

# The Federal Reserve's View Of Honest Money

## With Commentary By Lawrence Parks

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Below is an essay [indented in 12-point type font] by Mr. Bob McTeer, President and Chief Executive Officer of the Federal Reserve Bank of Dallas, the transcript of a talk by Mr. Henry C. Wallich, who served as a member of the Federal Reserve Board of Governors from 1974 to 1986, and excerpts of a talk by The Rev. Robert A. Sirico, founder and president of the Acton Institute for the Study of Religion and Liberty.

I have added commentary, which is in the larger 14-point type font, interspersed with their work. (The original source documents appear on the Federal Reserve Bank of Dallas Internet website.)

Lawrence Parks  
Executive Director  
FAME.org

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### Rediscovering the Value of Honest Money

By  
Bob McTeer

It seems you can hardly pick up a paper or turn on the news these days without seeing something about all the efforts on Capitol Hill to redefine the way Congress and the president carry out their fiscal responsibilities. The balanced budget amendment. A line-item veto. Legislation to limit unfunded federal mandates. When you stop and think about it, you have to wonder how things got so bad in the first place.

The first thought that comes to mind from the title of Mr. McTeer's essay is what does the phrase "Honest Money" mean? According to *Webster's Ninth New Collegiate Dictionary*, "honest" means "free from fraud or deception." Accordingly, by that definition, the money we have in the U.S. is not honest. It circulates, in part, because of "legal tender" laws, a.k.a. "forced tender" laws, misrepresentation, and non-disclosure of material information. (For a fuller discussion about why our money is not honest, see: "What the President Should Know About Our Monetary System," by Lawrence Parks, <http://www.fame.org/HTM/President16.htm>.) As you will read below, Mr. McTeer equates the concept of "honest money" with "price stability." The former is a moral judgment; the latter is a fabrication.

The implications of having a dishonest monetary system are catastrophic, including a loss of purchasing power of all future payments denominated in "dollars," e.g., pensions, savings, insurance, rents, etc. It is possible that our dishonest and unstable monetary system will be directly responsible for: the loss of our freedom; greatly reduced life expectancy; wars of adventure; and other maladies.

Traditionally, Americans have expected prudence in government spending. The government and public took it for granted that budgets should be balanced, except, perhaps, in major emergencies or extraordinary circumstances, such as war or depression. But once Keynes convinced us that the budget was a legitimate policy tool to be manipulated to fine-tune the economy, the moral commitment to a balanced budget withered away. I would argue that much the same thing has happened to our resolve against inflation.

The advantages of price stability, or a stable value of the dollar, are many and varied. Price stability is a worthy goal in itself, and it also offers the best financial environment for achieving other important national goals, such as maximum output and employment growth. Since many of the advantages of price stability are self-evident, I am somewhat perplexed as to why the constituency for it seems so weak among the business community and the public. One gets the impression that most people are content with 3-percent inflation, even though the rule of 72 says that prices will double every 24 years with 3-percent inflation.

Stability is something almost everyone seeks in almost all areas, including: personal relationships; jobs; savings; pensions; health; and so on. But there is at least one area which we do not want to stay static: our standard of living. In this case, we want growth or improvement.

There is nothing in the nature of things that can, or should, guarantee price stability. In fact, the very opposite is the case. Since the Industrial Revolution, prices of all things have *decreased*, and their quality has improved. The reason for this is that as technology advances and knowledge is gained, better and less expensive manufacturing methods are discovered, and more and better goods and services are produced at cheaper prices. This is what we call an improving standard of living. Thus, the notion of “price stability, or a stable value of the “dollar,” is a total canard.

If money is created out of nothing, as is the case today, and prices are somehow kept constant, then the benefits of improved technology and know-how accrue inordinately to those who create money—in the U.S., the banking system creates all of our money, not the government—and to those who get transaction fees for moving money around, e.g., Wall Street firms. In addition, the notion of somehow engineering “price stability” is inconsistent with the notion of free markets.

Attempted management of the purchasing power of money, including manipulating interest rates, manipulating foreign exchange rates, and *prima facie* fraudulent transactions that the Federal Reserve engages in, e.g., assisting the central bank of a foreign nation to phony up its balance sheet, are better described as consistent with fascism.

