NEWSLETTER
Charles Walters

The Nature of Money

by Charles Walters

On September 7, 1942, at 9:00 p.m. CWT, President Roosevelt delivered one of his famous fireside chats. It was an economic message that in retrospect is a message for our times. The year 1942 was wartime. It was also an economic crisis.

The war effort required structural balance for the American economy. Inflation had to be controlled. Speaking in his homey way, Roosevelt said the cost of living meant what a dollar can buy. Since Pearl Harbor, the cost of living had increased 15 percent. In May 1942, the government attempted to freeze the cost of living. This was proving impossible because the congressional authority was exempting some sectors from rules governing the rest. In the process of giving his explanation, the chief executive drew attention to agriculture. Earlier, Roosevelt had asked Congress to stabilize basic storable commodities.

At that time the President told Congress that there were seven elements in the national economy which had to be controlled, and any element out of balance made control of the cost of living impossible. At issue were stabilization of taxes and farm commodities at parity.

"Parity is the standard for the maintenance of good farm prices. It was established as our national policy way back in '33. It means that the farmer and the city worker are on the same relative ratio with each other in purchasing power, as they were during a period some 30 years ago . . . [when] the farmer had a satisfactory purchasing power; 100 percent of parity therefore has been accepted by farmers as the fair standard for the prices they receive," Roosevelt said. He went on to explain that the parity norm could not be exceeded, nor could it fall short.

Later, when the Employment Act of 1946 was passed, Roosevelt's concept was confirmed. Structural balance was absolutely necessary for stability, and disparity was the real road to serfdom. The very first *Economic Report of the President* confirmed the parity requirement if the nation did not wish to court impossible debt and ruinous inflation.

During the postwar years, U.A.W. President Walter Reuther settled an automobile strike at near parity because, in his words, "I'm not going to bargain for the wooden nickels of inflation." He knew, he said, that labor could not have a higher parity than agriculture.

WORLD TRADE

These few thoughts come to mind as world trade arrives at the breaking point.

Picture the scenario we have been asked to ratify with serious consideration: The United States and its debt-money machine is to wet-nurse the world, fight its wars, and keep it on relief via the agency of perpetual trade deficits and collateral wars. Eisenhower's terse warning to "beware of the military-industrial complex" is as relevant today as it was when he uttered it. Eisenhower could see quite clearly that the objective was not to meet military requirements, but the requirements of the military suppliers.

China has become dependent on an American trade deficit much as urban America has become dependent on a rural and farm deficit. The 1996-2003 trade deficit illustrates the approach of a terminal point. It jumped from $191 billion to $485 billion. Hardly anything in the American malls has an American label. Take this down to something a second grader can understand, but which eludes tenured professors: since 1996 the United States has imported $1.31 worth of goods for every dollar's worth exported. As these lines are set down, the numbers are close to $2 imports for every dollar of exports. It can now be computed that the deficit has to grow by at least $50 billion a year, perhaps $100 billion a year for the NAFTA/WTO model to continue.

The talk in favor of world trade has it that the import-export razzle-dazzle is necessary for world peace. Each nation is to spend what it earns, this so each trader nation can exhibit its comparative advantage. The banana grower grows bananas. The Third World country sells what it has, mainly cheap labor. In turn, the United States is to sell its high-priced trucks, airplanes and supercomputers. Never explained is how a 25-cent-an-hour worker will be able to buy a pickup truck or a bottle of French wine. All this leaves unanswered the question, Just where is the necessary trade expansion going to come from when one and all are tapped out? This much stated, it seems the American farm model was a poor one for international trade to follow.

China and Japan seem to hoard their earnings in U.S. Treasuries. Germany is tapped out. The idea that South America

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can take more imports is about as ridiculous as praying for Australia's Ayers Rock to levitate. Africa is a relief client, a drain as lethal as Iraq and Afghanistan.

This business of exploiting the poverty pockets of the world is an ephemeral procedure in any age. The money those Chinese workers earn weaving rugs and stitching Wal-Mart clothes does not come back to the United States via purchases. From 1996 to the present, foreign exchange reserves of Asia have gone from $500 billion to over $1.3 trillion. Japan's reserves have escalated from $217 billion to $534 billion. Do a roll call of nations and the pattern is the same — only the amounts differ. Hong Kong, from $64 billion to $116 billion. Taiwan, from $88 billion to $182 billion. South Korea, from $34 billion to $128 billion. These data are generally reported by the International Monetary Fund, various financial papers, and world media such as *USA Today*.

The international trading system has about the same circularity as home-base U.S.A. and the balance between wages, capital costs and agriculture, as well as the imbalance between agriculture and corporations, rentals and business in general.

Still the sound bites tell the people that with free, unregulated trade everyone benefits. Because of this exchange between poverty pockets and the United States, standards rise. Temporary collateral damage is to be expected, but this is a small price to pay for the vast benefits for everyone. Consumers benefit by tripping to Wal-Mart, and the 9 or 10 million unemployed by the trade model will ultimately find work. It's all circular. That this analysis begs the question *Why?* is ignored. Why, indeed, haul stuff from here to there if all you do is pollute the oceans?

It is now admitted that unless each nation spends what it earns, the logic of free trade collapses. Probably it collapses because it is not supported by logic. It has already become a job destroyer. It ships unemployment around the world like rancid potatoes.

Well, ladies and gentlemen, the synthetic boom has been sandbagged, like a novice card player. The biggest scam in history is in the terminal stages of experience!

BIGGEST SCAM

Sometimes the pen outraces the mind. Biggest scam? I can think of one that is even bigger and more lethal. It is made possible by near-100-percent ignorance of coin and money, and surely there is no solution to our economic dilemma without a sound money supply. This is not my observation alone. It is contained in Frederick Soddy's *Wealth, Virtual Wealth and Debt,* and it is the backbone of my own work *Unforgiven.*

> When banks, not the nation's treasury, have control of the money, they hold in their hands the success or failure of enterprise.

No one with respect for the fictions of academic economics dares touch the subject of money. It was settled once and for all during the Woodrow Wilson administration, when the Federal Reserve System was voted into existence. Today the confusion that attends the creation of debt and money, gold and its demonetization, silver and its history, indeed the history of that constitutional mandate to "coin the money and regulate the value thereof" is so great that not one person in a thousand understands it. Yet it is on the foundation of this lack of comprehension that the House of Mammon has been built.

Much of what is present here is codified in Stephen Zarlenga's *The Lost Science of Money,* Gertrude Coogan's *Money Creators* and other texts mentioned in this report.

I will not detain you with stories about cowry shells or the cultural decision of almost all peoples to use precious metals as a stand-in for commodities and other goods. Instead, I will deal with the penchant to create money out of absolutely nothing, to balance it with debt and then expect the physical impossibility of having that money reproduce like bacteria in a Petrie dish or rabbits in a cage. The entire economic situation has been built on these premises, which has been the same as asking physical impossibility to keep pace with mathematical ambition.

Most subjects can be best understood by studying other histories. Zarlenga has studied some 800 books on money. I have quite a few less in my library. Therefore what is presented here relies on the best evidence, often on original documents, never on conjecture or blind theory. It is absolutely amazing how much scholarship laws and libraries contain, all of it ignored for reasons that become apparent as this subject unfolds. Some of this history goes back 3,500 years, some of it is as new as our own era. All of it explains how and why public policy has delivered us to our present impasse.

The primary work consulted was that of Alexander Del Mar, possibly the greatest monetary historian of all time. His life's work was completed by 1905, and he passed from the scene in 1925.

This report, then, is simply a merger of available information and several hours of interviews with Stephen Zarlenga, as well as select comments made by Zarlenga on Tom Valentine's *Radio Free America* program.

THE DIFFERENCE

If you reach into your pocket and pull out some quarters and some bills, what is the difference if the counts are the same? What is the difference between paper money and coins? The answer is lethal: It costs no interest to keep coins in circulation. In fact, both of the currency forms are fiat money. Both are created by humans. The paper money is created by the banking system. For it to come into existence, a debt has to be created, and interest on that debt goes on *ad infinitum,* or until the end of the government. The coins, in turn, are issued by the government. The bank is not needed to create the coins. Because no debt is created, there is no interest required to keep those coins in circulation.

It is axiomatic that in order to have a developed economy run, the money supply has to grow with the population and commerce. If the system requires more debt to create more money, the interest payments bring on a collision between money and physical reality. As recently as mid-decade 1990s, fully 14 percent of the federal budget was required to feed the interest mill. Failure to enlarge the money supply in tune with population growth and commerce concentrates the wealth of a nation into the hands of a few. Power is always concentrated into the hands of those who have the money.

The key question with money is control. It is control of the system itself — in addition to the control of interest — that governs our times, and it is governing badly.

It is control of the money system that determines how much is to be created. Debt is sacred to the system. All the leading economists say, Hang the debt in orbit, let it move around the world ahead of the clock. The new system of debt and money is better than having a scoop shovel at Fort Knox.

Consumer debt is awesome, but in general economic terms the great debtors are industrialists one and all — they have to go into heavy debt to create a factory or a pig farrowing facility Smithfield-style. When the money supply does not advance in tune with commerce, then the debtor has a new burden bestowed in terms of repaying the debt. The fallout on the society as a whole is fantastic.

