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THE DOLLAR & ITS RESERVE CURRENCY STATUS

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MONEY - MONEY - MONEY

THE DOLLAR & ITS RESERVE CURRENCY STATUS

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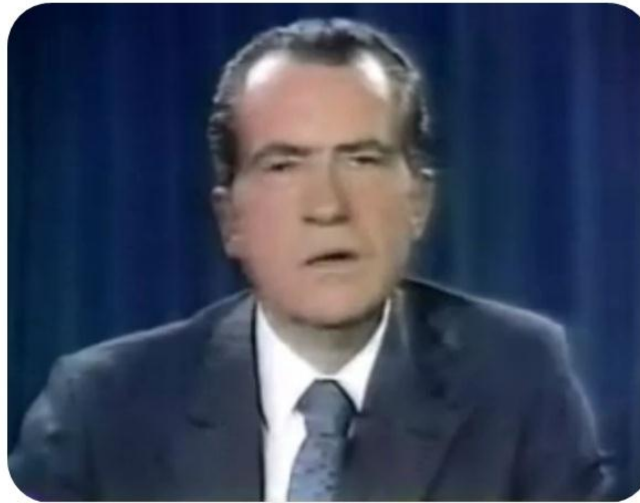
HERE are a lot of conflicts in political-economic theory that are starting to converge to create one confusing mess. In the midst of all this is the sheer utter failure to understand what precisely a **RESERVE CURRENCY** even is. Does this unique status instantly export domestic trends to the world like the latest flu? Does the dollar being the **RESERVE CURRENCY** create a different status among debt as well? Does this mean that its **RESERVE CURRENCY** status ensures the dollar will be the LAST to collapse in a Sovereign Debt Crisis or the first? What impact does this **RESERVE CURRENCY** mean since tangible actual printed currency is a tiny fraction of the money supply? Has the idea of money been completely altered by the development of electronic money? What does gold have to do with this? Can the dollar's **RESERVE CURRENCY** status survive or will we be forced into a new **One World Currency?** How would this work? What influence does this have on the **Sovereign Debt Crisis**?

There are some in Washington who are very alarmed at the rising debt crisis and even dare to speak out on the floor in Congress, but as usual, the most others will simply just ignore them as always. {http://www.youtube.com/watch?v=b6jvj3zdsRI&feature=feedu}. The problem we are facing is if we are to presume under **Keynesian** economics that a contraction in private demand can be counterbalanced by a rise in government demand that takes the form of spending, then how are we to fix a problem of a contracting economy by balancing a budget, cutting spending, and raising taxes if we blend the Republican and Democratic agendas? **Standard & Poor** makes demands that are unrealistic and says if spending is **NOT** chopped by what they want they would downgrade the USA and did. Precisely how if we chop spending and raise taxes will this create economic growth that is essential to increasing tax revenues? Just what the heck is going on? How do we **STIMULATE**, cut spending, raising taxes on those rich bastards the Democrats hate so much and blame for everything (household income $250,000+), and somehow end up with a coherent plan for the future that works even in theory? If we chop spending and raise taxes as **S&P** demands, will this **NOT** throw the seniors out on the curb and send the economy into a tailspin? What about the **RESERVE CURRENCY**, status? Does this export American economics to the world?



Nixon closes the Gold Window August 15th, 1971 Beginning the Floating Exchange Rate System

Then there is the whole question of **MONEY** and **GOLD**. Why is the dollar the **RESERVE CURRENCY**? Does this impact the bond market? Is it possible for the USA to default without sending the entire world into a catastrophic black hole because of the dollar **RESERVE CURRENCY** status? Why did the S&P downgrade fail to result in higher interest rates for the United States? Is a **RESERVE CURRENCY** notably different from just any old currency? Is the **Bretton Woods** economic structure still functioning?

It is true that President Richard Nixon closed the "***gold window***" on August 15th, 1971 http://www.youtube.com/watch?v=iRzr1QU6K1o but it is **NOT** true that this was **intended to be an actual permanent revision of the world monetary system.** There was no actual world conference that gathered together to create the current floating exchange rate monetary system. For you see, the collapse of the ***gold standard*** was ***ad hoc*** event. Nobody sat down and designed the current monetary system as was the case back in 1944 that took place at **Bretton Woods** in New Hampshire. That was a real world gathering that produced a global monetary system which was clearly structured and included mechanisms such as the IMF to lend gold to countries in need. It was not dictatorial in nature, but all countries actually agreed on how the world monetary system would function to facilitate international trade to restart the world and the settlement of payments. http://www.youtube.com/watch?v=GVytOtfPZe8&feature=relmfu

Bretton Woods Monetary Conference

There were 730 delegates from all 44 Allied nations that gathered at the hotel in **Bretton Woods**. This was effectively a United Nations Monetary and Financial Conference. The delegates that deliberated there, signed the **Bretton Woods Agreements** during July 1944. Despite rumors of its death, its core is still very much alive and kicking,

They established a system of rules, institutions, and procedures that were to regulate the international monetary system. The **Bretton Woods** system established the **International Monetary Fund (IMF)** and the **International Bank for Reconstruction and Development (IBRD)**, which today is part of the **World Bank**. These organizations became operational in 1945 after a sufficient number of countries had ratified the agreement. At first, each country tied its currency to the dollar which was tied in turn to gold at $35 an ounce. The role of the **IMF** was to bridge temporary imbalances of payments in order to maintain these fixed interlinked currency values. The unilateral closing of the "***gold window***" by Nixon on August 15th, 1971, terminated **convertibility** of the dollar to gold between nations and this scheme of fixed exchange rates that was also crumbling. Yet the underlying structure remained intact. The United States dollar was still the sole backing of currencies as the **RESERVE CURRENCY** for the member countries.

Some argue the system is now just a "***fiat***" currency, but that implies that currency should somehow be merely a receipt for a deposit. That was the case with private banks and originally goldsmiths who began to take deposits in the Middle Ages. A lot of this rhetoric is based upon fundamental misconceptions of **MONEY** and its history combined with a complete mistaken belief of what is actually banking all about.

Most people think the first central bank was the **Bank of England** created in 1694. This is not true for the **Bank of England** was created to compete with the **Wisselbank** founded in 1609 in Amsterdam. This is where this notion of a "***fiat***" currency emerges. For you see, the **Wisselbank** was not supposed to lend money. One paid a fee to have an account at the bank and there was to be no lending of money. The term "***fiat***" comes from *Latin* and it means "***let it be done***." In other words, money where its "***value***" is decreed by government is greater than its intrinsic value is all "***fiat***" to variable degrees. This actually included most precious metal coinage over the centuries to wavering degrees for the state normally decreed the "***value***" to be greater than the intrinsic metal content. For example, US Pennies are no longer bronze, which ended 1958. They became a

Earliest Varierty of Electrum Stater

Guan (string of 1,000 coins)

copper alloy (1959-1982), and finally copper-plated zinc from 1982 onward. That amount of copper was worth more than a penny. If the state cannot make money creating money ("***seigniorage***"), it will not produce it.