Thus, Mr. McTeer is incorrect when he says: “Price stability is a worthy goal in itself.” He is mistaken, as well, when he writes “. . . it also offers the best financial environment for achieving other important national goals, such as maximum output and employment growth.” Maximum output and employment growth in the U.S. occurred during the period 1879 to the early 20th century, a period during which prices *decreased*, and money was either gold or silver.

He is mistaken, for the same reasons, when he says, “many of the advantages of price stability are self-evident.” And while he may have “the impression that most people are content with 3-percent inflation,” I doubt that is the case.

It is true that 3-percent inflation is good by the standards of the 1970s, and even the 1980s, but it’s not so good by earlier standards. Recall that President Nixon declared a national emergency and imposed price and wage controls in 1971 when inflation had climbed to the dangerous level of 4 percent.

Three percent inflation is not good by any standard, not that of the 1970s or any other period. Inflation caused by creating money out of nothing is thievery, even if it has been made legal by our Congress.

For much of our history, sound money was imposed externally by our commitment to gold convertibility, directly or indirectly. Going off the gold standard in the early 1970s may have been the smart thing to do under the circumstances; it may even have been the only alternative at the time. I must admit, however, that our experience with price stability since then has not been as good as it was before.

Sound money, assuming Mr. McTeer is equating “sound money” with “honest money” was never imposed externally by our commitment to gold convertibility. When society chooses gold or silver as money, which have historically been the free-market choices for money when they were available, money is not “convertible” into, pegged to, or exchangeable for something else. Specie *is* the money. Also, we did not “go off the gold standard in the early 1970s,” as Mr. McTeer writes, because we weren’t on the gold standard. The only link to gold from the period 1933 to August 15, 1971, when the U.S. defaulted on its sovereign promise, was that foreign central banks had the right to redeem their “dollars” for gold at the U.S. Treasury at the rate of one ounce of gold for 35 “dollars.”

Further, from 1933 to 1974, it was a felony for Americans to own monetary gold anywhere in the world. Perhaps Mr. McTeer can tell us what the public policy justification was for making gold ownership a felony. In so doing, one should note that Article I, Section 10 of our *Constitution* provides that “No State shall . . . make any Thing but gold and silver Coin a Tender in Payment of Debts.” How were the states supposed to do that if ownership of gold was a felony?

When Mr. McTeer suggests that “our experience with price stability since then has not been as good as it was before,” he is understating the disaster that has befallen our money. According to the understated, and sham, calculations by the Bureau of Labor Statistics, the “dollar” has lost almost 80 percent of its purchasing power from 1970 to 2004.

One problem with our national commitment to sound money probably is the progress we have made on inflation since the 1970s. With that experience fresh in our minds, we willingly underwent wrenching adjustments in the early 1980s to break the back of inflation. As progress was made and our memories faded, our determination has waned. We have stopped thinking of sound money as honest money.

It’s a misstatement to say that we have a “national commitment to sound money.” Not only do we not have such a commitment, but also the notion of what

“sound money” means is understood by virtually no one. Further, the notion “to break the back of inflation,” is misleading. Inflation results from the creation of money out of nothing. There is no effort underway that will in any way stop the creation of such bogus money. Indeed, when the need to bail out banks, and perhaps other financial players (that, for example, might be indebted to banks or who might be counterparties for derivatives that banks hold) arises, Mr. Greenspan has repeatedly told us that the Federal Reserve can create money “*without limit.*” [Emphasis added.] One shudders to think what the result will be for ordinary people who are depending on Social Security or pensions and who are aged and can no longer work.

When our government issues money, we have a right to expect that money to be worth tomorrow what it is today. If that is too high a standard, shouldn't we at least try? We have a right to expect that what we save for our children's education or for their inheritance will hold its value. If you think about it, government-issued money is a contract with the people. Inflation is taxation without representation.

First, our government does not issue money. Under our *Constitution*, the government does not have the power to create irredeemable-paper-ticket-fiat legal tender money out of nothing. Somehow, the Congress has delegated that power, a power it does not have, to the banking system. The banks create all of the money in our society, with a small assist from the Federal Reserve. Consider, in 1950, according to the Federal Reserve, the money supply in our country was about \$150 billion. Today, it is about \$9.1 *trillion*. Of the additional \$9 trillion, the Federal Reserve created about \$800 billion, and the remainder, about \$8 *trillion* was created out of nothing by banks. How is it that private companies have the power to create money out of nothing?