The puzzlement seems to beggar the imagination because the creation of money ought to be in harmony with the creation of raw material, not debt, in the economy. This is further explained by the fact that there is only one economic system, namely, the capital system. Small businesses, rentals, corporations, agriculture — the private enterprise sector — have one thing in common: they are all compelled to invest capital in order to operate. They save or assemble savings and invest the capital that creates every job and every dollar of income. Wages and the cost of capital have to be carried by the enterprise system one way or another. The various political systems need not confuse us. These political systems are not economic systems — communism, fascism, socialism, all fall under one economic system, the capital system.

The standard of living under any system is simply the result of production of goods and services. The perception that socialism has an advantage because the government can crank up the printing press and turn out money is a myth. An even bigger scam than world trade is the idea that capital can simply be printed.

Investment still has to come from profit. Profit, in turn, comes from the gift of nature, humans debited, nature credited. This is the gushing well that keeps the private enterprise system moving. The total house that keeps the economy moving is enterprise, agriculture included as a mainstay. All societies have proved that they cannot expand without a profit, and the hunt for profit takes us back to raw materials.

This much is stated as an introduction because it must be understood before the money system can come into focus. It also explains why and how a debt-money system mucks up a society, giving it "debt and wars for pence doled out by kings from its own stores."

Control of money determines the seat of power that permits a people, a nation, an economy. A money system based on debt is an inherent fraud because it delivers the wealth of a country into the hands of a few. When banks, not the nation's treasury, have control of the money, they hold in their hands the success or failure of enterprise. They always define money creation in terms of their own interest. They select the industries that can be allowed to succeed, and those with the right to fail.

THE PROCESS

How has this process been contrived to strip naked a citizenry that once owned at least 40 acres of virgin ground? Ferdinand Lundberg asked that question in *The Rich and the Super Rich,* but he didn't stay on for an answer. He did not tackle that inscrutable money matter. The Founding Fathers sought to deal with it — "The Congress shall coin the money and regulate the value thereof" — but they had no clear idea on just what constituted money.

A philosophical chasm asserted itself from the start. Adam Smith decreed that only gold and silver qualified as money. Some delegates to the Continental Congress wondered whether the people should be in charge of anything as important as money. Alexander Hamilton favored bank management. The debate ultimately became a challenge to men. Was authoritarianism necessary? Do men have to be told what to do by an authority, or is self-rule possible? Jefferson's answer was that he trusted the people.

Hamilton wanted a monarchy. In fact, the Federalists in general endorsed that idea, which is why John Adams was tagged a royalist even though he was far less a royalist than Jefferson. The Anti-Federalists were saying pretty much what the Libertarians say today, "You can't trust the government." The financial community wanted a stronger government then, while today the roles are reversed and the money people actually auction the high posts in government. This explains why the presidency nowadays goes to the best available mediocrity. This subservient role of the presidency to the money powers explains why a ruinous world trade scenario became public policy — why jobs are shipped out and shoes, cars, household goods and clothes shipped in — until unemployment dogs urban America the way insolvency dogs farmers.

CURRENCY

Currency is a creation of law. By definition it is a function of government. A decent respect for the opinions of mankind argues that the money-creation function cannot be brokered out. This statement sounds abrasive — something like a rat-tail file on a sore tooth — to those who hold that money is gold and gold is money.

History suggests that gold has seldom worked very well as a money supply. In theory, gold should arrive at the same rate that population and industry grow. The gold rushes in California, Alaska and Colorado come to mind. Suddenly gold, like raw materials, arrived in abundance, and people had more money, or at least money in harmony with economic activity — all on an earned and interest-free basis.

By qualifying as money, gold was paid for and required no debt. The arrival of a wheat crop would function the same way under conditions of parity. Does gold comply with the needs of an industrial society? Or does its shortage confer such a value that only government monetization at a fixed price prevent it from annihilating those who have debts to pay?

THE LABORATORY

America has been a monetary laboratory from the start. English laws forbade the sending of coinage to the colonies, so the colonies had to create their own money system. They tried commodities. They tried gold coins. They tried tobacco warehouse receipts. Finally, Massachusetts issued bills of credit. Yes, fiat money. But a mature look at money tells us that *all* money is fiat, because it is the legal aspect that makes it money. It is helpful if money keeps its value, but it also has to facilitate exchange. The idea that gold keeps its value is nice, but it doesn't remedy a monetary-created depression. Even in a primitive society, money is a creature of the law. Its value is determined by the amount of it in circulation.

When the Constitutional Convention was convened, it was to consider the Northwest Ordinance and other commercial matters. Thomas Jefferson was in France at the time. Thomas Paine was also in France. Ben Franklin was tortured with gout — another delegate had to read his speech. Often the Founders were not there. Madison was present, for which reason the Constitution is often called the Madison Constitution.

The delegates voted for self-determination, but they left open the door for the money power to assert itself by not adequately defining money and by leaving unanswered the monetary power. As a group, the delegates did not really understand the Adam Smith dismissal of the money subject that later emerged in *The Wealth of Nations.* Hamilton understood the subject quite well. The merchant Morris also understood money and money power.

This is no criticism. Confusion is the money creator's greatest asset. Is money a commodity or a social invention? If it is a legal social invention, then it should have been well defined in the Constitution. How should the money be supplied, and how should its value be regulated?

It has been and remains the position of *Unforgiven* that the value of money can be regulated only by maintaining structural balance in the economy. It appears to be the only way to keep it reasonably stable over time in a just manner that does not favor one class over another.

The language was vague. Those in attendance were not agreed on what "coin the money and regulate the value thereof" really meant. The old Articles of Confederation document allowed the government to emit bills of credit, but the Madison Constitution remained vague. Why was "emit bills of credit," that is, "print money," left out? It is safe to say that confusion ruled. This right to issue bills of credit was not stated, nor was it omitted.

Because of this oversight, the monetary powers entered through the back door and over time has managed to overwhelm the entire edifice so that they now control our nation through the agency of war and debt.

It is argued that the government can't be trusted, but that the Federal Reserve *can* — yet history reveals that in all cases in which the agencies of government have issued money exactly as authorized, and when inflation followed — as with the Civil War — it fell equally on all citizens, excepting no one.

Immediately after the Constitution was ratified, Hamilton started agitating for laws to serve the financial interests. Establishment of the First Bank of the United States was on his agenda. That bank was given special privileges. It was allowed to create money in a manner the government was perceived to be blocked from doing. It issued its own paper notes, one-third backed by metal. Since the financial people had the gold and silver, the money creation process went by default to the bankers, not the government. The bank notes were accepted because the government accepted them as payment of taxes. Also, there was little else circulating as money at the time.

There is a big difference between theory and experience. Too many economists rely on reasoning alone and ignore history. History is most important, because often it takes a generation for blunders to become apparent.

The blunder uncorked during the Wilson administration has now exacerbated every other problem, led us to the edge of a military junta ruling the nation, and closed the circle initiated with the Farm Act of 1948.

The Constitutional Convention chose to rely on theory — Adam Smith theory — and on one Rev. John Witherspoon, who published a book on money just before the convention. Both Smith and Witherspoon stonewalled the basic experiences the Colonies had endured.

The rightness of theory in the face of irreducible facts confronts the United States because the drumbeat has been ordered. Alan Greenspan dismisses recitation of history that does not comply with the wishes of his patrons as being self-evident. Through this device, the same tired theories gain rebirth.

The First Bank of the United States was formed in 1791. Washington endorsed Hamilton. Jefferson objected. The bank did exactly what all central banks do upon formation. It demanded war. The Bank of England had shown the way. War invites debt. It forces a government to borrow.

The First Bank tried to ignite war with Canada. This failed. Algeria was next. That failed. War with England was next. Finally they settled for a war with France over New Orleans. It is a matter of record that Thomas Paine said to Jefferson, then President, "Make them an offer to buy Louisiana." The Louisiana Purchase circumvented the bank's attempt to set off a war.

To summarize: In reality, the monetary principle always at work is that you can have an abstract symbol, paper or token, and it can be given value by the government accepting it as taxes. Partial gold backing enabled people to believe that First Bank notes could be redeemed.

Full backing was not possible because Great Britain and Holland had the gold. It would have to be borrowed to make good such a promise.

The First Bank expired in 1811. If you smell a war coming up, be sure to read on.

WHAT ABOUT GOLD?

Gold is money, according to the Austrian School. Well, so is wheat and so is corn in a manner of speaking. But gold is not and will not be the currency of universally developed societies.

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If you are living in the Confederacy, and General Robert E. Lee has just lost the Battle of Gettysburg, then a shift to gold as insurance is a valid exercise. As an individual lifeboat, gold may be money for someone on the run from a Soviet-style dictator or an iron-pants junta.

But it is not likely that U.S. currency will go under in the classic style of Rome, Russia (three times in one lifetime) or the paper of Brazil. Gold holds value for an individual to the extent it is monetized somewhere in the world. But the prospect of paying off a whopping debt with a few coins is speculation and does not fall within the purview of this essay.

For readers who would like to pursue this topic in depth, we would recommend a reading of Eustace Mullins' *The Secrets of the Federal Reserve* and Stephen Zarlenga's *The Lost Science of Money.*

THE NAME OF THE GAME

I have recounted a few details of the great experiment called the American Nation, and how the money power was usurped. I have also hinted as to how that power disrupts the economy's structural balance in order to serve the money creators and their clientele.