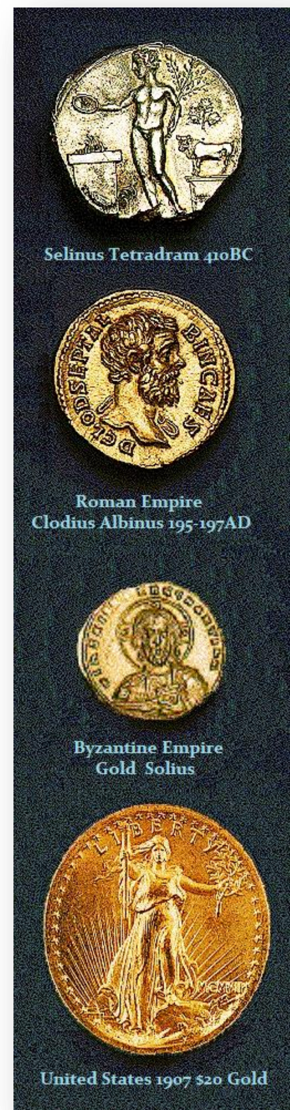
Money began in 600BC as ONLY a service where the state officially established a standard weight system where coins displayed no image. It did **NOT** declare it to be **MONEY** in a strict sense. Once it became clear that government had the ability to profit by minting coins and declaring their "**value**" to be <u>*greater*</u> than the cost to produce them, the idea of "***fiat***" money came to the West. In Asia, people wrongly attribute "***fiat***" currency to the Chinese in the 11th century beginning with their paper money. However, money in China was **ALWAYS** "***fiat***" being simple bronze coins that were often reduced even further making them from iron. Their "**value**" was **ALWAYS** far greater than their intrinsic value and they were strung together and traded in lots of a 1,000 coins. They were decreed by the Emperor to be of "***value***" and he was viewed as the son of God so there was the authority to decree a stated "***value***" separate and apart from its intrinsic value of metal. There never was a tangible real circulating coinage equal to its metal value in either the West or the East.

Wisselbank Amsterdam founded 1609

Hence what emerged behind the curtain in Amsterdam was in fact that the **Wisselbank** had lent money both to the government being the ***City of Amsterdam*** as well as to the government sponsored ***Dutch East India Company***. This became public knowledge in 1790 causing a real ***bank panic*** that forced the bank to be taken over by the ***City of Amsterdam*** in 1791. Eventually, the bank was forced to close by 1819. This gave substance to the term "***fiat***" only because the bank was supposed to be **STORING** your wealth, not lending it out creating receipts without the money. Hence, the bank script became worthless.

Swedish 1659 Copper Plate Money (14.5 kilos)

The first true banknotes for circulation appeared in Sweden, and these were actually used by the government to support its wars with Germany. In 1661, the government established a 30 year monopoly for its ***Stockholm Banco*** to issue these banknotes known as "***letters of credit***" that were to be payable in Swedish copper plate money that was extremely heavy (14.5 kilos; 31.96 lbs.) and were not practical for actual circulation. Naturally, when government figured out it could issue banknotes beyond the actual copper plates in the vault, they embarked upon creating the first "***fiat***" currency in the West post-Dark Age. This practice enabled the king to fund military expenses and everything else. This led to the ***First Banking Panic*** in 1663 when there were more obligations (banknotes) than money to now redeem the notes. The bank was forced to close in 1664. However, the Swedish government acquired a taste of unlimited wealth. They tried to salvage what they could and finally in 1668, they founded the ***Bank of Estates***, which became the central ***Bank of Sweden*** in 1866. Some historians will point to this bank in Sweden as the first formal central bank rather than **Wisselbank** where the usurpation was clandestine as opposed to being public and formal in Sweden.



Selinus Tetradram 410BC

Roman Empire Clodius Albinus 195-197AD

Byzantine Empire Gold Solius

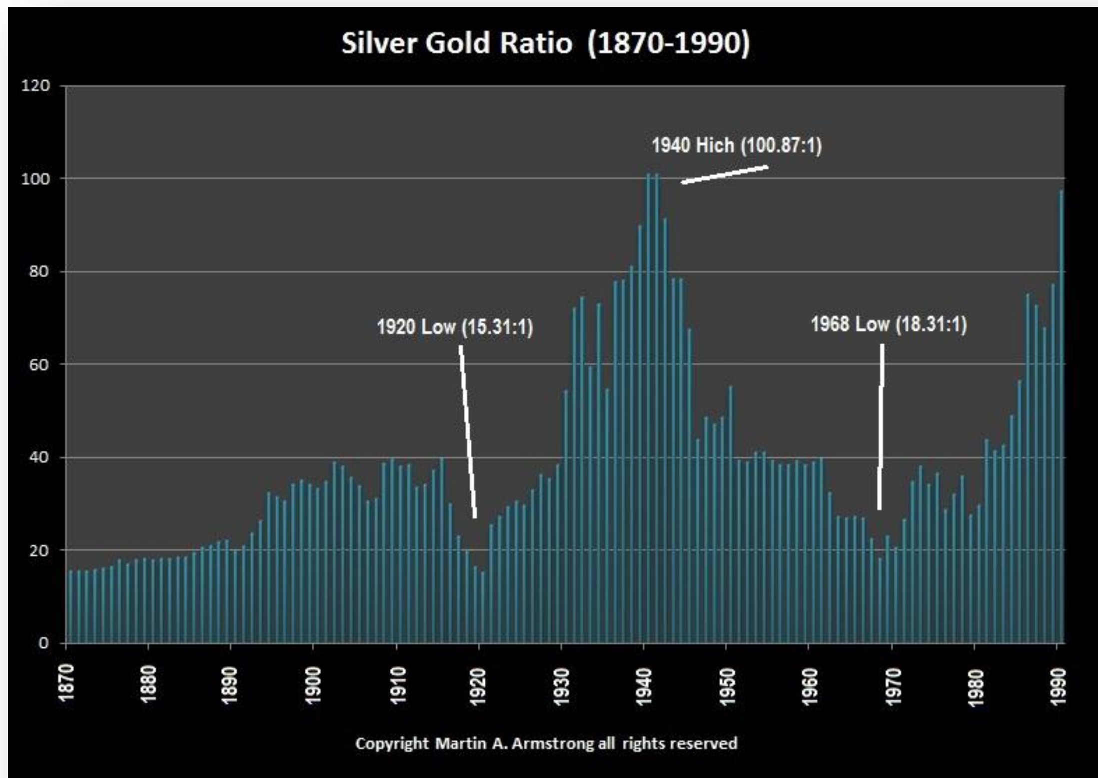
United States 1907 $20 Gold

However, there is something more going on in this whole scheme. These heated debates are centered on an assumption that **MONEY** should be tangible are a throwback to this banking era where there was no credit. What if that assumption about **MONEY** must be tangible is wrong? What if **MONEY** has evolved into a national common share (stock) amounting to a non-voting certificate that is rising and falling in "***value***" based solely upon **CONFIDENCE** or **FAITH** in the political establishment? What if **MONEY** has been inadvertently transformed into a free floating stock certificate driven by **CONFIDENCE** centered on anticipation of future events? Since nobody sat down and designed this ***Floating Exchange Rate System***, there was no expectation of what it would become, and universities ignored the change resulting in the total absence of any hard core investigation as to what this monetary system has evolved into.

