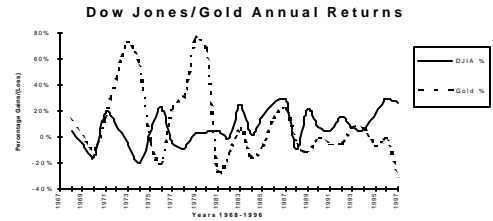




Gold & Technology Stocks



FAME's Dr. Larry Parks

Economic and Social Perils of our Fraudulent Monetary System

Mr. Jon S. Corzine, a former co-chairman of Goldman, Sachs & Company, spent \$35 million of his own money to win the Democratic Senatorial primary election in New Jersey. This astounding expenditure shattered all records for a U.S. Senate seat, let alone a race just for a nomination.

Why did he spend so much money to run for the Senate? How does this man, who is among the richest in the world, intend to "represent" us common folks? The most important question of all may be: how did he acquire so much money that he can spend it so freely to buy position and power? Did he, while at Goldman Sachs, produce a service or a product that improved the lives of ordinary people? Did he invent the cure to some dread disease? Or, did all of this money accrue to his account because he is a beneficiary of special privileges that allow a small group to enlist the coercive power of government to line their own pockets?

Many Americans have been deeply troubled by these questions, and especially the trend toward the purchase of political influence. Following Watergate, election laws were modified in an effort to curb the power of money in politics. But, as Senator John McCain [R - Arizona] points out, and as the primary win of Mr. Corzine illustrates, those efforts have not worked. Our democratic system is broken. Why have past efforts failed so miserably? What can be done to set things right?

The grease that lubricates our current corrupt system has been identified by FAME's Dr. Larry Parks. What allows a small group, especially in the financial sector, to acquire almost obscene amounts of money, and to use that money to buy power and perpetuate their position of privilege, is our fiat "funny money" monetary system. This system allows money to be created out of thin air by a cartel: commercial banks. Wall Street firms participate by garnering enormous fees for moving the "funny money" around. Large credit-worthy borrowers—big businesses and very rich people—also benefit. Ordinary working people are the victims.

An example is Goldman Sachs. In 1999, the 200 Goldman Sachs partners had aggregate income—really wealth transfer—totaling more than that earned by the 1.4 million inhabitants of the Bronx! Meanwhile, political friends of that prestigious investment firm talk about helping the poor, who are on the losing end of this egregious wealth transfer. Thomas Jefferson, James Madison and others among our Founding Fathers knew that democracy could not last if government legislated or condoned legal tender printing press or fiat money.

Once one understands how our fiat money monetary system works, one can perceive its pathology, how it is destroying our representative form of government, and also how it is leading to enormous levels of global market risk. The following interview with Dr. Parks should not only help you understand, and thereby enable you to better safeguard your investment portfolio from rising global market risks, but hopefully it will also make you aware of how our fiat money monetary system is leading America into tyranny.

Adopting a monetary system based on honest weights and measures is essential if we Americans are to continue enjoying our unalienable rights as intended for us by our Founding Fathers, namely life, liberty and the pursuit of happiness.

Taylor: Before we get into details, can you give our readers a quick summary of what FAME is about?

Dr. Parks: The fiat “funny money” monetary system we now have is a fraud on the people. To remedy this, FAME seeks full disclosure and an end to the misrepresentations about our money. That is what FAME is about. Fiat money is never the choice of free markets; it is a statist innovation. Because money is at the foundation of all exchange, the fact that fiat money circulates as a result of fraud and coercion taints all so-called voluntary transactions. None of those who acquiesce to fiat money, including the renowned Milton Friedman, are on the side of free markets.

By allowing a small group of private individuals to create money out of nothing—in the U.S. that group is comprised of commercial banks and, to a minor extent, the Federal Reserve—Congress has literally given away the store. As a practical matter, there is no longer any way to protect our civil liberties, our savings, or our promises of future payment, such as pensions. The creators of the fiat money are demonstrably corrupting the political establishment with what are euphemistically called “campaign contributions,” and, at the same time, they are diluting the purchasing power of our savings and pensions. In effect, property rights cannot be protected under a fiat money monetary regime. There is ample evidence that confirms this with the collapse of fiat money monetary regimes all over the world including Russia, Mexico, Indonesia, Thailand, South Korea, and elsewhere.

Fiat money monetary systems always collapse because greed and the lust for power know no limits. Those who possess the ability to create and benefit from money created out of nothing always overreach. The result is generally a move toward more statist government to “remedy” the collapse and “control/regulate” the economy to help prevent future collapses. Those who create the fiat money are usually in left charge, and with greatly expanded power.

This is a topic that the establishment press declines to address. The gains to those who create the fiat money (commercial banks), to those who move it around (Wall Street firms), and to large credit-worthy borrowers have been off the scale. In essence those gains represent wealth transfer from those who earn money by producing goods and services to those who create fiat money and move it around or have easy access to it.

