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<i>Routing</i>

## The Fight for Honest Monetary Weights and Measures

six essays

by

Dr. Lawrence M. Parks

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*DATELINE NEW JERSEY/January 17, 2000: The financial publishing firm Palisade Business Press has released a 40,000-word White Paper on "The Fight for Honest Monetary Weights and Measures" by noted economist and financial educator Dr. Lawrence M. Parks. The White Paper is comprised of some of Dr. Parks' recent writings on the problem of fiat money, and the moral imperative to adopt a monetary system based on honest monetary weights and measures.*

# **The Fight for Honest Monetary Weights and Measures**

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Dr. Lawrence Parks, Executive Director, FAME

## **Six Essays**

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#### **About Lawrence Parks**

Dr. Parks is the Executive Director of the Foundation for the Advancement of Monetary Education (FAME). He has broad experience in academia, in business, and in finance. He holds a Ph.D. in Operations Research from the Polytechnic University where he was an Adjunct Professor in the Graduate School for 14 years. His writings have appeared in *Pensions & Investments*, *The Economist*, *The Washington Times*, *The Freeman*, *The Free Market*, *The United States Congressional Record*, *National Review*, and others. He is a columnist for *The Money Review*.

He is an active member of many civic and social organizations, a member of The Workers Education Local 189, CWA AFL-CIO, The National Writer's Union, UAW 1981, AFL-CIO, and he is a frequent speaker on the Fight for Honest Monetary Weights and Measures. His focus is on how our present fiat monetary system operates to destroy savings, pensions and jobs and what to do about it.

#### **About FAME**

FAME is an independent, unaffiliated, 501(c)(3) not-for-profit corporation devoted to educating people about the benefits of honest monetary weights and measures and the harm caused by their absence.

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## Introduction

*by Mark Fadiman*

*Publisher, Palisade Press*

Larry Parks is one of the most insightful as well as one of the most courageous men I know. He has spent the better part of his mature life in determined opposition to one of the Great Crimes of the 20th Century—namely fiat, or debt-based, money.

Let me try to provide a frame of reference for Dr. Parks' concern (one that I hasten to add reflects my point of view and is not necessarily endorsed by Dr. Parks, though I believe he shares its basic analysis). When it comes to money, the United States was founded with an economic system that took far more from the agrarian republican Thomas Jefferson than the statist political philosophy of Alexander Hamilton. The Civil War may have freed the slaves, but it also shattered the Republic, and the predictable consequences of the power that flowed to the Federal Government were the graduated income tax and the Federal Reserve System of central banking, with which we are saddled today.

After the First World War, a secret deal between the New York Fed and English central bankers to restore preeminence to the pound led to the ruinous monetary inflation that became known as the Roaring Twenties. Post-boom monetary tightening made the damage worse, leading to the Great Depression and additional statist measures implemented by Franklin Delano Roosevelt.

Under President Richard Nixon, the last link between gold and the dollar was severed. Today, as Dr. Parks points out, “dollars” are created with a stroke of a statist pen—and the more “dollars” that are created, the more credit banks can offer consumers and the more profit they make. The hue and cry that we are becoming a nation of debtors would be funny if it weren't so sad given that our monetary system is based on the generation of debt. No debt, no profits.

This system is only kept in place by force. The Government, in concert with the banking industry, has made its otherwise

worthless “dollars” legal tender. This state of affairs is not restricted to the United States. As most people know, virtually all countries of the world—even Switzerland!—have adopted debt-based fiat monetary systems as their economic model.

The scary part is, as Dr. Parks points out so eloquently, fiat-money regimes always fail. Not occasionally. Not sometimes. But always.

I have a theory about this. I believe that what has sustained our fiat-money system thus far has been the variety of competing currencies generating pressure on one another and making it virtually impossible for individual central bankers to inflate to the point where they would topple the entire system. But the master plan, as I understand it, is for competing currencies to be gradually combined around the world. The euro is only the first step. Perhaps the recently floated idea of “dollarization” will move the process along even faster.

Ironically, at the point when the central banking elites finally manage to create a single currency under their control, their great financial edifice will start to crumble. A single fiat currency will mark the beginning and the end of the monetary epoch they have labored to produce. It will be a hopeless, bloody process, ending in obscene farce as do all dreams of world domination.

In the meantime, “investors” in the United States and abroad will continue to watch the value of their savings erode and participate ever more desperately in the financial markets in the hopes of choosing securities that match the pace of inflation. Among some others, Larry Parks is fighting hard and eloquently to stop the madness before it reaches its logical, bitter, conclusion. I hope the publication of this White Paper aids his cause even a little.

I'm proud to help him—and to know him.

### Some Notable Quotes

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

**John Kenneth Galbraith:** “The process by which banks create money is so simple that the mind is repelled.” “The study of money, above all other fields in economics, is one in which complexity is used to disguise truth or to evade truth, not to reveal it.”

**James A. Garfield:** “Whoever controls the volume of money in any country is absolute master of all industry and commerce.”

**Frederic Bastiat, *The Law*:** “When plunder becomes a way of life for a group of men living together in society, they create for themselves in the course of time a legal system that authorizes it and a moral code that glorifies it.”

**John Adams, letter to Thomas Jefferson:** “All the perplexities, confusion and distresses in America arise not from defects in the constitution or confederation, nor from want of honor or virtue, as much from downright ignorance of the nature of coin, credit, and circulation.”

**John Maynard Keynes:** “If, however, a government refrains from regulations and allows matters to take their course, essential commodities soon attain a level of price out of the reach of all but the rich, the worthlessness of the money becomes apparent, and the fraud upon the public can be concealed no longer.”

**Sir Josiah Stamp, former President, Bank of England:** “Bankers own the earth. Take it away from them, but leave them the power to create money and control credit, and with a flick of a pen they will create enough to buy it back.”

**John Maynard Keynes:** “Lenin is said to have declared that the best way to destroy the Capitalistic System was to debauch the currency. . . Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million can diagnose.”

**Rt. Hon. Reginald McKenna, former Chancellor of Exchequer, England:** “Those who create and issue money and credit direct the policies of government and hold in the hollow of their hands the destiny of the people.”

**U.S. Treasury Secretary Woodin, 3/7/33:** “The Federal Reserve Act lets us print all we’ll need. And it won’t frighten the people. It won’t look like stage money. It’ll be money that looks like real money.”

**George Washington, in letter to J. Bowen, Rhode Island, Jan. 9, 1787:** “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.”

**Voltaire (1694-1778):** “Paper money eventually returns to its intrinsic value—zero.”

*“The Fight for Honest Monetary Weights and Measures is not so much a new chapter in history as a forgotten one.”*

Lawrence Parks

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Central banks understand that their paper money is in competition with gold, and they want their paper money to win. Otherwise, central banks are in danger of becoming redundant. While the banking system and Wall Street firms garner very extraordinary unearned profits, gold remains a dagger threatening the continuation of those profits. This has led to the most significant event for gold in the Twentieth Century—for which the gold industry has no explanation: that for forty years it was a felony for Americans to own monetary gold. There is a moral obligation on those who understand the money issue to help mitigate the damage being done by fiat money.

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In a lifeboat, the notion of moral behavior is one of the first things that is dumped overboard. When the monetary system of the U.S. collapsed in the 1930s, the *Constitution* was set aside, and the concept of Classical Liberalism, of *Laissez Faire* government, was permanently discredited. The current U.S. fiat money monetary system will collapse, as all fiat money monetary systems have collapsed. To help mitigate the mass suffering that will result, people of good-will have a moral obligation to help get rid of fiat money. “Indifference to Injustice is the Gateway to Hell.”

“The Federal Reserve Act lets us print all we’ll need.”

U.S. Treasury Secretary  
Woodin  
March 7, 1933

1.

## What the President Should Know about our Monetary System

Definition of terms:

Fiat (arbitrary [paper]) money is money that is created out of nothing by banks or central banks and without any work. Because of material misrepresentations and nondisclosure regarding our fiat “dollar,” it is *prima facie* fraudulent. Commodity money is a physical thing, such as gold or silver. It takes work to create it. There are compelling reasons why gold has been the preferred commodity money since antiquity.

*“Of all the contrivances for cheating the laboring classes of mankind, none has been more effective than that which deludes them with paper money.”*

Daniel Webster

### Introduction

The monetary system of the United States is inherently a fraud upon people, both at home and abroad. Essentials of our money are being misrepresented, and crucial information is not being disclosed. The beneficiaries of the fraud are mostly those in the financial sector of the economy, very large corporations, and the politicians they finance. The victims are everybody else, but especially ordinary people who are dependent upon the integrity of our monetary system for their savings, their pensions, and their jobs. Already, fraudulent monetary systems modeled after our own have wiped out the savings, pensions, and jobs of hundreds of millions all over the world, including in Russia, the Philippines,

Mexico, Brazil, South Korea, Malaysia, and many other countries.

### How the fiat money fraud works

Recently there has been news about a massive insurance fraud by a Mr. Martin Frankel. Through an intermediary with whom he was associated, he acquired control of some small insurance companies and improperly transferred their assets to a company he ran that supposedly invested and managed those assets. However, rather than manage those assets, he stole them and used the proceeds for his own benefit.

The policyholders had no idea what had happened. They, along with the regulators, received statements from Mr. Frankel showing that the assets were intact. Because no money was due the policyholders until years to come, there was the illusion that everything was fine. Of course, had the fraud continued, the policyholders would have come to realize at some point that there was nothing of substance backing up their statements.

The fiat money fraud operates in a similar fashion. In a prosperous society, people save considerable amounts for future needs, believing that they are providing for their retirement. They don't realize until years later, when they attempt to exchange their “savings” for real wealth (shelter, automobiles, food, clothing, etc.), that it takes many more “dollars” to pay for these things than the savers could possibly have anticipated at the start. They find that their money, as the saying goes, has “melted.” A mysterious villain called “inflation” is cited as the cause of the loss of purchasing power.

In fact, while people are saving potential *claims* on wealth, those who receive the interest and transaction fees for creating fiat “dollars” are spending them

Crucial information is not being disclosed.

“I was taking money out of the pockets of British taxpayers.”

George Soros

and consuming the real wealth those claims represent.

It takes work to create wealth. “Dollars” are created without any work—how much more work is involved in printing a \$100 bill as compared to a \$1 bill? Not only are ordinary people at home being deceived, but foreigners who accept and save our “dollars” in exchange for their goods and services are also being cheated.

### “I’m only playing by the rules”

A few years ago Mr. Joe Jett, an alleged “rogue” trader for Kidder Peabody, then a major brokerage firm owned by General Electric, somehow produced a profit for Kidder of approximately \$350 million trading U.S. Government securities. Normally this kind of trading produces much smaller profits for those who engage in it. At the time, Kidder and General Electric proclaimed Mr. Jett a hero. He received a multimillion-dollar bonus, his boss received a multimillion-dollar bonus as did his boss’ boss. All were ecstatic! Then, it turned out that Mr. Jett had exploited a glitch in Kidder’s accounting system and there was no \$350 million profit. In fact, there was a loss.

What did Kidder do? Kidder came down on Mr. Jett like a ton of bricks. The firm fired him, defamed him in the press as a cheat, froze his assets, and did all it could to brand him a criminal short of having him arrested. And what was Mr. Jett’s reaction? He said that he was just playing by the rules. Further, he pointed out that his bosses knew, or should have known, exactly what he was doing. Besides, they got multi-million-dollar bonuses too—and they didn’t have to give them back.

Mr. Martin Mayer, a Resident Scholar at the Brookings Institute has a very clever metaphor to explain Mr. Jett’s alleged fraud:

One day your eight-year-old kid comes home and says “Mommy, daddy, I just made \$1 million at the lemonade stand this afternoon.” And what do you say? Well, if you’re Joe Jett’s boss you say: “Well, that’s great, sweetheart. Let’s go spend the money.” But, if you’re any normal parent, you say: “How did you do that?”

Some may recall a few years back when George Soros beat the Bank of England for more than \$1 billion. In his latest book, he wrote: “I was taking money out of the pockets of British taxpayers.” The obvious question is: “What did British taxpayers get in return?”

Did Mr. Soros invent anything, like a cure to some dread disease? Did he produce a product or service that improved the lives of anyone? No. And when challenged about this massive wealth transfer from ordinary working people to himself, what did Mr. Soros say? He said the same thing Joe Jett said. He said: “I’m just playing by the rules.” Well, there’s something wrong with rules that enable such a massive transfer of unearned wealth.

### The role of misrepresentation and nondisclosure, a.k.a. fraud

In order to achieve more certainty in personal relationships, people enter into agreements, i.e., contracts, which are governed by an area of law called “contract law.” The concept is that the courts will uphold legal contracts not fraudulently entered into by consenting adults. This is commonly referred to as the “Rule of Law.”

A vital subset of contract law deals with promises to pay. In their most elemental form, contracts to pay are called “promissory notes.”

For a promissory note to be legally valid, it must have these four elements:

1. A “maker,” i.e., a person or entity that will make payment;
2. A payee, i.e., a person or entity that will receive payment;
3. An amount to be paid; and,
4. A date certain when payment is due.