Second, we have no “right to expect that [sic] money to be worth tomorrow what it is worth today.” As explained above, in terms of purchasing power, with an honest system, money would be worth *more* tomorrow than it is today, and the savings rate would be higher. Third, there is no “contract with the people” with regard to government-issued money. Fourth, inflation is not a tax in any sense of the word. It is the result of institutionalized thievery. The principal beneficiaries are financial players, with some benefits to politicians, most of whom have been compromised with what are euphemistically called “campaign contributions.”

The benefits to financial sector participants of our dishonest monetary system have been fantastic and unfathomable. Consider the period 1980 to 2004. At the beginning of the period, according to the Federal Reserve, the U.S. money supply was \$2 trillion. Now it is \$9 trillion, an increase of \$7 trillion, all created out of thin air, which had an enormous effect on the capital markets, and the fortunes of financial players. At the beginning of the period, the market capitalization of the S&P500 Index was \$1 trillion, and the financial sector component of that was about 5-percent, or about \$50 billion. Today, the market capitalization of the S&P500 Index is \$10 trillion, and the financial sector component of that is about

23 percent, or \$2.3 trillion! In addition, the financial sector now garners nearly 40 percent of all S&P500 earnings.

Finally, according to the Securities Industry Association and the Federal Deposit Insurance Corporation, during the last 5 years, banks and Wall Street firms have taken out of the economy nearly \$3 trillion, just for moving paper around. Our dishonest and corrupt monetary system is generating so much income for financial players that they don't know what to do with the money.

Just a few months ago, for example, there was a report in *The New York Times* that four bankers spent \$62,500 for a lunch—including 4 bottles of wine at \$15,000 per bottle. These folks are buying 300-foot boats and 30,000-square-foot houses. What is it that they produce in terms of goods and services that improves the standard of living of ordinary people? In fact, there is no final product; they are intermediaries. In the fields of engineering and science, their function would be described as friction.

In effect, they are consuming the wealth ordinary people have produced and are expecting to draw on later, when they can no longer work. When the evil day arrives, ordinary people will find that they are holding an empty bag. If we had honest money, such unearned rewards to financial sector participants would not be possible.

In addition, government would be constrained as well. With an honest monetary system, the only sources of government funding would be taxes or borrowing from savers. People tend to object to higher taxes, and, if the government was borrowing against a fixed supply of money, interest rates would increase. Other borrowers, e.g., consumers and industry, would be much more mindful of government spending. Wars, e.g., Iraq, Viet Nam, et. al., would receive much more scrutiny if folks felt the near-term costs of such wars in higher taxes or higher interest rates, rather than postponing their effect as “inflation” in years to come. In this way, the world would be a safer place.

People wiser and more articulate than I have given eloquent voice to my thoughts about money. One was the Rev. Robert Sirico, president of the Acton Institute for the Study of Religion and Liberty, who addressed a group of business leaders during a luncheon at the Dallas Fed. He spoke of the concept of honest money as it is founded in the Bible.

The other person who stated the case for honest money so eloquently was the late Henry Wallich, former college professor, columnist and member of the Federal Reserve Board of Governors. He did so in a commencement address 17 years ago. I find it somewhat comforting that his remarks still ring true today.

In this first issue of Economic Insights, I am sharing the honest money messages of Father Sirico and Henry Wallich. I'd enjoy hearing what you think. Please write me at the address below, or fax me your thoughts at (214) 922-5268.

— Bob McTeer

President and Chief Executive Officer  
Federal Reserve Bank of Dallas

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The following is an edited excerpt from Henry C. Wallich's commencement address delivered to the Fordham Graduate School of Business on June 28, 1978.

At this time, you are presumably looking at your future role in the world in the broadest possible sense, including a moral sense. Today, I would like to talk to you about one aspect of your future that has a moral dimension, although it is technically an economic problem. I mean the breakdown in our standards of measuring economic values, as a consequence of inflation.

Inflation introduces an element of deceit into most of our economic dealings. Everybody makes contracts knowing perfectly well that they will not be kept in terms of constant values. Everybody expects the value of the dollar to change over the period of a contract. But any specific allowance made for inflation in such a contract is bound to be a speculation. The most valuable part of the contract may turn out to be the paper it is written on. This condition is hard to reconcile with simple honesty.