Debt and war is the name of the game. This has been illustrated of late by the announcement that Halliburton was fortunate in getting $1.7 billion contract in Iraq, courtesy of the administration, Dick Cheney, vice president. The code name is Iraqi Freedom. There are other contracts worth billions, according to the public record. The entire debt constructed for war purposes bears interest. Auditors now state that fully 33 percent of the cost of Iraq goes to for-profit business institutions harvesting their bite of the pie. War is essential when agriculture has been debilitated to a point of insolvency. War alone can take material quickly into consumption, obsolescence or destruction, much like food consumed three times a day.

THE EXPERIMENT

When the First Bank of the United States' charter expired, about 100 state banks sprang up like fungus. When the First Bank was liquidated, it was discovered that of the 2,500 shares, 1,800 were owned by aliens, chiefly Dutch and English. In other words, control of the monetary power of the United States had been sold to foreigners.

Temporarily, the state bulls closed down the national bank, albeit not without consequences. By so doing, the smaller banks pointed out something that should be at once apparent today. The money creators are really a fourth branch of government, more powerful than the Executive, the Legislative or the Judiciary. It is operated for the interest of what Thorstein Veblen called the leisure class. Indeed, the Fed is operated quite well for the benefit of the banks and their interest mill.

The second lesson was that the surplus should be nationalized rather than taken up into state banks or made into a private fiefdom for the super-rich.

Law has been effective in running money systems throughout history. State and federal governments have never issued money beyond what was allowed by state legislatures.

At one time the government had accounts in 94 banks, four accounts in each bank, these to clear investments from banks not speaking to each other. The government took a whipping from specious banknotes, forgeries, etc.

Around 1812, the government issued Treasury notes with the characteristics of money. They were not bearer instruments. These notes presented a crisis when the Trust Bank was liquidated. By 1815 these notes were made bearer, real money because the government accepted them for payment of taxes, fees, etc.

The real issue always has been interest. In our own time (1968) silver certificates were withdrawn because they circulated interest-free. Federal Reserve Notes replaced them, and they always required interest. An interest-paying public tends to be an impoverished public.

In the first post-1811 case, $60.5 million was authorized between 1812 and 1818. Only $36.7 million was actually issued. The experiments and groping of the new country was for a money system that leans on gold but recognizes the impossibility of having exchange currency sufficient to facilitate commerce without the correct expansion of money in terms of population growth and commerce.

ORIGINAL SIN

There was a time when churchmen defined "original sin" as a transgression that polluted the stream of moral life for generations.

In this case, the original sin was the failure of the Founding Fathers to set up a Department of Money. The consequences of that "money failure" of the U.S. Constitution has haunted economic stability ever since. Moreover, the transfer of the money-creation power to a private oligopoly has made government a partner in crime and threatens to annihilate the civilization over which it presides.

Looking back, it is easy to see why prices were cut out from under agriculture in the 1948 law. It opened agriculture up for loans, debt, consumption of farm supplies, finally total imbalance for the entire economy and even more profits for the engines of credit.

Debt is like a hungry behemoth. It seeks to devour ever more, and this calls for war. It is no accident that between Pearl Harbor and the present, American troops have struck the first blow not once but over a hundred times.

Historians Charles and Mary Beard have characterized the era as perpetual war for perpetual peace. Korea, Vietnam, Panama, Iraq, Haiti, Somalia, all are well known. But how many people know the names of operations that took American troops into foreign countries as invaders, neo-empire builders, shock troops for so-called American interests, meaning corporations with American addresses?

MONEY POWER POLICY

Almost everyone knows there is a problem, but few have identified it. There is a reason for this. Once the money power is established, it converts newspapers and the intellectual advisers of the community to its service. The most effective tool in this endeavor is to keep the nature of money from being understood. Support for what is being said here can be found in Carroll Quigley's book *Tragedy and Hope,* pages 50-60.

Between 1811 and 1817, the number of state banks expanded from under 90 to over 200, pretending to have assets that doubled over that timeframe. The word *pretending* is used purposely. The only reason any of these banknotes were accepted by anyone was because the government accepted them for tax payments.

This, even more than a legal tender declaration, gave currency status.

This is the Austrian School free banking system that some Libertarians hold up as a norm.

Clearly, the great experiment had run its course by the time of the Madison administration. James Madison wanted to set up a new federal bank with the provision that this time the government would own 40 percent, not the 20 percent of the earlier version. This was blocked by Congress. Madison finally had to settle for another bank, 20 percent government owned, which was not enough to exercise the sovereign power required. The Second Bank of the United States began operations in April 1817. The 20/40-percent division gave both a cut and control to foreign capital.

Always, control is the key. It decides how the society will function, whether people will have employment, whether farmers will remain solvent, whether factories will migrate, whether wealth will have broad-spectrum distribution or become the property of a few. Then as now, congressmen could be enlisted, influenced the usual way, and given a token interest. One vote really counts if it makes the difference. It was another case of being sold down the river by Congress.

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THE SECOND BANK

The Second Bank was illegal because it failed the legal test of taking subscriptions in gold only for its shares. Instead, it took bank paper from many banks. This explains why there was no opposition by the 200-plus. This took the state banks off the hook for often worthless paper. By July 1817, there were 11 branch offices, and $52 million in debt had been monetized. About $9 million in circulating currency was printed, all based on gold and silver reserves of $2.5 million.

It seems that gold backing has always been taken for granted, a comfortable fiction banks liked to promote because the lie was so delicious.

In this instance, expansion of the money supply caused a speculative boom. In late 1818, the Second Bank started a contraction. Outstanding loans were cut from $52 million to $12 million. Panic followed. Circulating currency was cut from $10 million to $3.5 million in 1820. A wave of bankruptcies spread across the country. Choice properties were sold for next to nothing. Anyone with debt lost everything. Often, they moved West.

The uproar shook the nation. Then it was revealed that 40 congressmen were shareholders, and with this revelation panic set in. The South was hit hard. Some historians pick this moment in time for the buildup to civil war. In 1820 a commission condemned the bank. The bank took the assault by diverting rampaging energy into the hard money versus soft money debate.

The debate between hard money and inflation survives to this day. It ignores imbalance between sectors as an engine of credit, fuel for the interest mill and oligopolistic greed, with war as a diversion and an even more powerful harvest for greed. In fact, the debate should have been over the money system itself. Should it be in the hands of absconders, or in the hands of the people's representatives?

Historians wrap all this up in one whiplash line: "The bank was poorly run in its early years." Actually, it was well run for the 40 congressmen who held stock. Nicholas Biddle became bank president. He ran the bank more carefully. Even so, he ran into a confrontation with Andrew Jackson in 1828. Jackson called the bankers a nest of vipers, and "by the Almighty," he vowed to wipe them out. Martin Van Buren was in Jackson's camp, as was the son of Alexander Hamilton and the economist Friedrich List, whose *National System of Political Economy* is still a classic answer to Adam Smith's *Wealth of Nations.*

Jackson wanted a Treasury Department bank, but he didn't know how to accomplish it. The commission he set up didn't know how, either. They were afraid such an institution would make political loans. In fact, a central bank's job would be to control the money supply. Others would make loans.

The banks tried to oil Jackson's sore opinion by naming Jackson supporters to bank posts, but this didn't work. The old man remained hostile. Next, hostility exploded like a volcano. There was a Baring Brothers loan that was not paid, costing the government. Yes, this was the same Baring Brothers that went down in flames in Singapore due to derivative trade that went sour. Next, a check from the French government bounced. The bank tried to collect an obscene fee from the U.S. government for this, and Jackson exploded. He believed the bank would be able to buy enough congressmen to override his veto of a new bank charter up for renewal.

Jackson ordered U.S. funds withdrawn from the Second Bank and deposited in state banks. Secretary of the Treasury McLane refused. Jackson fired him. The next treasury secretary also refused. Jackson fired him. Jackson then appointed a former attorney general to the post. With that, the bank was off and running.

The bank's big game was bribery. One of Nicholas Biddle's people even wrote a letter that has survived. In it he said, "All hope is now in bribery." There are records of various loans made to well-circulated newspapers, the kind of loans that fall between the cracks and somehow disappear off the books. I mention this to illustrate that our own era is not alone in embracing mendacity. The editors involved, hostile to the bank one day, adjusted their attitudes accordingly. Daniel Webster accepted his bribe, a loan. An attempt to assassinate Jackson failed. Jackson simply caned the gunman, whose weapons misfired.

In the end, Congress would not override Jackson's veto. The bank in Pennsylvania was wiped out in a cotton scandal. Biddle was charged with fraud but not convicted.

Jackson was incorruptible, but mere honesty was not enough. He needed a bit more education. There was this business of Adam Smith declaring only gold and silver money even though the Bank of England he supported had been issuing abstract money for 80 years. Smith glorified the Bank of England as a great engine of state when it was actually a private engine of credit. Smith lionized banks as the only necessary corporations. So much for hard money!

It was Friedrich List who pointed out that England was selling Adam Smith's ideas abroad, but spurning them herself. His free trade concepts were English public policy. England was importing raw materials and exporting finished goods to which mechanical engineering and power had been applied. Transported to our era, this approach has given us NAFTA and WTO. List wryly pointed out that the British Prime Minister always had Smith's *Wealth of Nations* under his arm.