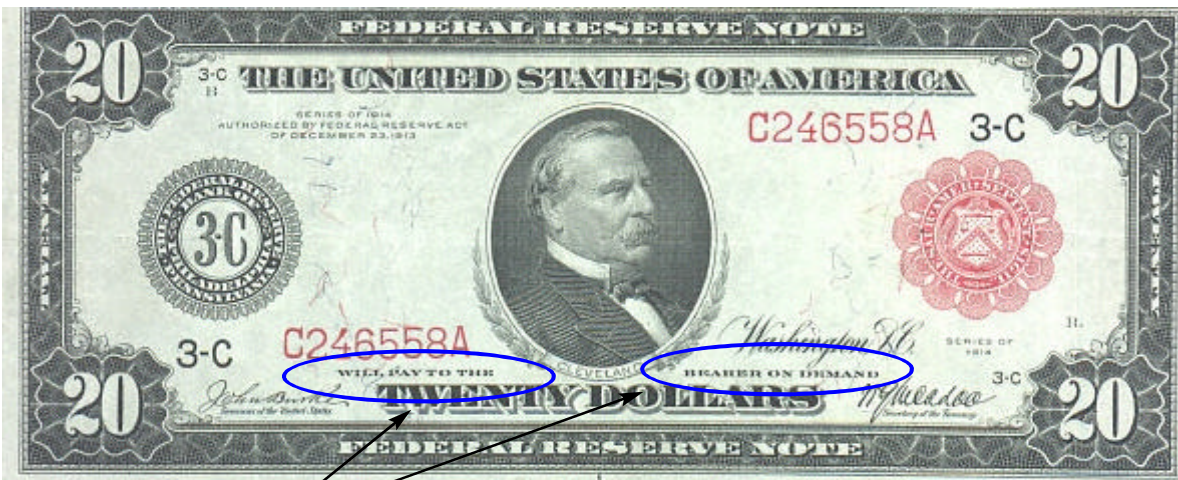
If any of these four elements is missing, then the promissory note is deemed to be defective under the law and cannot be enforced.<sup>(1)</sup>

When the Federal Reserve legislation was passed in 1913, the Federal Reserve was empowered to issue Federal Reserve

Notes that were, in fact, promissory notes.<sup>(2)</sup> The maker was the Federal Reserve. The payee was the “Bearer.” The amount of the note was the face amount. And the due date was “On Demand.” See *Figure 1* for an example of what the Federal Reserve Notes used to look like.

In 1963, Federal Reserve notes, as shown in *Figure 2*, began omitting the due date and the payee. Yet, these pieces of paper continue to be called “Federal Reserve Notes.”

To call these pieces of paper “notes” is a material misrepresentation and constitutes fraud.



“Will Pay To The Bearer On Demand”  
**Figure 1:** Federal Reserve Note

No longer “Will Pay To The Bearer On Demand”  
 This phrase has been removed  
**Figure 2:** Federal Reserve Note from 1993



Fraud: (1) DECEIT, TRICKERY: a: intentional perversion of truth in order to induce another to part with something of value or to surrender a legal right; b: an act of deceiving or misrepresenting. (2) TRICK a: one who is not what he pretends to be; CHEAT b: one that is not what it seems or is represented to be. [Webster's Ninth New Collegiate Dictionary, P490]

## Gold-as-money and a “lender-of-last-resort” are incompatible.

The omission of a payee and a due date, while continuing to call these pieces of paper “notes,” is a material misrepresentation and constitutes fraud.

The new Federal Reserve “Notes” are not valid notes. Just as if one takes a sign that says “dog” and hangs it on a cat, the cat does not become a dog. Similarly, if one identifies a piece of paper as a “note” which lacks the legal requirements for being a note, it does not become a note. So, if “Federal Reserve Notes” are not notes, what are they?

In truth, they are just pieces of paper with ink on them. They are paper tickets or, better, they are tokens. One might argue, “What does it matter? People accept these tokens as payment for their goods and services and exchange them for the things they need: food, shelter, clothing, etc. What is the difference whether these pieces of paper are called ‘notes’ or ‘tokens?’”

The answer is: who in their right mind would knowingly save tokens for their retirement or accept the promise of tokens for their pensions? Not many, in my view. In this way, ordinary people are being deceived about the nature of their money. This deception is especially relevant for foreigners who save our fiat money.

Perhaps more important are other misrepresentations having to do with the basic banking relationship, which is at the root of why the world is swimming in fraudulent fiat money. In the last century, when money was gold (or silver), banks misrepresented the basic banking relationship to their customers in two ways. First, they told people that they could get “their” gold back “on demand.” This was a false statement.

What they should have said was that customers could get their gold back on demand provided not too many of them

sought to do so at the same time. Further, banks failed to disclose to depositors that the banks might lose the gold or have it tied up in “investments” that could not be liquidated in a timely manner without risk of great loss.

In other words, the “on demand” assurance was really conditional, and this was misrepresented. In addition, banks never disclosed either the nature of the risks they took or the amounts of leverage they employed.

Second, banks used inadequate terminology to describe the transaction when people put gold in a bank. Banks called it a “deposit,” which misled people into thinking that the gold remained “theirs.” It did not remain theirs. The Courts had held for almost 200 years that gold deposited into a bank became the bank’s gold to do with as the bank wished. Banks could lend that gold to someone else—generally they lent bank notes which bore the legend “payable to the bearer on demand in gold”—they could gamble with the gold, purchase stocks or real estate, or whatever.

In fact, when one “deposited” gold in a bank, or when banks created money by extending a loan,<sup>(3)</sup> the gold—or the newly created loan—went onto the bank’s balance sheet as a liability. The customer, rather than remaining the “owner” of “his” gold became an unsecured creditor of the bank. Historically, ordinary people did not understand this. Were it not for these two misrepresentations and the undisclosed risks, people would have been much more wary of banks, and there would have been much greater oversight of bank activities by those who entrusted them with “their” gold.

The harmful effects of these misrepresentations and the absence of risk disclosure resulted in people not knowing

enough to exert market discipline on banks. As a result, banks were able to engage in more leverage and more risky behavior than they would have been able to had there been full disclosure and no misrepresentations. As Mr. Patrick Parkinson recently testified before the Congress:

“If market discipline is to be effective, counterparties of a firm must obtain sufficient information to make reliable assessments of its risk profile, both at the inception of the credit relationship and throughout its duration. Furthermore, they must have in place mechanisms that place limits on the credit risk exposures that become more stringent as the firm’s riskiness increases and its creditworthiness declines.”<sup>(4)</sup>

The increased leverage and risky behavior of banks, which would not have been possible without the misrepresentations and nondisclosure, resulted in innumerable “bank panics” and booms and busts throughout the Nineteenth Century, and culminated in a huge banking panic in 1907. None other than J.P. Morgan ameliorated the 1907 banking panic by lending gold to banks that had mismatched their assets and their liabilities (i.e., they borrowed short-term and lent long-term) and which, in the short run, could not meet their obligations to depositors. To paraphrase a concern at the time, “What if he [Morgan] dies?” Thus, the panic of 1907 became the rationale for the creation of the Federal Reserve and its lender-of-last-resort bailout facility.

With a “lender-of-last-resort” facility in place, banks were able to engage in even more leverage and take even greater risks than when their own capital was on the line. This is known as “moral hazard,” the idea that the party taking the risks gets the rewards if things work out, but someone else pays if they do not. But, as George Soros has brilliantly pointed out, gold-as-

money and a lender-of-last-resort are incompatible.<sup>(5)</sup>

This is why governments abandoned honest monetary weights and measures—so that their banking systems can be bailed out when their over-leveraging and risky bets go against the banks. It is the increased leverage and risky “investments”—again, made possible by misrepresentation and nondisclosure—that make financial markets, as opposed to every other kind of market, “inherently unstable,” as Soros put it.

This artificial instability has caused governments all over the world to pass special laws that act to transfer wealth from ordinary people to their banking systems. For example, there are laws in the U.S. that subsidize/guarantee the banking system’s entire balance sheet. The lender-of-last-resort bailout facility at the Federal Reserve guarantees the banks’ assets, and the Federal Deposit Insurance Corporation guarantees their liabilities. No other segment of society enjoys these special privileges or guarantees.

Special legislation has for 85 years empowered the top management from some of the largest banks that are putatively regulated by the Federal Reserve to meet in secret with the Board of Governors of the Federal Reserve to air their concerns and give advice to the Board. No other regulated industry gets to meet—in secret and without any oversight—with those charged with regulating them. Banks alone have been empowered to value a significant portion of their “investments” at what they originally paid for them rather than at market value. This, again, leads to nondisclosure, the underassessment of risk and monetary instability.

In the private sector, when one sells securities—and in some states, such as California, when one sells real property—one must do what is known as “full and

If our money is good, and would be preferred by the people, then why are Legal Tender Laws, a.k.a. “forced tender,” necessary?

If our money is not good, then why in a democracy should people be forced to use it?

Banks have been buying off intellectuals for more than 90 years.

honest disclosure of all material facts.” In the case of securities, it is a criminal offense to violate this rule. If there were full disclosure about our fiat “dollars,” what elements would need to be included? At a minimum, the disclosure statement on each bill would have to state:

- “Dollars” are not redeemable into anything;
- “Dollars” have value because people believe that other people, both at home and abroad, will continue to accept them for their goods and services;
- In the U.S., people are forced by law to accept “dollars” for all debts public and private;
- “Dollars” are created out of nothing by the U.S. banking system—mostly by commercial banks;
- If, in the judgment of the Federal Reserve, there needs to be additional “liquidity” in the system, then the Federal Reserve may create additional “dollars” in unlimited quantities. Generation of additional “dollars” will dilute the purchasing power of “dollars” that have been saved or promised for future payment, such as pensions;
- Creation of new “dollars” out of thin air has depreciated “dollar” purchasing power by more than 90% since 1950;
- “Dollars” are in no way obligations of the U.S. Government (the signatures of the Secretary of the Treasury and the Treasurer are gratuitous);
- “Dollars” are tokens, i.e., a paper tickets;
- In 1950, there were about \$150 billion in the U.S. At the end of 1998, the banking system had created an additional \$6 trillion. Of that amount, about \$450 billion were created by the Federal

Reserve, and the balance, about \$5.5 trillion, was created by a small group of privately-owned companies called commercial banks; and,

- The U.S. Government has extended about \$7 trillion in guarantees, mostly to Government Sponsored Entities. Should those guarantees be called, then there is risk that a significant amount of additional “dollars” will have to be created, thereby diluting the purchasing power of “dollars” that have been saved or promised for future payment, such as pensions.

Without the misrepresentation just described and with full disclosure about the nature of our money, it may very well be that some U.S. citizens might continue to use and save fiat “dollars,” although it is doubtful to me. But surely foreigners, who cannot be compelled by U.S. legal tender laws to accept our fiat “dollar,” would not save it, nor securities denominated in it, as they have been doing—to the tune of approximately \$2 trillion. This non-disclosure of material facts contributes to the fiat money fraud.

### The role of coercion

All over the world, fiat money has been legislated legal tender. In the last century, legal tender laws were called “forced tender” laws. Our *Constitution* does not empower the government to issue legal-tender fiat currency. Somehow, the Congress has delegated to the banking system a power that the Congress itself does not have. So far, the courts have declined to entertain a challenge to this clear usurping of our *Constitution*. For ordinary people, the obvious question is:

If our fiat “dollar” is good money, and people really prefer it, then why are Legal Tender Laws necessary?

The result, according to the well-known Gresham's Law,<sup>(6)</sup> is that gold-as-money has stopped circulating and has been forced into hiding, thereby enabling fiat money to circulate—to the jeopardy of those who save it or who depend on it for future payment. Most do not realize that Gresham's Law operates only when the bad money has been designated legal tender. In the absence of this coercion, especially for long-term transactions, people would be more inclined to contract in terms of gold, as they did a century ago. The public policy issue is:

1. Why should people be forced to accept what would otherwise be perceived as bogus money for their goods and services?
2. As a corollary: Why should they be forced to have their savings and pensions denominated in money that would, in the absence of coercion, be perceived as bogus?

### **The role of intellectuals and academics**

Intellectuals legitimize ideas. Another factor in the success of the fiat “dollar” and the demise of honest monetary weights and measures is that the Federal Reserve has compromised the academic community. For example, in 1994, Mr. Stephen Davies wrote an article citing evidence collected by then Chairman of the House Banking Committee Henry Gonzalez showing that the Fed has spent millions hiring economic 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... broadly worded to *prohibit the release of any information relating to past, present or future activities that can be considered damaging to the Board.”*<sup>(7)</sup> [Emphasis added]

Banks have been buying off intellectuals for more than 90 years. As Professor Murray Rothbard wrote about some of the steps leading to the formation of central banking in the U.S. at the beginning of this century:

“The big bankers realized that one of the first steps in the march to a central bank was to win support of the nation's economists, academics, and financial experts. Fortunately for the reformers, two useful organizations for the mobilization of academics were near at hand: the American Academy of Political and Social Science of Philadelphia, and the Academy of Political Science of Columbia University, both of which comprised leading corporate liberal businessmen, financiers, and corporate attorneys, as well as academics.”

“. . . During the same spring of 1910, the National Monetary Commission's numerous research volumes on various aspects of banking poured forth onto the market. The object was to swamp public opinion with a parade of impressive analytic and historical scholarship, all allegedly “scientific” and “value-free,” but all designed to further the agenda of a central bank.”

“. . . The then [circa 1910] impressive sum of \$50,000 was raised throughout the nation's banking and corporate community to finance the work of the Indianapolis Monetary Commission. New York City's large quota was raised by Morgan bankers Peabody and Orr, and a large contribution came from none other than J.P. Morgan himself.”<sup>(8)</sup>

Laissez-faire  
was  
permanently  
discredited.

Mass suffering and hardship do not generally result in freer societies.

This campaign has been ongoing. The result is that more than three generations of Americans have been “dumbed down” on the money issue.

### **The danger of our fraudulent fiat monetary system**

The essence of any fiat monetary system is that it enables fraudulent wealth-transfer from those who produce wealth—mostly working people—to those who churn out and have easy access to fiat money—mostly bankers, who get “interest” and fees for generating it, Wall Street firms who garner transaction fees for moving it around, and large credit-worthy borrowers. In all cases, the wealth transfer becomes so great that the purchasing power of the fiat money is driven to its cost of production, which is near zero.

Fiat money is not wealth; it is merely a potential *claim on* wealth. As people realize that the real wealth on which the fiat money has a potential claim does not exist, the fiat money is said to “melt.” When fiat money melts, interest rates increase, the purchasing power of savings, pensions, and all forms of future payments denominated in the fiat money are greatly reduced, and people lose their jobs—all through no fault of their own. The suffering of ordinary people becomes palpable.

