# ***Money and Power***

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## Money is Power

Few people living today have a clue as to the role money has played in reversing the roles of Americans and their government. Government is no longer a servant of the people; the people are, and have long been, servants of the government. Or, in more blunt terms, the people are servants of the politicians.

Let's start at the beginning and take a look at what money really is and how it evolved into a power tool for those who are cunning enough and clever enough to lie their way to the top. Considering the role that money has played in transferring power to politicians who once served at the pleasure of ordinary people, one might be tempted to agree that it is, after all, the root of all evil.

## The Shoemaker and the Hatmaker

Early men bartered with one another for goods and services — i.e., one man would give another his "product" in exchange for a product or service he desired as payment. As you can imagine, this was a rather cumbersome way to do business.

The advent of money simplified this bartering process. The purpose of money was, and is, to facilitate exchange. Men could now exchange their goods and services for money, then use that money at a later date in exchange for other goods and services.

Since the beginning of civilization, almost anything one can think of has been used as money at one time or another. In earlier times, this included such items as ornaments, weapons, horses, hunting knives, and even wives. As civilization advanced, mining brought metals to the fore, with gold and silver (especially gold) eventually emerging as the most desirable forms of money.

Gold and silver were durable, easily transportable, subject to precise division by weight, and scarce enough that they could not be obtained in great quantities without considerable effort. In other words, gold and silver were not arbitrarily chosen. They survived the test of supply and demand over the centuries.

Money, then, is not wealth. It is nothing more than a commodity. But it has one great distinguishing feature: It is highly acceptable to most people as a medium of exchange. And in order for people to accept a commodity in exchange for goods and services, they must have confidence that others will, in turn, accept it from them in exchange for things they subsequently will want to acquire.

There are basically three kinds of money:

One is “commodity money,” which I have just described: a commodity (such as gold) that is in demand because of its durability, transportability, and so forth, and which usually also has a utilitarian use (e.g., for manufacturing or ornamentation).

A second kind of money is “credit money.” Essentially, this is an IOU in exchange for something of value — the promise to pay for the item at a later date.

Finally, there is “fiat money” — anything that a government, unilaterally and arbitrarily, decrees to be money. The normal way that fiat money comes into use is for a government simply to print pieces of paper and proclaim them to be “legal tender,” with complete disregard to the factors that have historically made money acceptable to people as a means of exchange.

So, what does all this mean in actual practice?

Let’s say a shoemaker has made one pair of shoes and a hatmaker has made one hat. The shoemaker needs a hat, but the hatmaker does not need a pair of shoes. Assuming there is no government fiat money involved, there are two ways these men can trade with one another.

The shoemaker can give the hatmaker an amount of gold or silver (or some other commodity acceptable to the hatmaker) that the hatmaker feels is adequate compensation for his investment of time, labor, and materials. He must, however, feel confident that he will be able to use the commodity he receives to buy something which he believes to be of equal value.

The other possibility is for the shoemaker to give the hatmaker an IOU, promising to repay him with a specified product, service, or commodity at some specified later date. The hatmaker's willingness to accept the shoemaker's IOU will depend on his faith in the shoemaker's ability to make good on his obligation.

## Taking a Cue from Karl Marx

For many centuries, there existed well-established private coin minters.  People would bring their gold to a private minter of high repute, who would then form the gold into coins and stamp each one with its official seal (which included a guaranteed designated weight). For this service, the minter would charge a fee, as would any other service business.

It is important to point out that, in different countries, various terms were used for certain designated gold weights.  The word "dollar" came to be used in America for 1/20th of an ounce of gold.  Thus, the dollar was not money; it was simply the name given to a certain quantity of gold.  Other countries used words like *franc* and *mark* to describe various weights of gold.

Gold warehouses came into existence to accommodate people who did not want to be burdened with carrying gold around to make their purchases.  Like the warehouser of any other product, the operator of a gold-storage facility would agree to store someone's gold for a set fee, and would give the owner of the gold a receipt for his merchandise. Whenever the owner desired to redeem his gold, he would simply bring in his receipt, and the warehouse keeper would hand it over to him.