The point here is that Jackson's team wasn't buying into Adam Smith at all. They rejected free trade but became mesmerized by his definition of money.

People with good common sense reacted with the Red Skelton line, "This just doesn't sound right," in evaluating Smith. They had help — James K. Maitland, Earl of Lauderdale. In *An Inquiry into the Nature and Origin of Public Wealth* (1804), he wrote that Adam Smith's error in defining national policy in terms of a household was an oversimplification. The government is not a business or a household. The government has a legitimate monetary power. The Earl noted that you cannot save your way to prosperity as a nation. Parsimony will not advance a nation. He revealed that production was necessary and price was necessary.

The first objective of economic life is people and a satisfactory way of life for people. As population grows, so must the money supply, in tune with economic activity. The genius of the Rothschilds says this is best accomplished by tying money to debt, debt being the engine of progress. Bill Greider in his *Secrets of the Temple* bought into this concept hook, line and sinker, ignoring the buildup of interest that transferred the wealth of the nation into the hands of a few and made shambles of stability. He described the process as having faith in the future.

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Students of raw materials economics hold that new wealth entering the system should be monetized. Farm crops are the largest component of this category, and these pass quickly into consumption, paving the way for a replacement crop season after season.

Hardware such as war implements also passes quickly into consumption, but these commodities are created on the basis of debt, for which reason perpetual war for perpetual peace destroys the nation that makes this kind of policy dominant.

As the nation groped for answers to a seemingly insoluble problem, the episodes of American history took form, gathered speed, and moved ahead.

BACKGROUND

The private Bank of England was attacked first by Thomas Paine. In 1797 he showed how it warmongered as an institution. Today, Tom Paine would have gotten no press because the banker's press would have dubbed him a kook.

The second person to attack the Bank of England concept was one of the bank's founders, William Paterson. He tried to dismantle its national debt mechanism as far back as 1750.

The third critic was David Ricardo, a stockbroker and economist whose writings are still studied, if not learned. Few of these insights made it to America, and Jackson made the mistake of closing down a financial bordello without having in mind a replacement for its function.

President Martin Van Buren, Jackson's successor, looked at two models. One was the Amsterdam model, and the second was the Bank of England. Amsterdam had a bank of deposits; England had a bank of issue. The city owned the Bank of Amsterdam. It came into being when the spice trade shifted from Venice to the North Sea. This was in 1607. The purpose was to handle exchange. The Cape of Good Hope route figured — before that, trade went through Venice, then through the Arab states.

It was an era that saw the Fuggers banking house send an ambassador to the Vatican to get a ruling that interest could be charged on loans. R.H. Tawney, writing in *Religion and the Rise of Capitalism,* called the ruling an inspired truth, one purchased by the traders because it was so profitable. That trip illustrates why the powers-that-be today are so much in favor of the global plantation concept and international free trade, even though neither are appropriate for the nation in which the internationalists have corporate addresses.

Amsterdam forbade private banking. The bank vaults were located in city hall. The bank was not for profit. It was a deposit bank, not a bank of issue. It was not supposed to create money, either by printing press or by making loans. It violated its own rules, however, and indeed made loans to the Dutch East India Company. Also, it did not stick strictly to the deposit function. It was liquidated in 1817, replaced by a bank of issue.

A full recitation of how Amsterdam powered what has happened in America can be found in Stephen Zarlenga's masterpiece, *The Lost Science of Money.*

BANK OF ENGLAND

The Bank of England was formed in 1694 by people from Holland, by Jews, Christians and Huguenots. As mentioned above, the Bank of England was a bank of issue. This means it had the power to create money out of thin air. It was conceived in iniquity as a rider on a supply bill. This ability to monetize debt meant war, of course, and the resulting war debt lasted over 100 years.

It was Thomas Paine who wrote a definitive book that made the connection between the debt engine and perpetual war. Each war escalated the debt to a private bank, something akin to our own sacred national debt. When a Bank of England founding member wrote a book exposing the scam, it was burned at the London stock exchange in a public ceremony.

David Ricardo put his finger on the problem with our own Federal Reserve Bank system: "It is evident therefore that if the government itself were to be the sole issuer of paper money instead of borrowing it from the bank, the only difference would be with respect to the interest. The bank would no longer receive interest [on the public debt], the government would no longer pay it." Ricardo was dead at age 51 after making this proposal.

Martin Van Buren saw through Adam Smith and through the Bank of England, but he did not see through Smith's false concept of money — that it had to be gold or silver. This suggested the Bank of Amsterdam model, which pretended to be no more than a deposit bank for gold and silver.

Stephen Zarlenga believes Van Buren should have combined the ownership part of the Bank of Amsterdam with the issue aspect of the Bank of England.

Van Buren was of Dutch descent. He selected the Bank of Amsterdam model, and the next phase of monetary life in the United States was a tryst with metal money — gold and silver — Lincoln's money excepted.

How the United States was maneuvered into the Federal Reserve trap is a story that brings on acute nausea. It also explains our generation of perpetual war for perpetual peace, national bankruptcy, and an economy ready to be drowned by a sea of debt and war.

Without correction of the money-creation process, the United States will probably go into receivership, to be governed by a military junta, an eclipse of our political and institutional arrangements.

The economic news is what it is, a steady accumulation of data that tell of unemployment, the wasting away of American resources, the futile effort to have perpetual war as a substitute for a structurally balanced economy, mendacity in high office and a bevy of lessers running for president, hardly any having exhibited the mental acuity to vote against an Iraq adventure based on specious grounds.

Let the pot simmer. Let us pause here to plumb the real reasons for our malaise.

When great rivers of money arrived in the tax coffers due to the tech bubble of the 1990s, the bean counters convinced themselves that the river of cash was inexhaustible. The agencies of government expanded themselves and even added new programs. This bubble has burst, money has dried up, and all governments spend more than they take in. Hence war, the creation of new debt, new money. What does it all mean?

CAN WE AGREE?

"Is there nothing you economists can agree upon?"

That statement came to the fore during a recent coffee klatch, and it got me thinking. I believe we can agree on a lot of things if we let the thinking results flow logically from the facts. Never mind whether the stock market is going up or down or whether California bonds are destined to be artifacts like Confederate currency.

We can all agree that the Earth orbits the sun and that without sunlight the planet goes dead. OK, scientists might be able to mine coal and extract oil and come up with enough energy to last a while, but without energy from the sun, it's curtains.

The agency that converts sunlight to a usable form is the green dye in plant life, chlorophyl. It takes sunlight and turns it into corn, rice, wheat, soybeans — into hundreds of crops — and supplies man, microbes, animals, fish and fowl with the wherewithal to stay alive. I think we can all agree on that.

Can we agree that chlorophyl handles the light that accounts for 70 percent of the raw materials used to operate the economy? I think we can all agree to that. The old Raw Materials National Council proved that beyond the shadow of a doubt before and during World War II. This one fact makes agriculture the flywheel and balance wheel of the economy.

Production times price equals income. That makes prices placed on chlorophyl-based raw materials the big divide between the arrival of revenue from the sun and the buzzing confusion we call the clanging mart. It also leads us into an area forbidden to academia by common consent, namely, an analysis of money.

FOREGROUND

If you call NASA and ask the question, "Driving a clunker at 55 m.p.h., how long would it take to reach the moon?," the answer would be, "About 10 centuries."

The really bright people in Washington have bested the above theoretical venture. The federal deficit last year was nearly $500 billion. It rolls off the tongue quite easily, but really how much is that? If $1,000 bills were neatly stacked, the pile would be about four miles high. A cool million would be 330 feet high, as high as a 33-story building. Can you see the orbit of this money, a hazard to satellites? The fiscal debt accumulated chiefly since 1948 would reach past the moon, besting that 55 m.p.h. jalopy trip. One newsletter writer figured last year's deficit was equal to bumper-to-bumper Hondas circling the planet two times.

Farmers should understand the deficit because they understand seed corn. My father always saved back seed wheat, sometimes seed corn. Each winter (wheat) and spring (corn) was plentiful, drawing on that inventory of grain. In late summer or fall came harvest. Seed was saved for the next year. Grain not needed for seed was sold or consumed.

Seed saved back was Dad's capital, the key to next year's crop and an insurance policy against hunger.

Now consider what would have happened without that save-back of seed corn.

We've become sophisticated since then. Savings are stashed away as money. It is mobilized via the agency of stocks, bonds, CDs. The system that cycles these savings to business and the banking industry has license to enlarge deposits a little over $13,000 for every $100 of deposits, this calculation according to Franklin Sanders of *The Money Changer*. The flow of money enables the creation of tools, products, services. Now tools and building become the seed corn or wheat. Behold, jobs are created.

The point here is that the process has not changed all that much since my father's time. It all tracks back to that solar revenue and civilization's ability to keep books, flow money, and, not least, understand the money system.

When the National Banking Act of 1863 was passed, a poignant letter went into the record. It was written by one of the Rothschild brothers, who predicted, "The few who can understand the system (created by the National Banking Act) will either be so interested in its profits, or so dependent on its favors, that there will be no opposition from that class, while on the other hand, the great body of the people mentally incapable of comprehending the tremendous advantage that capital derives from the system, will bear its burdens without complaint, and perhaps without even suspecting that the system is inimical to their interests."