Throughout recorded history, there has been a ***quasi-standard*** which has evolved centered on the simple fact as to **WHO** is the ***Financial Capital of the World*** at that time, **NOT** some fixed metal standard. There has been a swing back and forth between silver and gold being the **UNIT OF ACCOUNT** upon

which all things are measured. This list of currencies followed the chronology of empires starting with Babylon followed by Athens, Macedonia, Rome and Byzantium. The Dark Age saw money destruction and the rise of barter. Eventually, the silver penny (denier) of Charlemagne emerged and once again we have that denomination being imitated by other kings. Eventually, after the fall of the Holy Roman Empire and the demise of the Dutch Empire, the British pound rises to the leading world currency. Eventually, Britain loses that status to America as World War I begins in 1914 making the next currency the American dollar. This process is not actually any true monetary standard per se, but ***he who has the gold makes the rules***, as the saying goes.

In other words, where the main coin was a gold "***Daric***" in Babylon, a silver ***tetradrachm*** in Athens and Macedonia followed by the silver denarius in Rome that formed the primary unit of account, Byzantium saw a return to gold known as the "***Byzant***" that became the primary coinage. Silver and gold vanish in the Dark Ages and the main coin to reappear was the silver denier thanks to Offa and Charlemagne. This oscillation between silver and gold has fluctuated caused by the varying supply of each metal due to varying discoveries. During the late 15th century a "***guldengroschen***" that was a silver coin of 28.8 grams. Silver discoveries continued and in Bohemia, these silver discoveries led to coins known as the "***Joachimsthaler***" that came from the city of Joachimsthal (Jáchymov). The slang term became "***Thaler***" where "***Thal"*** in German means "***valley***". Therefore, the word "***thaler***" was the slang term for a person or a thing "***from the valley***" sort of a hick. Therefore, the word "***dollar***" was the English translation for "***thaler***" that no longer carried the slang meaning. It was now a monetary unit after about 200 years. By the 1700s, the Spanish 8 reals were commonly called "***dollars***" in America and cutting them up became a "***piece of eight.***"



They were structuring that status around a ***gold standard*** and by the end of World War II the USA held 76% of the world gold reserves. The USA was dead broke in 1896 when J.P. Morgan had to bail it out. Thanks to the Silver Democrats, they wanted to create more money. It is true that the ***gold standard*** is really a **DEFLATIONARY** monetary system for without constant new supplies of gold, the money supply cannot grow with the population and the economy. That results in the purchasing power of money (***gold***) rising forcing asset values to ***decline***! The Silver Democrats wanted to ***eliminate gold*** as the exclusive monetary system and make silver legal tender to increase the supply of money and this was one of the issues behind **Coxley's Army** that marched on Washington. As illustrated above, the silver/gold ratio demonstrates why there cannot be any "***standard***" insofar as fixes relationships. This is a separate question from gold being "**MONEY**" for historically "**MONEY**" is whatever that community agrees to accept in value to exchange products. Gold has been favored in the West while China did not officially issue gold coins in ancient times. The mainstay of China was the bronze "***cash***" coinage.

Coxley's Army

United States Silver Dollars 1794-1935

1794-1804 Silver Dollars
(416 grains .8924 fine)
(.77341 oz)

1837-1873 Silver Dollars
(412.5 grains .900 fine)
(.77344 oz)

1873-1885 Trade Dollars
(420 grains .900 fine)
(.7874 oz)

1878-1935 Silver Dollars
(412.5 grains .900 fine)
(.77344 oz)

1 troy ounce = 31.1034768 grams

4 *grains* = 1 carat 15.432 *grains* = 1 *gram* 20 *grains* = 1 scruple 24 *grains* =1 pennyweight 480 *grains* = 1 *troy ounce*

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By 1853, the value of a US Silver Dollar had contained in gold terms, $1.07 of silver. With the **Mint Act of 1853**, all US Silver coins, except for the US Silver Dollar and new 3 cent coin were reduced by 6.9% as of weight with arrows on the date to denote reduction. The US Silver Dollar was continued to be minted in very small numbers mainly as a foreign trade to the Orient.

It was struck primarily to be used for export, where it was hoped that the new series would trade more favorably against silver dollars from Spain and Mexico. The diameter of the coin matched the previous Seated Liberty Dollars. However, the weight was increased from 26.73 grams to 27.22 grams, resulting in a higher silver content.

The obverse design of the Trade Dollar features Liberty seated on bales of cotton with an image of the sea in the background. She holds an olive branch extended in her right hand and a scroll with the word "***Liberty***" in the other. On the reverse is an American Bald Eagle, clutching an olive branch and arrows. Very prominently, an inscription below reads "***420 grains, .900 fine.***"

The series was only struck for circulation from 1873 to 1878 before the Morgan Dollars would be issued in its place. The production of Trade Dollars in proof only format did continue for a number of years to meet collector demand.

US Constitution - May 14, 1787 "*We the People*"

Even in the US Constitution in Article I, Section 8 authorized the Federal Government: "***To borrow Money on the credit of the United States; … To coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures; … To raise and support Armies, but no Appropriation of Money to that Use shall be for a longer Term than two Years.***" Section 10 states that "***No State shall enter into any Treaty, Alliance, or Confederation; grant Letters of Marque and Reprisal; coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts…***" The Founding Fathers, unlike today, understood history. While authorizing the Federal Government may borrow money, yet Section 8 forbid income taxes, property taxes, and anything requiring personal accountability to government: "***No Capitation, or other direct, Tax shall be laid…***" Note additionally, they forbid the states to issue **MONEY** reserving the profit of ***seigniorage*** to flow to the Federal Government. The politicians of course amended the Constitution and stacked the courts so they can tax directly, seize your property if you refuse to pay, and imprison you if you refuse to given them your personal information about every dime you found in a parking-lot.

Then there is the whole **Federal Reserve** dilemma. Is the Fed necessary? What about the Fed being owned by private banks? Is the Fed just an extension of Goldman Sachs? How are these issues interwoven into this whole question of **MONEY**? Here too, the Fed was intended to be a central clearing bank to do what J.P. Morgan did during the ***Panic of 1907*** prevent banks from collapsing as the lender of last resort. Unfortunately, because of our **DEFINITION** of what constitutes **MONEY**, Congress delegated the role of managing inflation to the Fed rather than deal with that issue. Of course when the courts are stacked with former prosecutors masquerading as judges, you cannot expect any of them to rule that was an unconstitutional delegation of power not authorized by the Founding Fathers. Thus, many people feel that the Fed is controlled by private banks that should have **NO** power over the creation of **MONEY**. To a large extent, these serious misconceptions on the part of Congress delegating power have further complicated the core question of what is **MONEY**!