As a result, government, upon which people rely to “regulate” the generation of the fiat money, is discredited, and most times people change their form of government. That is, politicians are generally relied upon to look over the shoulders of the bankers and the central bank so that they don’t generate fiat money “in excess.” Not only is our current form of government at risk, but the economic/social system is at risk as well. For example, as a consequence of the Great Depression, which resulted from the same kinds of misrepresentations

and nondisclosure as are present today, *laissez-faire* was permanently discredited.

“Classical economics taught that free markets would always seek and find a natural equilibrium, a self-correcting capacity that revived production and employment, once prices and wages fell low enough. In the Great Depression, the American economy did not revive. Neither did the rest of the world’s economy revive. Year after year, as the social misery deepened and massive unemployment stretched on for more than a decade, the popular faith in free markets was shattered. . . The New Deal advanced a new creed: an activist national government must intervene to overcome the shortcomings and weaknesses of private enterprise. This new idea—government’s obligation to manage the economy—was legitimized by the national trauma of Depression, embraced both in public opinion and in scholarly theory.”<sup>(9)</sup>

Mass suffering and hardship do not generally result in freer societies. Society becomes vulnerable to social unrest and tyranny. All over the world, fiat currencies are evaporating—in South Korea, Russia, Brazil, Mexico Indonesia, Malaysia, the Philippines, and elsewhere. Loss of jobs, loss of savings, and rioting are symptomatic of the consequences. In every case, however, the role of fiat money has been camouflaged and scapegoats have been blamed, e.g., “crony capitalism” in East Asia, currency speculators in Indonesia, and “the Jews” in Malaysia.<sup>(10)</sup>

Before a discontinuity occurs, however, other symptoms of fiat-money fraud appear. In most cases, governments grow large, real wages decrease, debt levels grow, the standard of living of working people stagnates or degrades, and the financial sector and large corporations prosper inordinately. People get the feeling that the rich are getting richer and that the middle class is working harder than ever. As people begin to realize that the fiat money is

melting, interest rates—as noted above—begin to increase. This has the effect of shortening the investment-time-horizon and causing a shift from manufacturing—which by its nature generally requires a longer investment-time-horizon—to services that do not require as much long-term investment. As a result, higher-paying manufacturing jobs are lost to lower-paying service jobs.

Also, fiat currencies do not always lose purchasing power slowly. When it becomes apparent that fiat money is in trouble, the decline in purchasing power can be very swift. This causes interest rates to rise quickly. Commercial relationships that were predicated upon lower interest rates collapse. Promises of future payment, such as pensions, are broken, and the economy implodes. This is what recently occurred in Indonesia and in Russia.

In the U.S., the massive creation of nearly \$6 trillion in new “dollars” has already depreciated the purchasing power of our fiat “dollar” by more than ninety percent since 1950. Why does anyone think that the last ten percent is sacrosanct? Do those who understand the perils and the inherent fraud of fiat money have a moral obligation to do something about it?

### **Collusion with politicians and corruption of the political process**

A key factor in the ascendancy of our fiat “dollar” and the demise of honest monetary weights and measures has been the collusion between banks and politicians—called “campaign financing.” It is no coincidence that banks engage in extensive lobbying.

“Since last year, when the latest reform bill started moving through the House, the coffers of Democratic and Republican lawmakers and their national committees have been enriched by \$7.4 million from

securities firms, \$6.8 million from insurers and \$5.5 million from banks.”<sup>(1)</sup>

This example of nearly \$20 million in “donations” associated with just one particular piece of legislation is small change compared to what is “contributed” to political campaigns overall. In the last general election, at the national level only, politicians collected \$2.4 billion. This figure comes from the Center for Responsive Politics (website [www.crp.org](http://www.crp.org)), which tabulated it from data submitted to the Federal Election Commission. As Senator Russell Long is reported to have observed, “when it comes to large campaign contributions, the difference between them and bribes is as thin as a hair.”

The bulk of campaign finance money comes from large contributors, which mostly comprise the financial sector, large companies, and persons for whom banks create most of the new “dollars.” It is instructive to note that in 1998 alone banks in the U.S. created roughly \$600 billion in new “dollars.” Most of these “dollars” are generated as a result of credit creation on behalf of large credit-worthy borrowers, such as multinational corporations. Since the banking system (which creates “dollars” without work), Wall Street firms (which garner transaction fees for moving these new “dollars” around), and large corporations have easy access to “dollars” created out of nothing while ordinary people have to work for their “dollars,” those first in line have a decided advantage when it comes to buying off politicians.

As for the politicians, they are in a tight spot. As a practical matter, they must have the campaign contributions to purchase television time to air their reelection commercials. If they don’t do that, they will not be reelected. In this way, the fiat “dollar” has contributed to the corruption of our entire political process to the point

Honest  
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Fiat money has succeeded because of coercion, misrepresentation, and nondisclosure.

where today it is doubtful that we have representative government.

**Honest monetary weights and measures (gold-as-money) has always been the choice of ordinary people:**

Honest monetary weights and measures—gold-as-money—has competition: fiat money. The creators of fiat money, banks and central banks, despite their vastly inferior product, have succeeded because of coercion, misrepresentation, and nondisclosure—and also in part because proponents of honest monetary weights and measures have left the playing field. For example, Labor, which for most of the Nineteenth Century was a strong proponent of hard money (silver- or gold-as-money), was so decimated in the 1930's by the Great Depression that it failed to grasp the import of the shift away from honest monetary weights and measures.

It is significant that, historically, gold did not become money because some potentate or government designated it so. Gold (and silver) have been the choice of the people in open markets from antiquity.<sup>(12)</sup> Furthermore, every time Americans have had the opportunity, they have always chosen gold- and/or silver-as-money:<sup>(13)</sup>

- At the time of the American Revolution, Americans were repulsed by their experience with the fiat money of the day: continentals. There was even a derogatory saying “not worth a continental.” As a result, the *Constitution* provided for gold-and/or silver-as-money;<sup>(14)</sup>
- When Andrew Jackson ran for President in 1832, he opposed paper money and the Bank of the United States. His rallying cry was “Gold is the friend of the farmer” [and the worker]—and Jackson won!;
- When President Grant signed the Resumption Legislation in 1874, doing

away with the Civil War Greenbacks and resuming gold-as-money, he said he did it because it was “the right thing to do”;<sup>(15)</sup>

- When William McKinley (pro-gold) ran against William Jennings Bryan (pro-silver) in 1896, gold won again!

And, when President Roosevelt seized the nation's (and the citizens') gold in 1933, he reassured the country that our money would not be fiat money.

“Remember that the essential accomplishment of the new legislation is that it makes it possible for banks more readily to convert their assets into cash than was the case before. More liberal provision has been made for banks to borrow on these assets at the Reserve Banks and more liberal provision has also been made for issuing currency on the security of those good assets. *This currency is not fiat currency.* It is issued only on adequate security—and every good bank has an abundance of such security.” [Emphasis added.]<sup>(16)</sup>

I think it is fair to conclude that the monetary system we have now was not the choice of the people. With today's monetary coercion, misrepresentation and non-disclosure sufficiently exposed, Americans will again choose honest monetary weights and measures as the only genuine protector of their savings and a more efficient medium of exchange.

(1) For a more comprehensive explanation of the misrepresentation of the legal validity of our money, see: Ewart, James E.—*Money*, Principia Publishing, Inc., 1999, Seattle, WA page 27ff.

(2) That legislation, U.S. Code Title 12 Sections 411-421, and the relevant portions that remain law, provide that the Federal Reserve Notes be exchangeable for “lawful money.” This means that the Federal Reserve Notes cannot themselves be lawful money. (For full text of the legislation, see: <http://www.law.cornell.edu/uscode/12/ch3.html>)

(3) The process by which banks created money when they extended loans is called “fractional reserve lending.” In effect, they issued bank notes that bore the legend “payable to the bearer on demand in gold,” when they did not, in fact, have enough gold to redeem all of the bank notes they issued.

(4) Statement of Patrick M. Parkinson, Associate Director, Division of Research and Statistics, Board of Governors of the Federal Reserve System before the Committee on Banking and Financial Services, U.S. House of Representatives, May 6, 1999.

(5) Soros, George; *Soros on Soros*, John Wiley & Sons, 1995, page 101.

(6) Sir Thomas Gresham is said to have originated the notion that when bad money is designated “legal tender,” i.e., when people are forced to accept it in exchange for their goods and services, “bad money drives out good.” At the end of the 19th Century, this maxim became known as Gresham’s Law.

(7) Davies, Stephen A.; “Some Lawmakers Claim Fed Keeps Critics at Bay With Jobs”, *The American Banker/Bond Buyer*, December 2, 1994 page 3.

(8) Rothbard, Murray N.; *The Case Against the Fed*; Ludwig Von Mises Institute, 1994, p97ff.

(9) Greider, William, *Secrets of the Temple*, Simon & Schuster, 1987, page 89.

(10) “Leader besmirches Jews: Malaysian prime minister ruffles feathers” —*Washington Jewish Week*, 10/16/97

(11) Schroeder, Michael, “Law That Separates Banks, Brokers Always Seems to Find Patron in Time,” *The Wall Street Journal*, April 10, 1998.

(12) For a compelling analysis of why people choose gold-as-money see: Fekete, Antal E.; “Whither Gold”; available on FAME’s Internet Website [www.fame.org](http://www.fame.org). “Whither Gold” was the winner of the International Currency Prize in 1996, sponsored by Bank Lips Ltd., Zurich, Switzerland.

(13) The “money issue” dominated 19th Century politics in the U.S. It was continually discussed in newspapers and elsewhere. Major political battles were fought over it from the time of the Revolution until World War I.

(14) For an exhaustive review of the constitutional issues relating to gold see: Vieira, Edwin Jr.: *Pieces of Eight: The Monetary Powers And Disabilities Of The U.S. Constitution*; Sound Dollar Committee — 1983 and also “The Forgotten Role of the Constitution in Monetary Law” —*The Texas Review of Law & Politics*, Vol. 2, No.1, Fall 1997, pages 77-128. Full text may be found on FAME’s Internet website [www.fame.org](http://www.fame.org).

(15) See: Unger, Irwin; *The Greenback Era*, Princeton University Press, 1961.

(16) March 12, 1933. Address of President Roosevelt by radio, delivered from the President’s Study in the White House at 10 P.M.

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## 2.

### The Oncoming Monetary Collapse—The Fight for Honest Money

Address by Lawrence M. Parks, Executive Director, Foundation for the Advancement of Monetary Education (FAME) Delivered to Doctors for Disaster Preparedness Scottsdale, Arizona, July 12, 1998.

Suppose I were a United States Congressman. And suppose I were not a particularly principled United States Congressman. (Although for most of this audience, that may be redundant.) And suppose my congressional buddies and I decided to spend \$900 billion on the “general welfare.” Or, for those of you who are more cynical about these things, suppose we decided to shower \$900 billion on particular constituent groups in order to buy their votes and thus assure our continued reelection.

Since Congressmen are astute politicians—if they were not astute politicians they wouldn’t be in the Congress to begin with—they know that if they were

Why, in a democracy, should a small group of private companies have the power to create money out of nothing?

Today, banks get yearly “interest” on \$900 billion worth of U.S. Government Securities “purchased” with money they created out of nothing.

to raise taxes to pay for this largesse, there would be resentment and their purpose would be defeated. But, with our fiat “funny-money” monetary system—fiat money being money that is created out of nothing—politicians don’t have to do that.

They merely pass the enabling legislation, and send it over to their employees at the Treasury Department. They, in turn, type up a Government bond; think of it as an IOU. Then, in this instance, their agents take the \$900 billion bond to a small group of private companies called commercial banks and ask them to buy it. As I speak, according to the Federal Reserve’s *Flow of Funds Reports*, banks in the U.S. have in fact bought \$900 billion worth of U.S. Governments for their own accounts and have them on their balance sheets. It is at this moment that this presentation begins to get interesting. Because, where do you suppose the banks got the \$900 billion to pay for these bonds?

Before continuing, let me dispose of two places where they most certainly did not get the money. Most people in this country and around the world are under the mistaken impression that banks merely re-circulate deposits. That is, that they lend money that has been saved by others. But, when the banks bought these \$900 billion in U.S. Government securities, was anybody’s bank balance reduced? Did you ever have the experience that one day your bank balance was inexplicably reduced and when you inquired the bank told you that they had lent your money to someone else? Of course not.

One of my colleagues, who is a director of a small bank, once suggested to me that banks got the money from bank capital. But, the banks in this country never had even a third of this amount in bank capital. So, if they didn’t get the money from

depositors or from capital, where did they get it?

The answer is that they simply created it out of nothing! If the notion of a small group of private companies creating \$900 billion out of nothing is confusing to you, it is only because the concept is so blatantly outrageous. Why, in a democracy, should a small group of private companies have this power? By the way, they don’t call it creating money. No one would stand for that if they understood what is happening. They use jargon to confuse you. They call it “fractional reserve lending.”

And physically how do they work this magic? It is simple. Little fingers go to a computer keyboard and type “900” followed by nine zeroes, and miraculously, beyond the dreams of any sixteenth-century alchemist who might have spent a lifetime trying to turn a lump of lead into gold, these bankers created \$900 billion. Amazing!

For those of you who are into accounting, the T-accounts look like this: on the left side, the assets, are the \$900 billion in Government bonds that the folks at the Treasury Department typed up, and, on the right side, the liabilities, is the \$900 billion that the banks created out of nothing. So, the books are in balance.

But, one might ask, don’t the books get out of balance once the money is taken out of the banks? This is part of the genius of the system. The money never leaves the banking system. Consider what you do with any check that you get from the government, whether it is a Social Security check or payment for whatever. Every check must eventually be deposited in a bank.