The "element of deceit" is that all of our money is created out of nothing by the banking system, and, because the balance sheets of banks are systemically protected (unconstitutionally) by the Federal Reserve, no one can know how many "dollars" will be created during any period. When Mr. Wallich says that "This condition is hard to reconcile with simple honesty," he is understating the problem.

In fact, it is not "hard to reconcile with simple honesty"; it cannot be reconciled. Further, and very importantly, the "dollar" itself no longer has a definition. It is ridiculous, and dishonest as well, for the Federal Reserve to impart the notion that something that cannot be defined is somehow being managed. As a result, our monetary system is out of control. There is no longer any self-correcting mechanism, i.e., a negative feedback loop, for increasing financial leverage. As with all such systems, our monetary system will absolutely blow up. The only open issue is when.

Since the 8<sup>th</sup> century in China, there have been no successes with fiat money. This confirms an iron law that the value of any manufactured item always approaches its cost of production. Not only can our money not be represented by anything in the real world, i.e., as Sir Isaac Newton pointed out, there is no unit of dimension, there is no cost whatsoever in its creation. For example, how much more work or cost is there for a bank to create \$1 billion as opposed to \$1 million? All that need be done is to press the "zero" key on a keyboard three more times! So, Mr. Wallich is correct when he says that "the most valuable part of the contract may turn out to be the paper it is written on," which may have no value at all.

If our contracts were made in terms of unpredictably shifting measures of weight, time or space, as we buy food, sell our labor or acquire real estate, we would probably regard that as cheating and as intolerable. Yet the case is much the same when we are dealing with monetary values.

The moral issues posed by inflation go beyond what I consider deceit. Inflation is a means by which the strong can more effectively exploit the weak. The strategically positioned and well organized can gain at the expense of the unorganized and the aged.

The “strong” that Mr. Wallich refers to are those who have achieved what in the 19<sup>th</sup> century was referred to as “special privilege.” The theory is that the one thing that distinguishes government from all other human institutions is that government has a monopoly on the legal use of force. True, there is a minor exception for self-defense, but that is highly proscribed as Bernard Goetz found out, and in no event is one allowed to use force to defend oneself against government, as our fellow citizens at Waco found out. Special privilege enables one to employ the coercive power of government, a.k.a. the police power, to gain an advantage over other citizens.

The notion of special privilege has always been repugnant to the American sense, which is why in the *Constitution* the granting of titles of nobility is specifically outlawed. The Founders didn’t want even the *appearance* of special privilege. An example of special privilege is the government granting a monopoly to someone or some group. But no special privilege is greater than the power to create money out of nothing. As Garrett Garrett wrote in the 1940s, that is more power than Pharaoh had. And, because greed and the lust for power have no limits, once given this power, there will always come a time when one will overreach. That is the position we find ourselves in today.

The “weak” that Mr. Wallich believes are being exploited are those who do not have special privilege, ordinary people, both young and old. The special privilege of creating money out of nothing, the jargon for which is “fractional reserve lending,” has been granted to the banks, and, as explained above, they are pushing the envelope.

It is worthwhile noting that part of the public policy rationale for granting the banks this privilege, and others, too, is that they will create money for productive purposes, e.g., building factories, providing jobs, etc. Instead, what we find is that they are using these privileges, which Mr. Greenspan properly characterizes as a “subsidy,” to help companies like Enron and Worldcom, and who knows who else, phony up their balance sheets. The only ones who benefit are the participants to the transactions. Why should the public subsidize that? Also as explained above, the benefits to financial players have been astounding.

In the eyes of economists and of government, inflation becomes a means of exploiting labor’s money illusion, its supposed failure to anticipate inflation correctly. The device through which this mechanism operates is the well-known Phillips curve, the alleged trade-off between unemployment and inflation. It is believed that labor will respond to a seemingly large wage offer that subsequently is eroded by inflation. If labor fails to notice the trick, it will keep working for less than it really had demanded, and employment will be higher. A government pretending to serve a nation’s interest by, say, misinforming the people about its military plans would be harshly taken to task. Why should trading on the people’s money illusion be regarded any differently?