Federal Reserve

Milton Friedman

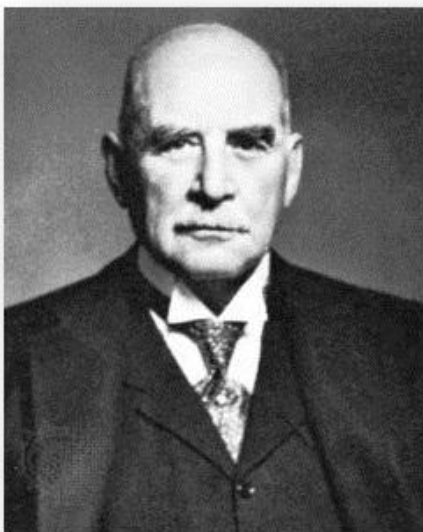
Milton Friedman's theory of ***Monetarism*** was one step in this evolution process of understanding **MONEY**. People generally have the wrong idea about **MONEY** and who even creates it as well as who should create **MONEY**. Milton correctly focuses on **MONEY**, but he makes the fatal mistake of being *to* myopic in his view – and to parochial. Milton blames the start of the depression on the Federal Reserve. To understand **WHY** he took this position, it is important to understand that the original design of the Fed back in 1913 was simply to *create* an institution of private bankers that would lend to each other in times of trouble to prevent a banking collapse. From Milton's purely domestic view, the Fed failed to prevent the bank failures because of precisely this same idea that is surfacing that we must have a balanced budget and that the ultimate control of the money supply lies within the clenched fist of the Federal Reserve. Instead of expanding the money supply to save banks in 1930s, the money supply contracted. Milton's domestic observations were correct. His only *failure* was not also looking at the global economy. The Fed was trying to deflect inward capital flows and send the **MONEY** back to Europe. However, that policy began in 1927 and it failed both internationally as well as domestically. For you see, the Fed structure was 12 branches and each maintained a separate interest rate. Why? The Panic of 1907 came after the 1906 San Francisco Earthquake and that exposed the entire problem of regional internal capital flows within the United States caused by the business cycle and the great variety of localized economies.

San Francisco earthquake of Wednesday April 18, 1906 struck at 5:12 am
is believed to have been 7.7 to 8.25 on the Richter Scale

The role of the Fed has evolved so much it is hard to remember what its intended function was. In 1913, 41% of the civil work force was agrarian. Crops are seasonal. The East Coast tended to be industrial and financial, banks, insurance, brokerage. The commodity trading center was Chicago, not New York. There were natural uneven capital flows within the nation die to the wide different local mixes of economic activity. Even in the 1970-1980s, we called it the Texas-New York Arbitrage because when oil was rising, Texas was booming as New York suffered rising cost inflation. When oil prices collapse, Texas was on the ropes and New York costs declined and profits rose. When the San Francisco Earthquake hit in 1906, the insurance companies being on the East Coast had to pay in California causing cash to migrate and banks failed due to the **LACK** of cash in the East. The Fed did was J.P. Morgan had done. It created an institution to lend to banks in a temporary cash shortage to prevent them from collapsing creating a widespread bank panic.

Once banks evolved from merely being a place of secure storage (no leverage of the money supply) into a lending institution, **MONEY** ceased being tangible. The idea that **MONEY** was to be tangible and paper **MONEY** should be backed by tangible gold, was relegated to the achieves of ancient history. Banking made **MONEY** intangible because you deposited $20 gold coin, they lent it to another, and both now have on the books of the bank $20 yet there is only one coin. **MONEY** was no longer backed by anything tangible for once "***credit***" is introduced, everything is (1) leveraged, and (2) **MONEY** ceases to be tangible and is transformed into a "***derivative***" of actual **MONEY**. A banking panic takes place when every depositor want to withdraw his **MONEY**, but since the bank lent it to someone else, it has usually tangible collateral, mortgages and liens, but that takes time to get the cash. The idea of a central bank was **ONLY** to be able to lend to banks during periods of temporary shortages to prevent bank failures.

Indeed, such a period of a temporary shortage burst forth during the **Panic of 1907** and it was John Pierpont Morgan ("***JP***")(1837-1913) who saved the day, although most have criticized him ignoring his great patriotism and contribution to the country. The Panic began when there was an attempt to manipulate the market in **United Copper Company** that was a short squeeze which backfired. This was the catalyst, not the cause. It was the spark that ignited the Panic that took place. They borrowed money to buy stock to create the squeeze from the **Knickerbocker Trust** and suddenly they could not pay back their loans bringing the bank into failure. J.P. Morgan gathered his associates to examine the books of the **Knickerbocker Trust** but found it was insolvent and decided not to intervene to stop the run. When it became clear the **Knickerbocker Trust** would fail, the run spread to other banks and a contagion grew.



John Pierpont Morgan
(1837 - 1913)

The **Trust Company of America** asked Morgan for help. Morgan now brought in **First National Bank** and **National City Bank of New York** (later ***Citi Bank***), and the US Secretary of the Treasury. Morgan had a quick audit of the bank and declared that this was where to defend. As the run began, Morgan worked with his associates to sell the assets of the bank to free up cash for the depositors. The bank survived the close of business.

Morgan knew that this collapse in **CONFIDENCE** would not the end by just saving the **Trust Company of America**. Morgan now summoned the heads of various banks in New York and kept them until they agreed to provide loans of $8.25 million. Morgan convinced the Treasury to deposit $25 million in NY banks. John D. Rockefeller, the wealthiest man in America deposited $10 million with **City** and called the ***Associated Press*** to announce his pledge to help the NY banks. Nonetheless, the New York banks then, as now, proved to be their worst enemy. Despite the efforts of Morgan to create this infusion, they were reluctant to lend any money for short-term stock trading. The stock market crashed. By 1:30 pm Oct 24th, the president of the NYSE went to tell Morgan the exchange would close early.

New York Panic of 1907

Morgan was livid. He understood that this would reinforce the Panic and he drew the line and would not allow it. Morgan warned that if the **NYSE** closed early, it would be catastrophic to say the least. Once again he summoned the bankers who arrived by about 2pm and Morgan pretty much yelled at them and warned that as many as 50 stock brokerage firms would fail unless $25 million was now raised in 10 minutes! By 2:16 pm, 14 banks pledged $23.6 million to keep the stock exchange alive. The money even reached the exchange by 2:30 pm, to finish trading at 3pm. The amount that was actually needed was only $19 million. Morgan himself hated the press that rarely treated him fairly, but this time he gave a rare comment.