The main thing that stands in their way, like sand in a gearbox, is gold, the choice of the people for money. As a result, those who profit from fiat money have for a very long time been denigrating gold; recall Lord Keynes’—who helped create the central bank of India—notorious “the gold standard is a barbarous relic.”

Taylor: Most people have trouble understanding the notion that banks create money out of nothing. Can you say something more about that?

Parks: You are certainly right about that. One of the reasons why people have so much trouble with the concept is that it is so blatantly outrageous.

To give you an idea about what we are up against, a very famous economist, John Kenneth Galbraith, wrote a book that touched on this subject about twenty-five years ago. The title was *Money: Whence it came, where it went*. In it, he makes a rather startling statement: “The process by which banks create money is so simple that the *mind* is repelled.” [Emphasis added.]

The analogy I like to give is that people’s understanding of money is in some ways like gender identification. They have been told, and have come to understand, a particular view of reality that is very difficult to dislodge. But, unlike gender identification, in this case they have been told lies, and their perception of reality is wrong!

Our money is in fact “funny money,” and, at least in years gone by, high officials didn’t have any difficulty admitting to that.

Taylor: Most folks will find this hard to believe. Can you give an example?

Dr. Parks: Sure. Perhaps the best example that I like to cite is the statement by President Roosevelt’s then Secretary of the Treasury, William Woodin. The day after Roosevelt was inaugurated, he declared a “Bank Holiday,” i.e., he, by Executive Order, closed all of the nation’s banks. What most folks don’t know is that, at the time, 90% of the nation’s banks had *already* closed, and 50% had *already* failed.

No one expected that the remaining banks, which were thought to be solvent, would close. As a result, folks were caught without enough pocket money. People were having difficulty purchasing little necessities such as lunches. So, a trial balloon was floated as to whether the government should issue script until people could again get real money out of the banks.

Here’s the quote from Secretary Woodin in connection with his rejection of creating script (because he thought that it would trade at a discount from its face value): “The Federal Reserve Act lets us print all we’ll need. And it won’t look like *stage money*. It’ll be money that *looks like real money*.” [Emphasis added.]

Stage money, to which he is referring, was used during performances in lieu of real money, i.e., it is funny money. Another interesting thing about this quote is its source. It comes from an official Federal Reserve Bank of Boston publication, “Closed for the Holiday: The Bank Holiday of 1933.”

Taylor: Could you tell our readers who some of the members of your Trustees and Advisory Board as well as some key supporters are?

Dr. Parks: We have 34 trustees and board of advisors. They are from all sides of the political spectrum and from all walks of life. Perhaps the most well known of our trustees is Dr. Frederick Seitz, the former president of the National Academy of Sciences and the former president of the Rockefeller University. He is in his mid-eighties, and he has seen it all. It is generally the older generation that has some knowledge about the nature of money, and can more easily understand the injustice of allowing a small group to have the special privilege of creating money out of nothing. They understand that the whole concept of special privilege is repugnant to the American system.

Another, who has a rather unique view on the fiat money fraud, is Rabbi Leonard Gutman, a member of our Board of Advisors. In the last century, after the debacle with Greenbacks, the churches led the way back to resumption of gold-as-money. The churchmen, mostly Protestants, understood that paper money violates the *Eighth Commandment* “Thou Shall Not Steal,” and it violates the admonitions in the *Book of Leviticus* (19:35 & 36) not to tamper with weights and measures. It was the influence of the churches that convinced President Grant to sign the Resumption Legislation in 1874. It is my view that the moral argument will again carry the day.

Taylor: Most readers of this newsletter care a great deal about the price of gold because it plays a major role in the value of their gold mining share investments. I started this newsletter in 1981, when \$850 gold was fresh in my memory. The first issue was published on October 6, 1981. As we were going to press, the price of gold rose a very “disappointing” \$15.40 to close at \$451.70 on news of Egyptian President Sadat’s assassination. If at that time I thought gold would be trading at under \$300 per ounce by Year 2000, I most likely would never have begun publishing this letter.

Current prices have made it very difficult for most gold mining firms to earn a profit from mining gold. I know that you have some fairly definite ideas about what might lead to a higher gold price and hence a brighter future for the gold mining industry. Would you care to tell our readers what would cause a turnaround in the gold market that has essentially been in a 20-year bear market?

Dr. Parks: The *only* thing that will cause the value of gold to increase is if some people again see a possibility that gold will replace the fiat money—especially the dollar—that folks all over the world now use. Unfortunately, the gold producers have been misled by their so-called “experts” for more than twenty years and have devoted significant resources to positioning gold as jewelry.

