-correcting mechanism to limit financial leverage. Especially when those who engage in leverage do not bear the entire risk of loss but can pass the risk of loss to the public through the banking system, whose balance sheet and liabilities the public \textit{de facto} guarantees, financial collapse is a certainty.

Here is a scene from Hungary after World War II. That stuff that is being swept down into the sewer is the Hungarian money of the day. Those folks standing about watching are ordinary people who might have been saving the legal tender irredeemable paper-ticket money for later needs.

“A lifetime’s worth of savings – literally down the sewer!”

\textit{Exhibit 9:} Sweeping Hungarian money into the sewer circa 1946.
While there were many currency collapses during the 20th century, most countries eventually recovered after a time because they had an alternate currency: the dollar. Once the dollar is rejected, all countries considering it part of their reserves will also experience collapse.

We define civilization as the intricate web of understandings we have about one another and mutual promises. For example, if I promise to meet you at two o’clock and don’t show up, that hurts the relationship. Aside from our mutual promises and understandings with family members, the most important promises in society are promises to pay: to pay pensions, salaries, suppliers, annuities, etc.

When money collapses, all promises of future payment are broken. The immensely intricate web of promises at home and abroad breaks down. The risks to society cannot be overestimated. A breakdown in national and international currencies is assured. The challenge is to mitigate the damage and lay the groundwork for a monetary system that will not break down and serve productive enterprise needs.

Most important, action must be taken to protect the middle class. The British are fond of saying that “it is the middle class that protects us from the Barbarians.”

In 1997, Mr. Greenspan, when he was the Chairman of the Board of Governors of the Federal Reserve, gave a remarkable speech in Belgium where he addressed the issue of leverage and the risk to the financial system. He said:

“Central bank provision of a mechanism for converting highly illiquid portfolios into liquid ones in extraordinary circumstances has led to a greater degree of leverage in banking than market forces alone would support.

Mr. Greenspan confirmed that the “mechanism,” or safety net/subsidy/wealth transfer for banks, has led to more leverage than would otherwise occur. For banks, this is great. They can enter more profitable and riskier bets than they would otherwise because they know that if they lose, i.e., if their bets become “illiquid”—worthless and cannot be sold—the Federal Reserve will “convert” those bets into cash.

And where does the Federal Reserve get the cash? It literally “creates” it out of nothing, diluting the purchasing power of savings and expected pensions of ordinary working people and seniors. In other words, if the banks win their bets, they keep their winnings, and if they lose, the Fed—ordinary taxpayers—absorb the losses. Fantastic!

“Traditionally, this has been accomplished by making discount or Lombard facilities available so that individual depositories could turn illiquid assets into liquid resources and not exacerbate unsettled market conditions by the forced selling of such assets or the calling of loans.”

What this means is that rather than cause “individual depositories” (banks) to sell “illiquid assets” (loans) which are not good—at a presumed loss—or force borrowers into bankruptcy, the Federal Reserve may buy these loans from the banks, presumably at a discount. Again, if things work out, the banks keep the profits. If the loans cannot be repaid, the Federal Reserve (really taxpayers) makes up the loss.

Is it fair to taxpayers that banks keep the winnings if their bets are successful but that taxpayers make them good if they experience catastrophic losses? Isn’t this just blatant wealth transfer? When the Federal Reserve and the Treasury used the “Exchange Stabilization Fund” to bail out Mexico in 1995, the money supplied to Mexico was quickly transferred to the Wall Street firms and banks that had bought Mexican securities.

Mexican pesos melt every so often. Nevertheless, to garner extra yield, U.S. financial institutions bought Mexican securities. When it appeared certain that Mexican debt would default, rather than allow these financial

1 Remarks by Chairman Alan Greenspan At the Catholic University Leuven, Leuven, Belgium January 14, 1997.
2 “Highly illiquid portfolios” are portfolios that cannot be sold except at a substantial discount to par.
3 The most “liquid” portfolio consists of cash that the Federal Reserve creates out of nothing.
4 Private investors would pay less for these assets than would the Fed. In fact, depending upon how “illiquid” these portfolios were, private investors might pay nothing.
institutions to book a loss, our government—financed by ordinary taxpayers—lent money to Mexico to repay U.S. banks and Wall Street firms. Another version of this story was played out by the International Monetary Fund, in part financed by U.S. taxpayers, to bail out banks in South Korea, Indonesia, Malaysia, the Philippines, and elsewhere.

“More broadly, open market operations, in situations like that which followed the crash of stock markets around the world in 1987, satisfy increased needs for liquidity for the system as a whole that otherwise could feed cumulative, self-reinforcing contractions across many financial markets.”

In this and other speeches, Mr. Greenspan addresses systemic risk. Much more needs to be said about this. In sum, the system is perilously close to imploding or blowing up.

Why should ordinary citizens be at risk that our monetary system will implode so that banks and other financial players may reap unearned profits by taking on ever-greater risks?

“No, of course, this same leverage and risk-taking also greatly increase the possibility of bank failures. Without leverage, losses from risk-taking would be absorbed by a bank’s owners, virtually eliminating the chance that the bank would be unable to meet its obligations in the case of a ‘failure.’”

In other words, without taxpayers’ safety net/subsidy, banks would make bets and take chances while putting their capital at risk instead of taxpayers’ money. This is as it should be, it seems to me. Most important, Mr. Greenspan confirmed that without leverage, the possibility that depositors would not get their money back in case of a “failure” would be virtually eliminated. Ordinary working people and seniors would not be at risk.

What an incredible acknowledgment! In other words, we can conclude that if the banks had not been induced by the safety net/subsidy to increase leverage, the banking system would not have collapsed in the 1930s, and we would not have experienced the Great Depression. Many think that the Great Depression was a “market failure.” Mr. Greenspan has written extremely eloquently that the Great Depression was caused by the Federal Reserve feeding too much credit into the banking system, i.e., enabling the banking system to increase leverage too much.5

Increasing leverage raises other vital questions: Why should our government empower and induce banks to increase leverage when we know that can lead, and has led, to a catastrophic monetary collapse? Why should ordinary working people, seniors, and the rest of us be put at risk of a monetary implosion and the destruction of our economy?

“Some failures can be of a bank’s making, such as poor credit judgments. These failures are a normal and important part of the market process and provide discipline and information to other participants regarding the level of business risks. However, because of the important roles that banks and other financial intermediaries play in our financial systems, such failures could have large ripple effects that spread throughout business and financial markets at great cost.”

The point is that it leads to suspending normal business rules for banks by not letting them fail because of “ripple effects.”

**Why legal tender irredeemable paper-ticket-electronic money is dishonest:**

I wish to focus first on explaining why our monetary system is dishonest. Most importantly, there are many misrepresentations and nondisclosures of material information about what we now call a dollar. No amount of regulation or oversight committees will cure dishonesty. The only remedy is honesty.

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There was a time after the Revolution when our money was gold and silver, as the *Constitution* provides. There was no legal tender for private transactions. However, the bank notes of the first Bank of the United States were legal tender for payments to the government, e.g., tariff dues.

To illustrate what, in my view, is the most egregious example of dishonesty, I give an example of silver, although the same principle applies to gold.

It was, and remains, inconvenient to carry around silver dollars because they are heavy and bulky. So, people deposited their silver dollars, typically in a bank, and received in exchange a promissory note, a.k.a. a banknote or a ‘note,’ that bore the inscription that so many dollars were deposited and that the ‘note’ was payable on demand by the bearer in silver.

*Exhibit 10*: United States One Dollar Note.

Notice that this is not a dollar. At the top of the bill, it reads “United States Note.” Under Washington’s image reads, “will pay to the bearer on demand one dollar.” As put into law by Alexander Hamilton in the *Coinage Act of 1792*, this is a dollar:

*Exhibit 11*: U.S. Silver Dollar

Then, the promise to pay a dollar defaulted, and the broken promise, the dishonored promissory note, is now represented as a dollar!
Although gussied with signatures and official seals, calling a piece of paper a dollar is a gross misrepresentation and dishonesty. This piece of paper is not even a valid note. The signatures of the Treasurer of the United States and the Secretary of the Treasury are gratuitous and deceptive.

In other words, what we use for money are just dishonored promissory notes that have been misrepresented as dollars. Home and abroad, all the securities in our capital markets are denominated in dishonored promissory notes. This misrepresentation has immense implications for trade, jobs, pensions, military preparedness, and almost everything important.

People have the notion that Congress can make the dollar anything the Congress wants it to be and “back” it or not with specie or whatever. Congress does not have this power. The claim is demonstrably false. The highest law of our country is the Constitution, and all laws must conform to it. The word “dollar” is mentioned twice in the Constitution, but it is not defined in the Constitution.

The word “dollar” appears in connection with the Slave Tax, which is no more. Much more importantly, it is mentioned in the 7th Amendment:

"In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law."[6]

If it were true that Congress could redefine the word “dollar,” that would mean that Congress could redefine the 7th Amendment, which is ridiculous. Further, for the 7th Amendment to have objective meaning, the word “dollar” must have objective meaning. What is the objective meaning of the "dollar" used in the Constitution?

The “dollar” in the Constitution refers to the Spanish Milled Dollar, a.k.a. a piece of eight.

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Exhibit 12: One dollar Federal Reserve Note.

[Image of a one dollar bill]

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[6] 7th Amendment to the Constitution.
Exhibit 13: A Spanish Milled Dollar, a.k.a. a piece of eight or a real.

The Spaniards had built mints all over the colonies, and the Spanish Milled Dollar was ubiquitous. In some colonies, it was made the unit of account. When independence was declared, the colonies adopted the Articles of Confederation, which gave Congress the power to issue paper money called “continentals.” Here is an example of a continental $30 bill. Notice that it “entitles the Bearer to receive Thirty Spanish milled Dollars or the Value thereof in Gold or Silver.”

Exhibit 14: A $30 bill issued by the Continental Congress for Thirty Spanish milled Dollars.

After independence was achieved and the Constitution was adopted, the U.S. did not want to rely on Spanish mints for its coins. The U.S. wanted its own mints to mint its own coins, including dollars. To that end, Alexander Hamilton, then Secretary of the Treasury, wrote the Coinage Act of 1792, wherein he tells us exactly what a dollar is:
“Dollars or Units—each to be of the value of a Spanish milled dollar as the same is now current, and to contain three hundred and seventy-one grains and four-sixteenths parts of a grain of pure, or four hundred and sixteen grains of standard silver.”

This definition of a dollar, 371.25 grains of fine silver, has never been changed and cannot be changed. The Constitution requires that a dollar be a weight of silver. Some might claim that if Hamilton defined a dollar in this way, it could be defined in another way. That is not true. Hamilton’s definition of a dollar was not arbitrary. All he did was to write into law what was already a fact.

Here is another way of looking at this issue. Suppose we take a sign that says “cat,”

Exhibit 15: Sign that says “cat”

And hang it on a dog,

Exhibit 16: photo of a dog

Does the dog become a cat?

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7 Coinage Act of 1792
Suppose Congress passes a law saying that all dogs with cat signs are cats.

Are all dogs with cat signs now cats?

Conceptually, this is no different than taking a piece of paper, printing the word “dollar” on it, adding seals and signatures, and calling it a dollar. That is what has happened to our money. There is no easy remedy.

How was such a massive fraud perpetrated? There are several reasons, but one of the most important, which HR1098 will go a long way to correcting, is that we are coerced into using fraudulent money by the legal tender statutes. By getting rid of legal tender, HR1098 is necessary and may be sufficient to help pave the way to an honest monetary system.

Placing images of some of our most revered Founding Fathers on various bills gives fake money the patina of legitimacy by implying that it had the imprimatur and endorsement of the Founders when they condemned paper money.

Jefferson, for example, wrote:
"Paper is poverty... it is only the ghost of money, and not money itself." 

"But that its [paper money’s] abuses also are inevitable and, by breaking up the measure of value, makes a lottery of all private property, cannot be denied."

"The trifling economy of paper, as a cheaper medium, or its convenience for transmission, weighs nothing in opposition to the advantages of the precious metals... it is liable to be abused, has been, is, and forever will be abused, in every country in which it is permitted."

"I now deny [the Federal Government's] power of making paper money or anything else a legal tender."

Jefferson’s image on a legal tender paper $2 irredeemable paper-ticket-dollar misrepresents Jefferson’s explicit condemnation of paper money. It is dishonest.

George Washington was equally clear: in a letter he wrote to Jefferson on August 1, 1786:

"Other states are falling into very foolish and wicked plans of emitting paper money."

In addition, Washington wrote:

"Paper money has had the effect in your state that it will ever have, to ruin commerce, oppress the honest, and open the door to every species of fraud and injustice."

Washington, in his circular letter of June 1783, to the governors of the several United States, wrote that "honesty will be found on every experiment to be the best and only true policy," being convinced that "arguments deduced from this topic could with pertinency and force be made use of against any attempt to procure a paper currency."