In fact, there is no way for labor, or anyone else, “to anticipate inflation correctly.” Ordinary people have been misrepresented to, and there is a dearth of disclosure of material information, too. They don’t have a clue as to how our monetary system works. Part of the problem is that folks want to have faith in their institutions. It is very unsettling and depressing to find out that one has been lied to and that our monetary structure is dishonest.

Moreover, when these kinds of systems fail, and they always fail, no one comes forth to lay the culpability on the system. In all cases, the call goes out: “Who can we blame?” Thus, when the money collapsed a few years ago in East Asia, the spin was that the responsibility was on account of “crony capitalists,” or “weakness in the banking system.” In Malaysia, then Prime Minister Mahathir Mohammad pulled out that old chestnut and said that the Jews were responsible!

Another reason why this scam continues is that financial players have compromised the monetary wing of the economic profession with consulting fees, endowed chairs, research grants, prizes, and the like. None other than famed economist John Kenneth Galbraith, in his book *Money: whence it came, where it went*, proclaimed that monetary economists “use complexity to disguise or to evade the truth, rather than to reveal it.” We have a word in the English language for disguising and evading the truth. It’s called lying.

Henry Gonzalez, while he was the Chairman of the House Banking Committee, made note that the Federal Reserve, by hiring hundreds academic economists every year as “consultants,” who, by the way, as a condition of their employment, promise not to say anything that would disparage the Federal Reserve Board of Governors, is “simply buying off potential critics.” These are the professors who write economic text books and who design economic curricula. Given how folks get their information, how are they supposed to find out how dishonest our monetary system is?

Meanwhile, planning ahead becomes more difficult for business. Investment lags because long-term commitments involve risks that inflation makes incalculable. The need to guard against these unknowable risks compels each party to any transaction, buyer and seller, employer and employee, lender and borrower, to introduce a risk premium into his pricing. Each must demand a little more or offer a little less than he would under noninflationary conditions. That reduces the range of possible bargains and the level of economic activity. Fewer jobs and less output in the private sector are the results.

Inflation also undermines the honesty of our public policies. It allows the politician to make promises that cannot be met in real terms because, as the government overspends trying to keep those promises, the value of the benefits it delivers shrinks.

Mr. Wallich is being too kind. Inflation resulting from irredeemable-paper-ticket-fiat-token money not only “undermines the honesty of our public policies,” it has corrupted our political institutions to the point where it is questionable whether we any longer have representative government.

Finally, inflation becomes a means of promoting changes in our economic, social and political institutions that circumvents the democratic process. Such changes could be forced upon a reluctant nation because inflation may end up making the existing system unviable. One instance is the diminishing ability of households to provide privately for

their future. Personal savings, insurance and pension funds all become inadequate. Money set aside in any of these forms for old age, for sickness, for education could be wiped out by accelerating inflation. One may indeed ask whether it is not an essential attribute of a civilized society to be able to make that kind of provision for the future. But that is not the point I want to stress. Rather, I want to emphasize that the increasing uncertainty in providing privately for the future pushes people who are seeking security toward the government.

The changes that Mr. Wallich speaks of in our economic, social and political institutions that circumvents the democratic process constitutes wealth transfer, i.e., institutionalized thievery, from ordinary people to the financial sector. Recently, Mr. Greenspan conceded that the Fed does indeed have “inordinate power” over the American economy. Mr. Wallich is correct when he says, “Money set aside in any of these forms for old age, for sickness, for education could be wiped out by accelerating inflation.” In fact, as stated above, Mr. Greenspan has warned that the Federal Reserve may, if it deems the situation warranted, create money “without limit.” This means that the careful savings of a lifetime can be wiped out in an eyeblink. Who in their right mind would agree to such a system?

By one route or another, inflation creates a vacuum in the private sector into which the government moves. By making the performance of the economy inadequate, inflation is likely to induce expanded government activity. Of the three great dimensions of our society—private rather than public ownership, decision-making by the market rather than by central planning and democracy rather than authoritarianism—private ownership and market decision-making will then be in retreat. No one can say how long, under such conditions, a shift also in the third dimension, away from democracy and toward authoritarianism, can be avoided.

What can be done? Before we look for remedies, we must examine the causes. Inflation is like cancer—many substances are carcinogenic, and many activities generate inflation. The sources of inflation can be diagnosed at several levels. The familiar debate about the sources of violence provides an analogy. Do guns kill people? Do people kill people? Does society kill people? Some assert that money, and nothing but money, causes inflation—the “guns kill people” proposition.