This has been an incredible tragedy for them and their shareholders. Since 1981, an investment in gold is *down* 99% relative to the S&P 500! As the old Indian proverb says: “sometimes it has to get very dark before you can see

the light.” I am wondering if it is dark enough yet for the gold producers, or will we have to wait until gold goes below \$100 per ounce. Of course, by then, almost all of them will be out of business, and their shareholders will be ruined.

For reasons that no one in the industry has been able to make clear to me, those advising the producers do not want to deal with the evidence. One reason this is so troubling to me is that the producers themselves are mostly engineers. I was trained in engineering. Engineers have an epistemology that embraces evidence and logical reasoning. Contrary evidence is not discarded, as is frequently done by economists, and all of the evidence must be considered. Those advising the gold producers do not want to deal with dissonant evidence, and they have ignored it.

Taylor: Can you give me an example?

Dr. Parks: Sure. Today, there may not be a single paid advisor to the gold producers who can give *any* credible explanation for the *most* important event to affect the gold industry in this century: that, for forty years, it was a felony for Americans to own gold.

In any other industry, say the cheese industry, if the government were to make it a felony to own cheese, don’t you think the cheese experts would know everything that led to that public policy? Don’t you think they would know the names of everyone who was involved in pushing the policy, who voted for it, what their motivations were, what the history was?

Those advising the gold industry can answer none of these questions. In their defense, neither can anyone else explain this event, but those folks do not hold themselves out as experts about gold.

Taylor: Larry, I have known you long enough to appreciate that while you might like to see gold mining companies flourish, you are much more concerned about gold prices for reasons other than the profits of gold mining companies. You believe that gold should be re-incorporated into our monetary system so that Americans can once again enjoy the benefits of honest money and in that way preserve freedom and liberty as our Founding Fathers envisioned in the *Constitution*.

Article I, Section 10 of our *Constitution* says, “No State shall make any Thing but gold and silver Coin a Tender in Payment of Debts.” Yet, as virtually everyone knows, we have a monetary system that is no longer backed by gold so that there is no limit as to how much money our banking system can create. How did it happen that our government chose not to honor this provision of our *Constitution*? Who was responsible for this usurpation and how did they get away with it?

Dr. Parks: Jay, this is not FAME’s position. Our program is not to resurrect the gold standard *per se*. What we’re seeking is a monetary system based on what we call honest monetary weights and measures. (Let me interject that I owe this phrase to Mr. James Ewart, the author of *Money*. I

used to refer to “honest money,” but that is not precise, and it doesn’t make clear enough that there is an important moral issue at stake.)

It just so happens that there are compelling reasons why the honest monetary weights and measures that free markets choose is gold-as-money. Accordingly, rather than promoting a particular system, our program calls for full disclosure and no misrepresentations about our money. The free market will again choose gold.

Taylor: Can you tell our readers what the “compelling reasons” are that motivate people to choose gold-as-money?

Dr. Parks: Sure. There are three that come to mind. First, the most important reason why people choose gold-as-money is that gold is the most efficient money.

Money serves two purposes in society: to transfer wealth over space, i.e., to facilitate the exchange of goods and services geographically; and, to transfer wealth over time, i.e., to facilitate future payment. The commodity that is chosen for money is the one that fulfills these purposes most efficiently.

There is a concept in economics that defines this. It is called *salability*. Professor Antal Fekete explains this well in his award-winning essay “Whither Gold” (which is in the reading section of FAME’s website www.fame.org). What salability teaches is that if one lines up all of the world’s commodities and offers ever-increasing amounts of each into the marketplace, the one for which the buy/sell spread *decreases the least* is said to be the most salable, and, in Fekete’s words, is destined to be used as money. That commodity is gold.

Second, and crucially important, gold is the only commodity (with a minor exception being silver, and the amount of silver is so small in the scheme of things that it is not material) for which there is more than a year’s production supply above ground. With roughly 140,000 tonnes above ground, of which about 125,000 tonnes could be easily brought to market, and with yearly new production at about 2,500 tonnes, there is a about a fifty-year supply of gold.

If one looks at what most folks consider to be the most critical commodity, oil, one finds there is not even a three-month production supply above ground, and, for gasoline, another critical commodity, there is roughly a *two-week* supply above ground. The fact that there is so much gold means that pricing relationships based on gold will not be materially disturbed if there are new gold finds or if there is a major disruption in new supply. The same cannot be said about any other commodity. So, in sum, a major benefit of gold-as-money is that pricing relationships remain stable.

Third, the pricing relationship that is the most important is the cost of money itself, i.e., interest rates. It makes no sense, by the way, to look at the prices of particular goods or a “basket” of goods. Prices should always become

cheaper as saved capital is put to productive use and intellectual capital (know-how) accumulates. If one looks at long-term interest rates in Great Britain (a good reference is Ken Fisher’s *The Wall Street Waltz*), one finds that for the nearly 200+ years when Great Britain was on the gold standard, from about 1720 until after World War I, long-term interest rates were almost always about 3½%.