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8 Thomas Jefferson to Edward Carrington, 1788. ME 7:36
9 Thomas Jefferson to Josephus B. Stuart, 1817. ME 15:113
10 Thomas Jefferson to John W. Eppes, 1813. ME 13:430
11 Thomas Jefferson to John Taylor, 1798. ME 10:65
12 Letter to Jefferson on August 1, 1786
Notice that Washington is not writing from an economic point of view. He condemns paper money as “wicked,” i.e., evil. Washington’s language could not be more assertive. As with Jefferson, the monetary authorities misrepresent Washington’s heart-felt condemnation of paper money by putting his image on a legal tender irredeemable paper-ticket dollar. That is dishonest.

*Exhibit 20: $1 Federal Reserve Note*

James Madison, the “Father of the Constitution,” had an unequivocal view of paper money as well:

"Paper money is unjust; to creditors, if a legal tender; to debtors, if not legal tender, by increasing the difficulty of getting specie. It is unconstitutional, for it affects the rights of property as much as taking away equal value in land.” [Emphasis added]

Notice, as with Washington, Madison condemned paper money on moral, not economic, grounds as “unjust.” As the principal author of the Constitution, who is more qualified to opine on it as not allowing paper money than Madison? Again, as with Jefferson and Washington, the monetary authorities misrepresent Madison’s strong condemnation of paper money by putting his image on the $5,000 legal tender irredeemable paper-ticket-dollar. That is dishonest.

*Exhibit 21: $5,000 Federal Reserve Note*
Alexander Hamilton, Secretary of the Treasury and presidential aspirant, did not condemn paper money *per se*. Still, he could not have been more explicit about what he referred to as “unfunded paper,” the kind we have now. In June 1783, Alexander Hamilton, in resolutions for a new constitution of the United States of America, set forth explicitly:

"To emit an unfunded paper as the sign of value ought not to continue a formal part of the constitution, nor ever hereafter to be employed; being, in its nature, pregnant with abuses, and liable to be made the engine of imposition and fraud; holding out temptations equally pernicious to the integrity of government and to the morals of the people."

By putting Hamilton’s image on the $10 legal tender irredeemable paper-ticket-dollar, his clear condemnation of unfunded paper money is also misrepresented. That is dishonest.

Consider now the all-important issue of how to get people to accept legal tender irredeemable paper-ticket-electronic money in exchange for their goods and services. Misrepresentation may not be enough. There is a need for coercion, which is provided by the legal tender laws.

**Fraud: nondisclosure of material information and misrepresentations about our monetary system**

Commodity money, e.g., gold or silver, is what it is. There is nothing to disclose or misrepresent. Gold or silver is what it purports to be. When gold or silver is minted into coins by the U.S. mint, one can rely on the integrity of the coins because the penalty for wrongdoing, e.g., cheating on the weight or the specie content, is punishable by death. Policing the integrity of coins produced by the U.S. mint is done by the U.S. Secret Service. It is very diligent.


A full disclosure critical review will tend to reveal:

1. “Dollars” are not redeemable into anything, i.e., they are not valid “notes” that promise to pay something of value to the bearer;
2. “Dollars” have value because people believe that other people, both at home and abroad, will continue to accept them for their goods and services and save them for future needs;

3. In the U.S., people are forced by law [legal tender] to accept “dollars” for all debts, public and private;

4. “Dollars” are created out of nothing by the U.S. banking system—primarily by commercial banks;

5. Suppose, in the judgment of the Federal Reserve, there needs to be more “liquidity” in the system. In that case, the Federal Reserve, on its authority and without any oversight from Congress, may create “dollars” without limit. Creating more "dollars" out of nothing will dilute the purchasing power of “dollars” that have been saved or promised for future payment, such as pensions;

6. The creation of new "dollars" out of thin air has depreciated "dollar" purchasing power by more than 95% since 1950;

7. “Dollars” are in no way obligations of the U.S. Government (the signatures of the Secretary of the Treasury and the Treasurer are gratuitous);

8. “Dollars” are tokens, i.e., paper tickets or electronic blips in a computer;

9. In 1950, the U.S. broad money supply (M3) was about $150 billion. At the end of 2011, the banking system (commercial banks and the Federal Reserve) created an added $14 trillion flat out of nothing; and,

10. What we call a dollar today is not in conformity with the meaning of the word “dollar” used in the 7th Amendment to the United States Constitution.13

For day-to-day transactions, none of this matters. People get paid in legal tender irredeemable paper-ticket-electronic money and use it to buy what they need for daily living. It is, however, fundamentally crucial for people who save money or have securities denominated in legal tender, irredeemable paper-ticket-electronic money.

A monetary system based on legal tender, irredeemable paper-ticket-electronic money is inherently fraudulent. Frauds can be classified in three ways:

1. Frauds in the private sector are generally limited and usually quickly recognized.

2. Frauds with an indirect government imprimatur, e.g., Madoff’s Ponzi, lull folks into a sense of security and can continue for extended periods. Madoff’s fraud continued for three decades because many believed that government regulations and Securities and Exchange Commission oversight would prevent such fraud.

3. Frauds that have the government's direct participation under enabling legislation, e.g., fiat money fraud, can continue for long periods. Because people want to believe in their institutions, and because the government is involved, they are coerced — that’s what legal tender is about — into participating.

Some misrepresentations about our monetary system are:

4. Pieces of paper gussied up with seals and signatures that have the word “dollar” printed on them are not dollars, as the term is used in our Constitution and as defined in the Coinage Act of 1792;

13 7th Amendment: “In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.”
5. Federal Reserve Notes are neither in law nor in fact notes — because they have neither a payee nor a due date certain, which are part of the definition and legal requirement for a promissory note to be valid;

6. Our Constitution does not authorize legal tender irredeemable paper-ticket-electronic money. It is misleading to have the signatures of the Secretary of the Treasury and the Treasurer on the bills;

7. Founders such as Washington, Madison, Jefferson, and others condemned paper money on moral grounds. It is misleading to put their images on the legal tender irredeemable paper-ticket-electronic money as if they might have endorsed paper money.

All frauds are eventually found out and collapse.

**Legal tender:**

Historically, some commodities were made legal tender, e.g., tobacco, in the American colonies. However, there is no need to make gold a legal tender because people readily accept gold-as-money, especially for large transactions. For small transactions, historically, people have always accepted silver.

Fiat, irredeemable paper ticket tokens, or electronic checkbook money is always made legal tender because people tend to reject fiat money for their savings or promises of future payment, e.g., annuities, rents, and pensions. The biggest hurdle for irredeemable paper-ticket-electronic money to circulate is getting people to accept it in exchange for their goods and services, significantly to save it. Legal tender is coercion in our monetary system.

Legal tender morphed from a concept called “forced tender.” When Marco Polo visited China in the middle of the 13th century, he and other observers noticed that the Chinese Emperor had become fabulously wealthy by issuing paper money. Upon returning home and reporting this to the Europeans, they were incredulous. Why they asked, would anyone accept a piece of paper, even if gussied up with seals and signatures, in exchange for their goods and services? The answer was that he would be killed if one didn't accept the Emperor’s paper money. The coercion was called forced tender.

In 1694, King William made Bank of England (then a private bank) notes legal tender. There is no death penalty for not accepting legal tender today. However, if one doesn't take the legal tender, one is not entitled to be paid.14

Legal tender money was widely used in Colonial America. Opposition crystallized during the Revolution when the American experience with legal tender was a disaster. The experience of Thomas Jefferson is emblematic. Here is what happened to Jefferson.

Jefferson married a daughter of one of the wealthiest men in the colonies, John Wayles. Wayles died in 1773, leaving a colossal estate with assets, consisting of enslaved people and plantations, valued at upwards of 20,000 pounds, and liabilities, consisting of monies owed to British financiers, of about 11,000 pounds. At the time, 100 pounds was a good year’s wage for a skilled tradesman, so the net estate was a fortune. Wayles had appointed Jefferson and his two brothers-in-law as co-executors of his will.15

In those days and today, if an executor distributes the assets of an estate without settling out the liabilities, he becomes personally liable for the liabilities. However, in this instance, since the value of the assets was much greater than the liabilities, and, besides, Jefferson’s in-laws wanted their shares, Jefferson felt comfortable selling the assets and distributing the proceeds.

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14 Interestingly, after the French Revolution and the issuance of legal tender irredeemable paper-ticket money, called Assignats, eventually the penalty for non-acceptance was death pursuant to a special law called The Law of the Maximum.

At the time in Virginia, folks did not have enough cash for such a significant transaction. The remedy was to use what we call a seller’s mortgage or a “purchase money” mortgage, or vendor financing in the case of goods. In 1773, a buyer issued a bond to the seller and amortized the bond, which is what happened. Jefferson offered the estate’s British creditors a portion of the bonds to settle their claims, but they wanted specie, i.e., gold or silver. So, Jefferson would need to pay off the debts from the amortization of the bond.

But then, in 1776, the Revolution started. Virginia issued legal tender paper money. As with all paper money, its purchasing power approached its cost of production — near zero — and Jefferson’s debtors paid off the bond with the then-worthless money. But Jefferson was still personally liable for the 11,000 pounds to Wayles’ creditors in England.

Jefferson was never able to work his way out of that debt. He died a de facto bankrupt. Along the way, Congress tried to help him; it bought his books for $24,000, which became the Library of Congress. After he died, his possessions were auctioned, but they didn't bring enough money to satisfy the debt.

So, when Jefferson said that paper money was a cheat, he wasn’t hypothesizing about a theoretical construct. He was cheated big time. And here is the punch line: so were the gentry in Virginia, including Madison and Washington. A prominent plantation owner, Madison saw the Revolution coming and leased his land. The people he leased his land paid him with worthless legal tender money, as George Washington experienced.

When the Founders assembled in Philadelphia at the Constitutional Convention (at that time, they had sent Jefferson out of town as our ambassador to France), they were not supposed to write a new constitution. They were to amend the Articles of Confederation, which were considered inadequate because they didn't give the General Government the power to tax.

The Framers used the powers granted Congress in the Articles as a template and went down the list, transferring what they thought were reasonable provisions to the Constitution. When they got to the provision whereby the Articles gave Congress the power to issue paper money, in those days called “emitting bills of credit,” they debated the issue and overwhelmingly voted it down. Madison’s notes contain entries that “we killed paper money” and “we closed the door to paper money.”

The principal monetary power of the General Government under the Constitution, as put forth in Article I Section 8, is “To coin Money, regulate the Value thereof, and of foreign Coin.” There is no legal tender power to the General Government and no power to issue paper money. That was not an oversight. In addition to the Founders, ordinary people had a miserable experience with legal tender. There was near universal opposition to it. Thomas Paine, sometimes referred to as the Father of the Revolution and the author of “Common Sense,” wrote:

"The laws of a country ought to be the standard of equity and calculated to impress on the minds of the people the moral as well as the legal obligations of political justice. But tender laws, of any kind, operate to destroy morality, and to dissolve by the pretense of law what ought to be the principle of law to support, reciprocal justice between man and man; and the punishment of a member [of Congress] who should move for such a law ought to be DEATH."17

What could be more precise than that? Jefferson also confirmed that the General Government does not have the power to arbitrarily assign value to something valueless by making it “legal tender.”

"The federal government — I deny their power to make paper money a legal tender."18

Even John Marshall, the revered chief justice of the Supreme Court, condemned legal tender:

16 The best reference for the constitutional issues dealing with the U.S. monetary system is Dr. Edwin Vieira’s magnificent Pieces of Eight: The Monetary Powers and Disabilities of the United States Constitution, Sheridan Books (2002), Edition: 2nd
17 Bancroft, George; A Plea For The Constitution Of The United States, Wounded in the House of Its Guardians; (1884)
18 Bancroft, George; A Plea For The Constitution Of The United States, Wounded in the House of Its Guardians; (1884)
“The inflexible adversary of paper money, detesting it with a hatred almost amounting to a passion, was the chief justice of the United States, John Marshall. While he was on the bench, no case could come before him, in which power was claimed for the United States to issue bills of credit; because at that day, he and everybody else well understood and willingly acknowledged that the power to emit bills of credit was withheld from the United States, was forbidden by not being granted. But his opinion of the illegality of the issue of bills of credit by the states gave him the opportunity to declare in terms of universal application that the greatest violation of justice was committed when paper money was made a legal tender in payment of debts. But the opportunity to express his opinion, which was never offered to him as a judge, he found as a historian in his life of Washington. He claimed for himself and those with whom he acted, an "unabated zeal for the exact observance of public and private engagements." He rightly insisted that the only ways of relief for pecuniary "distresses" were "industry and frugality;" he condemned "all the wild projects of the moment;" he rejected as a delusion every attempt at relief from pecuniary distresses "by the emission of paper money;" or by "a depreciated medium of commerce." These were his opinions through life. He gave them to the public in 1807, and twenty-four years later in a revised edition of his Life of Washington he confirmed his early convictions by the authority of his maturest life.”