For our erstwhile politicians, this is a wonderful arrangement. In effect, they can act unilaterally without bothering the people to pay for whatever they want to do. This has led to some monstrous excesses. For

example, the Vietnam War could never have happened if President Johnson would have had to raise taxes to pay for it.

It was acceptable to most people because mostly the kids of poorer families had to go fight, and “no one had to pay for it.” That is, taxes were not increased. If Johnson had proposed legislation to raise taxes the more than thirty percent needed to finance the war, there would have been much more oversight as to what was happening with the money. This is true for almost all government expenditures.

If politicians don’t need to raise taxes to pay for their programs, people are much less concerned than they might otherwise be. In the case of President Reagan, he was able to actually lower taxes while increasing government spending.

But, as good a deal as this is for politicians, it is a fantastic deal for the banks, because they get almost \$50 billion in “interest” year in and year out on the \$900 billion U.S. Government bonds that they “bought.” Since there was virtually no work in creating the \$900 billion (how much extra work is needed to create \$900 billion as opposed to just \$9 billion? One has only to press the zero key twice!), they are, in effect, getting the \$50 billion each year as a gift. And since money on deposit in commercial banks pays virtually no interest—last I looked my checking account paid .8% interest—the interest that they get from the government on their bonds is virtually all theirs to keep.

Now, there are some people in this country, perhaps even in this room, who decry the so-called “Welfare State.” They object to the notion of transferring wealth from people who earn it to people who don’t earn it. Typically, one hears them complaining about things like the School

Lunch Program whereby the government subsidizes lunches for children who might otherwise not get enough to eat. Sometimes the object of their ire is the Food Stamp Program whereby adults are subsidized who might otherwise also not get enough to eat. Very definitely, they complain about Aid for Dependent Families whereby women who have kids without another breadwinner are subsidized by the government. And always they complain about payments to people who arguably could and should work.

But, what about this not inconsiderable amount of wealth transfer to banks? Where are the libertarian, conservative and Republican voices being raised against this bit of injustice? I have listened very carefully, and I have never heard them. And since people in banking are generally more well-to-do than the rest of us, isn’t this a case of transferring wealth from poorer people to richer people? I call it “stealing from the poor to give to the rich.” It’s Robin Hood in reverse.

And what about the constitutionality of this kind of wealth transfer? Where are organizations like the Federalists, who believe that judges should interpret the *Constitution* the way it was written and not the way they wish it was written when it comes to this bit of injustice? Here is an instance where the Congress has delegated to the banking system a power that the Congress itself does not have. Virtually all of those who believe in the Rule of Law have been silent. How come?

Let me interject that FAME Foundation Scholar Edwin Vieira, a Harvard-trained attorney who has devoted most of his life to these issues, has written a wonderful monograph on this matter called “The Forgotten Role of the *Constitution* in Monetary Law.” It appeared in the Fall

It is “stealing from the poor to give to the rich.”

## Banks create money with a simple book-keeping entry.

1997 issue of the *Texas Review of Law & Politics*. It is also available in full text on FAME's website, [www.fame.org](http://www.fame.org).

Let's continue. Suppose now our political friends decide to raise another \$450 billion. As before, they pass the enabling legislation, send it over to their employees at the Treasury Department who type up a bond. But, this time, instead of having commercial banks monetize—turn into money—this debt, they take it to their quasi-employee, Alan Greenspan, at the Federal Reserve, and they ask the Federal Reserve to buy it. Being the fiscal agent of the Treasury, the Federal Reserve is happy to oblige.

And where does the Federal Reserve get the \$450 billion? The same place the banks got it. Little fingers go to a keyboard, type "450" followed by nine zeroes, and the \$450 billion miraculously appears in the government's checking account. Obviously, I am using a bit of hyperbole here. Both the \$900 billion and the \$450 billion were not created by eighteen keypresses. They are the result of many such transactions over a period of years. If all of this happened at one time people would catch on and would object.

But, in the case of the Federal Reserve monetizing U.S. Government debt, there is an important distinction as opposed to when banks create money. The Federal Reserve does not keep the interest for its own account. After subtracting its "expenses," a portion of which is used to buy off critics, especially economists, the Federal Reserve returns the interest back to the Treasury.

So, in effect, it is as if the U.S. Government created the \$450 billion itself. Further, when the \$450 billion is spent and becomes deposited in commercial banks, it becomes the "reserves" about which you have heard so much. The truth of the matter is that this

is so much gobbledygook. The reserves themselves are created out of nothing and act as a constraint only on small-bank money creation. As a practical matter, big money-center banks are not limited by reserves.

Now, this story gets even better, or worse, depending upon your point of view. Not only do banks create money when they lend to the government; they create money when they lend to anyone! For example, if you get a \$100,000 mortgage from Citibank, where do you suppose Citibank gets the \$100,000, which they credit to your account? Again, after they lend you the money, there is not a single depositor in the bank who has any less money in his account than before they lent you the money. As with the \$900 billion, the bank creates the money with a simple book-keeping entry.

And how much money have the banks in this country created? According to the Federal Reserve's *Flow of Funds Reports*, since 1950 they have created something in excess of \$5 *trillion*. Just in the last six years, they have created \$2 *trillion*, and in the last two years, they have created \$1 trillion. To put this another way, if they can find someone to borrow, they can create more money on which they get interest and fees. Thus, they are fully motivated to create all the money they can, which is why they sent out three billion credit card solicitations last year.

But what about credit risk? If they lend wantonly, won't they be penalized? In fact, this is a growing problem for them. In the last thirty years, as the capital markets have become more efficient, the more credit-worthy borrowers of the world, such as IBM or the Ford Motor Company, bypass banks when they need money. They go directly to the commercial paper market

where they get better terms and pay less interest.

As a result, to continue to generate fees and interest, banks have had to lend to less credit-worthy borrowers, such as “emerging countries,” and for more illiquid investments, such as real estate. This means that the quality and liquidity of bank assets has been decreasing as the amount of money they are creating has been increasing. This is an unstable situation and everyone in the banking industry knows it.

In order to protect themselves, bankers have negotiated with, or to use a less friendly term, colluded with, politicians over a long period to legislate two safety nets for the banks; and, today, for many Wall Street firms too. Federal Reserve Chairman Greenspan has identified these safety nets as true subsidies. Since by definition every subsidy is in fact wealth transfer, this is another instance whereby wealth is being transferred from ordinary working people to the financial sector. In effect, these safety nets protect and subsidize the banks’ balance sheets. They come in two flavors.

First, and most important, bank assets are protected by what is commonly known as the “lender-of-last-resort” facility at the Federal Reserve. In the event that bank assets systemically, not individually, start to deteriorate, i.e., become “illiquid,” or not marketable, then the Federal Reserve—read: the ordinary taxpayer—stands ready to convert those possibly worthless assets into cash. And where does the Federal Reserve get the cash to purchase these assets? You guessed it. Little fingers go to a keyboard and they create it out of nothing. Folks should know that every time money is created out of nothing, it dilutes the purchasing power of money that has been

saved or promised for future payments, such as pensions.

Because bank assets are guaranteed by ordinary taxpayers, this, in Chairman Greenspan’s words, encourages banks to take more risks than they otherwise would if their own capital were at risk. He calls this lender-of-last-resort subsidy a “moral hazard.” What this means is that the party taking the risks gets the rewards if the risks work out, but if they fail, someone else, the ordinary taxpayer, pays the price.

It’s as if you played in a poker game that was conducted in this way: if you win, you keep your winnings. If you lose, ordinary taxpayers will make up your losses. Who wouldn’t play at a game like that? But is this fair to ordinary taxpayers? No one else in society has this kind of guarantee. Did our elected representatives ever explicitly vote for this? Did you?

What is to stop the financial sector from milking the system? And milk it they have. The “regulators,” with whom they have colluded for nearly a century, have put rules on the books to cause banks to operate with a certain amount of capital [because, with this kind of guarantee, why would a bank need any capital at all?]. Meanwhile, banks have engaged in all kinds of off-balance-sheet shenanigans to take advantage of the subsidy.

For example, today, depending upon whom one listens to, there are between \$60 and \$70 *trillion* in notional derivatives underwritten by banks. In effect, these are bets that banks make on things like interest rates and the like. Again, if they win these bets, they keep the winnings. If they lose, you pay! Is this fair?

Still another example is a type of gambling that banks engage in which they euphemistically call “trading,” as in “currency trading.” Last year, according to

Wealth is being transferred from ordinary working people to the financial sector.

The Federal Reserve stands ready to transfer wealth to the banks “without limit.”

Citibank’s Annual Report, Citibank garnered nearly \$2 billion from this activity. The truth is that this is nothing but gambling, subsidized by ordinary taxpayers. And how much is the subsidy?

According to Chairman Greenspan, in the event of a meltdown of bank assets, as is now happening in many foreign countries including Russia, Japan, South Korea, the Philippines, Mexico and elsewhere, the Federal Reserve stands ready to transfer wealth to the banks “without limit.” Without limit! In other words, the banking system has a call on all of the accumulated wealth of this country including that which has been put aside for workers’ pensions. Again, did anybody vote for this? Is any of this fair? Not where I come from.

Today, you hear a lot about the sanctity of free markets. When whole industries are transferred to foreign shores and working people lose their jobs and request some kind of protection, such as tariffs, our political leadership and the business community, along with their colleagues on Wall Street, rev up the mantra “free markets are essential.” But do any of these subsidies and guarantees, along with the power to create legal tender money out of nothing sound like free market innovations to you? I don’t think so. Again, where are the libertarian, conservative, Republican, or even Democratic voices being raised against this injustice? All are silent.

The second safety-net subsidy I want to mention is that which guarantees the liability side of bank balance sheets. It’s called Federal Deposit Insurance. The notion is that if banks cannot make good on peoples’ deposits, ordinary taxpayers will do it for them. This allows banks to borrow money more cheaply than otherwise, because the credit of the U.S. government

stands behind repayment. In effect, ordinary taxpayers are subsidizing them again.

This wasn’t always the case. In the last century it is true that there were many bank panics whereby banks went bust. However, an insignificant amount of depositors’ money was lost due to bank failures. This was not that much of a calamity for ordinary people. It was, however, a calamity for the banks involved because in those days, with some limitations, bank officers and directors were personally liable to depositors in the event that their bank could not make good.

As a result, they were much more conservative in their money creation, which was not legal tender. In those days, bank capital as a percentage of bank assets, i.e., the amount of money that a bank creates, was on the order of 40%. Today, it is a tiny fraction of that. As with the lender-of-last-resort bailout facility, Federal Deposit Insurance transfers wealth from ordinary taxpayers to the financial sector, from poorer people to richer people. It is simply not fair.

When I first got started with this, some people granted to me that perhaps I was right and that none of this is fair. But, they said, life is not fair. In a \$7 trillion economy, so what if the financial sector skims a few hundred billion a year or whatever? Meanwhile, we are incredibly prosperous. Interest rates are lower than they have been in a generation, unemployment is down, the “economy” is booming, and so is the stock market. So, what is the problem?

The problem is that since the Eighth Century in China, hundreds of fiat-money monetary systems have been attempted. And 100% of time, they have failed. Why should a monetary system, its moral defects notwithstanding, that hasn’t worked for 1,200 years work now? Why shouldn’t our

fiat money melt just like every other funny money?

The reason why fiat money monetary systems always fail is this: whenever bankers and/or politicians are left in charge of the integrity of legal tender fiat money, the temptation to manipulate that money for their own benefit has been so overwhelming that none of them have been able to resist the temptation. In every case, they have driven the purchasing power of the fiat money down to its cost of production, which is near zero. Why would any thinking person think that our politicians and/or central bankers have any more brains or integrity than those of the past? Indeed, they have already succumbed to the temptation. Since 1950, our dollar has lost more than 90% of its purchasing power. Why does anyone believe that the last 10% is sacrosanct and will not disappear as well?

Many believe that our system is different. They believe that prudent legislation and oversight from the Federal Reserve will protect us. They believe in the ability of Chairman Greenspan to guide us through the shoals. But, if there is any lesson that has been learned from the demise of the so-called “Evil Empire,” it’s that central planning doesn’t work.

I am going to ask for a show of hands. How many of you agree with the proposition that central planning doesn’t work? [Virtually everyone raises hand.] Well, if you all agree that central planning doesn’t work, then why would anyone expect that our central bank, which is in fact a central planner, will have any more success than any other central planner? This is a contradiction that most people have yet to deal with.

All over the world fiat money is melting: in Russia, in South Korea, in Malaysia, in Thailand, in the Philippines, in

Indonesia, in Mexico, in Canada, and elsewhere. As the fiat money melts, working people, whose savings are denominated in their fiat money, lose those savings.

Interest rates increase because lenders cannot have confidence that when lent money is returned it will have equivalent purchasing power. Commercial relationships predicated on lower interest rates unravel and businesses go out of business. People lose their jobs. Mass suffering results, and frequently there is a regime change. Mass suffering, loss of savings and loss of jobs don’t generally lead to freer societies. They many times result in a tyranny.

### **The Solution**

So what is the solution to all of this? The answer is commodity money, and the commodity money of choice for all time, whenever it was available, is gold-as-money. It is important to realize that all transactions are in essence barter. We are always trading work for work, wealth for wealth, value for value. Money comes about because direct barter is too inefficient; the transaction costs are too high.

So the market looks for an intermediate good, a commodity, with which to trade. Over time, the medium of exchange commodity has been many things: it has been cattle, salt, whisky, tobacco, beads, and, of course, the precious metals, gold and silver.

But there is a problem with commodity money. For most transactions, especially small transactions, it is inconvenient to carry the commodity. For example, how would you buy a newspaper or a cup of coffee and pay for it with tobacco or gold? The market has solved this problem.

Why  
shouldn't our  
fiat money  
melt just like  
every other  
funny money?

We have fiat money because gold-as-money is incompatible with the ability of banks to create money out of nothing.

Commodity money generally evolves into what is known as fiduciary money. People deposit their commodity in a warehouse, which becomes the fiduciary, and the warehouse issues receipts for the commodity that are redeemable on demand. Then people trade the receipts because they have confidence that they may redeem the receipts whenever they wish.