The only time they got higher was during wartime: the Revolutionary War, the War of 1812, the Napoleonic Wars, and World War I. And even then, long-term interest rates never got above 6%! Since lower interest rates are a boon to working people, to manufacturers, to almost everyone, why shouldn’t we have a monetary system that guarantees the lowest and the most stable interest rates?

Taylor: President Roosevelt pushed through Congress a law that was in fact unconstitutional. Yet the judicial branch of government failed to enforce the *Constitution* with respect to the coinage of money. The Founding Fathers created the three branches of government that were supposed to provide checks and balances so that the *Constitution* was not violated. If the judicial branch of government fails to enforce the *Constitution*, as it seems to have done with regard to this extremely important issue of money, what is to keep our government from straying into dictatorship?

Dr. Parks: There was a most interesting writer about 1950, Garret Garrett, who addressed this issue in a very easy-to-understand way. He wrote about how Pharaoh was able to command men and materials to build what was an enormous waste of Egypt’s resources: pyramids. Today, government is able to engage in waste on a much larger scale because politicians have easy access to money created out of nothing. If they had to tax to finance all of their spending, the scope of government would be greatly reduced for the simple reason that people would object to paying for it.

Of course, this “waste” goes into someone’s pocket. And those who profit from this system have been working hard to enlarge the benefits to themselves. Contrary to popular opinion, which says that the benefits go mainly to welfare people and others who have become disenfranchised by the system, most of the benefits go to a small cadre of people in the financial sector.

Taylor: I want to come back to something you mentioned earlier. A provision of law passed under Roosevelt made owning gold a felony. Recently at a Committee for Monetary Research and Education meeting, former House Banking Committee Chairman Henry Reuss told me that he had favored repealing that law, which he did in 1974, because he couldn’t see why someone should face the same jail term for owning gold as someone who gets caught with crack cocaine. Why did Roosevelt find it necessary to make gold ownership a criminal act? Given the intention of our Founding Fathers, how could a law like this be constitutional?

Dr. Parks: Actually, the way this came about was not through legislation—that came later—but through an Executive Order. And, yes, it is unconstitutional on its face. FAME Foundation Scholar Edwin Vieira has written extensively on this, and several of his essays appear on FAME’s website www.fame.org. Jay, this is a big story. How much detail do you want?

Taylor: I’m certain our readers would like a full explanation.

Dr. Parks: To understand what happened, and what the motivation was for making it a crime to own gold, one needs to look at the antecedents in the 17th, 18th, and 19th Centuries. During those periods, copper and precious metals, mostly gold and silver, were used as money. However, carrying around—or even storing at home—specie is both inconvenient and risky. The market solved that problem.

People brought their specie, especially gold, to the town goldsmith who usually had a very strong safe, and they left it with him for safekeeping. Most times, people paid a small fee for the service. Then, the receipts that the goldsmiths issued would many times be used as a proxy for specie on the theory that the goldsmith would redeem them on demand.

In time, another innovation was that goldsmiths transferred specie from one account to another based on a written order, as in “pay to the order of.” This evolved into what are known as “demand deposits,” or checking accounts.

Along the way, the goldsmiths noticed that deposited gold was rarely redeemed. The reason, of course, is that it was unsafe for folks to have specie in their possession. And, as long as they trusted the goldsmith, why bother? So, it turned out that the goldsmiths went into the lending business. But, they didn’t lend the specie itself; they lent “receipts” for the gold, on which they received interest. This process is known as “fractional reserve lending.” In essence, the goldsmiths, who had evolved into bankers, were creating money. It was not legal tender.

One factor that constrained the amount of money that was created by this process, especially in the U.S. during the 19th Century, was that the officers and directors of banks, with some constraints, were personally liable to depositors. So, if a bank went bust, bank officers’ and directors’ personal fortunes, e.g., their homes, were on the line. Nevertheless, some banks did go bust. It many times turned out that people to whom they loaned banknotes, again, which were redeemable on demand in gold, were unable to repay, and the collateral that borrowers put up could not quickly enough be converted (sold for) into gold.

So, when people found out, or even suspected that a bank was in trouble and might have difficulty meeting its obligations, there would be a “run” on the bank, and many times the bank would “fail,” i.e., it would be unable to meet its obligations in a timely manner.

In fact, as Richard Salsman et. al. have shown, depositors lost very little money; and it was less than the amounts lost by other businesses that had gone bust. But, for bankers, this was a calamity. They typically lost everything.

In 1907, there was a particularly pernicious banking panic that spread over a large portion of the country. None other than JP Morgan bailed out the banks with a \$100 million gold loan.

After he did that, bankers were terrorized by four words: “What if he [Morgan] dies?” Indeed, Morgan understood the problem, and this was the genesis of the Federal Reserve. The idea was that there would be an entity somehow connected to the government that would bail out the banking system in dire times.