I believe *Acres U.S.A.* readers have the mental acuity to comprehend the system, for which reason I attempt this exposition and analysis of money.

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CURRENCY

"If we have to use force, it is because we are America. We are the indispensable nation. We stand tall. We see further into the future." So said Clinton's Secretary of State, Madelyn Albright. The world heard and said, "Really?" Richard Maybury's *Early Warning Report* later summarized: "Hubris run amok!"

Wherefrom this power? Someone, Edison I think, once said that the most profound invention of mankind was compound interest and the ability to turn debt into money. With debt money, Bill Greider said in *Secrets of the Temple: How the Federal Reserve Runs the Country,* the Federal Reserve shows faith in the future. Enterprise no longer needs to capitalize on savings and expand on earnings. The anointed ones can give Wal-Mart a leg up and permit the takeover of retailing — all of it.

UN estimates now have it that the U.S. sanctions on Iraq killed 5,000 Iraqi children each month for 10 years. The total killed by Saddam Hussein, Osama bin Laden and Slobodan Milosevic was 284,000. Total deaths caused by Bush I, Clinton and Bush II — 1,117,000.

"Never think that war, no matter how necessary, nor how justified, is not a crime," wrote Ernest Hemingway. "Ask the infantry. Ask the dead."

Those million dead in the name of freedom are just a statistic. A $500 billion federal deficit is equally a statistic. The size of the blunders are so awesome, they baffle the imagination. No one can comprehend a deficit of more than a billion dollars per day. The sheer size of a deficit run amok asks us to examine the counting system for this rampant insanity, money.

Whatever the high ideals of the attendant flag waving, modern wars were invented to create debt, meaning money, and the process ultimately brings down nations and civilizations.

Farmers come closest to understanding the deficit because they understand seed corn, at least, old farmers do. Each spring the Midwestern farmer would sow his corn. Harvest took place in the fall. Before hybrids intervened so that corn would grow on worn-out ground, the farmer saved back the seed he needed for the next crop. The savings — yes, the seed corn — was his capital (remember, capitalize on scrips). What happens when the old timer eats his seed corn, his capital? The picture is clear enough.

In the 21st century, savings are kept in institutions. They are mobilized via the agency of stocks, bonds, CDs. These savings are funneled to businesses, multiplied of course by debt money created from thin air in a process designed to confuse the layperson. The metaphor of an industrial society needs little explanation. Tools, vehicles, medicines, all the paraphernalia of civilized society are needed. These things are the seed corn. It is the seed corn that creates the jobs. Production leads to savings, which leads to more production. As Lincoln said, labor is the instrument for creating capital, and of course raw materials are ahead of labor.

MONEY

Let's think of money, then, as seed corn. Let us understand how this requirement that farmers consume their own capital has led us to our present predicament. History explains why politicos are so tardy in forming a workable public policy. And without comprehension of money, the tragedy of the last 10 administrations, not unlike the tragedy of the 12 Caesars, will continue.

Bank of deposit! Bank of issue? How many people who conjure up a genuine world money supply know their history, that sure guide to what will be? The Bank of Amsterdam got her deposits alright, a river of silver and gold, courtesy of the indigenous people of the Americas — 10 to 20 million killed for the precious metals even before the Bank of Amsterdam opened. Stephen Zarlenga's book, *The Lost Science of Money,* is probably alone in connecting those genocidal episodes to deposits.

President Van Buren probably knew nothing about this influx of cash. He merely reasoned, as do small businesses today, that capitalization has to be a consequence of savings, and expansion a result of earnings. The idea of creating money out of thin air was repugnant to Van Buren and his political mentor, Andrew Jackson. Banking was held in very low esteem at the time, largely due to a man named William Gouge. In 1833 he wrote *A Short History of Money and Banking.* Whenever I pull it off my library shelf I have to reflect that it certainly isn't short, but it is one of the best books on banking ever written. In its day it was at least as significant as Keynes and Galbraith are today. The book shocked a naive people who for the first time learned how banks were founded, how they operate, how they capitalized not with coin, but with promissory notes, which were tantamount to creating currency out of absolutely nothing other than printer's ink and paper.

Singlehanded, Gouge ended so-called free banking. Suddenly states started requiring banks to have reserves, which now had to be kept in the form of government bonds. There was a saying in those days that the silver and gold reserves were on the road ahead of the bank inspectors, much as digital money now orbits the earth ahead of the clock.

The tradition that metal was money was so strong during Jackson's term of office, there was that famous line that public lands be paid for in specie (gold), the basis for land title, all now repudiated from county to federal governments. From that moment on, depression set in. Bank currency, it turned out, was paper and paper only. The day the government ceased accepting banknotes as payment, currency contracted and depression set in. It was during this period that the United States really was on a pure gold and silver coinage standard.

The lesson is clear. It is the government that determines the official money, by law. Without this imprimatur, people have no faith in currency, whatever it is. This lesson also tells us where the money power comes from. It is a creation of a society, and the benefits ought to accrue to that society, not to a private group. Historically, it has been this usurpation of a government function that sets in motion the chain of events that annihilates both the usurpers and the society. It is this type of tragedy we bear witness to today. The term of this exercise is long. For the short term, the killing runs beyond the dreams of avarice — and Midas!

In the Van Buren administration, the government started to issue Treasury notes as money. The issue of $10 million that was paid out, then collected back in taxes, got the economy moving again in 1837 and 1838, fully 60 percent of government revenue was collected in Van Buren money. It appeared that there simply was not and could not be enough gold and silver for the expanding population and growing economy.

Again, history pronounces its verdict. Between 1500 and 1900, gold production increased 1.5 percent per annum. The increase in population was near 3 percent.

These issues continued until 1850, at which point Congress stopped them entirely. The year 1849 intervened. Gold was discovered on Sutter's Creek in California. The congressional close-down of issue and the discovery of gold changed a brittle money situation overnight. A depression unfolded because one ship bearing gold was sunk, this in 1851. The loss of one ship created a panic, and Congress came to the rescue with a new issue.

The experience of Colonial days, the banks, now the depression of the 1850s, all conspired to teach — if reluctantly — a nation embroiled in the slavery question. How could anyone argue against gold when gold coins were being used in California the way pennies are used in an arcade? The same was not true in New Hampshire.

In writing this report, I reread Carl Sandburg's biography of Lincoln. Regardless of what revisionists say, it is a well-balanced biography and reveals that all the "correct measures" later writers saw were in fact considered by Lincoln, who more than present chief executives was required to consult his constituency before acting, and was not the dictator that writers like William Manchester made him out to be. We now must consider Lincoln's money.

THE AUTHORITY OF MONEY

Before we do, let this quotation from Gouge stand: "Over the periodical press, the banks have great power. Few journalists can venture to expose the money corporation systems in such plain terms as everybody would understand." Gouge went on to say that if the superior credit the banks were enjoying had grown out of the natural order of things, it would not be a subject of complaint. "But the banks owe their credit to charters, to special acts of legislation in their favor, and to their notes being made receivable in payment of dues to government." The public credit supports banks, not the other way around. "Profits derived from circulation come from the community and ought to go to the community to lighten the burden of taxation."

Gouge did more. He likened this hammer over the population to its social consequences. If you deprive a man of his property, you also deprive him of the wherewithal to feed and educate his family and thus affect the moral and intellectual character of a people for generations. We see this today. Interest transfers the wealth of a nation into the hands of a few, keeping the rest of the community in penury.

> Seed saved back was Dad's capital, the key to next year's crop and an insurance policy against hunger.

This much stated, it must be pointed out that Gouge opted for gold and silver because he trusted government little, banks of issue even less. Gold to him was a standard for the actual flow of commodities, yet today we know commodities cannot have such a standard unless structural balance is regulated, borders are protected, and the farmer is given what he is entitled to — first crack at the American market.

Gouge knew the banks cheated. The authority of money was less understood.

I put the question to Zarlenga — where does control rest? "There have been times when gold and silver might have gone against the interests of the establishment, but in general gold and silver are self-defeating because if there is no proper concept of money, then it is not understood that it has to be in the law and controlled by society via the laws and election processes. If it is not controlled that way, then it has to be controlled by the people handling the money."

Slavery was a moral issue, but the real seeds of the Civil War were sown by the Second Bank of the United States. When deflation after Jackson occurred, the South chafed at the withdrawal of circulating media. Also, cotton profits were being drained away exactly the way profits were taken out of American agriculture after World War II. Thomas P. Kettell's book *Southern Wealth and Northern Profits* demonstrates how cotton producers were being paid for less wealth than they produced. Also, Queen Victoria's government really wanted the United States divided in half.

LINCOLN MONEY

Lincoln probably did not understand the money that took his name, but he went along with wiser heads. The greenbacks were authorized by Congress as interest-free money to be paid into circulation for war materials. If they meant inflation, this was a tax that fell equally on everyone. What is never pointed out is the fact that the banks took in greenbacks and converted them into interest-bearing instruments via the agency of loans. For every dollar deposited, they created $1.49 of additional currency, at interest, of course. The greenbacks were a great success. Instead of borrowing from the Continent, the States did for themselves at zero interest what the European bankers stood ready to do for them at ruinous interest.