The next day, the **NYSE** needed more money and Morgan this time could only raise $9.7 million. Morgan directed the **NYSE** that the money could not be used for margin sales. The exchange made it to the close. Morgan knew he had to turn the minds of the people and to restore their critical **CONFIDENCE** to stop the Panic. Morgan now directed two committees to be formed to (1) persuade the clergy to preach calm to their congregations on Sunday, and (2) to sell the idea of clam to the press. Morgan was desperately trying to hold the nation together. Unknown even to his associates, the City of New York could not raise money through its bond issue and it informed Morgan that it needed $20 million by November 1st, 1907, or it would go into bankruptcy. Morgan himself contracted to purchase $30 million in New York City bonds.

On November 2nd, one of the largest stock exchange brokers, **Moore & Schley**, was heavily in debt using the **Tennessee Coal, Iron & Railroad Co** stock as collateral. The stock was thinly traded and the stock was under pressure. Their creditors would now surely call their loans. Morgan called another emergency meeting and a proposal was put forth that **US Steel Corp**, would acquire the stock in bulk. Yet another crisis was looming. Runs were now likely to hit two banks on Monday. Morgan summoned 120 banks and told them he would not proceed with the **US Steel** deal unless they supported the banks.

Morgan now locked them in his library and told them they had to come up with $25 million to save the banks. It took almost 2 hours. Morgan finally convinced them that they had to bailout the banks to save their own skins. They signed the agreement, and he unlocked the doors and let them leave.

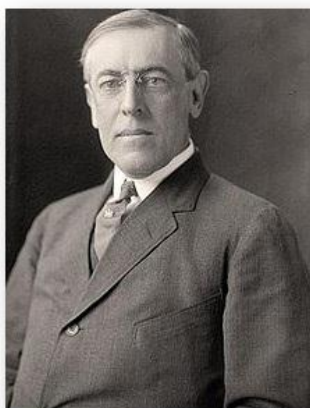
Theodore "*Teddy*" Roosevelt
(1858–1919)

Morgan was saving the nation again, singlehandedly. He then turned back to save the **NYSE**. He knew the problem would be the Marxist inspired Antitrust Laws (***Sherman Antitrust Act***), and the crusading Marxist/Progressive President Teddy Roosevelt (1858-1919). Breaking up companies he believed were monopolies was the main focus of Roosevelt's administration. To save the day, he would have to see that the Antitrust Laws must yield.

Two men thus traveled to the White House to implore Roosevelt to set aside his Antitrust Laws to save the nation. As typical, Roosevelt's secretary refused to let them in to even discuss the problem. The two men, Frick and Gary of **US Steel** turned to James Garfield who was Secretary of the Interior at that time. They pleaded with him to go to the President directly. Garfield had convinced Roosevelt to at least review the proposal. Roosevelt was for the first time forced into a corner. He had to realize a collapse of the **NYSE** would take place if he did not yield in his ant-corporate beliefs. Roosevelt later lamented:

> ***"It was necessary for us to decide on the instant before the Stock Exchange opened, for the situation in New York was such that any hour might be vital. I do not believe that anyone could justly criticize me for saying that I would not feel like objecting to the purchase under those circumstances."***

Following the near catastrophic financial disaster known as the ***Panic of 1907***, the movement for banking reform picked up steam among Wall Street bankers, Republicans, and a few eastern Democrats. However, much of the country was still distrustful of bankers and of banking in general, especially after ***Panic of 1907***. After two decades of minority status, Democrats regained control of Congress in 1910 and were able to block several Republican attempts at reform, even though they recognized the need for some kind of currency and banking changes. As always, it was more important to further political party power than actually do the right thing for the nation.



ThomasWoodrow Wilson
(1856–1924)

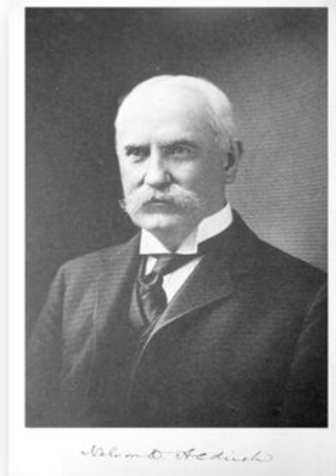
In 1912 President Woodrow Wilson (1856–1924) won the Democratic Party's nomination for President, and in his populist-friendly acceptance speech he warned against the "***money trusts***," and advised that a concentration of the control of credit may at any time become infinitely dangerous to free enterprise. It was the Anti-Wall Street agenda.

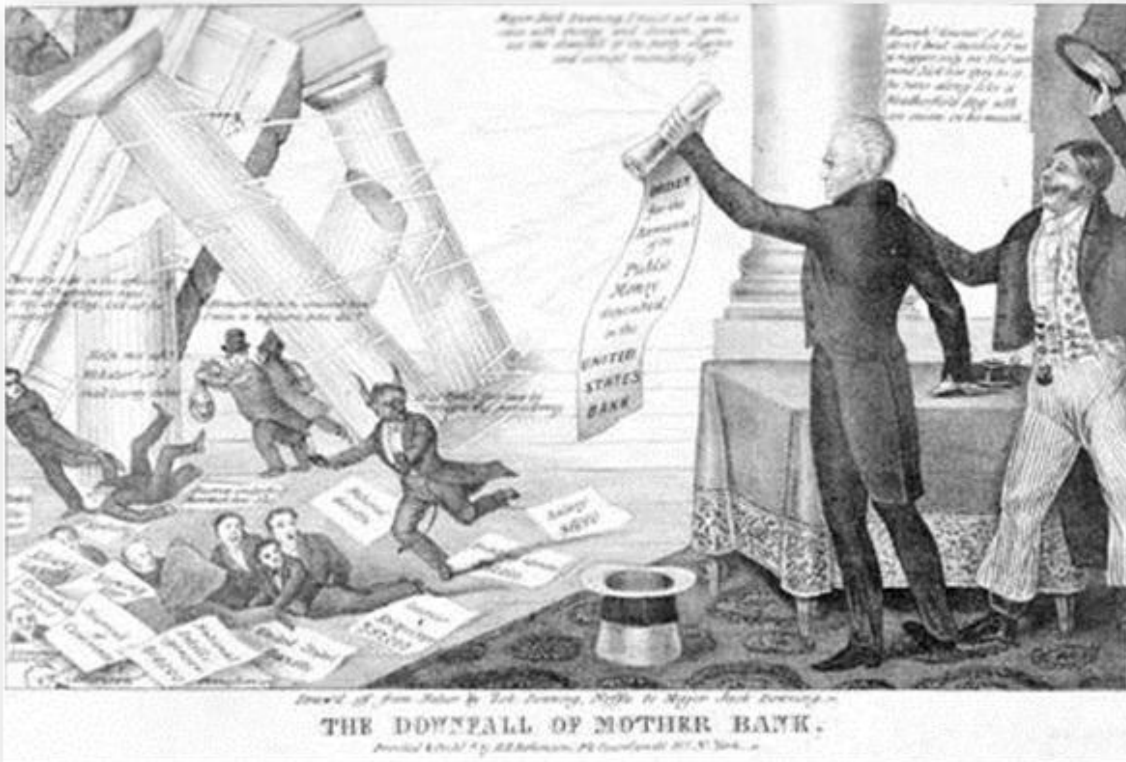
Jekyll Island Club

Behind the scenes, the ***Panic of 1907*** revealed the weak underbelly to the American financial system. After the scare that the ***Panic of 1907*** created among the bankers, they demanded reform. The very next year, Congress enacted the **Aldrich Vreeland Act of 1908** establishing the **National Monetary Commission** which formed a study group of experts to come up with a nonpartisan solution. It was the lack of a central bank in America in contrast to Europe that was seen as the threat to economic stability among the bankers as filled by J.P. Morgan during that crisis.