The commodity that people settle on evolves. Whenever and wherever one drops in on the planet, whether it be on the Aztecs in the Eighth Century, the Chinese in the Twelfth Century, the Babylonians in Biblical times, or the English in the Eighteenth Century, one finds gold-as-money. How did that happen?

It's not as if someone came down from outer space and decreed over the millennia and over the continents that people use gold. Gold is not money because some potentate or government chose it so. Gold is used as money because free people chose it in free markets all over the world and for thousands of years. Simply stated, they chose it because it is the most efficient medium of exchange for transmitting value over space and for transmitting value over time.

The historical record clearly shows that with commodity money there is greater stability, more limited government, a freer society, lower interest rates, more jobs, a longer planning horizon, more manufacturing, a higher standard of living for all, especially working people, and a more peaceful society.

So, if honest money, commodity money such as gold-as-money, is so much better, why are we stuck with the inferior stuff? Why don't we have gold-as-money?

Only a few, if that many, economists have identified the real cause. Murray Rothbard and George Reisman come to

mind. But it took a non-economist, and one of the most brilliant financial men on the planet, George Soros, to put it clearly into a single sentence.

Before I tell you what George Soros identified on page 101 of his excellent book *Soros on Soros* as the real reason why we don't have gold-as-money, I have an even more eloquent formulation, also in one sentence: The reason why we have fiat money and not gold-as-money is that gold-as-money is incompatible with the ability of banks to create money out of nothing.

What Soros said is: "That [a lender-of-last-resort] is what was missing in the gold standard in the nineteenth century (sic), that is what led to the development of central banking and the eventual abandonment of the gold standard."

Creating legal tender money out of nothing is extremely profitable for banks. However, without the subsidy provided by the lender-of-last-resort bailout facility, it can lead to eventual ruin. Gold stands in the way of the ability of a bailout. So, bankers colluded with politicians to get rid of gold. In FAME's Fight for Honest Money brochure, which is available at no charge if you send me an e-mail at LParks@fame.org, we give more of the historical background to this.

Others have touched on this subject. Lord Maynard Keynes, for example, who as some of you know was responsible for setting up the central bank in India, understood full well that gold stood in the way. He was a marvelous wordsmith, and it was he who came up with the phrase that "the gold standard is a barbarous relic."

In recent times, authors such as Robert Pringle, a past editor of the magazine *The Banker*, who, along with Marjorie Deanne, an editor of *The Economist*, wrote on page 183 in their book *Central Banks* that central

banks understand that paper money is in competition with gold and that they want paper money to win. What better way to win the competition than to get politicians to outlaw gold, which is what Franklin Roosevelt did in 1933.

For forty years it was a felony for U.S. citizens to own monetary gold. What “public policy” could possibly have been served by this atrocity? Even in his fireside chat, after he seized citizens’ gold, Roosevelt assured the people that our money “would not be fiat.” It’s clear to me, at least, that we have been swindled.

### **Achieving Honest Money**

Assuming one buys into this argument and recognizes that we have a problem, how can we achieve honest money? Thomas Jefferson provided the answer: shine a light on the truth. Jefferson was willing to forgo everything in the *Constitution* except freedom of the press. He understood that people will always do the right thing when they understand what is going on.

To effect social change in America, one must recognize that the media sets the agenda. We have no leadership in the putative sense. It’s not as if you run a company and you tell your employees what to do and they do it. Our so-called leaders are in fact polltakers. They wake up in the morning and put their finger to the wind to see which way the wind is blowing. That is the way they blow, . . . that day.

Or, to put it another way, they look for a parade, and when they find one they get in front of it and say “whatever these folks are for, I’m for it.” So, the challenge is to start a parade.

One way to do that, especially on a limited budget, is with a grass roots effort. FAME is organizing people who under-

stand the injustice of fiat money and the benefits of gold-as-money to help bring the media up the learning curve.

I want to tell you something that almost no one knows. Journalists get hardly any mail. If you write an intelligent letter to a journalist, it will get read. Sometimes that journalist will respond and you can begin a dialogue. On the other hand, when people get upset about something they read in a newspaper or magazine, they most times write a letter-to-the-editor, if they do anything at all. As a result, editors get tons of mail, almost all of which is unread.

FAME has done something else, which I think is unique. We have taken this issue very strongly to Organized Labor because working people are the principal victims of fiat money. When fiat money melts, rich people become less rich. Professional people earn less. But workers lose everything. They lose their savings, their pensions, and their jobs. In places like Indonesia, for example, workers are starving. After a lifetime of work and saving, they are eating bark off trees and boiling grass soup!

To paraphrase AFL-CIO President John Sweeney, when speaking of other issues of concern to Labor, they have the votes and they will do something about it. To help get closer to Labor, I have joined two unions: The Workers’ Education Local 189, CWA AFL-CIO, and the National Writers’ Union, UAW Local 1981 AFL-CIO.

One of the reasons why I am optimistic about Labor is that Labor has a long heritage in support of honest money. For example, when the Labor Movement first got underway in the U.S., circa 1830, there were three issues driving men to join unions: the ten-hour workday; education for workers; and hard money. The Labor Movement strongly supported Andrew

What public policy justified making it a felony for Americans to own gold?

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

Jackson, a populist Democrat who opposed the Second Bank and whose slogan was “Gold is the friend of the farmer [and the worker].”

One of the very first union leaders, Ely Moore, who helped found, and was President of, the Typographer’s Union in 1832, was a staunch supporter of Jackson and hard money. He was also the first union man elected to the Congress, which was in 1834, and hard money, as opposed to paper money, was an important issue for him.

Labor was keen on hard money until after the Civil War when there was confusion all around. But, by the end of the century, Labor reaffirmed its support for honest money. William Jennings Bryan’s “Cross of Gold Speech” notwithstanding—and Bryan was for silver-as-money, not fiat money—Labor by and large was in favor of gold.

In the most important labor publication of the day, *The American Federationist*, which was the house organ of the American Federation of Labor, there were many articles supporting gold-as-money. (By the way, nothing gets into a labor publication unless it has the support of the leadership.)

At that time, Labor said: “Gold is the hallmark of all great civilizations.” Labor said: “We [the American Federation of Labor] believe in a financial policy that will neither depreciate our currency at home nor abroad.” Labor said: “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!” Labor said: “We believe in an honest dollar.” They even had little buttons that said “Honest Money.”

Mindful of the benefits of honest money: secure savings; lower interest rates; a higher standard of living; more and better paying jobs; a more peaceful society; a freer society; and because of the perils of fiat

money: complete loss of savings; loss of jobs; maybe even the loss of our basic freedoms; I urge you to help us achieve a fair and just monetary system. I invite you to join the Fight for Honest Money. Thank you for your kind attention, and may God bless you all, and may God bless our great country.

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### 3.

## **Burn Down the House and Boost the Economy**

As recently as 50 years ago, classical economists regarded the vitality of the economy as its ability to produce things that people wanted (and presumably would pay for). Today, the economy has been redefined into something called the Gross Domestic Product, or GDP. Some are beginning to question the efficacy of the GDP measurement, considering how important it has become for fiscal and social policy. What better way to highlight its failures than to suggest some outlandish ways that help increase the GDP.

**Things kids can do:** Have kids themselves. Sickly ones who require constant medical attention would be best. Medical expenditures have become almost 14% of GDP; we need to stay on the growth curve. And when those kids become teenagers, encourage them to become juvenile delinquents. If they get arrested for some really heinous crime and go to jail for a long time, the economy gets a jolt.

**Things you can do by yourself:** Get a divorce. Legal costs, two houses and all the things that go with two houses—furniture, kitchen supplies, etc.—are all important components of GDP. Divorces stimulate consumer demand.

Break something around the house, e.g., a window, a dish, the television. Replacing these things helps increase the GDP and creates jobs.

Smash up the car. It will have to be fixed or replaced. The automobile industry employs directly and indirectly one out of every seven workers in the US and they need the overtime. But, for really great results, burn down the house! Don't worry, insurance will pay for it, and the rebuilding will keep a lot of people busy for at least a while.

Quit your job as a scientist and become a taxicab driver. Research and development is not included in the GDP, but money spent on taxicabs is.

Overeat, don't exercise, don't brush your teeth, do drugs, smoke, drink, and make yourself terribly sick. See if you can get your family members to do the same. Higher medical expenditures especially help the GDP move up

Hire help to take care of the kids and force your wife to get a job. This gives the economy a double boost because: If your wife takes care of kids and does housework, it is not counted in the GDP because she's not paid, but help hired to do that work is counted in the GDP; and, If your wife goes to work outside the home, that counts toward the GDP too! Hire a lawyer and sue somebody. (Lawyer fees are directly added to GDP.)

**Things you can do with your neighbors:** Riot and burn the neighborhood. Rebuilding puts people to work and is very beneficial to the GDP.

Form a gang. Commit crimes with a view to getting caught. The more people in jail, especially folks who would not otherwise have jobs, the better off the economy. Today, building and managing jails has become one of the hot "growth"

industries, to say nothing of the security business.

**Things businesses can do:** Pollute the environment, e.g., a giant oil spill would be great! Superfund sites are very desirable for expanding the GDP. Leverage up and build excess real estate, eg., see-through buildings. They add to the GDP when they go up, but the waste is not subtracted when they are demolished or stand vacant. Similarly, companies can build excess plant capacity (as IBM did in the mid- to-late 1980s to the tune of \$30 billion). All of this counts toward GDP. Again, when companies are "downsized," nothing is subtracted from the GDP. It's similar in concept to the "roach motel?" GDP counts these things going up, but not going down.

**For best results, organize and get the government involved:** Lobby your elected to raise taxes and spend more money. Government spending on goods and services adds to the GDP and "creates" jobs.

Start a war. Preferably one far away where no Americans get killed. B-2 bombers, tanks, bullets ... all count in the GDP. Also, send Stinger missiles to liberation armies around the world, such as Afghanistan. Maybe some of those missiles will be used to knock down airliners. Replacing them helps the economy, and, if lawyers get involved, there's a GDP bonus.

Target savers! People who save actually hurt the economy because they don't spend. (Economists call this "The Paradox of Thrift," as if they never heard that contradictions don't exist.) If people spend their savings, then those purchases are added to the GDP. When they don't spend, the economy suffers.

What can be done to discourage saving? First, tax the return on savings: a higher capital gains tax would be very

Hire a lawyer  
and sue  
somebody

Why should inflation just be a measure of the prices of some arbitrary basket of consumer items in the goods and services market?

helpful. Second, and best, DEBASE THE CURRENCY! By printing up more and more money, we can dilute the value of savings (especially long-term savings, such as pension funds) surreptitiously stealing money for politicians to spend and thereby increase the GDP.

**Get God on your side:** Pray for a natural disaster: a hurricane, an earthquake, a BIG fire, a flood. Disasters give the GDP a tremendous lift because of all the rebuilding that must take place.

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#### 4.

### **Inflation: A Tidal Wave In Formation**

In his April 19, 1993 speech to the Economic Club of New York, FED Chairman Greenspan said the word “inflation” no less than 58 times (I counted them). In the Chairman’s speeches and in Congressional testimony, he has said of inflation: 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 reemergence. We’ve learned our lesson.

So if inflation has ceased to be a problem, why does it occupy Mr. Greenspan’s thoughts so much? Perhaps inflation is more of an issue than he is letting on. In a classic case of the fox monitoring the chicken coop, the Government has done a self-serving, arbitrary, and completely wrongheaded job in measuring inflation for the American people and, therefore, in defining it.

#### **People are not mindful of latent inflation**

Why should inflation just be a measure of the prices of some arbitrary basket of consumer items in the goods and services

market? Why exclude the price level of the capital and real estate markets? After all, money isn’t always spent on goods and services; some of it is invested in stocks and bonds and real estate. By any yardstick, stocks and bonds have gone way up in price in the last several years.

Further, the Government has enacted laws and regulations that effectively persuade prudent people to put or keep money in the capital markets, thereby decreasing money that might otherwise be spent in the goods market. For example, about \$800 billion in IRA accounts by law must be invested only in stocks and bonds. Large amounts are also tied up in Keoghs, Pension Plans, 401-K’s and other quasi-savings plans that must be similarly invested.

Perhaps if people had free use of these monies, some might be used to improve homes, buy cars, and other consumer items, which would certainly spike the price level of the goods market and the nominal inflation rate. Clearly, there is vast deferred inflation. Some day people will spend that money, and that’s when nominal inflation will pop.

Similarly, because of inflation over the last two decades, if people sell appreciated property, capital gains taxes will many times result in a loss of capital. The result is that money is kept in the capital markets for tax purposes, and is kept out of the goods and services market. Thus, people have been misled about the purchasing power of their savings which retain value provided they are never spent in the goods and services market. Again, there is vast pent up purchasing power postponed by government and, as a result, a tidal wave of latent inflation.

### **The measuring rod keeps changing**

The Consumer Price Index (CPI) fails to account for products and services that have been inflated out of existence. For example, when I was a child, our family physician made house calls for \$2. (What would a doctor's house call cost today, assuming a doctor would make one?) There were ushers in movie theaters, and even middle class folk employed domestic help. First Class postage was 3¢, and the post office made four deliveries each day: two regulars and two specials.

For the most part, these and many other services no longer exist or have deteriorated greatly. Hence, if the measuring rod is not consistent, then CPI comparisons over time cannot be useful. Remember, too, that for a long time, the Russians claimed no inflation. But they didn't have much to sell, so price increases did not show up.

### **Product improvements make the CPI meaningless**

Another major failing of the CPI is that the government must fudge every time there is an improvement in a good or service. For products where innovation is frequent, such as consumer electronics, there is no meaningful way to compare price changes from year to year. Consider, also, the case of a more expensive automobile that is substantially smaller and lighter than its same make and model predecessor. Because the new automobile is "improved," the government reduces the price increase for CPI purposes. How can this methodology be objective?