Years later, in 1836, legal tender was still being discussed and condemned:

"Most unquestionably, there is no legal tender, and there can be no legal tender, in this country, under the authority of this government or any other, but gold and silver, either the coinage of our own mints, or foreign coins, at rates regulated by congress. This is a constitutional principle, perfectly plain, and of the very highest importance. The states are expressly prohibited from making anything but gold and silver a tender in payment of debts; and although no such express prohibition is applied to congress, yet as congress has no power granted to it, in this respect, but to coin money and to regulate the value of foreign coins, it clearly has no power to substitute paper, or anything else, for coin, as a tender in payment of debts and in discharge of contracts. Congress has exercised this power, fully, in both its branches. It has coined money, and still coins it; it has regulated the value of foreign coins, and still regulates their value. The legal tender, therefore, the constitutional standard of value, is established and cannot be overthrown. To overthrow it, would shake the whole system. The constitutional tender is the thing to be preserved, and it ought to be preserved sacredly, under all circumstances.”

Given the U.S. historical record and the universal failure of paper money to protect savings and promises of future payment, how have gold and silver been “demonetized?”

As with many ill-advised actions of the general government, the assault on honest money gained traction during wartime. The Civil War was very unpopular, and Lincoln had trouble financing it. The Morrill Tariff, which was the government’s principal source of revenue, was raised to 47%. It didn't bring in enough money.

Lincoln instituted an income tax. People rejected paying it, and, in any event, it didn't bring in much money either. The need for funds was so great that money could not be borrowed except on terms that would have raised interest rates, some said to as much as 20% or more. Since bank balance sheets consisted mainly of

19 ibid
20 Ibid., Extract from a speech delivered by Daniel Webster in the Senate of the United States, on the 21st of December 1836, about the Specie Circular.
bonds, had interest rates increased significantly, the banks would have been bankrupted. So, what does one do if one cannot tax or borrow?

Lincoln’s Secretary of the Treasury, the brilliant lawyer Salmon Chase, who was himself an aspirant to the presidency, agreed to print money called Greenbacks because the backs of the bills were in green ink. But why would people accept them when they were used to and expected gold and silver for their goods and services? The answer was that the Greenbacks were made legal tender.

Exhibit 23: $1 legal tender Greenback

As one might imagine, this was very controversial. There ensued a great deal of litigation. At its nadir, Greenbacks depreciated nearly 50% against gold. People who had lent gold or were expecting gold in repayment felt cheated. After the Civil War, the legal tender cases litigation percolated to the Supreme Court. Lincoln had appointed Chase Chief Justice, and it was partially up to him to decide if what he had done during the Civil War conformed with the Constitution.

The first legal tender case, Hepburn v. Griswold, was decided in 1870 at a time when there were two vacancies on the Supreme Court. Chase wrote for the majority that there was no legal tender power in the Constitution. He noted further that the government had made the Greenbacks legal tender as a war measure out of necessity. But since the Civil War was over, so was legal tender.

The two open positions on the Supreme Court were filled (some said that the Court was “packed”) with justices who were known to be sympathetic to legal tender. The Court quickly took a new case, Knox v. Lee, and promptly reversed itself and said there was indeed a legal tender power. However, the affirmative decision relied not on the Constitution per se nor legislative history. The Court ruled in part that since other countries could create a legal tender, so could the U.S. In the Court’s language, a legal tender was a power that accompanied sovereignty.

Chase, now in the minority, wrote in his dissent:

“The legal tender quality [of money] is only valuable for the purposes of dishonesty.”
In my view, Chase has this right. Further, it seems clear that by not giving the legal tender power to the General Government and limiting payments of debt by the states to only gold and silver, mindful of the 10th Amendment,21 sovereignty over money is reserved to the people.

In other words, if the people want to increase the money supply, they should mine more gold and silver and take it to the mint to have it coined. The argument that other countries can impose legal tender and so can we bring to mind when I was a child and remonstrated for doing something my mother disapproved of. A response from me that “the other kids are doing it” was rejected outright by my mom and so should have been legal tender.

In defense of this miserable decision, there was an issue of people who had borrowed Greenbacks during the Civil War who would have had to repay their debts in much more valuable gold if legal tender was rejected.

Chief Justice Chase’s strong objection to legal tender and emphatic language that it was dishonest did not stop the monetary authorities from putting his image on the $10,000 legal tender irredeemable paper-ticket-dollar. His image implies an endorsement. This is yet another misrepresentation. It is dishonest.

Exhibit 24: $10,000 legal tender Federal Reserve Note bearing the likeness of Salmon Chase.

Exhibit 25: Blowup of the legal tender wording on the $10,000 Federal Reserve Note

Notice that this legend is different from the legend that appears today on Federal Reserve Notes because it includes the words that the note is “redeemable in lawful money.” When the Federal Reserve legislation was passed, it was never anticipated that Federal Reserve Notes would be money.

Today, all our money is fiat, not redeemable in “lawful money,” and we rely solely on legal tender irredeemable paper-ticket-electronic money, all of which bears the legend:

“This note is legal tender for all debts public and private.”

21 “The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.”
This statement means that if one owes money to any entity and offers payment in Federal Reserve Note(s) if they are not accepted, one need not pay. In addition, unless an agreement requires payment in a specific medium, e.g., gold, legal disputes settled in money are payable in legal tender.

The history of how our money transformed from constitutionally mandated gold and silver to legal tender irredeemable paper-ticket-electronic money is not well understood. Legal tender and other important monetary concepts have been removed from textbooks and, as far as I know, are taught nowhere. Today, I cannot find a textbook that deals with how our legal tender, irredeemable paper-ticket-electronic money, became legal tender and the resulting controversies.

While legal tender benefited those who issued money, at the end of the 19th century, the American Federation of Labor was most adamant against legal tender.

"No legal tender law is ever needed to make men take good money; its only use is to make them take bad money. Kick it out!"22

“If money is good and would be preferred by the people, then why are legal tender laws necessary? And, if money is not good and would not be preferred by the people, then why in a democracy should they be forced to use it?”23

"We [the American Federation of Labor] believe in a financial policy that will depreciate our currency neither at home nor abroad."

"We believe in an honest dollar."

The Free Competition in Currency Act of 2011 will ease a transition to an honest monetary system by repealing legal tender, hopefully avoiding a catastrophic collapse.

The kind of money we use is a moral issue

Commodity money conforms with the Eighth Commandment: “Thou Shall Not Steal,” and Leviticus 19:35 & 36, which says that one should not falsify weights and measures. Honesty in business dealings is considered consistent with holiness and moral law.

Fiat money violates the Eighth Commandment and the warning not to tamper with weights and measures. Because it is used for future payment, money is said to serve as a store of value. Producing fiat money without work—how much more work does it take to print a $100 bill than a $1 bill? —dilutes saved money and money promised for future payment. It is the same as stealing.

Property rights and money

Commodity money protects property and is protected by the notion of private property. Creating money out of nothing violates the property rights of savers, and those promised future payments, such as pensions, are broken.

James Madison, the Father of the Constitution, condemned paper money, even that which might have promised redemption, because it adversely affected property rights. Repeating the passage cited above, he wrote:

"Paper money is unjust; to creditors, if a legal tender; to debtors, if not legal tender, by increasing the difficulty of getting specie. It is unconstitutional, for it affects the rights of property as much as taking away equal value in land.” [Emphasis added.]

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22 Byington, Stephen T. The American Federationist September 1895. The American Federationist was the official monthly magazine published by the American Federation of Labor.
23 Ibid.
For example, if one works and saves the money one receives in exchange, arguably, one has a property right in the money saved. If the money is fiat, the issuing authority can decrease the purchasing power by creating more money out of nothing and without work. The result will be that one has lost the value of one’s work.

The same logic applies to money promised for future payment, e.g., pensions. Arguably, people who have earned and/or contributed to a pension plan have a property right to what they have made when the plan vests. If a monetary authority creates more money out of nothing, one loses the value of his property. Where is the justice in that?

**Governmental monetary integrity**

With commodity money such as gold or silver, the General Government tends to be honest about money and the monetary system because there is little for the government to do except coin, borrow, or tax money. There is very little “wiggle room.”

With legal tender irredeemable paper-ticket-electronic money, because it is inherently fraudulent, the government or its agents, e.g., the Federal Reserve, engage in many frauds at home and abroad.

By delegating to the Federal Reserve a power that Congress does not have under the Constitution, the power to create money out of nothing, Congress has empowered the Federal Reserve to act as a de facto agent of the General Government. While almost all of what the Federal Reserve does is secret and generally not subject to discovery, occasionally, evidence of gross misconduct and fraud appears.

For example, there came a time circa 1982 when the Federal Reserve helped phony up the balance sheet of the Bank of Mexico. Here are the facts.

After Paul Volcker retired as Chairman of the Board of Governors of the Federal Reserve in 1987, he and Toyoo Gyohten, his former counterpart from the Bank of Japan, gave a series of lectures at Princeton. Those lectures became a book, *Changing Fortunes*, in which the following passage appears:

> “So it was a matter of buying time. In an effort to hold things together psychologically, we agreed with considerable unease to extend overnight swap credits once or twice to the Bank of Mexico to bolster the month-end figures for their dollar reserves. *We would transfer the money each month on the day before the reserves were added up, and take it back the next day.* Our unease did not arise from any fear of financial loss, but because the ‘window dressing’ disguised the full extent of the pressures on Mexico from bank lenders and from the Mexicans themselves.”  [Emphasis added.]

This transaction is a *prima facie* fraud. The phrase “window dressing” is a euphemism for a misrepresentation, which is the indicium of fraud. The issue raised for me is that if the Federal Reserve is willing to engage in this genre of fraudulent transactions, what might be the limit on what the Federal Reserve might or might not do? I conclude that there is no limit.

Further, what legislation passed by Congress authorizes this? Some time ago, I submitted to the Federal Reserve a Freedom of Information request for documents dealing with this transaction. My query turned up nothing.

As a slight digression, some time ago, as part of a more extensive presentation, I showed this to Mr. Ed Ott, then the Executive Director of the New York City Central Labor Council. Mr. Ott connected a dot that I had not considered. He noted that many ordinary Mexicans lost their savings and jobs after the Mexican Peso collapsed. They illegally migrated to the U.S. to find work. In this way, fiat money contributes to illegal immigration.

**The perils of money creation**

On August 15, 1971, President Nixon “temporarily,” he said, defaulted on the U.S.’ sovereign promise to redeem dollars for foreign governments and foreign central banks at the rate of one ounce of gold for $35. At the time, it was a felony for U.S. citizens to own gold anywhere in the world. The number of dollars created out of
nothing by our banking system was supposedly limited by the amount of gold that could be claimed. After the
default, the amount of dollars that could be created out of nothing has no limit. (See Exhibit 23)

As Mr. Greenspan confirmed multiple times, the Federal Reserve has the power, on its own authority and
without any oversight from Congress, and as recent events have shown, to create money without limit. When
money is created out of nothing, it deprecates the purchasing power of existing money, and more importantly,
it devalues money promised for future payment, e.g., pensions, annuities, etc.

Since 1946, about $14 trillion (M3) has been added to the economy. From where did all this money come? How
did it get into society?

As John Kenneth Galbraith explained:

“The process by which banks create money is so simple that the mind is repelled.”

Consider, for example, taking a $300,000 30-year 6% fixed rate mortgage loan from a bank. The interest on
the loan will be about $350,000. Where does the bank get the $300,000? Papers are passed back and forth and
signed. Then a bank employee goes to a computer and types in a book entry to one’s account for $300,000, and
that’s it! In other words, by passing some paper around and keying six keystrokes, the bank will reap $350,000
over 30 years. That money can be passed to bank employees and bank shareholders as dividends.

Suppose the loan was for $3,000,000, yielding the bank about $3,500,000 in interest. What extra work does
the bank need to do to realize the added $3,150,000? All that needs to be done is adding a zero or one more
keystroke. And if the loan was for $30,000,000, yielding the bank almost $35 million in interest, all that needs
to be done is to add two more keystrokes!

Is this genre of money creation in conformity with the Constitution? How is this related to Congress’ power
to “coin money?” Is it following free market principles? Does this “work” justify bankers' lavish salaries and
bonus compensation? I’ll have more to say about this later.

Exhibit 26: How banks create money

As unbelievable and outrageous as this appears, the process is explained in official Federal Reserve
publications. The Board of Governors and the twelve regional Federal Reserve banks each maintain a Public
Information Office. Many pamphlets, manuals, reports, videos, and other publications purportedly to educate
the public on why the Federal Reserve system is so great are available for free or for a nominal sum. Fed
publications are a great source of reading material if one has trouble sleeping. The following quote comes from
a comic book format directed at children. It explains simply:

“Money exists simply as a bookkeeping entry at a bank.”

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24 Galbraith, John Kenneth; Money: Whence it came, where it went Page 27 of 73
Here is a complete explanation from a more scholarly publication:

“If a bank makes a loan, it credits the checking account of the borrower. This creates new money in the form of additional checkable deposits for the borrower.”\(^{26}\)

In effect, Congress has delegated to the banking system a power that Congress does not have: the power to create legal tender irredeemable paper-ticket-electronic money out of nothing. What is the response from the financial sector? How can this be justified?