Once the Federal Reserve legislation was passed in 1913, the amount of gold that banks kept on reserve could be decreased. In time, the so-called “Reserve Requirement” was steadily reduced, but ordinary people still had the right to redeem their Federal Reserve Notes, which were, in fact promissory notes, for gold on demand. The problem was that after the banks began to fail in large numbers around 1930 - 1931, there wasn’t enough gold to go around. By 1933, it was clear to some that a general default was in the cards.

When Roosevelt was inaugurated, wanting to forestall such a default, he seized the gold. In his Fireside Chat on March 10th, 1933, he explained why he seized the gold in so many words. He said there wasn’t enough to go around.

Also, on March 1, 1933, three days prior to Roosevelt’s inauguration, George Harrison, the head of the Federal Reserve Bank of New York, had sent an urgent message to the Federal Reserve Board of Governor Eugene Meyer and to Hoover’s Secretary of the Treasury Ogden Mills that the New York Reserve Bank’s gold reserve had fallen below the legal limit! There can be no question that too much fiat money had been created.

In sum, the reason gold ownership was given the same penalty as a felony is that gold-as-money was in competition with the paper money then being issued, and confiscating and then making it unlawful for folks to own gold was how the paper money won the competition.

Taylor: It seems a little fantastic that one group of people—bankers—could get the government to pass legislation so favorable to themselves and so clearly unfavorable to the rest of us. Frankly, it seems so biased. It strikes me as opposed to the notion of equal justice. Some folks might say that it comes close to the concept of a “conspiracy.”

Dr. Parks: I can’t opine on that. The result, however, is clear. Also, it is not unusual for various factions to enlist the coercive power of government to further their ends at the expense of others.

Taylor: Can you give some examples?

Dr. Parks: Tariffs were historically applied to penalize one group, e.g., foreigners, in favor of another, e.g., domestic manufactures. Many laws were passed during the Great Depression that favored one group over another. The Davis Bacon Act, which is still on the books, favored unionized white workers in the North over un-unionized blacks who migrated to the North looking for work. The Minimum Wage Law favored higher paid workers in the North over desperate workers in the South who would work for much less. Why is it so inconceivable that the bankers, especially large bankers, would be able to secure an advantage for themselves at the expense of some other group?

Taylor: But wasn't JP Morgan in favor of gold-as-money?

Dr. Parks: He was. I'm not suggesting that all bankers are dishonest. Far from it. And, it's not clear to me that the bankers who put the Federal Reserve System into being were mindful of how this could develop. They had a problem, and they looked to government to solve it. Interestingly, in Cordell Hull's *Memoirs*, he says that the Federal Reserve Legislation addressed what was thought to be an "insolvable problem." Reading the literature of the time, I don't think that those in charge fully understood the issue.

Taylor: I have to confess, I need more of an explanation, and I think our readers do too.

Dr. Parks: The problem comes about because the banks should never have been allowed to issue bank notes that were redeemable on demand in gold, which were in law promissory notes, without having the gold on hand.

The reason they got away with that was because they misrepresented to their customers. From the earliest times, they told customers that they were making a "deposit" when they put "their" money in a bank. This was a misrepresentation. In fact and in law, when one puts money in a bank one is making an *unsecured loan* to the bank. Rather than being a "depositor," one becomes an unsecured creditor.

If folks better understood that, then they would have been more mindful that they were taking counterparty risk, and there would have been more oversight as to how much leverage, i.e., fractional reserve lending, that banks did, and there would have been more oversight as to the risks that banks were taking.

Further, the promise that banks made to their note holders, that they could get "their" money back on demand was a further misrepresentation. What they should have said was that folks could redeem if the banks had enough gold on hand, and that, depending upon what banks did with "deposited" money, it might not be available when demanded and, in some cases, the gold might be lost by the banks due to bad investments or whatever.

Had banks made these kinds of disclosures, which were in fact the truth, then not only would they garner less "deposits," but they wouldn't have been able to lever up so

much, and their profits would have been substantially less. In essence, the limiting factor on their leverage, and concomitant profits, was that their notes were redeemable into gold. If they could get rid of gold, they could make a lot more money, and that is exactly what happened. Today, the amount of money that they are able to extract from society is beyond belief.

Taylor: So, what I think I hear you saying is that fractional reserve lending and gold-as-money don't mix, that fractional reserve lending, which is in essence money creation, is very profitable for banks, and to be able to do that they needed to get rid of gold.

Dr. Parks: Exactly. Also, because of the tendency to overreach, fractional reserve lending eventually leads to ruination. This led to the creation of a so-called "lender of last resort." I say "so-called" because what is being done here is not lending *per se*, but rather money creation by the central bank. As George Soros put it, the gold standard had to be discarded because it was incompatible with the notion of a lender of last resort.