The Civil War ended in April 1865. It was then that a drumbeat started for taking that interest-free money out of circulation. The idea put forward was that Lincoln money had to be paid for in gold. There is one rule as definite as the law of gravity. When it is necessary to save the bankers, the money creators step aside and let the government create the money system. Once some stability has been restored, the bankers move in and take over again.

All of a sudden, preachers, professors, intellectual advisers of every stripe — editors included — discovered a divine truth. Bonds purchased with greenbacks were to be paid off in gold. Also, sound economics demanded that interest-free greenbacks be removed from circulation and exchanged into gold, and that circulating media be replaced with banknotes based on debt — interest-bearing notes, that is. The example of interest-free money was immoral, all these sin-killers concluded in unison. Allowed to continue, this could undermine the greatest scam since the Tulip Mania, the South Sea Bubble and the proposition that interest was a moral imperative.

To call into question this imperative that money must be loaned into circulation has become a peer-pressure crime, one that gets an academic economist drummed out of the corp, figuratively shot on sight, turned into a crank, an intellectual hippie. Picture the scorn piled on Representative Charles A. Lindbergh for his opposition to the Federal Reserve.

Students may want to find a copy of Irwin Unger's *The Greenback Era.* How what follows was arranged is a mystery. "From the very first, the ministers and religious editors were active partisans who identified hard money with virtue. The Calvinist denominations took the lead in the religious attack on heretical financial ideas." The greenbacks were characterized as immoral. This was hammered from the pulpit and in print. "The religious press has almost without exception been the ally of the bondholders and bankers in their endless schemes to fleece the public."

Usury, once a well-greased skid to damnation, was now holy virtue! The arguments of the clergy were furbished and refurbished by academic economists. It must be remembered that almost all colleges in those days were church schools, and lecturers of economics were professors of moral philosophy. Out of this battle came the Populists.

In any case, there was a measure in Congress shortly after Lincoln's death to get rid of greenbacks, to pay them off in gold. President Andrew Johnson vetoed it. By the 1868 election, the nation had settled into its two-party rut. The initial home of the greenbacks was the Democratic Party. The chairman of the National Democratic Convention was August Belmont, a banker and a representative of the Rothschilds. He used his gavel quite well, undercutting the party's candidate, Horatio Seymour.

We are not required to speculate about what happened. The finest monetary historian of all time, Alexander Delmar, was there and wrote it down in *Monetary Crimes.*

There was also a Democratic newspaper called *The World,* a newspaper Bible if ever there was one. It denounced Seymour. An 1868 article savaged the party's own candidate, and Belmont remained incognito during the storm that followed, not one syllable of defense forthcoming.

The Democrats lost the election. U.S. Grant's first act on March 3, 1869, was to ratify the measure Johnson had vetoed.

Recall that some 600,000 soldiers died in the Civil War. Now the bondholders had to have gold. The government did not have the gold to make good this redemption. It had to borrow the gold from the Rothschilds of Paris and England and Holland. The gold had to be paid back — with interest. When resumption finally came, some $132,000 worth of notes were redeemable. About $400,000 in gold was deposited "for more convenient bank paper."

THE POPULISTS

Myths die hard. The myth that currency could be turned in for gold was kept alive well into the Lyndon Johnson administration. The successor to that earlier Johnson had seen to it that the Democratic Party collapsed as splinter parties took over — Free Silver, Populists, Greenbackers, Mary Elizabeth Lease telling farmers to raise less corn and more hell, splinters always assailing the money creators' perpetual power. Some of these folks understood money creation; some did not. Even the great William Jennings Bryan did not fully comprehend the fact that it was the government imprimatur that could make money out of sticks, paper or cowry shells.

When the silverists succeeded in mandating coinage, sometimes unlimited, even the Comstock Lode did not suffice. Silver, recently demonetized in England, had to be borrowed and then returned with interest in order to comply with coinage law.

Before William Jennings Bryan captured the issue in three unsuccessful runs for the presidency, there were people who really understood money creation, debt and the interest scam. One was General Benjamin Franklin Butler, who ran for president on the Greenback ticket. He had been in charge of armed forces in New Orleans during the Civil War. He suggested a permanent greenback system while in the House in 1869. He said currency should be sound, cheap, stable and plentiful. His objective was to avoid panics arising from the pretense that currency was convertible to gold or silver. The United States had rid itself of bondage and despotism in every area save one — the bondage of the private money creators.

Were the greenbacks unfair to creditors? No, because what was loaned was credit, not gold. The fiction that currency — other than a token amount — was convertible to gold hangs on and remains something to be wished on grounds that the physical supply closes down a government's wildfire spending.

The Greenback Party was attacked as communist, this in the late 1860s. Socialists attacked greenbacks. In the final analysis, the bankers won. They were to make secure their victory once and for all time when in the Wilson administration debt-based money was made secure in the Federal Reserve.

The way had been shown by the National Banking Act of 1863. It allowed banks to be chartered nationally. At one time there was a 10 percent tax on state bank issues. This put to death local bank currency. Clearly, debt money was in the saddle except for the interlude of Lincoln money and mandated coinage during the silver era. When Bryan — "You shall not press down upon the brow of labor this crown of thorns. You shall not crucify mankind upon a cross of gold" — yes, when Bryan failed to capture the presidency three times — not to emerge again until an old man, as Wilson's Secretary of State — the fire was gone.

FINAL TOUCH

The anatomy of production and savings and growth has changed less than DNA over the years. Production came first. The solar revenue on which we live has been downgraded, while fancy footwork assumes as a given the revenue upon which all else depends. The measure of a society's maturity is how well the seed corn is distributed. This business of borrowing the seed corn (funds in the capital market) and consuming it leaves unanswered the exponential growth of debt and the parting of the ways between mathematical ambition and physical possibility. When spending exceeds income, then upkeep becomes the downfall of the economy.

The government has borrowed the seed corn (capital) to the hilt. This is tantamount to consuming tools. Every $50,000 the government consumes is one job uncredited. The Bush administration request for Iraq equals about 4.5 million jobs lost, canceled out.

Wall Street Journal, Barron's, The New York Times, etc., can't seem to see much beyond the day after tomorrow.

DEBT

Banks ended 2003 with indecent profits, but by then the die had been cast. Consumers are now being forced to put a hold on borrowing. Loans are due, and even credit cards are taking a hit, meaning fewer card buys. As unemployment continues to idle workers, mortgages are fire closed, bonds crash, banks find themselves in a squeeze. They've loaded up with bonds of every stripe on the one hand, and they have clients that can't collateralize borrowings.

As interest rates rise, debt instruments of the government sink in value. The real whammy lurks in the form of a real estate bust. Figure wranglers tell us mortgage applications have plunged in excess of 11 percent recently, down more than 33 percent since last year. Foreclosures surge monthly. Bad loans tend to become evident as interest rates climb.

Personal bankruptcies set a new record last year, and a new round of corporate bankruptcies waits in the wings.

The money game — too complicated for most people because they have never paid out the price of an effort to understand it — has razzle-dazzled itself into a cul-de-sac.

The business of enlarging the money supply to pump the economy and float the stock market has a downside ever-evident in the annals of history. Many wise people have seen the fallacies, as ever-timely quotations will illustrate at the end of this article.

U.S. companies owe a record $4.7 trillion. This debt is growing three times faster than the gross domestic product. Morton Weiss, who traces companies, says 660 big companies, including Ford, Horizon, Maytag, Allied Waste and Kellogg's, are bleeding so badly their very survival is in question.

Added to the above is a pension fund crisis. Fully 95 percent of those corporate pension plans are in the red.

When the first line of this report was set down, there was a $48 billion tab for Iraq for one year. By the time the paragraph was finished, the debt had doubled, just under $80 billion. Add another $80 billion as the prescription drug measure goes through. Stay tuned, by the time you finish reading this, you may have to use power figures to compute the debt.

BACKGROUND

When the nationally chartered banks issued their notes (printed by the government), they found superb acceptance. All the silver coinage stayed on, finally to disappear into the albums of collectors or to be melted back into bullion.

The fiction of conversion was kept alive even to our own time. Some interest-free currency survived until after the Kennedy administration. There were the silver certificates. As the engines of inflation picked up steam after the Eisenhower administration, some few citizens asked for silver when presenting silver certificates to the bank. They were met with a "huh?' and always walked away empty-handed. Within a year, silver certificates were withdrawn from circulation, replaced by Federal Reserve Notes. The same hunk of silver had kept the silver certificates in circulation since after the Civil War, all interest free. Much the same was true of U.S. Notes, interest free. They also were withdrawn. *Unforgiven* is full of information and quotes that put into focus the nature of the money scam, the new divine right of kings.

Looking back, it seems the money creditors had a simple objective. The Populists splintered and did what third parties always do, usher in minority presidents.

In 1873 silver was demonetized by congressional sleight of hand. England demonetized silver, and the United States followed suit. This had the world scrambling. The Federal Reserve came into being.

THE FEDERAL RESERVE

"Born in iniquity" is a mild way of opening a paragraph on the Federal Reserve. Josiah Stamp was speaking as the second richest man in the British Empire when he spoke the words reproduced in the collection of quotations that closes this article. He was talking about the blueprint for the system that now has us all in thrall and makes possible a seemingly robust economy while annihilating agriculture.