First, they claim that money creation helps the economy and provides jobs by financing factories, real estate, consumer purchases, etc. While it is true that money creation is sometimes used to build and enhance productive enterprises, it is mainly used for gambling in the capital markets, e.g., proprietary trading. Today, the leading money center banks have become \textit{de facto} hedge funds.

Second, they claim that no one coerced another into taking a loan, and presumably, the bank is satisfying a customer's need while benefiting itself simultaneously. In other words, they claim a win-win situation.

But wait, not so fast. The rest of society pays a considerable price for the banking system’s privilege of creating money out of nothing. Consider the effect on the purchasing power of money:

\textit{Exhibit 27:} Depreciation of the dollar 1949 – 2008; Source: Federal Reserve CPI data.

I call this “stolen labor” because if one works, one’s labor is transformed into money, some of which one saves. If one’s savings depreciate, one has lost the product of his labor. Who benefits? Except for unfathomable waste, the financial sector is the principal beneficiary of fiat money.

\(^{25}\) \textit{The Story of Money}, 8th Printing, 2005, Federal Reserve Bank of New York, page 17
Through a combination of fees and stock options, financial sector participants get to transform the fiat money into the real stuff, e.g., 40,000-foot houses in multiple locations around the globe, 200-foot boats, and $200 million airplanes now. Later, when savers and those to whom money has been promised, e.g., pensioners, get their rewards, it turns out their saved money doesn't have the purchasing power they expected. In effect, they have been and will be cheated.

Later, I will show empirical data whereby the financial sector public company market capitalization has increased from 5% of total market capitalization in 1980 to more than 20% in 2007. How could the financial sector, which produces no final products that improve the lives of anyone, quadruple its share of market capitalization in one generation? Their wealth increase was just blatant wealth transfer from mainly ordinary working people who earned it to the financial sector.

These days, the dollar depreciation, usually referred to in the press as inflation, measured by the Consumer Price Index (CPI), is considered benign. In my view, and that of anyone who eats food or consumes fuel, the notion that the CPI is benign is false.

John Williams, a Foundation for the Advancement of Monetary Education Foundation Scholar, has had a long career as a professional economist with clients such as Boeing and IBM. Now in retirement, he runs a website service called Shadowstats.com. He claims that the method by which the CPI is computed has been changed multiple times since the Clinton years, incorporating “innovations” such as Hedonic Pricing, geometric weighting, substitution, etc. These “innovations” have reduced the CPI from what it would otherwise be had a consistent method been used. Here is a plot showing his findings from 1981 through July 2011:

Exhibit 28: Annual Consumer Inflation vs. Shadowstat.com computation using a consistent method from the early 1980s.

As can be seen, using a consistent method, the CPI has been materially understated for almost 25 years.

Here is an example of how the CPI is understated for ordinary people. This graph shows my monthly healthcare premiums to Oxford for the years 2001 through 2007:
In the following graph, I show my year-on-year percentage increased cost (which I believe is representative of the experience of most people who have healthcare insurance) and compare it to the percentage increase in the BLS medical component of the CPI:

Thus, the medical component of the CPI is not in conformity with the experience of virtually the entire population, which has experienced double-digit increases in health care for years.
There is overwhelming empirical evidence that prices are increasing significantly for the inputs to consumer items.

Exhibit 31: Year-on-year price increases as at 1/19/2011; Source: Wall Street Journal

Exhibit 32: Year-on-year price increases as at 1/19/2011; Source: Wall Street Journal

It’s hard to imagine that these enormous price increases will not, at some point, be incorporated into consumer products. For example, the media had reported on many products whose packaging and content sizes
have been reduced while keeping the prior price per package when it contained more products. In this way, and many others, the effects of currency depreciation are being obfuscated.

These graphs support Mr. Williams’ hypothesis that the CPI has been seriously understated for almost 25 years using a consistent method. Since retirement schemes such as Social Security, benefits to disabled veterans, and salary increases to those with COLA clauses (which used to be common in labor contracts) are keyed to increases in the CPI, these beneficiaries, along with Treasury Inflation Protection bond holders, are being cheated. Why should our government be part of a cheat?

**Boom & bust in the economy**

With commodity money, such as gold, and without fractional reserve lending (leverage), a.k.a. the creation of “bank money” by banks, economic activity expands without busts. With increasing amounts of fractional reserve lending, there are periodic booms and busts—a bust results when marginal credit that cannot be serviced is liquidated.

Fiat money tends to create giant bubbles, which, when they collapse—and they always collapse—lead to extended depressions and severe hardship, especially for ordinary working people and seniors.

**Likelihood, duration, and size of wars**

Wars are costly. Because the only sources of revenues with commodity money are taxes, which people tend to resist, or borrowing, which drives up interest rates, there tend to be fewer and smaller wars. For example, it is less likely that the U.S. would have fought in Vietnam if President Johnson had to finance the war with taxes.

Fiat currency enables politicians to generate revenues with less accountability. They can act without the citizenry's consent, which, if consulted, would probably distribute their savings differently. Thus, politicians have a freer hand to engage in military adventurism, and they do.

**Military preparedness and the ability to wage war if need be**

With commodity money such as gold or silver, the country will have a more substantial industrial base, which makes for a more robust military. Also, lower interest rates, a by-product of commodity money, make for a greater ability to finance a war.

With legal tender irredeemable paper-ticket-electronic money, there will be a weaker military due to a more inadequate industrial base. Since the buying power of the money is vulnerable to collapse, there is less capacity to finance a war. The military can become fatally weakened when a collapse arrives, a vital national security issue.

**Who gets the wealth of society?**

With commodity money such as gold or silver, society's wealth goes to the people who earn it: workers, entrepreneurs, and the producers of goods and services sold in the market in voluntary transactions.

With legal tender irredeemable paper-ticket-electronic money, excessive wealth is transferred from those who produce it to banks and financial intermediaries. Large credit-worthy borrowers benefit. Also, politicians tend to profit along with people who are direct beneficiaries of government largesse.

**Social mobility: the ability to improve one's lot in society**

With commodity money such as gold or silver, social mobility is high. There are countless stories of years gone by about people who came to America with nothing but willingness to work and build significant
successes. When the U.S. had sound money, it was known worldwide as “The Land of Opportunity.” These days, there are countless stories about folks going back to their original homelands.

With legal tender irredeemable paper-ticket-electronic money, social mobility is low to none. Because improving one’s lot requires the accumulation of wealth, and because it is not economical to save fiat currency, the poor tend to stay poor.

**Social engineering (the redistribution of wealth)**

Social engineering is hard to do with commodity money, such as gold and silver, because it must be done with taxation and people tend to oppose higher taxes. They take a greater interest in where money is spent when it is their own.

Social engineering is easier to try by creating money out of nothing and “spending” it, lending it or guaranteeing loans (where it is known in advance that such guarantees can be met by creating added money). Contrary to popular opinion, empirical evidence confirms that most wealth redistribution is from the poor to the rich.

No less an authority than Mr. Greenspan has confirmed that we have subsidies for the banking system. Mindful that bankers are more affluent than most, poorer people transfer wealth to more prosperous people. Where is the justice in that? If we had an honest monetary system, the wealth transfer would be apparent to all, and people would object.

**Unfathomable Waste:**

There is a loss that can be even greater than the depreciation of the currency if banks make loans for enterprises that are not long-term viable. Consider the recent residential real estate debacle whereby several million homes face foreclosure. More than a million homes are vacant, and millions are “underwater.”

A house isn't like a rock; it requires constant care and maintenance. If a leak develops, water and mold damage can result in a total loss. When a bank finances a home for which insufficient savings have been accumulated to pay for it, the bank gets upfront fees called “points.” The mortgage broker receives a fee, as does the real estate agent, the appraiser, lawyers . . . a little army of beneficiaries. The builder makes a profit if the house is a new build. My point is that many people get paid.

If the house goes into foreclosure and results in a total loss (there are film clips on the Internet of whole new house divisions being bulldozed), the entire enterprise is for nothing. None of these folks have their compensation clawed back. However, the bank’s balance sheet will be replenished one way or another. It is the taxpayer, through added currency depreciation, who ends up holding the empty bag.

By transitioning to an honest monetary system, when all the facts are on the table without misrepresentations, full disclosure, and no coercion, prices will again be stable. Savings and promises of future payment will not bear the risk of currency depreciation. *The Free Competition in Currency Act of 2011* will hasten that transition.

**Research & Development and Science Education**

Because commodity money has a lower interest rate structure and a longer investment-time-horizon, there tends to be more long-term investment. Research and development tend to be long-term activities. Thus, commodity money results in more scientific R&D and the need for more science education.

Because fiat currency results in a higher interest rate structure and a shorter investment-time-horizon, there tends to be less long-term investment. If interest rates are high enough, as in Mexico or Brazil, there may be no long-term investment, little research and development, and less demand for science education.
Manufacturing jobs and employment:

With commodity money such as gold or silver, there is more investment in productive ventures and higher-paying jobs than otherwise. Because manufacturing is capital-intensive, there are also more manufacturing jobs. With fiat money, there is less investment in long-term productive enterprises and fewer and lower-paying jobs.

Fiat currencies result in higher interest rates and a shorter investment-time-horizon, causing a decrease in manufacturing activity. There is an increase in the so-called service sector because it has a much shorter investment-time-horizon. A near-zero interest rate today is not a market-driven event. It is blatant market manipulation by the Federal Reserve, creating added money out of nothing to buy bonds.

Exhibit 33: U.S. Manufacturing Employment January 1980 to June 2009; Source: BLS
With commodity money, job security is affected chiefly by increases in productivity, which tends to destroy some jobs and create others. Decreasing prices help offset the adverse effects of the destruction of jobs resulting from productivity (labor saving) improvements.

With fiat money, job security is affected by rapidly changing interest and foreign exchange rates and less of a propensity to save and invest for the long term.

Exhibit 35: Unemployed 16 years and over; Source: BLS
By speeding a transition to an honest monetary system, *The Free Competition in Currency Act of 2011* will help to create more and better job opportunities in the U.S.

Besides workers who do manual work without tools, e.g., picking vegetables, or professionals working in a knowledge-based industry, well-paying jobs require tools, or more generally, plant and equipment. The more sophisticated the tool, the more investment in research and development is needed over extended periods. The funding source is accumulated savings, i.e., money not consumed from one’s production.

When the banking system creates out-of-nothing irredeemable paper-ticket-electronic money, it may at first appear to be an alternate funding source separate from savings. However, money creation dilutes the purchasing power of that which has been saved or promised for future payment. The only thing that gives fiat money value is that some people save it. If a country with no accumulated savings issued paper money, that money would depreciate quickly and, in effect, be rejected.

Part of the human condition is that people must save (or someone must save on their behalf, e.g., a pension plan) for a time when they can no longer work. The late labor songster, Joe Glazer, wrote a song commemorating this when Walter Reuther was negotiating the Chrysler pension plan circa 1954. The refrain is, “Too old to work, too young to die, how am I going to get by?”

Ordinary people are very security conscious and tend to distribute their savings to what they perceive to be the least risky (from the vernacular, not the financial definition) allocation. They usually allocate to U.S. Government bonds (in Europe, German bonds are considered safe). Ideally, however, society is best off when savings are invested in productive enterprises.

Recently, David Malpass, president of Encima Global and former Bear Stearns’ chief economist, wrote an insightful op-ed piece in the *Wall Street Journal* in which he observed:

“Treasury bond yields have been at near-record lows and gold prices at record highs, attracting millions of investors into idle assets through coins, exchange-traded funds, and even warehousing facilities.” And,

“It means people would rather buy gold than hire workers or start businesses -- that they don't trust the central bank to maintain the value of their money.”

Thus, if people don’t trust the efficacy of currency, they make a “flight-to-safety” rather than invest in productive enterprise. So far, there is substantial residual faith in the fiat dollar, as shown by the unsustainably low-interest rates on U.S. Government securities. That could change very quickly. The bottom line is that industrialization requires sound money, not money that a central bank can create, in Mr. Greenspan’s exact words, “without limit.”

But there is another toxic effect of legal tender, irredeemable paper-ticket-electronic money on jobs. As the banking system increases the money supply, as mentioned previously, the purchasing power of money decreases. The mirror image is rising prices. The Consumer Price Index (CPI) is a measure of price increases.

Here is a long-term chart of M3, the so-called broad money supply, from official sources until March 2006, when the Federal Reserve stopped publishing this metric. The components of M3 are known, so some have constructed a proxy to continue the series. For our purposes, that proxy is meaningful. Here is a plot showing the M3 money supply from 1946 through 2008.

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Exhibit 36: The broad money supply (M3) from 1946 to 2008. Source: Federal Reserve until March 2006, when the Fed stopped reporting this metric. From April 2006 to December 2008, the data reflects estimates of various observers based on known components of M3.