Taylor: This is a good segue into my next question. I know that some of your work demonstrates that fiat money results in a massive reallocation of wealth from those who produce it, namely labor and entrepreneurs, to bankers, to Wall Street firms, and to large corporate entities closely associated with major banking interests. Could you give our readers an idea about the mechanics of how fiat money enables those folks to become rich at the expense of workers and entrepreneurs?

Dr. Parks: The key concept that folks need to understand is that fiat money is not wealth. It is merely a *potential claim* on wealth. That's not the same thing. The banking system creates the claims (fiat money). Interestingly, in Mr. Greenspan's speech of January 14th, 1997 in Belgium, he repeatedly refers to the creation of *claims*. (Your readers may be most interested in FAME's "What Does Mr. Greenspan *Really* Think?" in which I parse and annotate that speech and translate it from Fedspeak into English. It appears in the Fedwatch section of FAME's website www.fame.org) At the time, I wondered why he was using that terminology, but now it is clear.

When banks extend credit, they are creating claims (fiat money, really in the form of checking deposits). In return for doing that, they get fees and "interest" which they can then exchange in the market for real wealth, i.e. for things such as boats and houses. At the same time, Wall Street firms get transaction fees for moving the claims (fiat money) around. They, also, get to exchange those fees for real wealth. And finally, the bulk of the newly created fiat money goes to the most credit-worthy borrowers, e.g., large corporations, that also exchange it for real wealth.

Let me digress for a moment. Ordinary people have a common problem about how to provide for themselves in old age. It is best expressed in an old labor song: "Too old to work, too young to die, how am I going to get by?" The answer, of course, is that one saves, and, then, when one

gets old and can no longer work, one draws down on those savings to provide for necessities in old age.

But, with a fiat money monetary system, ordinary people are *not* saving wealth; they are saving merely *potential claims* on wealth. The real wealth that the claims represent is actually being *consumed* now. So, when later comes, it turns out that the claims are said to have lost purchasing power due to some unexplainable phenomenon called “inflation,” and ordinary people are wiped out.

Alternatively, as occurred during the Great Depression, rather than having a hyperinflation, as they did in Germany, the claims are just reneged upon, i.e., they are wiped off the books. Either way, ordinary people lose.

Taylor: So I guess another way of looking at the fiat money creation is that it is really legal counterfeiting by the banking system.

Dr. Parks: Exactly. There is in Murray Rothbard’s *What Has Government Done to Our Money?* a cute line about this. He refers to a cartoon in which two counterfeiters are turning out bogus money in a basement. One counterfeiter says to the other: “I guess the retail sector is about to get a boost.”

Taylor: Would you care to provide our readers with some evidence and perhaps give them an idea of the size of this re-allocation of wealth and the mechanics of the wealth transfer?

Dr. Parks: The Federal Deposit Insurance Corporation (FDIC) has a website (www.fdic.gov) that shows how much the banks take in and what their pre-tax and after-tax profits are. The relevant metric is their turnover after interest expense. To put this another way, when banks create money, they credit the account of the entity for which they are doing the creation, and they pay interest on that amount.

Perforce, the interest banks pay is less than the interest they charge. It is the net difference that accrues to their benefit. In addition, they have developed all sorts of “financial products,” which are not products at all, but rather manipulations, to garner more fees for themselves.

Examples of these are derivatives. In addition, they engage in trading, as in “currency trading,” which is, in effect, gambling. The so-called lender of last resort facility at the Federal Reserve and the FDIC back all of this, up. In other words, ordinary taxpayers subsidize all of these activities. And since every subsidy involves wealth transfer, in effect these activities work to transfer wealth from ordinary taxpayers to the financial sector.

According to the FDIC, last year U.S. banks netted about \$300 billion from the economy. In addition, I estimate that Wall Street firms took out another \$140 billion, and, according to the IRS, a small group of folks had *realized* capital gains of nearly \$500 billion. Much of this is being converted into real wealth, and in a very extravagant

fashion, e.g., 300-foot boats and 30,000-foot houses. I think you can see why this is going to end very badly.

Taylor: In a Congressional testimony, you told lawmakers that you think our fiat money monetary system poses very great dangers to the stability of the global financial system. Could you explain to our readers why you think the existing system poses a grave threat to economic and hence political stability?

Dr. Parks: As I mentioned at the outset of this interview, the reason fiat money monetary systems always collapse is that those who have the privilege of creating money out of nothing always overreach. The temptation to enrich themselves is too great to resist, and they always succumb to the temptation. The way I put it is that greed and the lust for power know no limits.

There is myriad evidence that our system is in trouble. Federal Reserve Chairman Alan Greenspan talks about the possibility of collapse all the time. He calls it “systemic risk.”

One of the most telling events in recent times was the aborted collapse of a hedge fund called Long Term Capital Management (LTCM). If our high political and monetary officials are to be understood, there was credible testimony that the world’s financial system might have collapsed as a result of the leveraged positions that LTCM took.