The banker's penchant for gold ruined China and Mexico and brought ruin to much of the American West. The Populists had succeeded. They named congressmen, captured governorships, and raised hell with railroads. The illusion of gold banking won the day, and when Theodore Roosevelt split the vote with his Bull Moose party, the man my parents called "The Evil Wilson" moved in.

Wilson's administration did more to dismantle the Constitution than any predecessors. An income tax became law, fraudulently but with the blessings of William Jennings Bryan. A foundations law was passed to preserve the wealth of the super-rich. The Senate was no longer elected by state legislatures, but at large, this so that heavy contributors could more easily name the officeholders and relieve the senators of the clear necessity of answering to the people as represented in state legislatures. Parenthetically, it must be noted that the income tax made it possible to reduce tariffs and put in motion the world trade idea that dominates economics today.

It must be remembered that Germany demonetized gold in 1857. Bankers routinely discussed demonetizing gold when discoveries in California and Alaska delivered too much of the stuff to the markets. The point here is that *control* is the name of the game. It is bondage the lenders want, not sound currency. Now does it come clear why Alan Greenspan becomes antsy when unemployment fades away? He detests the idea of full employment.

The real issue — yesterday, today, tomorrow — always has been and remains control of the money supply.

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It may have been a runaway Congress when in 1890 the Sherman Silver Act was passed. It required 4.5 million ounces of coinage each month. There wasn't that much silver in the world — so back to borrowing it from England, and back to paying interest. The 17 million ounces from Europe depressed American bankers, who came up fighting from their chairs. The sellers of silver wanted gold, gold had to be borrowed — interest!

Mendacity and the unclear vision that Theodore Roosevelt and William Jennings Bryan and even Woodrow Wilson had of coin and money allowed the greatest political swindle in history to rise to the surface and sour the landscape. The swings of the economy created an outcry for monetary reform. When people fill the streets and hammer Congress, the lawmakers pause to listen. The disasters in the countryside brought on the National Monetary Commission in 1908. This fox-in-the-henhouse exercise brought together establishment figures. The usual junkets to Europe to see how the really wise people did it followed — all at taxpayers' expense, of course. The last act in the drama came off as a meeting at Jekyll Island, Georgia, with J.P. Morgan as host. The Rothschilds' people were there. It was later reported that fully one-sixth of the wealth of the world was in attendance. Sen. Nelson Aldrich was there. It is enough to point out that Nelson A. Aldrich gave his first name to maternal grandson Nelson A. Rockefeller. Paul Warburg, a German banker, was also there.

The place was so secret even the waiters were required to be cleared. Why? The Federal Reserve Act was being crafted, with Paul Warburg doing the crafting.

When presented to Congress, it was called the Aldrich Bill. The measure went down in flames in 1911, but the fire was soon put out. President Taft had his doubts and threatened a veto. Just how the break between Taft and Theodore Roosevelt was engineered is a question even TR's biographers haven't answered fully. Just the same, Roosevelt emerged from the jungles of Africa to form the Bull Moose party. This split the vote and gave Woodrow Wilson a squeaker of a victory. The old Aldrich Bill was repackaged and presented anew as the Carter Glass Bill, taking its name from the chairman of the House Banking and Currency Committee.

If the titanic struggles over free silver and/or Lincoln's greenbacks haunted memory, the fight over the Federal Reserve was equally emotional. Why the abstractions involved were so difficult for most members of Congress to handle remains a mystery. Secretary of State William Jennings Bryan was hornswoggled into supporting the measure. Clearly, he did not comprehend what was happening. The press installed the usual confusion. Bankers pretended to be against the Glass Bill, but this was Trojan Horse stuff. The public, ignorant of the nature of coin and money, was simply duped, much as is the case when the public is duped into going to war.

Minnesota Representative Charles Augustus Lindbergh, the father of the famous aviator, led the opposition and later made a matter of record his arguments against "the greatest trust in the history of mankind" in a small book that still circulates. Senator Eli Root of New York opposed the Federal Reserve in what became one of the most famous American speeches of all time, three hours in length. President Wilson, the academic president, supported the measure.

The abstractions involved escaped Wilson. Even the bill's spin expert, J.L. Laughlin, a University of Chicago economist, allowed that Wilson was no monetary expert. The schoolman held his ground for a time, then caved in, albeit not without regrets.

Wilson gave his rationale to Congress on June 23, 1913. He expected control of the system of issue to be in the hands of government, not the bankers. Banks were not to be the masters of government.

Congressman Lindbergh argued: "This act establishes the most gigantic trust on Earth, such as the Sherman Antitrust Act would dissolve if Congress did not by this act expressly create what that act prohibited. When the President signs this act, the invisible government by the money power . . . will be legalized. The greatest crime of Congress is its currency system."

Wilson finally signed the bill, and Congressman Lindbergh was defeated at the next election and finally reduced to penury for his brash opposition to the money powers.

It was Section 16 that delegated unlimited power to issue currency to the Fed.

GOLD INFLATION

Between 1914 and 1917, a great gold inflation settled in. The money stock of the United States went up 46 percent. Wholesale prices increased 65 percent. War in Europe and finally America's participation for 165 days gave the bankers a windfall. As usual, the public took it on the chin and then endured a 55 percent drop in the value of gold. The reason: the arrival of gold to pay for war supplies. Gold, it turned out, was not an effective governor of the money supply.

The first six years of Federal Reserve management of inflation saw a 75 percent increase in prices. The 1920 collapse delivered a Sunday punch to farmers, as if to prepare them for the Depression of the 1930s and then the post-Truman years of ever-sinking farm prices. The inflation factor under Fed management, in cumulative terms between passage of the law and the present, is a bit over 1,000 percent, this under a private Federal Reserve banking system.

There was a lesson in this. The value of gold is as dependent on government as is the value of paper money. It is the imprimatur of the government that confers value of either when monetized.

Who benefits when the money supply collapses, as when England went back on a gold standard at the prewar price? Answer: the debtor.

An incestuous relationship developed between continental and U.S. bankers, the objective being gold transfer due to interest manipulation. The stock market achieved bubble status in 1929, and the rest you know. Banks increased their loans on stocks by 121 percent and increased real estate loans 178 percent.

Debt created money big time to fight World War II, and for a time the corn was returned to the seed stock — figuratively speaking — not only for agriculture, but also for industry. The income sectors of the economy — corporations, rentals, small business and agriculture — earned $33^1/_3$ percent of national income. The cost side of the equation earned $66\,^2/_3$ percent of national income. The balance was perfect for full employment and a balanced budget.

However, this equation made banking unprofitable. Therefore, those in control started the drumbeat for free trade and the importation of commodities in order to lower farm prices and open up agriculture to loan expansion. Farmers have been consuming the corn (capital) ever since.

The Glass-Steagall Act separated banks from brokerage. Now the earlier status has returned. In the 1920s the free market ideologues had their way. The same is true today.

In terms of gold, the 1948 farm act lowered farm prices to be in line with $35-an-ounce gold instead of raising gold to farm parity.

Eustace Mullins has in print *Secrets of the Federal Reserve,* the best book on the Fed ever written. Stephen Zarlenga has available *The Lost Science of Money.* Both tell how banks create the problem, and how it is up to the government to eat the bank's mistakes. In April 1932 the Fed monetized $1 billion of federal debt. It is hard to supply money when people are too scared to borrow. That is why the government had to step in.

> The real issue — yesterday, today, tomorrow — always has been and remains control of the money supply.

THE FED

Should the Fed be taken over by the U.S. government? Yes! Double yes! It should be a bank of issue. Other banks should be banks of deposit. Why? Look at the Great Depression.

Recovery was taking form by 1935, 1936. In 1937 the Fed delivered one last blow to the solar plexus. It doubled reserve requirements of the banking system in time to cut short the recovery. The imbalance triggered by the collapse of farm prices was offset to some extent by Roosevelt administration programs which all together were insufficient to repair the damage.

Since World War II, the banking system has created plenty of money, usually for purposes that debilitate the country. Wal-Mart is a good bad example. The military-industrial complex is another. Perpetual war for perpetual peace is still another. Roads, houses, infrastructure, all have suffered.

A LIVE ISSUE

The college economists say the money issue is a dead issue, resolved once and for all by the enactment of the Federal Reserve. In fact, quite the reverse is true.

Slavery is a dead issue — that is, chattel slavery. These other issues perceived to be resolved — tariffs and trade, the banking system — they are alive and ready to rise from the basement and bankruptcy because they made the foundation of the economy, agriculture, their first victim.

PREMISES & CONCLUSIONS

In concluding this four-part series of *Acres U.S.A.* "Newsletter," we would like to add a collection of classic quotations that in effect tell the entire story and history of money in America. These were assembled by Rich Koltanz, writing in an unpublished manuscript, "Middle East War and the Rest of the American Revolution."

"This business of borrowing money into circulation, then withholding more money creation to make payment and debt service impossible, haunted Persia, cursed Greece and Rome, annihilated the defense of Carthage, and presided over death and wars between Deuteronomy and the eve of the 1948 presidential election."

— *Charles Walters in* Acres U.S.A.

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"The Bank hath benefit of interest on money which it hath created out of nothing."

— *William Patterson*

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"I care not what puppet is placed upon the throne of England. . . . The man that controls Britain's money supply controls the British Empire, and I control the British money supply."