These early warehouses were the first "banks."  Their deposits were gold, and the receipts they gave to the gold's owners could be used as a substitute for money in most transactions.  The receipts were acceptable to the sellers of goods and services to the degree that the sellers had faith in the integrity of the warehouse keeper — i.e., to the degree that they believed the receipts could be converted into gold on demand.

But private minters and warehousers were a problem for governments.  Throughout history, and particularly modern history, governments have realized that the most essential step toward gaining control over their people was to establish monopolistic control of the country's money system, and the existence of private minters and warehousers makes this impossible.

Karl Marx, in *The Communist Manifesto*, made this very clear when he said that one of the most important aspects of achieving control was "centralization of credit in the hands of the state, by means of a national bank with state capital and an exclusive monopoly."

Until a government can eliminate private minters and gold warehousers, it cannot use the money system to achieve the kind of control made possible through a monopoly.  In this country, the government has done it by following the same pattern of "creeping-control" it has used in all other areas of our lives.

The first step toward this ultimate goal was Article I, Section VIII, Clause V of the Constitution, which allowed Congress "to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures."  So as early 1789, just thirteen years after the British had been overthrown, new power seekers were beginning to take control.

This is one of the earliest indications of how men of power would operate under the experimental democracy set up by our founding fathers — i.e., they would achieve control gradually, over a long period of time.

The new government recognized that the rugged colonial individualists were too independent to tolerate abrupt tyranny.  So Article I, Section VIII, Clause V was a subtle way to open the door for the government's entrance into the money business — a seemingly harmless act.  Incredible as it may seem today, this first step only allowed government to *compete* with other minters and warehousers.

### Who's Money Is It Anyway?

It took government nearly seventy-five years to take the next significant step in gaining a chokehold on the nation's money supply.  That step was the enactment of the National Bank Act of 1863, which, in effect, outlawed its competition.

It's a classic example of how the passage of time can be used to make people lose sight of what has actually taken place.  Few (if any) of the citizens who saw government pass an arbitrary law in 1789, allowing it merely to compete in the money business, were around to see it take monopolistic control of the entire system in the mid-1800s.

Americans were distrustful of government just after the Revolutionary War, but, by the middle of the next century, government involvement in many areas, including the country's money system, had come to be accepted as normal. *This* is the power of gradualism.

It is important to note that, even though government outlawed its competition and took full control of the money system, it did not try to change the system itself for more than another half-century. The term *dollar* continued to mean 1/20th of an ounce of gold, and the United States remained on a fairly strict gold standard until 1914.

People had been taking their gold to government banks for years, receiving either minted gold coins or gold receipts in return. As time passed, however, it became less common to keep gold and more common to use gold "receipts" as money, simply because it was not practical to carry gold around.

Again, the passage of time worked wonders. Persuaded by the government to keep their gold safely on deposit with banks, people erroneously began to refer to the gold receipts as "dollars." This clever transition in semantics became very important in later government monetary schemes. The receipts, of course, were *not* dollars. They were receipts for a specified weight of gold, that weight being defined as a dollar-weight (1/20th of an ounce of gold).

The slowly evolving practice of referring to government gold receipts as "dollars" was a subtle maneuver by government that was critical to the completion of its long-term inflation swindle. (One cannot understand inflation without having at least an elementary understanding of money, because money is what makes inflation possible. )

Which brings us to December 23, 1913, a day of infamy for our country. On that day, government passed the Federal Reserve Act, which provided for "the establishment of Federal Reserve Banks," gave government the power to print "notes" (which it referred to as "currency"), established a system for "member banks" to exchange their gold deposits for government "currency," and a long list of other measures that pretty much gave government carte blanche to do as it pleased with the money system.

From that point on, banks encouraged people to accept government "currency" when they wished to withdraw their money, assuring the public that its gold was safer in the hands of the government. Gold, after all, was "old-fashioned." Government paper currency became the "reserves" of member banks, while the Federal Reserve Bank retained everyone's gold. How's *that* for a slick little trick brought about through the magic of gradualism?

Since then, of course, the public has been fed a continual diet of government propaganda about the need for a Federal Reserve System. (I wonder how we got along so nicely — and freely — before 1913?) Given the facts, it is humorous, yet disheartening, that so many college professors teach students that the Federal Reserve System is necessary to prevent panic and disorder in banking. Few seem to realize that the Federal Reserve was established sixteen years *before* the great crash of 1929!