In 1946, M3 was approximately $150 billion. By 2008, it had ballooned to $14 trillion. Contrary to what most people understand, the banking system creates all our money. Specifically, when a bank makes a loan, it creates the deposit with a simple book entry. The jargon for money creation is called “fractional reserve lending.”

Notice how the money supply accelerated after the last tie to gold was broken on August 15, 1971. A great deal of the increase in the money supply went into the capital markets, thereby increasing the nominal valuations of equities. Wall Street called this “wealth creation.” It mainly was wealth transfer because of the fees to financial sector participants and stock options to those who manage publicly-traded companies. I will have more to say about this in the section on Wall Street and the Banks.

Again, creating this new money out of nothing increased the price level. The effect on jobs has been an unmitigated disaster from many points of view.

Consider the price level of the United States from 1800 to 2006:
Notice that the U.S. price level was stable for about 125 years. There were little blips during the War of 1812, the Civil War, WWI, and WWII. At the end of the period, prices were close to what they were in 1800.

During the period, there were enormous improvements in manufacturing as more and better products were produced. The standard of living in 2006 increased significantly since 1800 with innovations such as the steam engine, railroads, telegraph, and many others. Further, the growing industrial strength made the U.S. the envy of the planet. At one point, a large part of the world’s population wanted to migrate to the “Land of Opportunity,” also called the “Land of the Free.”

In 1933, after FDR seized monetary gold owned by U.S. citizens and made it a felony for U.S. citizens to possess monetary gold anywhere in the world, the price level began to increase, mainly because of financing for the Vietnam War.

When President Nixon defaulted on the last promise to redeem dollars for gold to foreign countries and central banks, money creation accelerated, and so did the price level.

What does this have to do with jobs? As the price level increased, nominal wages increased, and other effects, especially taxes (which are not part of the CPI calculation), the U.S. became uncompetitive with different locales. Until the last tie to gold was broken, the New York City metropolitan area where I live had a large garment center manufacturing presence. Because it was cheaper to manufacture in other countries, e.g., Japan, garment manufacturing and most labor-intensive manufacturing left the U.S.

Shortly after that, whole industries migrated, such as shoe manufacturing. I have been told that only one large shoe manufacturer is left in the U.S., Allen and Edmonds. Over time, the television industry, microwave ovens, and myriad other industries took their jobs overseas.

The spin from Wall Street was that we would be doing the creative work (we would think, and the Asians would sweat), and everyone would benefit. Forgetting the effect of legal tender irredeemable paper-ticket-electronic money in financing “trade,” so-called globalization was the new mantra to an improved standard of living for all. What was wrong with that argument?
The fallacy with globalization is that it wasn’t trading unless one wants to think of it as trading jobs for consumer electronics. When Ricardo postulated that comparative advantage and free trade would benefit all, England was on a gold standard, and trade meant an exchange of value for value and work for work. With a legal tender irredeemable paper-ticket-electronic monetary system, money is created without work. How much more work does it take to make a $100 bill than a $1 bill? None. And the amount of work it takes to create a $1 bill is about two cents. In this light, globalization is not trading. It is wealth transfer.

**Money creation effects on state and local taxes:**

Commodity money tends to facilitate lower tax rates and less taxation since citizens see how much is extracted from them. As fiat money is created out of nothing, there tends to be inflation, and ordinary working people are pushed into higher tax brackets. People pay a more significant percentage of their income to taxes.

*Exhibit 38: State and Local Taxes 1952 – 2008; Source: government data*

After the last tie to gold was broken in 1971, concomitant with money creation, state and local taxes increased substantially. Until recently, except for a slight decrease in 2003, tax collections were clearly in a long-term uptrend. Few connected legal tender, irredeemable paper-ticket-electronic money, and tax revenues. The apparent prosperity generating the increased tax revenues was a mirage based on fiat money.

The result was that state and local politicians were induced to expand public services and make promises, such as pensions and benefits, to public employees that they should not have made and cannot be kept. One can understand the fury of those promised pensions and benefits, having worked their entire careers in anticipation of receiving them and then being told that these promises cannot be kept. Reality must be confronted in a way that will minimize the damage and pave the way for an honest monetary system that will provide genuine prosperity in the future.

The alternative of increased money creation and so-called “inflation targeting,” while kicking the can down the road, will compound the catastrophe. The money issue needs to be addressed now. *The Free Competition in Currency Act of 2011* provides a clear path.
A great deal of legal tender, irredeemable paper-ticket-electronic money created out of nothing, found its way to financing real estate. As a result, real estate values increased, and so did concomitant real estate taxes. One effect was that seniors whose income was fixed, and on account of other growing costs such as fuel, insurance, medical care, etc., got squeezed out of their homes. Some, not being mindful of money creation and expecting the ever-increasing values of their homes, took out additional mortgages. Everyone knows how that turned out. Few have connected the dots to legal tender, irredeemable paper-ticket-electronic money.

But legal tender irredeemable paper-ticket-electronic money is responsible for another and, in my view, more insidious effect. While bankers, Wall Street firms, mortgage brokers, real estate brokers, and a small army of support personnel profited and walked off stage with enormous fortunes, manufacturers whose marginally profitable products had to abandon their businesses and fire their employees.

For example, a couple of years ago, *The New York Times* ran a story about Bartlett Manufacturing Company in Cary, Illinois, which had to close its printed circuit board factory because the property taxes were no longer affordable. As can be seen from the photo, this was a machine-intensive business.28

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28 Uchitelle, Louis; “Obama’s Strategy to Reverse Manufacturing’s Fall”; *The New York Times*, 7/21/09
Exhibit 40: Bartlett Manufacturing Company shut down on account of property taxes

After he closed the business, he was quoted as saying: “I am going to tear down the building and sit on the land, and hopefully sell it after the recession when land prices hopefully rise.” As can be seen, this is a perfectly serviceable building.

Exhibit 41: Bartlett Manufacturing Company teardown on account of property taxes

The bottom line is that legal tender irredeemable paper-ticket-electronic money has various adverse effects, one of which, by causing taxes to increase at the state and local level, contributes to the destruction of industry and jobs.

Exhibit 42: year-on-year percentage change in property taxes; Source: government data
Slight digression: property taxes are not included in the CPI calculation. In addition to property taxes, many other charges increase on account of money creation.

Exhibit 43: New York City Water & Sewage Charges year-on-year change 2000 – 2001; Source: New York City Government

Real Wages

With commodity money, real wages, as does the standard of living, tend to increase. With fiat money, real wages tend to stagnate or decrease, as does the standard of living. The empirical data confirm an adverse effect.

Exhibit 44: Average Weekly Earnings Of Production And Nonsupervisory Employees, 1982-84 Dollars; Source: BLS
The tipoff that legal tender irredeemable paper-ticket-electronic money adversely affects wages is the use of the adjective “real.” Are wages imaginary without the adjective? Yes, they are. Even with the adjective, fiat money wages are denominated not in dollars as the term is used in the Constitution but in dishonored promissory notes. That is, they are broken promises to pay dollars. (See the section: Why legal tender irredeemable paper-ticket-electronic money is dishonest).

Typical usage is for “real” to mean “adjusted for inflation” as measured by the CPI. As explained in the section: The perils of money creation, this adjustment understates currency depreciation, so real wages have suffered even more than shown in Exhibit 31. While there was a gold link, our dollar was more stable, and real wages had been increasing.

At the start of the Labor Movement in America, circa 1830, working people were very mindful of the perils of paper money, which, while not legal tender, was redeemable into specie on demand. The problem from Labor’s point of view was that redemption had to occur at the bank of issue, which was not always geographically convenient. As a result, workers paid with paper money most times suffered a redemption cost when they redeemed it for specie.

Gold and silver as money, a.k.a. sound money (because it made a sound) or honest money, was one of the three issues that motivated men to join unions. The other two were the ten-hour workday and education for workers. Eli Moore, then president of the Typographers’ Union in 1832, was the first union official to win a seat in Congress. He was a staunch supporter of Andrew Jackson, who got rid of the Second Bank of the United States by vetoing its renewal charter, and an outspoken supporter of gold.

**Propensity to Save**

Commodity money is very savable because it doesn’t obsolesce or deteriorate and is difficult to counterfeit. Purchasing power is not diminished. Fiat money is less savable and can discourage long-term savings since its future value is always doubtful. Why save a depreciating asset? Empirical data confirm that fiat money always loses buying power over time.

![Graph of US Personal Savings Rate](http://www.bea.gov/national/nipaweb/SelectTable.asp#S5)

*Exhibit 45: U.S. Personal Savings Rate; source: http://www.bea.gov/national/nipaweb/SelectTable.asp#S5*

The only way to build an affluent society and improve everyone’s standard of living is to save and invest. If one invests in a community that respects property rights, one can expect to enjoy positive results of an investment, should there be any. One tends to risk part of one’s accumulated savings by investing in productive enterprise. Otherwise, as confirmed by empirical data, one might just as well spend and enjoy one’s income.
Investing capital, both physical and intellectual, is a precondition for high-wage jobs. The lack of accumulated wealth in most of Africa is why wages are so low in that region. Legal tender irredeemable paper-ticket-electronic money always depreciates in the long term. Thus, the possibility that one will enjoy a positive result from risking one’s savings is less than it would otherwise be, so long-term investment is less than it would otherwise be.

Most important, since legal tender irredeemable paper-ticket-electronic money always depreciates, less of it is saved than otherwise. One deceptive escape hatch for some people is to allocate their savings to the equity markets and hope for the best. As will be shown, the capital markets primarily benefit those who get fees for facilitating transactions.

**Pensions in peril**

Pension assets in physical gold are safe and secure. There is no counterparty risk. Because the amount of new gold produced each year is a tiny fraction, typically less than 2%, of the gold above ground, prices denominated in gold remain stable over time. Because it takes work to mine and produce gold, the amount above ground cannot be increased by whim.

With legal tender irredeemable paper-ticket-electronic money, pension assets are vulnerable to volatility in interest rates, rate-of-return and discount rate assumptions by those charged with contributing to defined benefit plans, whether they are private or political entities. Because fiat money can be created out of nothing without limit, the purchasing power of pensions is vulnerable to severe depreciation.

_The Free Competition in Currency Act of 2011_ will make pensions more secure and valuable for the putative beneficiaries by speeding a transition to an honest monetary system.

With our current legal tender irredeemable paper-ticket-electronic monetary system, the actual beneficiaries of pension plans are financial sector firms, especially banks, brokerage firms, and the army of professionals who serve them. If retirees receive their promised pensions and benefits, it will be a happy accident. Already, millions of steelworkers, textile workers, airline workers, and many others have lost promised pensions and benefits which they have earned.

The short explanation is that financial sector firms get fees now denominated in money that still has purchasing power, while pensioners are looking forward to getting their payments later. When later arrives, the money they receive will, at best, be worth less than what they expect and, at worst, worth nothing. In many ways, this is like the classic Ponzi scheme in that some people get paid sooner; when later arrives, folks are left with an empty bag.

A critical way real assets are improperly transferred to the financial sector is how assets are allocated to various financial vehicles.

Today, U.S. private, state and local pension funds have approximately $9 trillion in assets.
Pension assets, while supposedly controlled by law and the fiduciary responsibility of pension plan trustees, are de facto under the control of consultants and Wall Street money managers from whom trustees take their marching orders. Order of magnitude, all factors considered, I estimate that fees and overhead for these funds is about one percent of assets, $100 billion per year. This structure is enshrined in legislation for private sector pension plans, The Employee Retirement Income Security Act (ERISA) and The Pension Protection Act Of 2006 (PPA), which require everyone involved with asset allocation to be “prudent.” I know of no special legislation for regulating state and local pension plans.

In case something goes horribly wrong and pension assets are dissipated, virtually everyone has been given a “safe harbor” if they rely upon “standard industry practice.” In effect, no one will be held liable if they diversify the allocation of assets and rely upon “experts.” The experts, however, have a conflict of interests with the beneficiaries because their compensation is derived from fees they are incentivized to maximize, and the diversification of assets is based on demonstrably phony methodologies.

Over the years, along with academic “experts” whom the financial sector has compromised through endowed chairs, prizes, honorariums, research grants, consulting work, and who knows what else, demonstrably bogus methodologies have been conferred legitimacy that enhance fees to the detriment of pension plan beneficiaries. Journals that an academic must publish to qualify for tenure and move up the academic food chain are edited mainly by current or former banking system employees, especially from the Federal Reserve. Thus, the ranks of those who might become experts are highly restricted.

“One critical way the Fed exerts control on academic economists is through its relationships with the field's gatekeepers. For instance, at the Journal of Monetary Economics, a must-publish venue for rising economists, more than half of the editorial board members are currently on the Fed payroll -- and the rest have been in the past.”

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29 The Nobel Prize in Economics, for example, is not one of the prizes that were endowed by Alfred Nobel in 1895. It came in 1968, and the endower is the Central Bank of Sweden. The real name of the prize is Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. It is a bank prize, and it is not given to anyone who might challenge the honesty or legitimacy of central banking.