Some assert that the entire gamut of government policies, from deficit spending to protectionism, to minimum wage to farm price supports, to environmental and safety regulations, causes inflation—the “people kill people” proposition. Some argue, finally, that it is social pressures, competition for the national product, a revolution of aspirations, which is at the root—the “society kills people” proposition. The first view holds the central bank primarily responsible for inflation, the second the government in general, the third the people who elect and instruct the government.

In addition, time preference, the social discount rate, enters into the equation. Inflation usually is the final link in a chain of well-meant actions. The benefits of a tax cut, of increased public spending, are felt within a few weeks or quarters. The penalty in terms of inflation may not come until after a couple of years or even later. Inflation is the long-run consequence of short-run expediencies. Life, to be sure, is a succession of short runs, but every moment is also the long run of some short-run expediency of long ago. We are now experiencing the long-run consequences of the short-run policies of the past. These consequences are as unacceptable as rain on weekends and just as easy to change. If we continue to meet current problems with new short-run devices, the bill will keep mounting.

Mr. Wallich is mistaken when he says, “Inflation usually is the final link in a chain of well-meant actions.” In fact, there is no thought to probity, just greed and the results of thievery. Also, inflation is not the long-run consequence of short-run expediencies. It is the result of a dishonest monetary system that works to enrich the specially privileged few at the expense of ordinary people.

We will not defeat inflation if we always take the short view. We will then always find that the cost of fighting inflation is too high, the short-run loss of output and employment too great. We shall find ourselves ignoring inflation, in the hope that it will somehow not grow worse. That is pure self-deception. Cancer ignored does not become stationary, and neither does inflation. Inflation ignored accelerates.

A long view is needed on inflation. It is a view very different from that of the politician, who is under enormous pressure to do quickly something that looks good. Harold Wilson said that in politics one week was a long time. More charitably, the pressure is until the next election. If the people will not instruct their elected representatives to do the things that are needed to end inflation, if they turn them out of office because the remedies take time and are temporarily painful, we will keep getting a little more employment and output now at the expense of much more unemployment and loss of output later. And we will get more inflation all along the way, down to its ultimate consequences. We need to make the ending of inflation our first priority. That must be our overall policy.

Mr. Wallich is wrong when he says, “A long view is needed on inflation.” What’s needed is a moral view. The creation of irredeemable-paper-ticket-fiat-token money out of nothing violates almost all of the principles that civilized people hold dear:

- (1) From the Biblical point of view, our monetary system violates the admonitions in *Deuteronomy*, *Leviticus*, and *Proverbs* not to tamper with weights and measures, and, as clergymen pointed out after the Civil War, it violates the *Eighth Commandment* not to steal;
- (2) Under Jewish Law, it violates the *gnivas das* commandment not to misrepresent;
- (3) From a moral point of view, mindful that our money is legal tender, Salmon Chase, when he was Chief Justice of the Supreme Court in 1869, wrote: “The legal tender quality [of money] is only valuable for the purposes of *dishonesty*”; [Emphasis added.]
- (4) Economically, fiat monetary systems such as ours have been collapsing for nearly 1,200 years wiping out savings and promises of future payments, such as pensions and annuities. There have been no successes;
- (5) From a scientific viewpoint, Isaac Newton put the *kabaach* on fiat money at the end of the 17th century when he declared that such money would have no defined unit of measure. That is, our money has nothing to tie it to reality. It is part of the spiritual world. Today, economists describe money as an “illusion”;

- (6) In terms of personal relationships, our monetary system violates the sanctity of contracts, because one does not know what will be the value of future payments. That is, it violates the notion of keeping promises, which is the glue that holds civilization together; and,
- (7) As Dr. Edwin Vieira, the author of *Pieces of Eight* teaches, our monetary system violates the Rule of Law, something that we all hold dear and that our politicians give lip service to. Particularly, he teaches that it violates the supreme law of our land: the *Constitution*.

If inflation is a moral problem, we require a moral solution—that is, a recognition that public policies have led to serious inequities affecting people in different and unequal ways and a commitment to new policies that will correct the cumulative distortions and contribute to desired economic progress. Nothing will stop inflation overnight, and in the short run, the gains will always seem dearly won. But without such a long-run approach, the damage will mount and the ultimate costs will escalate.