On top of that, the CPI basket was last reformulated in 1982-1984 and, for budgetary reasons, is not due to be revised until 1996, if then. When I told one of the senior government economists about this article and that it was my contention that

inflation was substantially understated, he said: "We would concur with that."

### **Government subsidies hide inflation**

The CPI fails to properly account for products and services whose prices are reduced by government subsidies. Continuing inflation many times causes certain goods and services to become so expensive that they either disappear or their manufacture is arbitrated to foreign countries. Where there are politically connected constituencies and where the production of products or services cannot be transferred out of the country, government many times subsidizes them, thereby reducing the price to consumers and keeping the CPI artificially lower than it would otherwise be.

For example, a good deal of the arts would disappear if the government did not provide assistance via the National Endowment for the Arts. In some industries, government subsidizes research and development. Even after considerable machinations and subsidies from the State, New York's Blue/Cross Blue/Shield rates increased 25%. Depending upon whom one listens to, a subway ride in New York City costs anywhere from \$3.50 to \$6.00, but the public is charged only \$1.25. The rest is subsidized from taxes, whose increases are not in the CPI. Clearly, if the true cost of a subway ride was incorporated into the price, the CPI in NYC would be higher than it is.

### **Money parked overseas**

Because of its historical link to gold, many foreigners still consider the dollar "as good as gold," even though the link has been irrevocably broken. As foreign Governments, such as Russia, debase their own currencies, rather than switch into gold, foreigners many times switch into the next best thing (in their minds): dollars.

The Russians claimed no inflation—but they didn't have much to sell.

More than 100,000 mining jobs in South Africa and elsewhere have been eliminated.

According to *Grant's Interest Rate Observer*, perhaps as much as 60% of the \$315 billion in currency is now circulating in foreign lands.

The drain of dollars from the United States to foreign lands is nominally deflationary. But if by accident some of these errant countries should get their monetary houses in order, then dollars will flow back to the U.S. Again, there is substantial pent up purchasing power that will some day be spent and, then, latent inflation will become indisputable.

### **Prices should be falling**

As industrial processes and productivity improve, prices should decrease. At the same time, decreasing prices improve everybody's living standard. That is the benefit of an advanced economy: higher production of better products available to more people at lower prices. If prices do not decrease because of inflation, then the benefits of productivity increases are not shared. By gerrymandering the CPI and pursuing "price stability," the government obfuscates this fact.

### **Monetization of debt**

During the past three years, by purchasing Treasury securities, the Federal Reserve has monetized government debt at a high rate, and the most basic measurement of money supply, M1, has increased 28% and currency has increased 31%. That this has not been reflected in inflation is due only to the flawed definition of inflation and the fact that vast amounts have been diverted to the capital markets and to foreign countries. Inflation is a worldwide phenomenon and has been understated all over the planet. Perhaps long term interest rates haven't dropped that much for good reason.

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5.

## **Why the Gold Industry is Being Destroyed and What to Do About It**

Prominent Wall Street firms, influential news columnists, central bankers and myriad others have been slamming gold as dead, a relic of the past, a stupid investment and worse. In recent weeks, long-standing expectations that the gold price would increase in times of international turmoil, such as the war in Kosovo, or when inflation picked up, have been shattered.

Not only has the trading infrastructure of the gold industry been decimated, but the physical infrastructure is not being maintained. More than 100,000 mining jobs in South Africa and elsewhere have been eliminated. Mining operations are closing. Those who gain their livelihoods from gold are in shock. Some see dark conspiracies. Others blame misguided central bank policy that they hope to rectify by lobbying central bankers. But most are just totally bewildered.

The core of the problem has to do with our departure from lawful money and the primary use of gold: gold-as-money. In the last century, this was a central issue and was debated widely; major political campaigns were fought over it for almost 100 years. It was called the "money issue," and gold, the choice of the people, won decisively.

In this century, that victory has been completely undermined. The result has meant unfathomable hardship to hundreds of millions. It is late in the day, but the gold fraternity can still save itself. Before dealing with the problem, the key reasons the gold industry is being destroyed must be understood.

**Gold limits money creation by banks which, in turn, limits bank profits:** The 1947 edition of *The Federal Reserve System-Purpose and Functions*, an official publication, states: “Gold certificate holdings of the Federal Reserve Banks set the limits of Federal Reserve credit expansion.” Specifically, there was a statutory link between the amount of gold owned by the Treasury and the amount of credit that the Federal Reserve could create. Because of the fiction of “required reserves,” this also limited commercial bank credit expansion and concomitant commercial bank profits. Today, as then, Federal Reserve and commercial bank credit creation is equivalent to money creation.

Also, in 1947, foreign central banks still had the right to redeem dollars for gold at \$35 an ounce. As a result, even though it was a felony for U.S. citizens to own gold, the public had some sense that gold limited money creation. Now that the statutory link between gold and bank credit/money creation has been broken, the amount of money—which is now all fiat, i.e., “arbitrary” without any backing—that the U.S. and foreign banking systems can create is unlimited. The crucial issue for the gold industry is that commercial banks have always understood that gold impedes their profits.

**Large Banks have always controlled the Federal Reserve de facto:** Putatively, the Federal Reserve regulates commercial bank credit creation. But, as a practical matter, the Federal Reserve is a creature of the large commercial banks. It was created as a result of their lobbying and is *de facto* under their control. While it is true that selecting members of the Federal Reserve Board of Governors falls to the President, he looks entirely to the financial community elite for recommendations. Even the

Congress, which is charged with vetting and approving candidates, looks to the financial community elite to confirm approval. For example, in a *Wall Street Journal* article on June 4, 1999 about Federal Reserve Vice Chairman Alice Rivlin’s upcoming retirement, it was reported that the “White House is leaning toward nominating Carol Parry, an executive vice president of Chase Manhattan Bank” as a replacement.

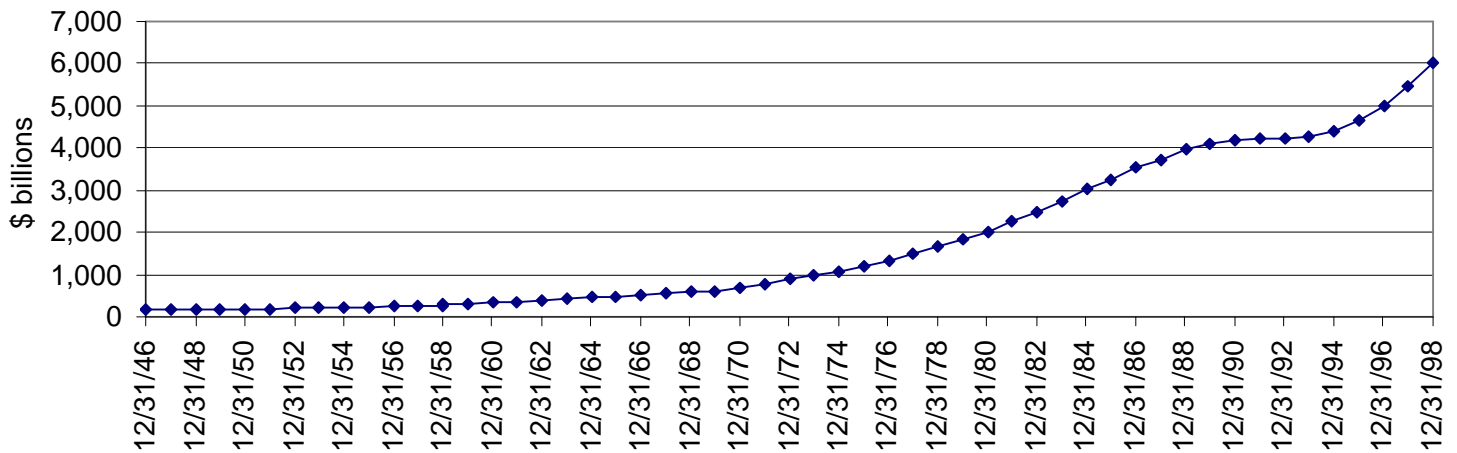
Even more telling, the original Federal Reserve legislation provided for a body called the Federal Advisory Council (FAC) whose members are selected by the boards of directors of the Federal Reserve Banks. Today, FAC members consist of the top management of banks whose assets sum to more than \$1 trillion. FAC members meet regularly with the Board of Governors to air their concerns and provide advice to the Board. Contrary to the principles of participatory democracy and an informed electorate, these meetings are held in secret with no oversight. There is no other regulatory agency that meets in secret with those whom it is charged with regulating.

**Fifty years of empirical evidence confirms that removing the gold constraint allows the banking system to greatly expand:** The amount of money in the U.S. in 1946 was about \$150 billion. As can be seen from *Figure 1*, after the last remaining tie to gold was severed in 1971, money creation exploded to more than \$6 trillion. Of that, the Federal Reserve created roughly \$500 billion. The balance, about \$5.5 trillion, was created by commercial banks.

**Money creation is extraordinarily profitable:** As *Figure 2* shows, the ability to create money has been extraordinarily profitable for commercial banks. In 1997, they reported after-tax profits of nearly \$60 billion!

The public had some sense that gold limited money creation—and it did.

## Level of Money (M3) Created by the Banking System



**Figure 1:** Level of Money (M3) Created by the banking system (Source: Federal Reserve H.6 Series for the period 1959 to present; and the *Historical Statistics of the United States: Colonial Times to 1970*; Series X-415, X-418, X-419; U.S. Department of Commerce for the period 1946-1958.)

To put this into perspective, the profits of the automobile industry for the same period were less than \$10 billion. Wall Street firms and commercial banks' large credit-worthy borrowers reap enormous profits from fiat money as well.

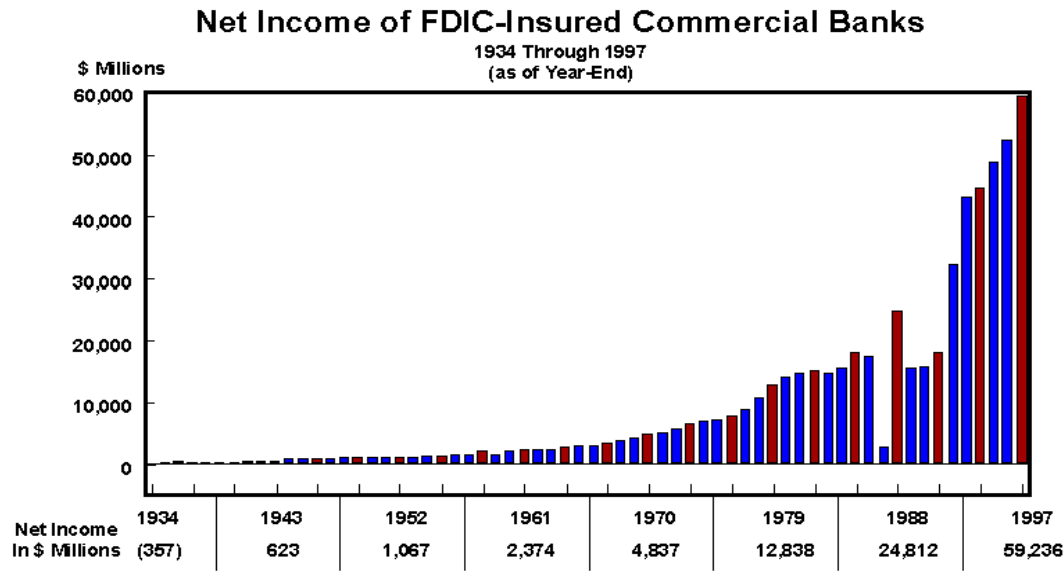
**Almost all bank profits are unearned and result from fiat money:** What services do commercial banks in the U.S. provide that add value to people's lives? For the most part, they provide check clearing and act as intermediaries between savers and borrowers. But certainly these primarily paper-pushing functions would not yield such colossal profits in a competitive market. More to the point, banks are able to reap this \$60 billion windfall because of their ability to create fiat money and the financial "products" that derive from it.

About half of bank profits result from gambling, euphemistically called "trading," as in "currency trading" and derivative issuance, both of which are subsidized by

the public. Because of what are in fact subsidies enacted by law, ordinary taxpayers guarantee the banking system's entire balance sheet. Its assets are guaranteed by the so-called "lender-of-last-resort" bailout facility at the Federal Reserve, and its liabilities are guaranteed by the Federal Deposit Insurance Corporation. No other segment of society has these guarantees or enjoys these special privileges.

In addition to these direct subsidies, there are substantial indirect subsidies. For example, in the last two years, the International Monetary Fund (IMF) has transferred about \$185 billion of taxpayer money to foreigners so they may make good on debts owed to mostly U.S. banks.

Representative Ron Paul, a member of the House Banking Committee, referring to the so-called "Mexican bailout" three years ago, suggested that, if the \$40 billion sent to Mexico had purple ink, the fingers of some



**Figure 2:** Net Income of FDIC-Insured Commercial Banks 1934 Through 1997 (Source: Federal Deposit Insurance Corporation)

major U.S. bankers would be purple. Key information has been kept from public scrutiny: all of the agreements that the IMF has entered into with foreign nations are secret.

Since the IMF is transferring public money, why shouldn't the documentation be public? With the exception of the intelligence agencies, there is no other entity that gets public funding that does not have public disclosure and public oversight.

Parenthetically, these subsidies are not consistent with the "free market" rhetoric that bankers use. The subsidies would not be possible if we had gold-as-money, which was part of the motivation for President Roosevelt outlawing gold in 1933. What's more, after-tax profits tell only a small part of the story. There are, in addition, the multi-million dollar salaries, perks, pensions and stock options that commercial bank executives pay themselves.

The relevant calculation is bank revenues less interest expense, i.e., the amount of interest commercial banks pay "depositors" on money that commercial banks themselves create. Last year, that amount was nearly \$277 billion. To put this into perspective, consider that the Federal Reserve spends roughly \$3 billion to clear all the checks in the nation. What conceivable benefit is there to the public that the banking system should take in an additional \$274 billion?