These editors act as gatekeepers and do not publish anything that challenges fundamental assumptions or the legitimacy or honesty of central banking and the legal tender irredeemable paper-ticket-electronic monetary system.

Here is another example of how the Federal Reserve has compromised the Academy. In 1994, Mr. Stephen Davies wrote an article citing evidence from then Chairman of the House Banking Committee Henry Gonzalez showing that the Fed has spent millions hiring economics faculty members as "consultants." The article quotes Mr. Gonzalez:

"The Federal Reserve employs hundreds of researchers in their [sic] research departments, but inexplicably also spends millions to pay hundreds of outside economic consultants... The Fed is simply buying off potential critics by holding out contracts that offer academics extra money and use of the Fed's facilities. No agency that has to justify its spending would dream of this kind of extravagance and waste." [Emphasis added.]

More telling, the article continues:

"Moreover, the Bond Buyer has learned that in the case of the Federal Reserve Board, all contractors are required to sign a non-disclosure statement... It is broadly worded to prohibit the release of any information relating to past, present, or future activities that can be considered damaging to the Board."31 [Emphasis added.]

The bogus methodologies, e.g., Modern Portfolio Theory (MPT) and the Capital Asset Pricing Model (CAPM), which work to generate fees, would not be applicable if we had an honest monetary system.

Allow me to explain. Modern portfolio theory is a theory of investment that tries to:

1. Maximize portfolio expected return for a given amount of portfolio risk; or equivalently,
2. Minimize risk for a given expected return level by carefully choosing the proportions of various assets.

Notice the reference to “risk.” The meaning of “risk” in this context is crucial. There needs to be some standard against which to measure risk. For MPT asset allocation, the standard is called the “riskless rate-of-return,” i.e., the rate of return on an asset allocation with zero risk over a period. The USD 3-month Treasury bill is considered a (near) riskless asset. But what about the risk that the dollar will lose purchasing power? That risk is not considered.

Furthermore, in the financial sector, the word “risk” has yet another meaning: it means “volatility.” The risk of the dollar losing purchasing power is also not considered. As price volatility increases, “risk” is said to increase. This unique and limited definition gives birth to concepts such as the “risk-adjusted rate-of-return.” Thus, an allocation to gold might have a lower risk-adjusted rate-of-return than, say, an allocation to equities or real estate, even though an allocation to gold increased by about 18% per year since 2001 and without any down years!

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But using standard industry practice, except for a unit of the Texas Teachers’ Retirement Fund and a few others, U.S. pension funds are believed to have less than $20 billion of their assets in gold out of their approximately $10 trillion.\(^{32}\)

\(^{32}\) An allocation to gold might pay a fee at the time of purchase, but then the fee stream stops.
Exhibit 48: Estimated gold holdings at U.S. pension funds; Source: Texas Teacher’s Retirement Fund

From here, the story gets worse. Much worse. For almost everyone who is not in the financial sector or providing services to it, risk, according to the *Oxford English Dictionary*, means “(Exposure to) the possibility of loss, injury, or other adverse or unwelcome circumstance.”

What could be a more adverse or unwelcome circumstance than having one’s hard-earned savings allocated to sovereign debt (either U.S. or some other country) and having it redeemed in a currency whose purchasing power has dramatically depreciated? How do the rating agencies treat this risk in assigning ratings to various fixed-income securities? Risk calculation is vital because many pension funds are restricted by law to allocate to only “investment grade” securities at home and abroad.

To check this out, I queried the major rating agencies (Fitch Ratings, Moody’s, and Standard and Poor’s):

“If the purchasing power of a sovereign’s currency, e.g., in the U.S. that would be the dollar were to fall to zero, and all of the outstanding sovereign’s debt was paid down with worthless currency, would that or would that not constitute a default in the opinion of [rating agency]?”

Eduardo Barker, Communications Strategist, Sovereign and Latin America Moody’s sent me a sheet explaining sovereign ratings that did not address the question, along with a statement, “we would not comment beyond that.”

Fitch Ratings was more forthcoming. Brian D. Bertsch, Director of Corporate Communications, wrote me: “It is very hypothetical, but most likely it would not be considered a default.”

Standard and Poor’s was the most straightforward. John Piecuch, Director, Standard & Poor's Communications, wrote me: “In terms of your question, even in the case of hyperinflation, a currency's purchasing power is still not zero (if it were zero, it would cease to be a currency). Even in that case, as long as the issuer were honoring the original terms of the contract (even if repaying with much cheaper currency than originally borrowed), this would not be a default.”

Thus, through Modern Portfolio Theory and ratings from government-endorsed rating agencies, pension plan assets are not being allocated to the one investment that would give beneficiaries the most protection against a decrease in the dollar’s purchasing power.

Empirical evidence, in the U.S. and elsewhere, is incontrovertible that currency depreciation is a material risk. Consider the depreciation of the dollar again from 1949, according to official CPI data:
Balance of Trade

With commodity money such as gold or silver, trade balances because one always trades work for work and value for value. With gold-as-money, exports pay for imports, and the balance of trade deficits is small or nonexistent.

With fiat, irredeemable paper ticket-token or electronic-checkbook money, if foreigners, especially foreign central banks, continue to save such money, which is legal tender only in the U.S., as history shows, enormous trade deficits are possible. Not only will foreigners end up with an empty bag, but these colossal trade deficits also represent lost employment at home.
Above is an ugly chart. It supplies empirical evidence that after the last tie to gold was broken in 1971, partly due to many U.S.-based industries moving production overseas, the U.S. began to experience enormous trade deficits. Leaving aside the trillions of dollars that have accumulated as reserves in other countries, especially China, Japan, South Korea, etc., this also reflects a massive transfer of good-paying manufacturing jobs to other locales.

The Business Roundtable, AFL-CIO, and others were complaining about “currency manipulators.” Wall Street embraced the process, now called “globalization,” and was cheerleading globalization as concomitant to “wealth creation.” Overlooked was that the dollars accumulating overseas weren’t dollars. They were, as Jefferson called it, “only the ghost of money, and not money itself.”

When the legal tender irredeemable paper-ticket-electronic dollar meets its fate, in addition to folks at home, there will be some miserable and angry overseas. Will foreigners continue to sell us oil along with the various other products we depend on from imports to keep our society functioning? The inevitable dollar collapse is a risk factor policymakers need to address.

**Federal Taxes and Spending**

With commodity money such as gold or silver, as government spending increases, taxes or borrowing (delayed taxation) must increase because there is no other funding source. People tend to resist higher taxes, thereby limiting government spending.

With fiat, irredeemable paper ticket-token, or electronic checkbook money, since the government has easy access to money created out of nothing, it does not need to increase tax rates. In effect, it can borrow by so-
called monetizing debt. In time, money is depreciated, which causes prices, including the cost of labor, to increase in nominal terms, along with concurrent tax collections.

However, because of the delay in tax collections, spending almost always exceeds revenues. Eventually, the purchasing power of the legal tender irredeemable paper-ticket-electronic money approaches its cost of production —near zero— there is a regime change, and the party ends.

Notice that tax collections accelerated significantly after breaking the last tie to gold. Before the gold link defaulted, material money was created to fund the Vietnam War. Some of it leaked overseas to U.S.’ major trading partners, including Great Britain, France, Japan, and Germany. Britain and France, recognizing that too many dollars were being created for the U.S. to keep its sovereign promise to redeem dollars for gold at the rate of one ounce of gold for $35, began saving dollars in ever-increasing amounts. When President Nixon defaulted “temporarily,” he said, it was clear that had he not defaulted, all the U.S. gold would have been gone anyway.
As federal government receipts continued to increase year after year, politicians bought into the notion that this resulted from our growing economy. They were unaware that the nominal numbers were driven by ever-increasing money creation. True, there were some wake-up calls along the way, especially when inflation began to pick up at the end of the 1970s, but the high-interest rates imposed by Mr. Volcker, appointed by President Carter, were thought to have “broken the back of inflation.”

On April 19, 1993, Mr. Greenspan gave a speech using the word “inflation” an incredible 58 times. He said: “it is going away; it is not coming back; it is not a problem; it is diminished; it is nonrecurring; it is subdued; there’s no resurgence; we’ve learned our lesson.” Pronouncements such as these also diverted people’s attention from the amounts of money created out of nothing. In addition, much of the newly-created money accumulated in the capital markets. The equity and real estate markets spiraled upwards. Investors were euphoric. The CPI was reformulated to take lesser account of the increase in housing prices, so the monetary authorities could claim that inflation was benign.

Because so much of the newly-created money found its way to the fixed-income market, people who should have known better adopted the view that “deficits don’t matter.” President after president significantly increased spending. Profligate spending and concomitant waste would not have been possible with an honest monetary system.
To put the government deficit into perspective, most economists compare it to GDP. This comparison is a grave error, in my view. To begin with, the GDP, a spurious metric, is not available to the government to service and, if it was honestly incurred, repay its debt while meeting its promised obligations. Any entity's money to service and repay debt must come from receipts.

From 1955 to 1970, the federal deficit was almost always less than 10% as a percentage of receipts. On August 15, 1971, President Nixon defaulted on the Bretton-Woods Treaty, which mandated that the U.S. redeem $35 for an ounce of gold. These days, it is painfully clear that the deficit is entirely out-of-control. Theoretically, spending could be reduced to bring it in line with receipts. However, that would mean defaulting on benefit promises. It isn't easy to imagine how that could happen.

Meanwhile, many trial balloons appear in the mainstream media that forecast and endorse currency debasement.

“Washington will therefore have little choice but to take the time-honoured course for big-time debtors: print more dollars, devalue the currency, and service debt in ever cheaper greenbacks. In other words, the US will have to camouflage a slow-motion default because politically it is the easiest way out.”

“Any inflation above 2 percent may seem anathema to those who still remember the anti-inflation wars of the 1970s and 1980s, but a once-in-75-year crisis calls for outside-the-box measures.”

“In the future, central banks will have to realize that debt-financed expansions in asset prices can be a threat. For now, it would be nice if they would at least recognize that major deflations in asset prices can be much more important than the relatively small gains in commodities that show up in the Consumer Price Index.”

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33 Garten, Jeffrey, Financial Times, November 30, 2009; “We must get ready for a weak-dollar world”
34 Rogoff, Kenneth; “The bullets yet to be fired to stop the crisis”; Financial Times 8/9/2011
**Government deficits**

It is challenging to sustain government deficits with commodity money because they would have to be funded by borrowing. Since a commodity money supply cannot arbitrarily be expanded, interest rates would increase if the government increased borrowing. Manufacturers and others would then object to higher interest rates, causing the government to reduce spending, thereby causing deficits to decrease.

Suppose someone, such as the Bank of Japan, the Bank of China, the Federal Reserve, or banks, purchases government securities with money created out of nothing (called “monetizing the debt”). In that case, deficits can be funded without significantly increasing interest rates. Deficits can grow without limit (in theory). Also, government debt can be financed by pension plans and other institutions—eventually, the debts default.

The empirical evidence confirms that government deficits are facilitated by legal tender irredeemable paper-ticket-electronic money.

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**Exhibit 54**: U.S. Government Surplus/Deficit Cash Basis 1955 – 2011; Source: BLS
Empirical data [Exhibit 54] confirm that government deficits were small when the dollar was linked to gold. After the last tie to gold was broken, deficits and resulting government debt accelerated significantly. Note that these deficits use the cash method of accounting. On an accrual basis, they are off the chart.

If one includes the present value of promises, e.g., Social Security, Medicare, Medicaid, etc., the deficits are much more meaningful. Some estimate that the accumulated obligations are on the order of $100 to $200 trillion! Because politicians cannot renege outright on their promises, especially if they want to be reelected, they will be motivated to continue inflating the currency until it collapses. I don’t see any alternative.

That's why The Free Competition in Currency Act of 2011 is essential. It provides a way to mitigate the damage and prepare our country for an honest monetary system.

**Financial market instability and the best argument against gold**

Absent fraud and coercion, a monetary system based on gold-as-money is stable. With Legal tender irredeemable paper-ticket-electronic money, because there is no market-based mechanism that provides negative feedback to increase the money supply, total debt and leverage will blow up.

The strongest argument against linking the dollar to gold, sometimes referred to as the “gold standard,” is that financial markets are *inherently* unstable. Because almost all other markets depend on the financial sector for payment processing, there needs to be a lender-of-last-resort. If the dollar is tied to gold, the lender-of-last-resort may not be able to function. Therefore, it is claimed that modern financial markets require a “properly managed” (to quote William Niskanen, former Chairman of the CATO Institute) fiat monetary system.