It is true that the Federal Reserve Act put government in a position to prevent "runs" on banks. But that is not protection — it's *aggression*. If people flock to banks to withdraw their money, it's because they have lost faith in those banks. It means that they want their money back! All the Federal Reserve Act, and other related banking laws, did was guarantee that government would use force to prevent people from getting back their own property.

That being said, think about this: If private banks were allowed to exist, they would rarely experience "runs" because they would know that if one bank failed, it would be bad for the entire banking industry. Therefore, not only would they be forced, by the free market, to operate prudently in handling depositors' money, they also would be apt to bail each other out — simply because it would be in their best interest to do so. Isn't it remarkable how self-interest and the free market combine to protect people better than any government scheme ever concocted?

## Fooling Everyone but the Experts

Having taken firm control of the country's money reins, the U.S. government did not wait long to make its next major move. In 1917, it set the minimum reserves that a member bank had to keep on deposit with the central bank at 10 percent. The 10 percent was retained by the Federal Reserve in gold, but the reserve ratio meant that banks could loan out ten times as much in paper money ("notes," "currency," etc.) as they actually had on deposit in gold.

In other words, 90 percent of the receipts that banks could loan out were fraudulent! (Keep in mind that Federal Reserve notes, or "dollars," technically were only receipts for gold owned by others.)

The government arbitrarily printed these receipts and allowed member banks to lend them to unsuspecting individuals as though they were money. People, in effect, were paying interest on counterfeit receipts — receipts for gold that did not exist. The evolution toward paper money was in full swing.

The next big step in the debauchment of our money was when the government, in the early 1930s, abandoned the gold standard. Gold receipts (which by this time were referred to by everyone as "dollars") could no longer be redeemed for gold. In addition, the government stopped printing gold receipts altogether and replaced them with "Federal Reserve notes."

Again, government passed a law, this one forcing people to recognize Federal Reserve notes as "legal tender." Citizens had no choice but to accept pieces of paper — fiat currency — as the legal money to be used in all transactions.

The reason a government goes off the gold standard is that it allows it to increase the supply of paper money more easily. People become confused, because there is no way to judge the value of that paper money.

But financial experts are not confused. As soon as the U.S. went off the gold standard, the price of gold in the open market zoomed upward. The experts realized that gold was far more valuable than the paper money.

In less than 150 years, consider what had taken place:

1. Government entered the money business, in competition with other minters and warehousers.
2. Government outlawed all competitors and claimed a monopoly on the country's money system.

3. Government established a so-called Federal Reserve System which, among other things, gave it the power to hold everyone's gold in its vaults and issue receipts far in excess of the value of the gold it had on deposit.

4. Finally, government made it illegal for people to get their own gold back and declared paper money (as opposed to receipts for gold) to be the legally recognized money of the United States.

It was the most protracted theft in history, and a superb example of the power of gradualism. It had taken one hundred and fifty years for government to complete the appropriation of the American people's gold. But from that point on, it was in a position to speed things up considerably. The U.S. government now had all the gold. It could print paper money at will. And it was in total control of the money system.

## The True Cause of Inflation

Almost immediately after going off the gold standard, the U.S. government "devalued" the country's currency by about 40 percent. It is significant to point this out, because a devaluation is an admission of bankruptcy. What the government was telling foreign countries (who, unlike American citizens, still had the right to redeem dollars for gold) was that each receipt they held was now worth only 60 percent of the amount of gold it originally had promised.

A devaluation, however, is always couched in terms designed to make people believe that the government has performed some sort of fiscal miracle. What, in fact, it has done is announced that it is reneging on its debts.

But nations are far more powerful than individuals, and they do not take kindly to the news that the pieces of paper they are holding are counterfeit. As a result, countries holding large quantities of U.S. dollars began to cash them in — creating a sort of international "run" on the central bank.

Out of desperation, Richard Nixon, on August 15, 1971, threw in the towel and, in effect, admitted to nearly two hundred years of fraud by shutting the gold window to foreign governments. For all intents and purposes, the game was over. From that point on, no one — not even foreign governments — could redeem U.S. currency for gold. The U.S. had become a 100 percent paper-money country.