**Increasing gold prices threaten the financial sector's unearned profits:** What does this have to do with gold? First, as noted above, if there were a link between gold and our monetary unit, the central bank and the FDIC would not be able to implement the subsidies and the unearned profits/revenues described above would not be possible. Those who profit from the creation of fiat money understand this and

Since the IMF is transferring public money, why shouldn't the documentation be public?

## Bank Revenue Less Interest Expense

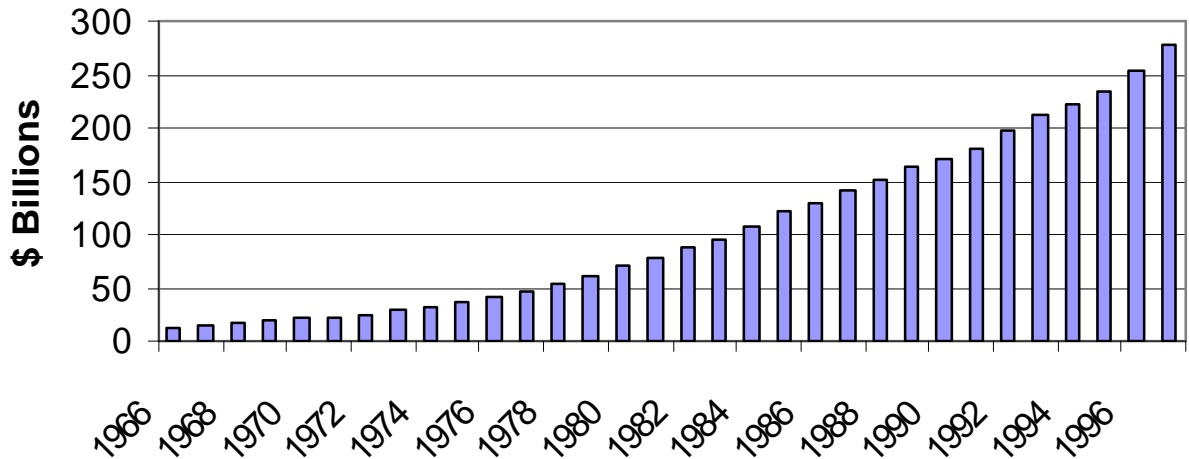


Figure 3: Bank Revenue less Interest Expense (Source: Federal Deposit Insurance Corporation)

An increase in the gold price would signal imminent inflation.

share a commonality of interests in suppressing gold.

Second, gold is a dagger pointing at the banking system's heart because virtually all Wall Street professionals, the establishment news media, and academia use the price of gold as a leading indicator of inflation. Money creation (a.k.a. bank credit expansion) and the profits that flow from it depend on interest rates staying low. An increase in the gold price would signal imminent inflation initiating a chain of events that would be very detrimental to the banking system:

- Interest rates would be bid up;
- Business relationships that were entered into based on lower interest rates, e.g., almost the entire U.S. home mortgage market is now linked to variable interest rates, would begin to unravel;

- Bank assets would become impaired;
- Derivative leveraging and the mismatching of assets and liabilities, which is the essence of commercial bank credit creation, called "fractional reserve lending," would unwind; and
- The profit bonanza would come to a screeching halt.

Simply put, if the gold price goes up, the fiat-money-induced bonanza for commercial banks and for Wall Street firms, who garner transaction fees on the fiat-money creation and who also engage in subsidized gambling, will go away. In my view, this is what Federal Reserve Chairman Alan Greenspan was alluding to when, before the Committee on Agriculture, Nutrition, and Forestry, U.S. Senate on July 30, 1998, he testified: ". . . central banks stand ready to lease gold in increasing quantities should the price rise."

**Either honest monetary weights and measures prevail or fiat money prevails. There is no possible compromise:** Given the amounts at stake not only for commercial banks, but also for Wall Street firms and for those who profit from fiat money, it should be no surprise that they have acted to hammer gold. Gold industry participants are in mortal combat with the banking system over the money issue. Their product is being denigrated, its market is being manipulated, and they are increasingly being driven out of business.

At the end of the day, either gold wins or fiat money wins. For the sake of ordinary people all over the world who depend on stable monetary weights and measures for their pensions, their savings and their jobs, fair-minded people must ensure that gold wins.

Fiat money is succeeding because of coercion, misrepresentation and nondisclosure. Because fiat money has proved a failure in so many countries, wiping out the savings, pensions and jobs of hundreds of millions, it is exceptionally vulnerable and absolutely can be defeated. If the gold industry wants to remain in business and prosper, then fiat money must be attacked. There is simply nothing else that is being done or can be done that will substitute for this.

**The right thing to do:** There is a closing window of opportunity for the gold industry to endorse and encourage the burgeoning movement to restore honest monetary weights and measures (Honest Money). The benefits to the gold industry—and particularly to the mining companies—will be beyond imagination.

More importantly, there is a moral obligation to help mitigate the damage being perpetrated by fiat money upon ordinary people. By supporting the Fight

for Honest Monetary Weights and Measures, the gold industry will not only help to reduce the suffering, it will be bringing into public view an appalling injustice. For myriad reasons, this is the right thing to do.

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## 6.

### Perceived Market Failure Trumps the Rule of Law

Many conservatives believe that judges should interpret the law in the way it is written, and not in the way that they wish it were written. They are concerned that, as noted by Cato's Roger Pilon, the reinterpretation of the phrase "General Welfare" in the preamble to the *Constitution* and of the Commerce Clause has turned our constitution on its head. In effect, we no longer have limited government: with only few exceptions, Congress and the Executive are no longer constrained by the *Constitution*.

Pointing out the manifest legal and moral defects of arguments for a "Living Constitution" has been unpersuasive to restoring the Rule of Law. Accordingly, there is a need to address the arguments that led to the transformation of the *Constitution* from a limitation of government power into a vehicle for the virtually unlimited exercise of that power.

#### Summary

When factions impose unjust laws that threaten the livelihoods of the bulk of the population, people will do whatever they feel they must in order to survive, even if it means rejecting the Rule of Law. Defenders of the Rule of Law may appeal to it only

Our corrupt  
and unjust  
monetary  
system is a  
threat to the  
Rule of Law.

The victims  
of the Great  
Depression  
were not  
culpable.

when they are prepared to revoke unjust laws already on the books.

One of the greatest threats to the Rule of Law is our monetary system—the basis of all transactions present and future—which has been thoroughly and unconstitutionally corrupted. Specifically, the Congress unconstitutionally has enfranchised banks to create legal tender fiat currency to the benefit of the financial sector and to the detriment of everyone else, especially working people. The disability of the government to create paper money as provided by Article I Section 8 of the *Constitution* has been ignored.<sup>(1)</sup>

Since the Eighth Century in China, every fiat monetary system has collapsed. There is no evidence that our politicians and bankers have more intelligence or integrity than past officialdom and that they will be able to keep ours from imploding.

Even more significantly, as explained by FAME Foundation Scholar Professor Antal Fekete, our fiat monetary system involves a double judicial standard. It allows a small group of private companies—banks—along with the Federal Reserve, to create legal tender money out of nothing. The same conduct by anyone else would constitute fraud—a criminal activity. In Professor Fekete’s words, “Such double standard in jurisprudence is not merely a flaw, but it is a serious challenge to the integrity of the ‘social contract.’” Although it is *prima facie* unconstitutional, it has been countenanced even by those who in general would champion the Rule of Law.

### Selected background

On December 11, 1930, the New York State Commissioner of Banking closed the Bank of the United States, a regional bank in New York City. The result was that 450,000 small depositors, each of whom

had less than \$1,000 on deposit, lost access to \$260 million. Subsequently, the situation became even more desperate.

By the time Franklin Roosevelt was inaugurated on March 4, 1933, more than half of the nation’s banks had failed and ninety percent had closed. Furthermore, one out of four workers had lost his employment. Because not many women had entered the work force, one out of four families had no income. With nearly 13 million families having lost their livelihoods, as well as access to their savings, there was mass starvation and misery. Private charities were overwhelmed.

Bear in mind that the victims of the Great Depression were not culpable. Most of those who had lost their jobs and access to their savings—and in many cases lost their savings altogether—were workers; they were not speculators. They had deposited their money in banks for safekeeping.

My grandparents and parents were among those so afflicted, and I vividly recall their retelling of what had happened, and their belief that President Roosevelt saved the day. Most people wanted a government rescue only because they honestly believed that there was no other entity that could provide meaningful help.

Initially, the press and high officials, (including President Roosevelt), claimed that the debacle had been caused by a few incompetent or dishonest bankers and by speculators in general.

“We had a bad banking situation. Some of our bankers had shown themselves either incompetent or dishonest in their handling of the people’s funds. They had used the money entrusted to them in speculations and unwise loans. This was of course not true in the vast majority of our banks but it was true in enough of them to shock the people for a time into a sense of insecurity and to put

them into a frame of mind where they did not differentiate, but seemed to assume that the acts of a comparative few had tainted them all. It was the Government's job to straighten out this situation and do it as quickly as possible — and the job is being performed."<sup>(2)</sup>

At other times, even Roosevelt, in addition to commentators and scholars, adopted the view that the cause of the Great Depression was a “market failure.” This is the view that persists.

“Yet our distress comes from no failure of substance. We are stricken by no plague of locusts. Compared with the perils which our forefathers conquered because they believed and were not afraid, we have still much to be thankful for. Nature still offers her bounty and human efforts have multiplied it. Plenty is at our doorstep, but a generous use of it languishes in the very sight of the supply. ... Primarily, this is because the rulers of the exchange of mankind's goods have failed through their own stubbornness and their own incompetence, have admitted their failure and abdicated.”<sup>(3)</sup>

“It [the Great Depression] comes from the paralysis that arose as the after-effect of that unfortunate decade characterized by a mad chase for unearned riches and an unwillingness of leaders in almost every walk of life to look beyond their own schemes and speculations.”<sup>(4)</sup>

Today, even many of our most successful capitalists believe in the concept of ‘market failure’ and the consequent necessity of a government safety net, despite the lack of any basis for such in the *Constitution*. For example, last year famed financier George Soros wrote in an *Atlantic Monthly* article that financial markets are “inherently unstable.”<sup>(5)</sup> The reasoning in the 1930s—and today—was that catastrophic market failure requires government regulation to correct current disasters and to help preclude future ones.

“Finally, in our progress toward a resumption of work we require two

safeguards against a return of the evils of the old order; there must be a strict supervision of all banking and credits and investments; there must be an end to speculation with other people's money, and there must be provision for an adequate but sound currency.”<sup>(6)</sup>

“It is wholly wrong to call the measure that we have taken Government control of farming, control of industry, and control of transportation. It is rather a partnership between Government and farming and industry and transportation, not partnership in profits, for the profits would still go to the citizens, but rather a partnership in planning and partnership to see that the plans are carried out.”<sup>(7)</sup>

“We have been producing more of some crops than we consume or can sell in a depressed world market. The cure is not to produce so much.”<sup>(8)</sup> [To remedy this, legislation was passed to regulate output.]

“Men may differ as to the particular form of governmental activity with respect to industry and business, but nearly all are agreed that private enterprise in times such as these cannot be left without assistance and without reasonable safeguards lest it destroy not only itself but also our processes of civilization.”<sup>(9)</sup>

In the 1930s, people wanted the government to provide a safety net and relief for those who were suffering. They did not care that the underlying regulations were contrary to our *laissez-faire* heritage, the very principles that helped build this country.<sup>(10)</sup> They did not care that the property rights of some “rich people” were violated. And, finally, they did not care that the *Constitution* was set aside in order to facilitate the regulations and the safety net.<sup>(11)</sup>

Roosevelt wasn't acting in a vacuum. He did what the people wanted: Wide majorities elected him four times because they approved of his actions. In 1933, more than 100 resolutions were submitted to the Congress to eviscerate the Supreme Court which, for a while, had blocked the new

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More than 100 resolutions were submitted to the Congress to eviscerate the Supreme Court.

legislation as unconstitutional. To help justify the setting aside of the *Constitution*, Roosevelt said:

“It is to be hoped that the normal balance of executive and legislative authority may be wholly adequate to meet the unprecedented task before us. But it may be that an unprecedented demand and need for undelayed action may call for temporary departure from that normal balance of public procedure. ... But in the event that the Congress shall fail to take one of these two courses, and in the event that the national emergency is still critical, I shall not evade the clear course of duty that will then confront me. ... I shall ask the Congress for the one remaining instrument to meet the crisis — *broad executive power to wage a war against the emergency as great as the power that would be given me if we were in fact invaded by a foreign foe.*”<sup>(12)(13)</sup> (Emphasis added.)

“The members of Congress realized that the methods of normal times had to be replaced in the emergency by measures which were suited to the serious and pressing requirements of the moment.”<sup>(14)</sup>

“There is great danger it seems to me to arise from the constant habit which prevails where anything is opposed or objected to, of referring without rhyme or reason to the *Constitution* as a means of preventing its accomplishment, thus creating the general impression that the *Constitution* is but a barrier to progress instead of being the broad highway through which alone true progress may be enjoyed.”<sup>(15)</sup>

### The Myth of Market Failure

To return to the thesis of this article, the truth is that the Great Depression was primarily due to a monetary failure and not a market failure. It could not have occurred were it not that banks presumed that the Federal Reserve, in its role as “the-lender-of-last-resort,” was standing surety for loans that might default or not be serviced. This enabled banks to over-leverage, that is, to create legal tender money flat out of nothing in a greater quantity than ever

before. As Federal Reserve Chairman Alan Greenspan so eloquently explains:

“But the process of cure was misdiagnosed as the disease: if shortage of bank reserves was causing a business decline—argued economic interventionists—why not find a way of supplying increased reserves to the banks so they never need be short! If banks can continue to loan money indefinitely—it was claimed—there need never be any slumps in business. And so the Federal Reserve System was organized in 1913. It consisted of twelve regional Federal Reserve banks nominally owned by private bankers, but in fact government sponsored, controlled, and supported. Credit extended by these banks is in practice (though not legally) backed by the taxing power of the federal government. Technically, we remained on the gold standard; individuals were still free to own gold, and gold continued to be used as bank reserves. But now, in addition to gold, credit extended by the Federal Reserve banks (paper reserves) could serve as legal tender to pay depositors.