A **National Monetary Commission** was formed and the Republican leader in the Senate, Senator Nelson Aldrich (1841-1915) took charge. Aldrich was a brilliant man who was passionate about revising the American financial system. The Commission went to Europe and was duly impressed at how well they believed the central banks in Britain and Germany handled the stabilization of the overall economy and the promotion of international trade. The Commission issued some 30 reports between 1909 and 1912 which preserved a wonderful detailed resource surveying of banking systems of the late 19th and early 20th centuries at that time. These reports examined also the Canadian banking history in addition to the banking and currency systems of Belgium, England, France, Germany, Italy, Mexico, Russia, Switzerland, and other nations. They also provided an excellent review of domestic U.S. financial laws federally as well as state banking statutes. These reports contain essays of contemporary specialists as well as a host of data in tables, charts, graphs, and facsimiles of banking forms and documents. There are also transcripts of relevant political speeches, interviews, and various hearings.

Also in 1910, Aldrich met with Frank Vanderlip of **National City Bank** (***Citibank***), Henry Davison of **Morgan Bank**, and Paul Warburg of the **Kuhn, Loeb Investment House** secretly at **Jekyll Island**, a resort island off the coast of Georgia, to discuss and formulate banking reform, including plans for a form of central banking that would accomplish the role of J.P. Morgan played during the ***Panic of 1907***. The meeting was held in secret because the participants knew that any plan they generated would be rejected automatically in the House of Representatives given the intense hatred of the bankers and Wall Street in the festering Marxist/Progressive atmosphere. Unfortunately, because this meeting was secret involving Wall Street, the whole **Jekyll Island** affair has always been cloaked in conspiracy theories. Nevertheless, this intense bias and conspiracy theory has always overestimated both the purpose and significance of the meeting in light of the extensive work of the **National Monetary Commission**. Reform was essential. However, those two words, Political-Economy could not be divorced.


Nelson W. Aldrich (1841-1915)

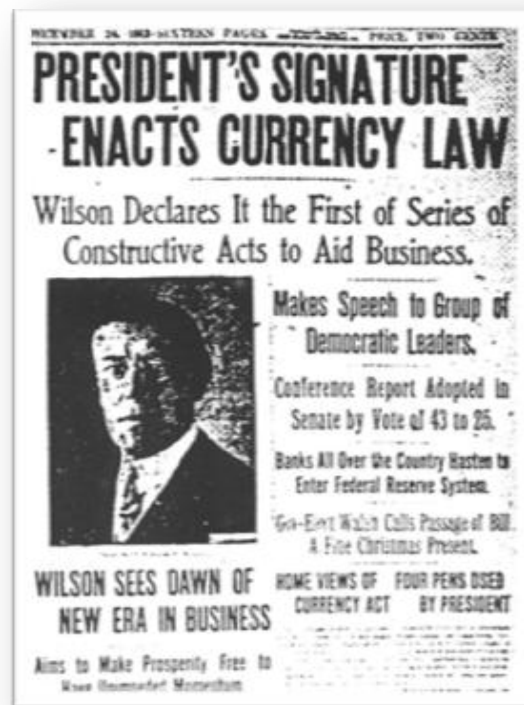


Andrew Jackson's War on the Banks

Upon his return, Aldrich's investigation led to his plan in 1912 to bring central banking to the United States with all its promises of financial stability and expanded international roles in trade and money flow. Aldrich knew the dangers of American politics and insisted that control by ***impartial experts*** was essential. The two words Politic-Economy had to be divorced in his mind. There was to be absolutely **NO** political meddling in finance as had been the case under Andrew Jackson (1757-1845). Aldrich asserted that a central bank was essential yet the diversity and size of the United States presented a distinctly different twist to the European situation. Aldrich realized that Europe had many countries with diverse economic models. He realized that while the United States needed a central bank, paradoxically it also had to be simultaneously ***decentralized*** somehow to cope with both the economy and the self-defeating American political system. Aldrich was seasoned enough to realize that a central bank would be attacked by local politicians and bankers as had the First and Second ***Bank of the United States***. The **Aldrich plan** was brilliant and it was introduced in 62nd and 63rd Congresses (1912 and 1913). As always, the political winds changed and the Democrats in 1912 won control of both of the House and the Senate as well as the White House.

The **Aldrich Plan** proposed a system of fifteen regional central banks, called ***National Reserve Associations***, whose actions would be coordinated by a national board of commercial bankers to do **NO** more than be a lender of last resort as J.P. Morgan had acted during the ***Panic of 1907***. The ***National Reserve Association*** would make emergency loans to member banks, would create money to provide an

elastic currency that could be exchanged equally for demand deposits, and would act as a fiscal agent for the federal government. The **Aldrich Plan** was actually rejected by the Congress - defeated in the House as politics superseded the national good. However, its outline did become a model for a bill that eventually was adopted. The problem with the **Aldrich Plan** was that the regional banks would be controlled individually and nationally by bankers, a prospect that did not sit well with the populist Democratic Party or with President Wilson. The Democrats and Wilson were fearful that the reforms would grant more control of the financial system to bankers and the politicians could not meddle as they saw fit. The history of the First and Second **Bank of the United States** was repeating. It was that Political-Economy that cannot be divorced.



PRESIDENT'S SIGNATURE ENACTS CURRENCY LAW

Wilson Declares It the First of Series of Constructive Acts to Aid Business.

Makes Speech to Group of Democratic Leaders.

Conference Report Adopted in Senate by Vote of 43 to 25.

Banks All Over the Country Hasten to Enter Federal Reserve System.