While it is true that financial markets have been unstable over the last two centuries, they are not *inherently* unstable. Misrepresentations and nondisclosure about our monetary system and fundamental banking customer relationships enable financial sector firms to over-leverage. Overleverage is the root cause of financial instability. Remedies being put forth, such as a global lender of last resort, will be counterproductive and will result in greater instability. The solution is to change the structure of the world’s monetary systems to remove the cause of instability: the ability of banking systems to create money out of nothing.
In the U.S. during the 19th and 20th centuries, there were many boom/bust periods in which financial markets soared and then collapsed. Why wasn’t this malady common in other markets, such as the ice cream or automobile markets? What is it about financial markets that they tend to boom and bust? Also, it is essential to understand that because financial markets are interrelated with other markets, a financial market collapse can also result in systemic failure.

A distinguishing characteristic of financial markets that is absent from other markets is excessive leverage. On the futures exchanges, various commodities are leveraged, but no one would suggest that the markets for copper or soybeans are inherently unstable. There is something different about financial markets. That difference is inadequate counterparty surveillance. And that inadequacy results from misrepresentations and nondisclosure, which is the indicia of fraud on the part of crucial financial players: banks.

From inception, banks made fundamental misrepresentations to their customers about the primary banking relationship in two areas. First, banks told customers that they were “depositors.” At best, this was misleading. In fact and law, depositors were, and continue to be, unsecured creditors of banks. Most depositors, especially small depositors, put their money in banks for safekeeping; they were not heedful of the risks they were taking.

Second, banks told customers that they could get “their” money back “on demand.” However, in fact, and law, when people “deposit” money in a bank, it becomes the bank’s money to do with as it pleases. The bank may loan that money to someone else, invest it in whatever, including illiquid investments, or gamble with it. Further, what banks should have told depositors was that they could get their money back on demand, provided: not too many of them wanted to do so at the same time; the money had not been invested in something illiquid and that could not quickly, and without much loss, be converted back into cash; and, finally, that the bank had not lost the money, say in a bad investment.

Third, when banks make a loan, they create the deposit with a book entry.

These misrepresentations lulled depositors into acquiescing to nondisclosure on the part of banks about what they were doing with depositors’ money and the amount of leverage banks employed. If banks had told depositors the truth about the essential relationship, depositors would have exerted more counterparty surveillance. Excessive leverage would never have occurred, and there would never have been anything approaching systemic failure, as it almost happened in 1907 and did occur in 1932.

In his book, Soros on Soros, Mr. George Soros correctly observes that a lender of last resort and the gold standard are incompatible. Banking misrepresentations and nondisclosures made the “lender of last resort” bailout facility necessary.

First, by abandoning the gold standard, banks enhanced their ability to, in effect, create money out of nothing. Under the gold standard, they were able to create money, called “fractional reserve lending.” There were some (clearly inadequate) limitations on the amount of money they could create. Since all newly created money, called banknotes, were legally promissory notes redeemable on demand in gold, there was a physical limit beyond which market forces would close a bank that created money excessively above its capital and reserves. Gold limits money creation.

Second, with some limitations, bank officers and directors were personally liable to depositors. These two factors led many banks to keep something on the order of 40% of their reserves in gold, just in case. If reserves could be reduced, banks could garner more profits. Many banks sought to do so. Some market participants well understood the notion that banks were misbehaving.

“Perhaps Hugh McCulloch, our first Comptroller of the Currency, may have been somewhat over the edge, in this regard, when in 1863 he proposed that the National Bank Act ‘be so amended that the failure of a national bank be declared prima facie fraudulent, and that the officers and directors, under whose administration such insolvency shall occur, be made personally liable for the debts of the bank, and be punished criminally, unless it shall appear, upon investigation, that its affairs were honestly administered.’ So much for moral hazard. And surely, here we observe the intellectual origins of prompt
corrective action.” [Speech by Federal Reserve Chairman Alan Greenspan before the American Bankers Association, Washington, D.C., September 18, 2000]

After the Panic of 1907, which J. P. Morgan alleviated with a colossal gold loan to banks to meet the demands of depositors who withdrew their funds, four words terrified the banking community: “What if he [Morgan] dies?” The answer was a government entity supplying “liquidity” when the banks were caught short. Further, the formation of the Federal Reserve enabled bank reserves to be aggregated so that there would be a need for less of them, and the banks could leverage even more than before.

The U.S. banking system was thus able to finance WWI. Without financing, had there been full disclosure about the causes of bank panics, some suggest that WWI would have been over in just a couple of months. There would have been no (1) Treaty of Versailles, (2) destruction of the German and Austrian currencies, (3) Hitler, (4) Lenin, (5) Stalin, (6) World War II, and the murder of 150 million, excluding those who died during wars during the Twentieth Century, would not have occurred.

No amount of regulation will eliminate the moral hazard issue. Further, the system, with moral hazard, is inherently unstable. The moral hazard issue means that there will necessarily be a wealth transfer from ordinary working people to those who benefit from the moral hazard: the financial sector. Not only is this unfair, but it also will not stand the light of day if ordinary people come to understand what is happening.

The solution is gold as money. There are compelling reasons why free men and free markets choose precious metals as money. In a nutshell, because of its physical attributes, precious metal as money is the most efficient medium of exchange—in terms of minimizing transaction costs—for transmitting value over time.

Levels of debt

With commodity money prices tend to decrease, it becomes harder to service and pay down debt, and debt is discouraged. With fiat, irredeemable paper ticket token, or electronic checkbook money, increases in debt are encouraged because debt gets serviced and repaid with cheaper money. Fiat money also works to decrease the purchasing power of savings and future payments, the majority of which constitute pension funds. Today, booked debt (public and private), exclusive of the present value of promised “entitlements,” is more than $52 trillion.

Exhibits 43, 44, 45, and 46 confirm that after the last tie to gold defaulted, “temporarily” promised President Nixon on August 15, 1971, debt levels in the U.S. increased.

Debt levels at state and local entities do not include the present value of promised pensions and benefits to public employees. Misallocating pension assets is concomitant with legal tender irredeemable paper-ticket-electronic money. State and local finances will be under increasing pressure to increase taxes and reduce services to meet pension obligations.

Exhibit 57: State and Local Debt 1955 – 2010 year-on-year changes; Source: Federal Reserve Flow of Funds

The effects of fiat money on state and local debt are even more dramatic when one looks at the year-on-year changes in state and local debt. Notice how much state debt accelerated after breaking the last tie to gold.

It is now clear to many observers that U.S. Government debt is entirely out-of-control. In my view, this is fraudulent debt because there is neither the intention nor ability to ever repay this debt with money of similar purchasing power at the time the debt was incurred. The big losers will be ordinary people who have followed the rules, worked hard, and allocated their retirement savings to U.S. Government securities, which they have been told are the safest in the world.

![Total US Debt 1955 - 2010](image)

**Exhibit 59**: Total U.S. Debt 1955 – 2010; Source: Federal Reserve Flow of Funds

Total booked debt, exclusive of the present value of government and corporate promises for entitlements and pensions, is now more than $52 trillion. What is the collateral of $52 trillion in debt instruments? Aside from government debt, the collateral is primarily residential and commercial mortgages, car loans, credit card loans, etc. That collateral is melting away. In other words, there will be material defaults, most likely through the ongoing depreciation of the currency. Every dollar of debt is somebody’s asset, e.g., retirement savings. An honest monetary system would preclude these obscene debt levels. They would not have been possible.

**Long-term interest rates**

With commodity money, long-term interest rates have historically been about four percent, just equal to the time value of money. Good data from Great Britain going back almost 200 years attests to this. With fiat money, interest rates include not only the time value of money but also an added increment—the so-called “inflation premium”—to compensate for the loss of purchasing power due to the actual and expected creation of extra money. Interest rates are much higher than with commodity money.
Notice that, from 1800 to 1970, except for times of war, e.g., the War of 1812, the Civil War, and World War I, long-term interest rates hovered about 4%. Only when the last link to gold was broken in 1971 did interest rates begin to increase to unheard-of levels. Is it any wonder that the price of gold accelerated significantly, reaching $850 per ounce in intraday trading circa 1981? Many thought the monetary system was collapsing at that time.

Low and stable long-term interest rates are necessary for long-term investment. As interest rates increase, the present value of a future payoff decreases, and activities for which the payoff is in the distant future are curtailed. For example, when I began my working career at IBM in 1964, IBM, along with Bell Labs, had one of the world’s premier research and development facilities, the Watson Research Center. In those days, IBM was engaged in research at the molecular level, where a commercial product was not expected well into the 21st century.

After long-term interest rates began to increase significantly, the present value of future payoffs was reduced to a tiny fraction of what was initially anticipated. Consequently, Bell Labs and almost all of IBM’s pure research efforts were disbanded. As discussed above, long-term research and development will increase considerably if the U.S. can achieve an honest monetary system. R&D is a vital ingredient not only to improve our standard of living but also for military preparedness.

Interest rate and foreign exchange rate volatility

There is minimal interest rate or foreign exchange volatility with commodity money, such as gold or silver. With fiat money, there is inherent high volatility, which tends to be hedged by derivatives and adds added cost to financing. Financial sector participants benefit. Workers, manufacturers, entrepreneurs, and consumers pay the price.

Almost everyone who is not a participant or supplier to the financial sector wants monetary stability. Manufacturers want low and stable interest rates to make long-term investments in plant, equipment, and research and development. Ordinary people want low, stable interest rates to plan their futures, buy homes, and know their return on assets they have saved for retirement. Those involved in international trade want stable foreign exchange rates to facilitate payment for goods delivered far into the future, e.g., airliners.
The financial sector does not want monetary stability. Because so much of its profits derive from trading, the financial sector wants volatility. Tragically, the financial sector has been left in charge of the monetary structure, and it has rigged that structure for its benefit (the benefit of top management) and to the detriment of everyone else. That is why the financial sector champions paper-ticket-electronic money. The empirical evidence confirms that paper-ticket-electronic money results in interest rate volatility:

\[\text{Exhibit 61: U.S. 10-year bond year-on-year interest rate change; Source: Federal Reserve}\]

Before the last link to gold was broken by President Nixon in 1971, going back almost 200 years in Britain and for a lesser period in the U.S., interest rates were relatively stable. They rarely moved plus or minus 20 basis points in any year. After the last link to gold was broken, year-on-year volatility reached 200 basis points and even higher.

One shocking result was that interest rate volatility played havoc with defined benefit pension plans (DBPPs). The added risks to companies led many to replace DBPPs with defined contribution pension plans, which transfer the risk of the value of pension plan benefits to workers.

DBPPs allocate their investments to the fixed-income and equity markets. Using General Accepted Accounting Principles (GAAP), because interest rates discount DBPP liabilities, interest rate volatility resulted in volatility for pension plan liabilities. In the 1980s, in addition to interest rate volatility, there was also volatility in the equity markets. Changes in pension plan assets and liabilities flowed through to the income statements of the companies affected. Thus, pension assets and liabilities volatility resulted in volatility in reported earnings.

Investors want earnings stability. Companies with excessive profit volatility are penalized with lower stock prices than they would otherwise enjoy. For company management, lower stock prices meant that they would be less likely to reap a benefit from their stock options. What was their remedy?

Corporate management appealed to their accountants to lobby to change GAAP to allow management to smooth interest rates and changes in equity valuations on the theory that pensions would not be due for many years. They made a case that paying close attention to yearly interest rates and equity fluctuations was unfair. The changes led to accounting judgment calls on the expected rate of return and a smoothed discount rate. Accountants and actuaries did the calculations for the smoothing. Management hired and paid them.
Since contributions to a pension fund are considered a cost, to reduce costs, it is to management’s benefit to have the assumed rate of return and the discount rate to be high as possible. The accountants and the actuaries, all paid by management, were happy to comply. The result was, depending upon whom one listens to, public pension funds are underfunded by as much as $3 trillion, and the DBPPs that remain in the private sector are underfunded by about $½ trillion.

There was another wrinkle to this that adversely affected pension plan beneficiaries. Because the discount rate for pension plan accounting decreases pension fund liabilities, the higher the discount rate, the less the present value of the pension liabilities. Thus, in the early 1980s, some DBPPs became “over-funded because of high-interest rates.”

Then a tidal wave of merger and acquisition activity ensued whereby the pension plan could be frozen, a firm liquidated, and any “overfunding” could be recaptured. Recall the movie Wall Street whereby the rationale for liquidating the airline Blue Star was its overfunded pension plan.

Working people who depend on their DBPPs for retirement will not receive the pensions and benefits they expect. None of this would have occurred if we had an honest monetary system. The Free Competition in Currency Act of 2011, an anticipated new monetary system based on gold-as-money, will avoid this kind of mischief.

For those engaged in international trade, stable exchange rates are essential. Foreign exchange rate volatility results in lower profits or even losses. It reduces the international division of labor and our trading partners’ standard of living. Consider volatility between the U.S. dollar and the Canadian dollar:

![Year-to-year Currency Volatility: Canadian Dollar vs. U.S. Dollar 1972 - 2008](image)

*Exhibit 62: Year-to-year currency volatility: Canadian dollar vs. U.S. dollar 1972 - 2008*
With our European trading partners, foreign exchange rate volatility is even more extreme. Firms buy derivative contracts from banks to protect themselves from catastrophic foreign exchange losses. This cost is a benefit to financial sector firms. Mr. Paul Volcker has often noted that “a global economy requires a global currency.” The open issue is what is the global currency going to be.