Now, let’s step back for a moment. The world “GDP” is on the order of about \$15 trillion or more. How is it possible that a firm like LTCM, with a mere \$3 billion of invested capital could wreck so much havoc?

The answer lies in the fact that many of the major banks, through their trading departments, were making the same bets as LTCM. Thus, there was the possibility that if LTCM went bust and had to lay off, or sell, its bets at a great discount, the banks would have lost a lot of money on those same bets, too, and their assets would become impaired. That was the chain of events that the Federal Reserve sought to forestall when it gathered up 13 very prominent financial players and “suggested” that they ante up a \$3½ billion infusion into LTCM.

By the way, the reason the Fed did not bail out LTCM directly, and the Fed is empowered to do that, is that the Fed can play the bailout card only a few times before people will very strenuously object. So, the Fed is waiting for when the stakes are much higher, as they most certainly will be.

Today, depending upon whom one listens to, there may be as much as \$120 trillion in notional derivative bets. Granted, only a very tiny portion of that is really at risk, but even that tiny portion, if lost, would overwhelm the banking system and result in a complete collapse.

Questions for your readers: Is it fair that ordinary taxpayers be the ultimate counterparty to these bets and be forced by law to pay off if the banks lose? What part of our

Constitution authorizes this kind of wealth transfer—in Mr. Greenspan’s words, “without limit”?

Other, and even more compelling evidence that there is a problem is that the Bank for International Settlements (BIS) has established a Financial Stability Institute. If financial stability were not a big problem, then why is the BIS so concerned?

Taylor: Critics of the gold standard suggest that it is a bad idea because it doesn’t allow government enough flexibility to avert recessions and depressions. How would you respond to that viewpoint?

Dr. Parks: Jay, this is a big topic and could consume the whole interview. In a nutshell, we wouldn’t have material recessions and depressions if, even under the gold standard, the banks did not create money out of nothing. As I explained earlier, had it not been for misrepresentation and nondisclosure, the banks would never have been able to lever up, and there would be no systemic instability.

Part of the problem is that in “emergencies,” such as wars, there’s almost never enough money that can be taxed to pay for the war, and so those in power resort to other means. That almost always meant specie suspension, especially in Great Britain, and in the U.S. too, as with the Civil War. What folks need to address is are all of these wars really justified; and, are they the will of the people, or, rather, are they military adventurism on behalf of a small minority? It is my sense that, if our country were credibly threatened or attacked, the resources to defeat the enemy would become available without fiat money.

Taylor: Correct me if I am wrong, but I believe it would be your position that the existence of fiat money undermines individual liberty and also poses a threat to the political process. Would you care to comment on the relationship between paper money, backed by nothing, and how that is destructive to liberty and the democratic process?

Dr. Parks: At a minimum, those who are in charge of creating money line their own nests and those of their friends and associates. This, by the way, goes a long way in explaining the growing disparity in income and wealth between the financial elite and ordinary people. As they continually enrich themselves, they use some of that money as “campaign contributions” to, in effect, buy off the politicians. (Sometimes, they or their children become politicians themselves!) As for the politicians, they are in a tough spot.

Because it takes so much money to buy television time, which they must buy if they are to be reelected, politicians must get the money. If they don’t, then they are out. Obviously, this doesn’t apply to politicians who may be independently wealthy or who are genuinely popular for their honesty and conviction, such as Congressman Ron Paul of Texas. But it certainly applies to most of them. This is not to say they are not decent people. I believe that

almost all of them are, but what can they do? What I’m saying is that, under a fiat money monetary regime, the politicians are not ultimately in charge. Those who create the money are.

There’s empirical evidence to support this thesis. If you look at countries where the politicians most certainly *are* in charge, such as Indonesia, Mexico, the Philippines, when the leadership leaves office, *if* they leave office, at that time they are billionaires! They are among the richest people in their countries. If our politicians were in charge, then how come they don’t take more for themselves?

Taylor: I’m sure you are aware of the Gold Anti-Trust Action Committee (GATA); are you not? GATA believes the Federal Reserve and probably one or more foreign central banks are working in concert with certain private banking interests to enrich these banks by lending them gold at very low prices. The banks borrow gold at say 1% and lend it perhaps at 1½% or 2%.

Their clients then convert the gold into dollars and invest the money in other instruments that may yield annual returns of as much as 6% or 7%. Of course, this works very well so long as the price of gold does not increase. GATA believes that the amount of gold lent by central banks and/or sold forward represents a major percentage of the total amount of gold shown on the balance sheets of central banks.

If the price of gold were to rise significantly, as it did last Fall, GATA believes that many of the banks and/or their clients would face huge losses. GATA cites circumstantial evidence that suggests a number of central banks have been pulling strings to ensure that an ample supply of gold continues to hit the market so that the price of gold does not rise. Does this scenario seem plausible to you? If so, how long do you think it can continue before the central banks run out of gold needed to continue to fix the gold price at lower and lower levels?