WILSON SEES DAWN OF NEW ERA IN BUSINESS

HOME VIEWS OF CURRENCY ACT

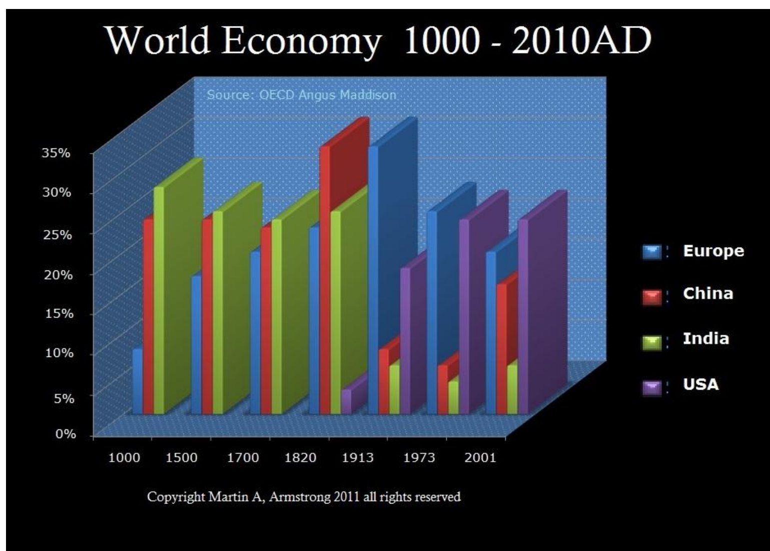
FOUR PENS USED BY PRESIDENT

The need for a central bank was really far too great and even the Democrats recognized that behind closed doors. Eventually, the Federal Reserve Act was passed 43 to 25 and this now altered the actual role of currency. **MONEY** was now becoming "***elastic***" for the Federal Reserve would issue currency notes thereby creating a money supply that increases and decreases as the economy expands and shrinks. This new "***Elastic Money***" would become an essential function of the Federal Reserve System in its early days where it would regulate the amount of money supply that was allowed to be in circulation. This was seen as essential because of the wild swings during the 19th century in the economy caused by the chance discoveries of gold in California, Alaska, and silver that disrupted the economy and arbitrarily increased the money supply with nobody in charge. Effectively, the 20th century saw unrestrained printing of paper dollars caused by political fiscal mismanagement whereas the 19th century was plagued by chance discoveries of precious metals that had the same effects. Essentially, this was now seen as necessary to make sure that the reserves held in trust by the government were adequate to back the amount of coins and currency that were allowed to circulate. It was now seen that a nonpartisan decision should deal with shifts in the economy whereas politicians could not be responsible no matter what. It would be the Federal Reserve that would now prevent excessive conditions that would lead the country into financial chaos and ultimate ruin as nearly took place during the ***Panic of 1907***. The Fed would expand the money supply during periods of economic decline and contract the money supply during economic booms.

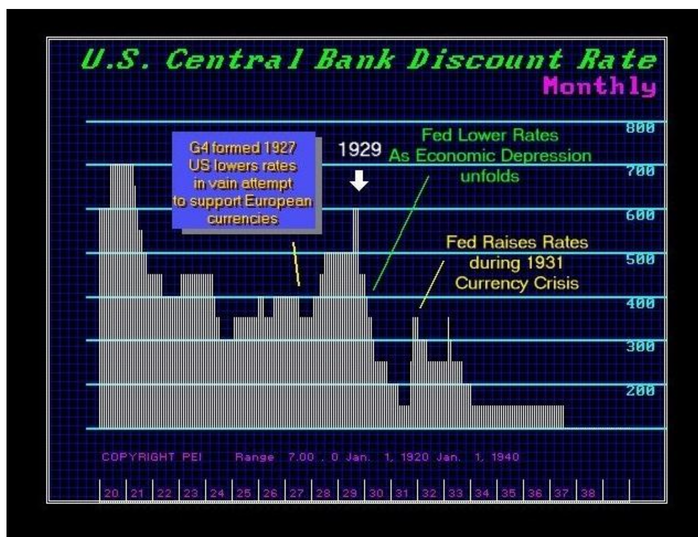
Optimal monetary policy is supposed to facilitate exchange within the economy to avoid aggregate shocks that affect individuals and economic sectors (industries) unequally. Exchange may be conducted using either bank deposits that some see as "***inside money***" or "***fiat***" currency some refer to as "***outside***

money" that is created by leverage. A central monetary authority both controls the stock of "***outside money***" and pursues an interest rate policy that is intended to affect the rate at which private banks create "***inside money***." In the modern context, it is now seen as the optimal monetary policy requires management of both ***interest rates*** and the ***quantity of outside money***. By controlling interest rates the monetary authority can affect the price level in the short-run and adjust households' consumption, so they believe, and therefore this provides insurance against unfavorable aggregate shocks to the money supply tempering the boom-bust cycle. However, the feasibility of manipulating the interest rate policy and the quantity of money, as we will see, is purely a fantasy in the new modern global economy.

These concepts were quickly being proven to be far too parochial. The global economy was about to receive a major shock that would turn it on its head – World War I which July 28th, 1914 and lasted until November 11th, 1918. It involved more than 70 million military personnel, of which 60 million were Europeans, and more than 9 million soldiers were killed in combat. The assassination of Archduke Franz Ferdinand of Austria on June 28th, 1914 was the excuse for the war, but in reality, it was the culmination of centuries of contests for imperialistic power in Europe. Ferdinand was the heir to the Austria-Hungarian Empire throne, which was the remnant of the Holy Roman Empire. This allowed the hatred between many rivals bringing into the conflict the German Empire, Ottoman Empire, Russian Empire, British Empire, French Empire, and Italy. In the end, the Financial Capital of Europe, which migrated from Babylon to Athens, then Rome, Byzantine, Northern Italy centered in Florence/Genoa/Venice, to Amsterdam, and then to London in 1689, now migrated to the United States beginning in 1914.

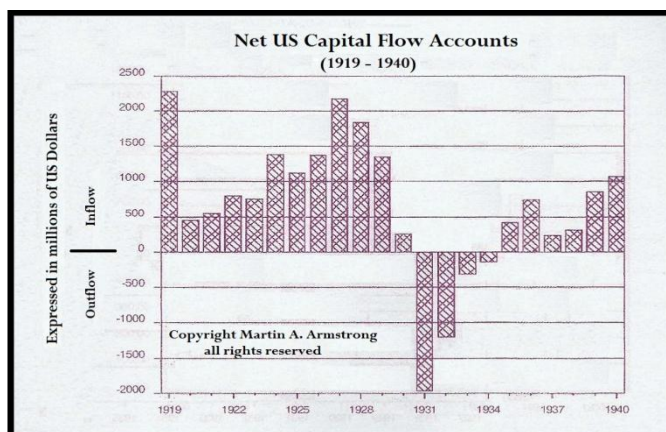


Most people do not realize, but during the Dark Ages of Europe, the balance of trade with Asia had transferred tremendous wealth from Rome and Byzantium. India had become the Financial Capital of the World by 1000AD with China second. This was one of the primary reasons for Britain expanding into India. By 1820, the new Financial Capital of the World became China. That power was shift from Asia back to Europe and Britain reached its zenith going into World War I.