Henry C. Wallich served as a member of the Federal Reserve Board of Governors from 1974 to 1986.

#### Examining the Moral Dimensions of Monetary Policy

The following excerpts are from the Rev. Robert A. Sirico's luncheon address delivered at the Federal Reserve Bank of Dallas on February 25, 1994.

Before the turn of this century, an entire generation of preachers and ministers concluded that a moral monetary policy was an easy-money policy. "Give the people more money and credit," was the cry of the populist ministers. "Down with gold, up with silver." They mistakenly believed that the Treasury's printing press was the key to earthly salvation. [What is the source of this?]

While it is true that some populists—but not the American Federation of Labor—, especially William Jennings Bryan in his famous "Cross of Gold" speech, wanted silver *in addition* to gold-as-money, at the end of the 19<sup>th</sup> century, no one would have accepted legal tender irredeemable-paper-ticket-fiat-token money. Indeed, during the depths of the Great Depression, after president Roosevelt unilaterally—and unconstitutionally—confiscated all of the monetary gold held by private citizens, he proclaimed that "*This currency is not fiat currency.*" [Emphasis Added.] Labor railed against legal tender saying that one doesn't need legal tender to force men to take good money; only to take bad money.

Even as late as the 1940s, this ideology is evident in film. As much as I love the Christmas classic, *It's a Wonderful Life*, a careful viewer can detect its social credit homiletics.

Even today, no matter which party holds the White House, the Federal Reserve consistently faces pressure to keep interest rates artificially low, buy more government debt and trade quick economic fixes for long-term capital accumulation.

Yet, it seems to me, honesty and morality weigh in on the side of the grand tradition of sound and stable money. Holy Scripture speaks of money in terms of weight, just as it was spoken of throughout history. In the list of commandments, tampering with those

weights ranked among the behaviors condemned from Above. Certainly, if it is wrong for individuals to deceitfully change the weights and measures in their transactions, it is also morally incumbent upon other institutions, especially government, to keep honest weights and measures.

Allow me to provide a few examples. God told the Israelites that economic transactions should take place with honest weights. Leviticus 19:35-37, instructs, “You shall do no wrong in judgment, in measure of weight, or capacity. You shall have just balances and just weights.”

This was long before the followers of Keynes revealed to us the dangerous “liquidity trap” that might result from such “outdated” morals.

Again, Proverbs 11:1 announces that, “A deceitful balance is an abomination before the Lord: but a just weight is His will.” But, of course, this was before we discovered the mysterious “magic” of debt monetization.

Proverbs 20:10 says, “Diverse weights and diverse measures, both are abominable before God.” Would that Solomon had known about the trade-off between inflation and employment, as revealed by the Phillips curve, now back in vogue.

It is true that Isaiah (1:22) warned that “faithless princes” can turn silver “into dross.” But that was before we knew how much debtors can gain from paying back dollars that are cheaper than those they borrowed.

I’ll grant that the prophets Amos (8:5) and Micah (6:10) condemned deceitful balances when selling wares. But neither knew much of the balance of trade with Japan.

Actually, all these scriptural references make an important moral and economic point. The long history of inflation reveals the tragic consequences of excessive money creation. It can, literally, turn a society upside down. It did in Germany, in the famous hyperinflationary period of 1921–23. It did in this country in the late 1970s. It has in innumerable developing countries. Control of the printing presses is probably a first order condition to a solid economy and stable social order. So much for the magic of credit expansion.

Rev. Sirico should note that it is not just that “inflation reveals the tragic consequences of excessive money creation,” but that legal tender irredeemable-paper-ticket-fiat-token money is evil *per se*. No one should be empowered to create this kind of money.

The Rev. Robert A. Sirico is founder and president of the Acton Institute for the Study of Religion and Liberty, based in Grand Rapids, Michigan.

<b>CONTACT INFORMATION</b> Larry Parks, Executive Director FAME, 501(c)(3) Box 625, FDR Station New York, NY 10150-0625	Phone: 212-818-1206 Fax: 212-818-1197 E-mail: <a href="mailto:Lparks@Fame.Org">Lparks@Fame.Org</a> Website: <a href="http://www.fame.org">http://www.fame.org</a>
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