Dr. Parks: These kinds of actions would be consistent with the need for the banking system to suppress gold. I am glad that Bill Murphy and his team are bringing attention to possible manipulation of the gold market. But, as I think you understand, there is a lot more at stake here than profit or lost profits in the gold market.

In one sense, the statist have it right. The price of gold is a measure of confidence in the economy and the monetary system that helps drive it. There is myriad evidence that the central banks of the world, and the Federal Reserve in particular, have been exceedingly hostile to gold.

As to how long alleged manipulation of the gold market can succeed, it is amazing to me that gold-as-money has been suppressed this long.

Parenthetically, fiat money is not the choice of free markets. Fiat money has to be literally forced down people’s throats—the coercive part of this is called “legal tender laws.” It costs money to create the political environment and to pass the legislation to do that, and someone

has to lead the way. The fiat money crowd has financed this effort and continues to do so. They even have a “public information” department at the Federal Reserve Board of Governors and at each of the Regional Federal Reserve Banks that distribute millions of pamphlets, monographs, “learned” papers, videos, cassettes, movies, comic books, and other materials. Taxpayers, of course, pay for all of this propaganda. Meanwhile, who is going to finance an effort to return our country to honest monetary weights and measures?

Anyway, to believe that the Fed can guide us successfully along forever is to believe that central planning really works. But, we know that even central planners succumb to temptation, just like everyone else. This is a contradiction that almost everyone does not want to deal with.

Taylor: You know that most economics professors around the world scoff at the idea of resurrecting the gold standard. Seems that most everyone has bought into the idea that fiat money is better because it provides policy makers with the ability to manipulate the money supply to either stimulate or slow down the economy, depending on how they perceive economic need.

Given the enormous bias against gold-as-money, it would certainly seem as though FAME has its work cut out to say the least. What do you think the chances are that the U.S. will one day return to a monetary system that can be described as a system of honest weights and measures, and how do you propose to get the job done?

Dr. Parks: It is looking very problematical today that we will any time soon return to an honest monetary system. For example, if the system collapsed tomorrow, who do you suppose people would turn to set things right? I’ll tell you. It will be to the same folks who perpetrate our current fraudulent system.

They have spent their whole lives with the fiat money monetary system; they profited from it; their friends have profited from it; or, to sum it up, they have a lifetime’s experience and relationships in place. Are they going to in any way admit that all of this was somehow wrong or misguided? Or will they seek to scapegoat it? The history of the world is that when things go wrong at a national level, scapegoats are found. Your readers can take a guess at who some of the scapegoats will be.

On the other hand, if people are really concerned and want to do something material about this, then we have a proven strategy and a plan. And that strategy has had great success in other public policy areas; it will have success in getting rid of our unjust fiat money monetary system as well.

However, someone is going to have to step up to the plate to pay to make this happen. For now, those who favor our fraudulent system can sleep easy.

Taylor: Dr. Parks, I’m sure many of our subscribers are sympathetic to your cause. How might they help you and FAME?

Dr. Parks: In addition to funding, I am looking for allies in the Fight for Honest Monetary Weights and Measures. The first, and most important, is Organized Labor. Labor has the lobbying infrastructure in place, and, in the words of AFL-CIO President John Sweeney, when speaking on other matters of concern to Labor, Labor has the votes, and Labor can do something about it. Further, ordinary working people are the principal victims of fiat money. If the victims don’t want to do something about it, why should other people bother?

What Labor needs today, in my view, is a unifying issue, and Labor doesn’t have one. For many reasons, I believe that Labor should embrace the money issue as it did in the last century.

The second group is the clergy. As I mentioned earlier, in the 19th Century it was the churches that led the way to resumption. They positioned the money issue as a moral issue, and that is the way I see it too. Another issue that came up then was sovereignty, or who is in charge. It was felt in the Jackson Era that no bank should be in charge of money. It gives them too much power. I agree.

Taylor: Larry, this has been one of the most interesting and significant interviews I have ever published since we began our interview series one year ago. I also believe it may be one of the most useful from an investor viewpoint in understanding the most basic fundamentals that will impact their investments in the longer term. But there are still many more relevant issues that I would yet like to ask you about. Would you be willing to continue this interview so that we could publish a Part II in our July issue?

Dr. Parks: I would be delighted to do so. Thank you, Jay. I appreciate the opportunity.

FAME

Foundation for the Advancement of Monetary Education, 501(c)(3)
Box 625, FDR Station, New York, NY 10150-0625
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Please feel free to offer any comments or suggestions, e.g., how did you hear about us?

FAME is an independent, unaffiliated, 501(c)(3) not-for-profit public charity devoted to educating people about the importance of honest money and the harm cause by its absence. A copy of the organization's last financial statement is available upon request.