To rub salt in the wounds of American citizens, the government now sells our gold from time to time on the open market. It's come a long way since entering the game as just another competitor — forcing everyone else out of the business, stealing billions of dollars in gold through outright fraud, then, finally, turning around and selling that same gold to the people from whom it was stolen.

The legendary investment advisor Harry D. Schultz summed it up this way: "[The sale of Treasury gold is] a crime against the people of the U.S. [It is] illegal, immoral, and unconstitutional. The U.S. will grow weaker as the backing for its currency is sent overseas and other countries will grow stronger." Remarkably, Schultz made these statements more than thirty years ago! It's no wonder he is listed in the *Guinness World Records* as the world's highest-paid investment advisor.

The government's fantastic gold theft is, unfortunately, only a small part of the overall inflation swindle. Everyone wants the president to fight inflation, everyone agrees it is a big problem, and everyone supports government officials who stride forward on their white chargers vowing to "fight" it.

There is only one problem with all this: The vast majority of people who pledge their support to inflation-fighting politicians and decry its ravaging effects have absolutely no idea what inflation is, let alone what causes it. Almost without exception, the politician who gains public support for his "inflation-fighting" measures proposes actions that will make inflation *worse*.

If I were asked to name one thing that I would want readers to understand and remember from this series of articles, it would be the following:

Increased wages and prices *do not cause inflation*. In fact, they do not even contribute to it. Inflation is caused by only one thing: an increase in the supply of money. It is this increase in the money supply that causes wages and prices to increase. Wage and price increases, in other words, are a *result* of inflation.

(Note: In a truly free market, prices may also rise when demand exceeds supply, but such rises are natural and do not involve fraud. Market prices will always adjust to the ratio of supply and demand — which is a *good* thing.)

What this means is that virtually everything politicians, a majority of economists, and most members of the media tell Americans about inflation is not only false, but the exact opposite of the truth. Big business does not cause inflation. Big labor does not cause inflation. It is Big Brother who causes inflation — and he is the *only* cause. He accomplishes it through the printing of paper money, and he is the only one who has the power to increase the money supply.

I guess I should go one step further and correct my own definition of inflation. I said it is *caused* by an increase in the supply of money. Technically speaking, inflation *is* an increase in the supply of money. To get even more technical, it is actually an increase in the supply of money *substitutes*.

Just as government cleverly succeeded in getting people to call gold receipts "dollars," which led to later generations believing that the receipts themselves, rather than the gold they represented, were money, so too did government succeed in getting people to refer to an increase in prices as "inflation." This, in turn, took their attention off real inflation: government's printing of worthless paper money.

When most people talk about inflation, then, they use a misnomer. What they are really referring to are high prices. It also would be technically correct to refer to an increase in prices as "price inflation."

## Buying Into the Con

When government puts out propaganda on the “inflation rate,” it is really talking about the “consumer price index.” But the consumer price index is misleading, because it covers the prices of only a few hundred items out of thousands, and many of those thousands may play a bigger role in your life than in the lives of others.

More important, however, is that the so-called inflation rate does not tell you the rate of inflation at all. As previously noted in this series, the rate of inflation is the rate at which government increases the supply of paper money. And by referring to an increase in the consumer price index as the inflation rate, government avoids discussing its irresponsible and fraudulent increase of the paper-money supply.

Why is this little game of government-engineered semantics so important? Because it confuses almost everyone, so much so that all but a small percentage of the population does not understand the true cause of rising prices. And it is rising prices that people are concerned with — i.e., they are concerned with the *result* of inflation.

If most people understood that it is the inflation of paper currency that falsely increases prices, they undoubtedly would revolt against the reckless printing of money. Which is why the semantics charade — and the resulting confusion — is so important to the government.

So long as people can be led to accept false explanations of what causes prices to rise, they can be made to believe in false solutions. Which gives de facto power to politicians, because it is they who peddle the false solutions to increase their own power.

Why do prices rise when government prints too much money? Again, money is not wealth; money is only a medium of exchange. Wealth is television sets, automobiles, and whatever else you exchange the medium for. Wealth can be produced only by labor. Today’s money, however, is produced by simply printing pieces of paper.