“When business in the United States underwent a mild contraction in 1927, the Federal Reserve created more paper reserves in the hope of forestalling any possible bank reserve shortage. More disastrous, however, was the Federal Reserve’s attempt to assist Great Britain who had been losing gold to us because the Bank of England refused to allow interest rates to rise when market forces dictated (it was politically unpalatable). The reasoning of the authorities involved was as follows: if the Federal Reserve pumped excessive paper reserves into American banks, interest rates in the United States would fall to a level comparable with those in Great Britain; this would act to stop Britain’s gold loss and avoid the political embarrassment of having to raise interest rates.

“The ‘Fed’ succeeded: it stopped the gold loss, but it nearly destroyed the economies of the world in the process. The excess credit which the Fed pumped into the economy spilled over into the stock market—triggering a fantastic speculative boom. Belatedly, Federal Reserve officials attempted to sop up the excess reserves and finally succeeded in braking the boom. But

it was too late: by 1929 the speculative imbalances had become so overwhelming that the attempt precipitated a sharp retrenching and a consequent demoralizing of business confidence. As a result, the American economy collapsed. Great Britain fared even worse, and rather than absorb the full consequences of her previous folly, she abandoned the gold standard completely in 1931, tearing asunder what remained of the fabric of confidence and inducing a world-wide series of bank failures. The world economies plunged into the Great Depression of the 1930's."<sup>(16)</sup>

Our monetary system then—and to a much greater extent continues now—allowed banks to create new money through a leveraging process called “fractional reserve lending.” For example, when a bank extends a loan to someone for \$100,000, it does so by crediting that person’s account in that amount. After the loan is granted, not one depositor has any less money on deposit than before the loan is granted.

If all depositors’ balances are unchanged, from where does the \$100,000 come? It is “created” by the bank as the result of a mere book-keeping entry. Bankers garner fees and interest for extending loans by means of this newly-created money.

Prior to the Great Depression, in their greed to generate more fees and interest, banks lent to real estate speculators and to stock speculators. Today, people are complacent about the systemic risk inherent in our fiat monetary system. In fact, for the last three years, the only high official who consistently addresses this systemic risk is Mr. Greenspan. Unfortunately, he rarely, if ever, does so in his testimony before Congress.

“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. ... With leveraging there will always exist a *remote* possibility of a chain reaction, a cascading sequence of defaults that will culminate in financial implosion if it proceeds unchecked. ... Only a central bank, with its unlimited power to create money can with a *high probability* thwart such a process before it becomes destructive.”<sup>(17)</sup> (Emphasis added)

How high is the “high probability” with which he believes that the Fed can thwart a financial implosion? And for how long can the Fed prevent our fiat monetary system from imploding? In a speech on June 13, 1996 in Stockholm, Sweden, he argued that it is to be expected that taxpayers must help to bail out the banks about “two or three times a century.” If this is accurate, “remoteness” has been elevated to probability. Also, what is the justification for this estimate?

### What is to be done?

To return to the Rule of Law and re-establish substance to the *Constitution*, it is necessary to:

1. Debunk the notion that the Great Depression was a market failure and more fully explain why the *Constitution* should not have been set aside;
2. Remove the conditions that are driving us to another monetary implosion; and,
3. Reestablish the monetary powers and disabilities set forth by the *Constitution*.

In our society, it is the media that sets the national agenda. Those with access to the media can perform a

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great service by explaining that: 1) the Great Depression, rather than constituting a market failure, was the result of over-leveraging by the banking system; 2) the massiveness of the over-leveraging was facilitated by the promise of a subsidy/safety net to banks provided by the Federal Reserve;<sup>(18)</sup> and, 3) this entire process was unconstitutional.<sup>(19)</sup>

With this lesson in mind, we can preclude the possibility of another systemic breakdown if we adopt a monetary system, such as the Gold Standard, that prevents over-leveraging by the banking system. Again, Mr. Greenspan provides guidance:

"For most of the period prior to the early 1930s, obligations of governments in major countries were payable in gold. ... Hence, debt issuance and budget deficits were constrained by the potential market response to an inflated economy. ... 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."<sup>(20)</sup> (Emphasis added)

Those who support the *Constitution* should ask: Why shouldn't we adopt a monetary system that is constitutional and which "virtually eliminates" the possibility of a systemic breakdown? Our *Constitution*, in Article I Sections 8 and 10, already disables the Federal Government from issuing paper money; it is empowered only to *coin* money. Moreover, the States are empowered to create legal tender only out of gold and silver.

Why is it that those who ordinarily favor interpreting the *Constitution* in the way that it is written allow the Congress to delegate to the Federal Reserve and to the banks a power

which Congress itself does not possess? Why have they failed to protect us from the perils of a fiat monetary system, including the prospect of another disastrous monetary implosion?

Class-based legislation is abhorrent to the American sense and system. Neither the central bank nor private companies should have been given the power to create legal tender fiat money. This facilitates the transfer of wealth from the general population to those who create the fiat money.<sup>(21)</sup> Wealth transfer of any kind constitutes class warfare, the consequence of all welfare schemes.

Since the end of 1991, U.S. banks have created \$1.5 trillion, and since 1945, they have created \$5 trillion.<sup>(22)</sup> Because fiat money creation dilutes the purchasing power of money that has been saved and the purchasing power of money promised for future payment, such as pensions, it is theft and abrogates contracts by diminishing the value of the obligations in question.

The over-leveraging of the banking system that occurred in the 1920's has been duplicated today, but in a much more pronounced way. At least in the 1920's banks were limited as to the amount of new money that they could create due to a putative link to gold.<sup>(23)</sup> This link lasted until August 15, 1971. Subsequently, new money creation accelerated.

In order to prevent our fiat monetary system from collapsing, taxpayers provide a subsidy/safety net to banks enabling them to engage in derivative gambling and currency speculation. Mr. Greenspan has

spoken of this problem in many of his speeches. He refers to it as a “moral hazard.” For example, on January 14, 1997 he said:

“Any use of sovereign credit—even its potential use—creates moral hazard, that is, a distortion of incentives that occurs when the party that determines the level of risk receives the gains from, but does not bear the full costs of, the risks taken. ... If the owners or managers of private financial institutions were to anticipate being propped up frequently by government support, it would only encourage reckless and irresponsible practices.”<sup>(24)</sup>

As of this writing, U.S. banks have outstanding more than \$60 *trillion* worth of derivative bets. How “reckless and irresponsible” will we allow banking practices to become? Is it fair that taxpayers are forced to provide a safety net/subsidy to banks so that they may engage in this kind of gambling? Mr. Greenspan does not have control over this, and he appears very critical of the phenomenon of Congressional special treatment of the banking system. He is warning us of the danger.

As Milton Friedman is wont to say, “there is no free lunch.” There is going to be a terrible price to pay, and American workers are going to be forced to pay it.<sup>(25)</sup> Unless legal tender fiat money creation by banks is terminated, the implosion will be cataclysmic and the demand for a government fix will be so overwhelming that the remnants of our *Constitution* will be discarded in favor of complete government control of our economy. There will be a demand not merely for income redistribution but for wealth redistribution.<sup>(26)</sup>

### Another way of looking at this

When particular factions can persuade Congress to pass laws that greatly harm the general population, respect for the Rule of Law is denigrated. The general population has neither the knowledge nor the resources to monitor and control the legislative process. That responsibility must fall to those who are knowledgeable about such matters and have input into the system.

There is an inscription above the portals of the Holocaust Museum in lower Manhattan that says it best: “Indifference to Injustice is the Gateway to Hell.” It is up to those who have clout with the lawmakers to ensure that the *Constitution* is not violated. It simply is unconscionable and unconstitutional for a small group of private companies to be empowered to create legal tender fiat money.

(1) See: Vieira, Edwin Jr., *Texas Review of Law & Politics*, Vol.2, No.1, Fall 1977; “The Forgotten Role of the Constitution in Monetary Law”; pp77ff.

(2) March 12, 1933. Address of President Roosevelt by radio, delivered from the President’s Study in the White House.

(3) Franklin D. Roosevelt’s First Inaugural Address, March 4, 1933.

(4) Address of the President [Franklin D. Roosevelt], June 28, 1934.

(5) Soros, George; *The Atlantic Monthly*, February 1997, “The Capitalist Threat.”

(6) Franklin D. Roosevelt’s First Inaugural Address, March 4, 1933.

(7) Radio Address of the President, May 7, 1933.

(8) Radio Address of the President from the White House, Monday, July 24, 1933, 9:30pm.

(9) Radio Address of the President, the White House, Sunday September 30, 1934.

“Indifference to Injustice is the Gateway to Hell.”

(10) In fact, as a result of the Great Depression, *laissez-faire* was permanently discredited. “Classical economics taught that free markets would always seek and find a natural equilibrium, a self-correcting capacity that revived production and employment, once prices and wages fell low enough. In the Great Depression, the American economy did not revive. Neither did the rest of the world’s. Year after year, as the social misery deepened and massive unemployment stretched on for more than a decade, the popular faith in free markets was shattered.” Greider, William, *Secrets of the Temple*, Simon & Schuster, 1987, pp89.

(11) “... the New Deal advanced a new creed: an activist national government must intervene to overcome the shortcomings and weaknesses of private enterprise. This new idea—government’s obligation to manage the economy—was legitimized by the national trauma of Depression, embraced both in public opinion and in scholarly theory.” Greider, William, *Secrets of the Temple*, Simon & Schuster, 1987, pp89.

(12) Franklin D. Roosevelt’s First Inaugural Address, March 4, 1933.

(13) There remains controversy about Roosevelt’s retroactive amendment of the Trading With the Enemy Act of October 6, 1917. On March 9, 1933, the Trading With the Enemy Act was retroactively amended to give Roosevelt plenipotentiary power. That amendment is still in effect and gives the President the power to set aside the *Constitution* in the event of an “emergency,” which Roosevelt declared in Proclamation 2040 on March 9, 1933.

“... Now, therefore, I, Franklin D. Roosevelt, President of the United States of America, in view of such continuing national emergency and by virtue of the authority vested in me by Section 5(b) of the Act of October 6, 1917 (40 Stat. L. 411) as amended by the Act of March 9, 1933, do hereby proclaim, order, direct and declare that all the terms and provisions of said Proclamation of March 6, 1933, and the regulations and orders issued thereunder are hereby continued in full force and effect until further proclamation by the President.”

That state of emergency has never been rescinded. (See: *War and Emergency Powers* by Dr. Gene Schroder, et. al. published by the American Agricultural Movement Box 130, Campo, Colorado 81029)

(14) Radio Address of the President, May 7, 1933.

(15) Radio Address of the President, the White House, Sunday, September 30, 1934.

(16) “Gold and Economic Freedom” by Alan Greenspan, *Capitalism, the Unknown Ideal* by Ayn Rand, Alan Greenspan, et. al., Mr. Greenspan’s article originally appeared in the newsletter *The Objectivist* in 1966.

(17) Remarks by Chairman Alan Greenspan At the Catholic University Leuven, Leuven, Belgium, January 14, 1997.

(18) As explained by Professor Richard A. Epstein at a recent NYU Federalist conference, every subsidy is in fact a transfer of wealth. In this instance wealth is being transferred from ordinary taxpayers to bankers. It’s a reverse “Robin Hood”: stealing from the poor to give to the rich.

(19) I have searched the *Constitution*, and I can find no mention of providing banks with a lender-of-last-resort in the enumerated powers in Article I Section 8 or anywhere else.

(20) Remarks by Federal Reserve Chairman Alan Greenspan At the Catholic University Leuven, Leuven, Belgium, January 14, 1997.

(21) When banks create money, they garner “fees” and “interest.” To those who would argue that money creation takes “work,” consider: does it take ten times more work to create \$10 million than \$1 million? All one need do is key an extra zero!

When money creators (banks) get something for nothing, someone gets nothing (the fiat money) for something. That someone is the small saver—the worker. The empirical evidence is unfolding all over the world: in Korea, Indonesia, Malaysia, the Philippines. The purchasing power of workers’ fiat-money savings is melting toward zero.

Meanwhile, the bankers that created the fiat money have already spent their fees and interest on goods, services, real estate at home and abroad, etc., as have those to whom the fiat money was lent. Thus, real wealth transfer occurs with the creation of fiat money. Functionally, it is the same as counterfeiting except that it is sanctioned by government.

(22) Source: L109 series from the Federal Reserve *Flow of Funds Reports*.

(23) Until Roosevelt seized all of the gold held by U.S. citizens and unilaterally abrogated the gold payment clauses in all existing contracts, the dollar was redeemable at the rate of one ounce of gold for \$20. After Roosevelt seized the gold, he revalued it and only foreigners could redeem dollars for gold, but then at the rate of one ounce of gold for \$35.

(24) Remarks by Chairman Alan Greenspan At the Catholic University Leuven, Leuven, Belgium, January 14, 1997.

(25) Just as workers in Mexico, Thailand, the Philippines, and Korea are being victimized.

(26) The AFL-CIO is already calling for a wealth tax. "A fairer tax system would also help. Despite a near doubling in the share of national income going to the richest one percent, the federal income taxes

paid by this privileged group constitute a smaller share of their income today than in 1979. A wealth tax similar to Switzerland's would generate \$50 billion in badly needed federal revenues, and would be borne entirely by the nation's wealthiest citizens." Source: the AFL-CIO's "Economics Education: What is Our Message, What Are Our Goals?" February 5, 1997, page 9.

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