— *Nathan Mayer Rothschild*

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"The Colonies would gladly have borne the little tax on tea and other matters had it not been that England took away from the Colonies [the right to issue] their money, which created unemployment and dissatisfaction."

— *Benjamin Franklin*

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"They saw that here was a nation that was ready to be exploited; here was a nation that had been setting up an example that they could issue their own money in place of the money coming through the banks. So the Rothschild Bank caused a bill to be introduced in the English Parliament which provided that no colony of England could issue their own money. They had to use English money. Consequently, the Colonies were compelled to discard their script and mortgage themselves to the Bank of England in order to get money. For the first time in the history of the United States our money began to be based on debt.

Benjamin Franklin stated that in one year from that date the streets of the Colonies were filled with unemployed." — *Sen. Robert Owen, first chairman of the Senate Committee on Banking and Currency*

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"The skirmishes at Lexington and Concord are considered the start of the Revolt, but the point of no return was probably May 10, 1775, when the Continental Congress assumed the power of sovereignty by issuing its own money."

— *Stephen Zarlenga*

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"The Central Bank is an institution of the most deadly hostility existing against the principles and form of our Constitution. . . .

I believe that banking institutions are more dangerous to our liberties than standing armies. Already they have raised up a monied aristocracy that has set the Government at defiance. The issuing power should be taken from the banks and restored to the people to whom it properly belongs.

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If the American people ever allow the banks to control the issuance of their currency, first by inflation and then by deflation, the banks and corporations that will grow up around them will deprive the people of all property until their children will wake up homeless on the continent their fathers occupied."

— Thomas Jefferson

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"Banking was conceived in iniquity and born in sin. . . . Bankers own the world. Take it away from them, but leave them the power to create money . . . and with the flick of the pen, they will create enough money to buy it back again . . . Take this power away from bankers, and all great fortunes like mine will disappear, and they ought to disappear, because this would then be a better and a happier world to live in . . . But if you want to continue to be the slaves of bankers, and pay the cost of your slavery, let them continue to create money." *— Josiah Stamp, former President of the Bank of England*

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"If all bank loans were paid, no one would have a bank deposit, and there would not be a dollar of currency or coin in circulation. This is a staggering thought. We are completely dependent on the commercial banks. Someone has to borrow every dollar we have in circulation, cash or credit . . . We are absolutely without a permanent monetary system. When one gets a complete grasp upo n the picture, the tragic absurdity of ourho peless position is almost incredible — but there it is. It (the banking problem) is the most important subject intelligent persons can investigate and reflect upon. It is so important that our present civilization may collapse unless is widely understood and the defects remedied very soon."

— Robert Hemphill, former credit manager of the Federal Reserve Bank of Atlanta

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"Money is the creature of law and the creation of the original issue of money should be maintained as an exclusive monopoly of National Government.

Government possessing the power to create and issue currency . . . need not and should not borrow capital at interest as the means of financing governmental work and public enterprise. The Government should create, issue, and circulate all the currency and credit needed to satisfy the spending power of the Government and the buying power of consumers. The privilege of creating and issuing money is not only the supreme prerogative of Government, but it is the Government's greatest creative opportunity.

The taxpayers will be saved immense sums in interest. . . . Money will cease to be master and become the servant of humanity. Democracy will rise superior to the money power."

— Abraham Lincoln

•

"If that mischievous financial policy, which had its origin in the North American Republic (the public issue of usury-free currency) should become indurated down to a fixture, then that Government will furnish its own money without cost. It will pay off debts and without a debt. It will have all the money necessary to carry on its commerce. It will become prosperous beyond precedent in history of the civilized governments of the world. The brains and wealth of all countries will go to North America. That government must be destroyed or it will destroy every monarchy on the globe."

— Otto von Bismark

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"I have two great enemies, the southern army in front of me and the financial institutions in the rear. Of the two, the one in the rear is the greatest enemy."

— Abraham Lincoln

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"The few who can understand the system [created by the National Banking Act] will either be so interested in its profits, or so dependent on its favors, that there will be no opposition from that class, while on the other hand, the great body of the people mentally incapable of comprehending the tremendous advantage that capital derives from the system, will bear its burdens without complaint, and perhaps without even suspecting that the system is inimical to their interests."

— Rothschild Bros. of London, 1863

"My agency in promoting the passage of the National Bank Act was the greatest financial mistake of my life. It has built up a monopoly which affects every interest in the country. It should be repealed, but before that can be accomplished, the people will be arrayed on one side and the banks on the other, in a contest such as we have never seen before in this country."

— Salmon P. Chase, Secretary of State and Chief Justice of the Supreme Court

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"While boasting of our noble deeds, we are careful to conceal the ugly fact that by our iniquitous money system we have nationalized a system of oppression, which, though more refined, is not less cruel than the old system of chattel slavery." *— Horace Greeley*

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"The money power preys upon the nation in times of peace and conspires against it in times of adversity. It is more despotic than monarchy, more insolent than autocracy, more selfish than bureaucracy. I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country. Corporations have been enthroned, an era of corruption in high places will follow, and the money-power of the country will endeavor to prolong its reign by working upon the prejudices of the people until the wealth is aggregated in a few hands and the Republic is destroyed."

— Abraham Lincoln

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"Whoever controls the volume of money in any country is absolute master of all industry and commerce. . . . And when you realize that the entire system is very easily controlled, one way or another, by a few powerful men at the top, you will not have to be told how periods of inflation and depression originate."

— James A. Garfield

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"The gold standard has slain its tens of thousands. If they ask us why we do not embody in our platforms all the things that we believe in, we reply that when we have restored the money of the Constitution, all other necessary reforms will be possible; but that until this is done there is no other reform that can be accomplished."

— William Jennings Bryan

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"And the control of the system of banking and of issue which our new laws are to set up must be public, not private, must be vested in the Government itself, so that the banks may be the instruments, not the mas-

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ters, of-business and of individual enterprise and initiative."

— *Woodrow Wilson, 1913*

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"This act establishes the most gigantic trust on earth, such as the Sherman Antitrust Act would dissolve if Congress did not by this act expressly create what by that act it prohibited. When the President signs this act the invisible government by the money power, proven to exist by the Money Trust investigation, will be legalized.

The greatest crime of Congress is its currency system. The schemiest legislative crime of all the ages is perpetuated by this new banking and currency bill."

— *Congressman Charles A. Lindbergh*

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"I am a most unhappy man. I have unwittingly ruined my country. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men. We have come to be one of the worst ruled, one of the most completely controlled and dominated governments in the civilized world — no longer a government by free opinion, no longer a government by conviction and the vote of the majority, but a government by the opinion and duress of a small group of dominant men."

— *Woodrow Wilson, 1916*

"That is the one thing in my public career that I regret — my work to secure the enactment of the Federal Reserve Law."

— *William Jennings Bryan*

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"The people did not know the Federal-Reserve Banks were organized for profit-making. They were intended to stabilize the credit and currency supply of the country. That end has not been accomplished. Indeed, there has been the most remarkable variation in the purchasing power of money since the System went into effect."

— *Sen. Robert L. Owen*

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"I had never though the Federal Reserve Bank System would prove such a failure. The country is in a state of irretrievable bankruptcy."

— *Carter Glass, 1938*

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"It is well that the people of the Nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning."

— *Henry Ford*

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"If our nation can issue dollar bond, it can issue a dollar bill. The element that makes the bond good makes the bill good, also. The difference between the bond and the bill is that the bond lets the money broker collect (usury) . . . whereas the currency pays nobody but those who contribute . . . in some useful way."

— *Thomas A. Edison*

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"I wrote into the bill which was introduced by me in the Senate on June 26, 1913, a provision that the powers of the System should be employed to promote a stable price level, which meant a dollar of stable purchasing, debt-paying power. It was stricken out. The powerful money interests got control of the Federal Reserve Board through Mr. Paul Warburg, Mr. Albert Strauss and Mr. Adolph C. Miller, and they were able to have that secret meeting of May 18, 1920, and bring about a contraction of credit so violent it threw five million people out of employment. In 1920 that Reserve Board deliberately caused the Panic of 1921. The same people, unrestrained in the stock market, expanding credit to a great excess between 1926 and 1929, raised the price of stocks to a fantastic point where they could not possibly earn dividends, and when people realized this, they tried to get out, resulting in the Crash of October 24, 1929."

— *Sen. Robert L. Owen*

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"Some people think the Federal Reserve Banks are United States Government institutions. They are not Government institutions. They are private credit monopolies which prey upon the people of the United States for the benefit of themselves and their foreign customers; foreign and domestic speculators and swindlers and rich and predatory money lenders."

— *Louis McFadden, chairman of the House Banking and Currency Committee*

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"The banks — commercial banks and the Federal Reserve — create all the money of this nation, and its people pay interest on every dollar of that newly created money. Which means that private banks exercise unconstitutionally, immorally, and ridiculously the power to tax the people."

— *Congressman Jerry Voorhis*

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"The Fed is locked into this continuing credit expansion. It can't stop. If ever bank lending slows . . . the game is up, and the scramble for liquidity starts. . . . The Fed will be powerless to stop a deflationary collapse once it starts."

— *John Exter, Federal Reserve banker*

Recommended reading: Stephen Zarlenga's The Lost Science of Money *is available from the American Monetary Institute, P.O. Box 601, Valatie, New York 12184, website <www.mone tary.org>.*