The result is that when the Federal Reserve prints up money faster than people can produce wealth (products and services), the ratio between available money and available products and services increases. The supply of money, increasing faster than the production of goods and services, increases the demand for the available goods and services, which, per the law of supply and demand, stimulates prices to rise.

And regardless of who becomes the next president, the one thing of which you can be certain is that the printing presses are going to have to roll faster than ever in order to meet their promises to Americans addicted to false prosperity — and thus increase their power over bewildered Mr. Main Street.

(In case you're wondering why the government can't just go back to the well indefinitely and continue to borrow its way out of Financial Judgment Day, even the Chinese are not dumb enough to fund such multi-trillion-dollar schemes as "universal health care," given that they already hold trillions of dollars in U.S. debt that can never be repaid.)

## The Shoemaker and the Hatmaker, Revisited

Now it's time to get back to the shoemaker and the hatmaker. As you will recall, the shoemaker gave the hatmaker an IOU for the hat he purchased. The hatmaker accepted the IOU, because he believed the shoemaker to be creditworthy. He felt confident that he could use the shoemaker's IOU to purchase another product from someone else or, if he later decided he needed shoes, he could redeem the IOU for a pair of shoes directly from the shoemaker.

In the meantime, however, two things have occurred, and the hatmaker is unaware of both of them. First, the shoemaker has stopped making shoes. In other words, he has ceased to produce wealth. Second, he has discovered that he can persuade other people to accept his IOUs, which has motivated him to go on a spending spree.

The shoemaker has passed out an additional ninety-nine IOUs since he gave that first one to the hatmaker. None of those hundred people realize, however, that the IOU he holds is not the only one. Hence, each of them believes that his IOU is “as good as gold” (i.e., as good as the pair of shoes behind it).

The problem arises when each of the one hundred people goes out and tries to spend his IOU. Merchants, sensing the sudden increase in the demand for their goods, raise their prices. Due to the shoemaker’s creation of excess IOUs, the hatmaker, who accepted the shoemaker’s original IOU in good faith, theoretically has had the value of his IOU reduced by 99 percent.

To compound the problem, sellers of goods, realizing that an excess of IOUs has been distributed by the shoemaker, become leery of the value of his IOUs. As a result, they raise their prices even higher to compensate for what they deem to be a bad risk in accepting the shoemaker’s IOUs at all.

Of course, this situation would correct itself rather quickly in a free market – i.e., a market with no government involvement. At a very early stage, the community would realize what the shoemaker had been doing, and not only would stop accepting his IOUs, but would demand that he make good on those that he had already distributed. The result would be that he would have to go to work in order to produce enough wealth to pay off his debts.

When government becomes involved, however, it destroys the smooth workings of the market. Government, in effect, legalizes the shoemaker’s theft and, furthermore, allows the theft to go on indefinitely. It accomplishes this by forcing everyone to use government IOUs (fiat currency) as money.

To make matters worse, when the shoemaker stops working, the government continues to print up fake receipts (paper money) and gives the shoemaker a new supply of them each week, assigning names to these handouts such as “welfare” and “unemployment compensation.” In fact, government gives large quantities of this “money” to millions of people — for a variety of reasons, ranging from “retirement benefits” to grants for special projects.

So, where does this leave the hatmaker who accepted the government's receipt in good faith as payment for the hat he produced? It leaves him as just another victim of paper-money inflation. Which, by itself, would be bad enough.

Even worse, however, he knows absolutely nothing about government's money-printing policies, so he hasn't the vaguest idea why prices are rising all around him while he still has only one "dollar." As a result, he's open to the most outrageous "solutions" offered up by power-hungry politicians.

In fact, he might very well be among those fools pumping political campaign signs into the air at the endless rallies that saturate our television sets each night. The candidates realize that if they can convince the sign-pumping zombies in their audiences to accept false solutions (solutions that are guaranteed to further decrease the value of the paper dollar), it will put them in a position to exert even more power over the populace as a whole.

In the end, of course, it gets down to you, the individual. Which power monger are *you* going to vote for? Think about it, long and hard. And before answering, keep in mind that only one thing is guaranteed: You will always get the government you deserve.