If the global currency is gold, there is no foreign exchange volatility. Of course, that will mean an end to a material profit stream for financial sector firms. Is that a contributing reason why the International Monetary Fund changed its *Articles of Agreement* in 1978 to prohibit member countries from linking their currencies to gold and only to gold?\(^\text{36}\) What might be the public policy justification for that prohibition?

**Wall Street and the banks**

With commodity money, such as gold and silver, Wall Street, while important, plays a minor role. Its primary function is to help asset allocation on a much-reduced scale. With fiat, legal tender, and irredeemable paper-ticket-electronic money, Wall Street plays a dominant role in society because it has easy access to money created out of nothing.

Consider the growth of the financial sector after the last link to gold was broken in 1971.

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\(^{36}\) IMF *Articles of Agreement Section 4-2b*
In 1980, the broad money supply (M3), as reported by the Federal Reserve, was slightly less than $2 trillion. The U.S. stock market capitalization was about $1 trillion, and financial sector firms accounted for about 5% of the total, about $50 billion. In the plot above, one can barely see the valuation of the financial sector.

By 2007, the money supply, all created flat out of nothing, had zoomed to about $13 trillion. But now, the market capitalization of the equity markets is about $19 trillion, and about $4 trillion of that was from financial sector firms.

Forget about the multi-million-dollar bonuses and salaries. That was chicken feed compared to the value of stock options. Some folks in the financial sector garnered so much money they didn't know what to do with it. The extravagances are legendary: 40,000-foot houses in multiple locations worldwide, 200-foot boats, and $200 million airplanes with another $100 million to outfit them. Some extreme excesses made the major media.

For instance, on February 26, 2002, it was reported that six investment bankers went out for dinner and spent $60,000 for a meal! The mainstream media is fond of reporting financial sector management taking home tens of millions. Frank Raines, a one-time government employee earning government-scale wages, is said to have left Fannie Mae with more than $100 million. The question that needs to be addressed is: What do these folks provide to society that they should deserve such a reward?

Here is another way of looking at the data:
While noticed, the growth of the financial sector was not criticized greatly because equity valuations also increased on the back of obscene money creation. What’s to say if one’s Goldman Sachs or Merrill Lynch account grows at double digits? When the equity markets lost nearly half their value almost overnight, for some people, it was a wake-up call that something was seriously wrong.37

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37 For Bear Stearns employees, the decline was over a weekend. They went to sleep on a Friday night when their stock had a book value of about $85 per share. When they awoke Monday morning, the stock was trading for $2. There was a clean certificate from the accountants, an investment-grade rating from the rating agencies, and no malfeasance. Again, there’s something wrong with a system that can destroy accumulated savings in this manner. That something is our dishonest monetary system.

Wall Street firm revenues, again, just for moving paper around, took off as well:

**Exhibit 67: NYSE Member Firm Revenues 1965 – 2005; Source: SIFMA**
Twenty-something-year-old youngsters, fresh out of college, began taking down multimillion-dollar salaries. Again, what was the product or service they were providing to society that they should have received that compensation? Did they invent anything that improved the lives of anyone? Did they cure some dread disease? Did they produce a valuable product? No, no, and no. They were the fortunate beneficiaries of legal tender irredeemable paper-ticket-electronic money creation.

And look what happened to bank revenues after the last link to gold was broken:

![Exhibit 68: U.S. Bank Revenues 1934 – 2007; Source: FDIC](image)

And after paying out multimillion-dollar salaries to “talent,” look at how bank net income increased after the last tie to gold was broken:
Consider the tradeoffs between commodity money and legal tender irredeemable paper-ticket-electronic money for banks. With commodity money, such as gold or silver, the role of bankers is limited to (1) storing money for safekeeping, (2) acting as intermediaries between savers and credit-worthy borrowers, and (3) facilitating the payments transfer system. With legal tender irredeemable paper-ticket-electronic money, bankers have an expanded role. They sell instruments to hedge interest rate and foreign exchange volatility and create fiat money (in the form of credit) for which they get the interest and fees. In effect, banks’ traditional role as intermediaries between savers and borrowers decrease, and the banks become the equivalent of hedge funds whose downside is guaranteed and subsidized by ordinary working people. The euphemisms for these guarantees are called the “lender of last resort” bailout facility at the Federal Reserve and so-called Federal Deposit Insurance, which is not insurance.

Again, focusing on stock options, look at what happened to Citibank stock because of money creation:
Citibank Stock went from about $1 per share to about $60 per share

Exhibit 70: Citibank stock from about 1979 to about 2009

One can well imagine the wealth garnered by executives fortunate enough to have stock options with long durations.

Exhibit 71: Bank Compensation to Employees 1934 – 2007; Source: FDIC

While financial sector compensation appears excessive by any standard, it is essential to note that these folks have done nothing wrong. George Soros once said: “I'm just playing by the rules, and I didn't make up the rules.” There is something seriously wrong with the rules. It is not a lack of regulation. It is our dishonest
monetary structure. That needs to be changed. *The Free Competition in Currency Act of 2011* is necessary to get that done.

### Special privileges for banks and other financial players

Banks and other financial players receive no special privileges with commodity money such as gold or silver.

Because of the instability of fiat-based monetary regimes, to “protect” the efficacy of the payment transfer systems, there is a need for a “safety net” for the financial sector. This “safety net,” as Mr. Greenspan has pointed out, is a subsidy to financial firms. It is wealth transfer from ordinary taxpayers to the financial sector. While regulators monitor financial firms, especially banks, to reduce or make less likely massive wealth transfers, financial firms have a history of compromising politicians who are nominally in charge of the regulators. In all cases, regulation fails, and the fiat system collapses.

### Taxes on money

When used as money, gold and silver *per se* are not taxed. When not used as money, and partially to suppress its use as money, the Internal Revenue Service has arbitrarily classified gold and silver bullion, coins, and securities representing gold and silver as “collectibles” and subject to taxation at a much-increased level as compared to capital gains for financial instruments. Many local jurisdictions also apply taxes, e.g., sales taxes, on transactions in gold or silver.

When used as money, fiat money *per se* is not taxed. However, taxes may apply for transactions whereby U.S. money is converted to another country’s currency.

Another benefit of *The Free Competition in Currency Act of 2011* is that it abolishes taxation on gold and silver, the money mandated by the *Constitution*. Part of the human condition is that people must save for a time when they become too old or incapacitated to work. Ordinary people seek a medium that is the most secure form of savings.

Today, few save silver or gold because of coercion, special taxes, misrepresentation, and nondisclosure of material information. Suppose people convert their labor into gold instead of paper-ticket-electronic money or securities denominated paper-ticket-electronic money. Why should they give up part of their savings when the paper-ticket-electronic money depreciates, aka “inflation?” That strikes one as blatantly unjust.

Suppose one works and allocates savings to gold. Suppose further that the Federal Reserve, in Mr. Greenspan’s exact words, creates money “without limit,” thereby decreasing the purchasing power dollar. Why should one be penalized for having saved gold or silver compared to paper-ticket-electronic money?

Without the ability to save gold or silver, ordinary people are defenseless against the loss of their savings on account of our unconstitutional and dishonest monetary system. With current taxing schemes, the IRS has misclassified gold and silver as “collectibles” subject to a 28% tax on an appreciation against paper-ticket-electronic money. In this way, saving gold is an insurmountable disincentive for such saving. Justice cries out to get rid of this and other pernicious taxing schemes.

### Summary and Recommendations

In every critical area of our economy, whether it be jobs, pensions, wages, debt levels, government fiscal responsibility at all levels, etc., paper-ticket-electronic money works to the disadvantage of ordinary people and our nation. For all of history, there have been no successes with paper money. Every one of them has resulted in a disaster. The U.S. experience is vulnerable to being qualitatively different in three critical areas.

First, in every country where the paper currency collapsed in the last century, there was always an alternate currency that some people had saved. That alternate currency was almost always the dollar. In other words,
there was always some accumulated wealth that could be used to rebuild. Because the dollar is the so-called “reserve currency of the world,” when the dollar collapses, most of the planet will be caught empty-handed. When the fiat dollar collapses, it will destroy the division of labor for a long time, plunging the U.S. and much of the world into poverty.

Second, the U.S. is different in a crucial aspect from every other country sans Switzerland. The U.S. is an armed country. There are more than 200 million guns in the hands of the public. When the dollar collapses, and people lose their savings, pensions, annuities, and jobs, it’s hard to say what action they will take. There is the potential for serious unrest.

Third, there is a contingency plan, although when I questioned authorities such as Paul Volcker, Larry Summers, and many others, they did not want to speak of it. As outlined in myriad legislation and Executive Orders, the contingency plan is martial law. That was what Henry Paulson was talking about when he was trying to steamroll passing the TARP legislation. We could have a regime change that will set us back, possibly for generations. That’s another reason why passing The Free Competition in Currency Act of 2011 is crucial to mitigate the damage and prepare for an honest monetary system.

Mindful that our current monetary system is well on its way to blowing up, I hope that Congress will act quickly and decisively to set things right. For the American people to accept what will be perceived as drastic changes in the monetary structure, those changes will need the imprimatur of conforming with the Constitution. Fortunately, that is indeed the case.

While Congress is undoubtedly culpable for allowing the monetary system to become unauthorized and dishonest, it was not this Congress. All the wrongdoings were set in train a long time ago, some as far back as 100 years ago when the Federal Reserve legislation was passed or earlier with the Knox v. Lee (1871) Supreme Court decision.

As a practical matter, absent the debacle of a complete collapse, there can be no abrupt changes to our monetary system. That is another reason why The Free Competition in Currency Act of 2011 is so important and timely. It leaves everything in place: the Federal Reserve, the irredeemable paper-ticket-electronic dollar (which will cease to be legal tender), and all the mutual promises based on it.

For day-to-day transactions, eliminating legal tender is irrelevant. People work, get paid, and exchange their pay for daily needs: food, shelter, fuel, etc. Why would anyone care if the dollar depreciates at the Federal Reserve’s hoped-for rate of 2% or thereabout? I doubt they will.

But there are situations where some people will care: making sure that future payments will be made at a value one is expecting. Fortunately, we have precedent in the U.S. to guide us to how those situations will most likely be handled.

After the Civil War experience with Greenbacks, to protect against the depreciation of paper money for transactions requiring future payment, e.g., real property leases, long-term loans, and bonds, people inserted a “gold clause” in their contracts. The gold clause provided that future payments should be made in gold at the same weight and fineness as were current at the time contracts were originated.

In this way, provided there is no discontinuity in the dollar’s purchasing power and it continues to depreciate slowly, we will transition to a gold-as-money monetary system. Our country will then reap the benefits of a sound system encouraging savings, capital investment, high-paying jobs, and all the other benefits described above.

Except for tax-exempt entities, such as pension funds, taxes on the specie money preclude gold clause agreements calling for future payment in gold or fiat money indexed to gold. Thus, the provisions in The Free Competition in Currency Act of 2011 to eliminate any taxes on gold and silver are also essential.

38 When the U.S. Government sold Liberty Bonds to help finance World War I, the bonds had a gold clause. The promise of gold redemption was defaulted when President Roosevelt seized the nation’s gold and made it a felony for American citizens to own monetary gold anywhere in the world.
In addition, we need a way to get gold into the hands of the population at large. Thus, as envisioned by Alexander Hamilton, the mints should be opened for free coinage; people should be able to bring gold or silver to the mint to have it coined. It may be helpful to allow private mints. They would provide extra needed capacity. It’s not clear to me that the death penalty could apply to a private mint that cheated on its coinage, as it applies to anyone who counterfeits coins from the U.S. mint, according to *The Coinage Act of 1792.*

Other recommendations that are not addressed by the proposed Act:

1. The U.S. supposedly has in the treasury about 288 million ounces of gold. (This gold reserve has not been audited since the Eisenhower years. It’s time for an audit.) It would be helpful if that gold were coined and distributed per capita to every American citizen, perhaps a 25-gram coin each.
   
   a. On the theory that they cannot replenish their savings when the legal tender irredeemable paper-ticket-electronic dollar collapses, perhaps older people should get extra and infants none on the idea that their parents will take care of them.

2. Relief could be brought to the real estate market by the president declaring real estate taxes (now under the jurisdiction of state and local governments) as against public policy. Eliminating real estate taxes will boost real estate valuation by about twenty times the eliminated tax. Nationwide, real estate taxes are about $400 billion per year. Thus, order of magnitude, real estate valuations would increase by about $8 trillion. That would relieve almost all those whose mortgages are “underwater.” Revenue from lost real estate taxes could be compensated by increasing sales taxes.

**Errata:**

The original submission had the date of the Resumption Act as having been signed in 1869. The correct date of the Act is January 14, 1875.
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