In creating the Federal Reserve, Congress did not realize that it had reached that point in time where the US was being handed the scepter of financial power. The Fed, being a fledgling central bank, was still in awe of Europe. It did not realize that its role was shifting the power to the dollar and away from the pound. Its attempt to help Europe retain that status it did not understand nor did it realize that the theories of controlling money supply were already inadequate in the face of massive capital inflows from around the world.

The bitter hatred that remained in Europe transferred the war to the financial markets. Governments were borrowing again to rearm rather than rebuild their economies. By 1927, the Fed found itself caught up in a quasi G4 alliance trying to deflect capital inflows back to Europe. It abandoned its domestic focus and usurped the independent interest rates of each branch into a single national rate to help Europe. It did not understand the international capital flows and what was taking place was in fact the shift of the Financial Capital of the World from Europe to the United States.



Milton Freidman in his work on the ***Great Depression*** correctly states that the gold flowed **INTO** the USA from Europe, but then argues the Fed failed to increase the **MONEY SUPPLY** to account for the increase in gold reserves. From the Fed's perspective, they saw this gold inflow as transient rather than permanent just **GOLD/MONEY** parking during a crisis. Additionally, this view of a balanced budget was necessary to maintain **CONFIDENCE** in the dollar is what Keynes focused on as to the cause of the ***Great Depression*** was the contraction in **DEMAND** that could have been offset by deficit spending. The NY Fed was trying to help Europe and reverse the international capital flows because of a growing shortage of gold in Europe. They also believed, as right now, that to maintain **CONFIDENCE** among bondholders, austerity must be imposed oppressing the people for the since of political fiscal mismanagement. But gold was flowing to the USA because capital correctly predicted the **1931 Sovereign Defaults**. Milton's view is **TOO** American (parochial) and lacks the global perspective, yet correctly addresses the inflow of gold to the USA. Part of Milton's view was precisely because of the **Bretton Woods** construct. Any mistake on Milton's part is perhaps more obvious today under a floating exchange rate system than it was under the old fixed exchange rate system of **Bretton Woods**. http://www.youtube.com/watch?v=MvBCDS-y8vc&feature=related

George F. Warren (1874-1938)

Milton also credits Keynes perhaps a bit too much, for the idea of devaluing the dollar did not come from Keynes, but George Warren (1874-1938). Even the idea of government creating jobs was not original to Keynes. That idea first surfaced back in the 1890s when **Jacob Coxey** (1854–1951) led his army (marchers) to Washington to protest the unemployment of the ***1893 Depression***. Keynes comes into play for 1944 **Bretton Woods**, but in no way was it Keynes who provided all the ideas for the solution to the ***Great Depression*** at that time, despite the fact they tend to be attributable exclusively to him. Roosevelt listened to Warren, not Keynes.

Nevertheless, ***Monetarism*** in fact supports the role of **MONEY** as a vital tool within the economic process. Since the Fed creates that **MONEY** through leveraging the economy with credit creating fiat currency even in a gold standard, Congress was eager to transfer the responsibility for managing inflation caused by an **INCREASE** in money supply to the Fed. Politicians now escaped respinsibility. Currently, now the Fed is involved in bailouts of the monetary system beyond banks (**AIG** and **Long Term Capital Management** hedge fund) where the Fed was **NEVER** designed for this purpose.

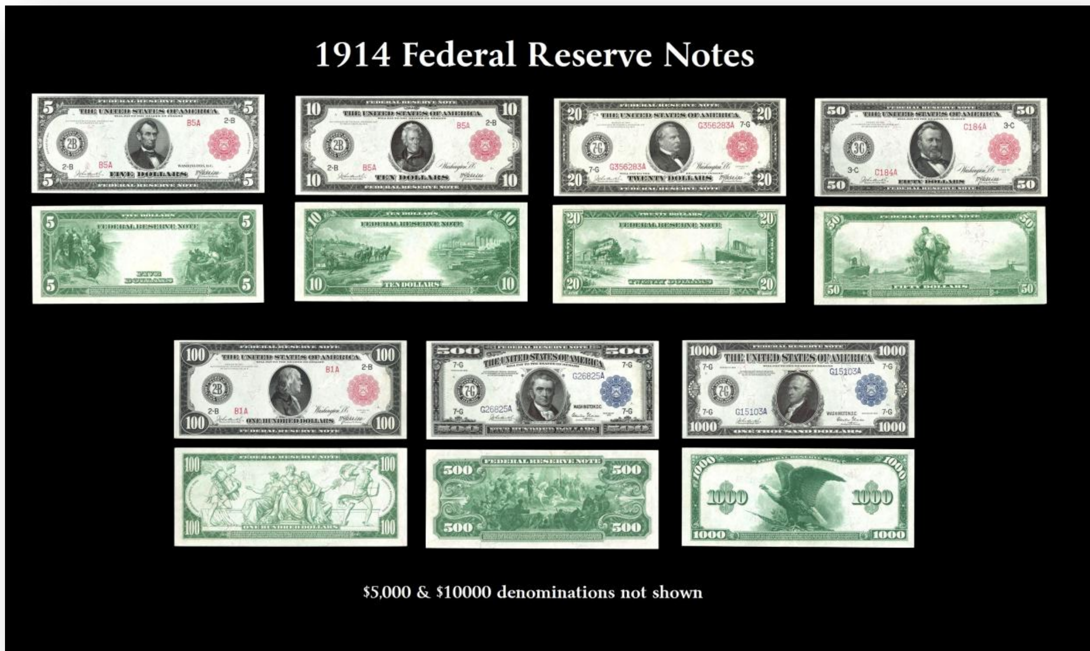
First Bank of the United States $20 Draft

This idea that banks issue paper money of course ironically stems from this who idea that money is tangible. The idea than a bank issues its own currency backed by its own reserves was the cornerstone of banking. The United States government issued no paper currency until the Civil War. Andrew Jackson's destruction of the ***Bank of the United States*** merely set the stage for wildcat banking. In 1863, to encourage the sale of government bonds, the government created the **National Banking Act**. Individual banks could issue their own currency according to standardized federal designs up to 90% of their holdings of federal bonds. Thus, they were monetizing the debt in a very clever manner as illustrated here.

The idea that a bank issues the notes was clearly nothing new. This was the very idea from which this whole tangible idea emerges. A bank held assets and monetized those assets by issuing currency that reflected the tangible assets held by the bank be it gold, or in this case, bonds. Currently, the entire monetary system is still based upon this concept where central banks hold reserves of US dollars, but they are in the form of bonds, not actually paper currency. In truth, **MONEY** has become really bonds that the government pretends is not **MONEY** but in fact they represent reserves in the same manner as these ***National Bank Notes*** that began in 1863.

1863 First Issue of National Bank Notes

1914 Federal Reserve Notes


$5,000 & $10000 denominations not shown

The **Federal Reserve Act** of December 23, 1913 also authorized the first issue of Federal Reserve Bank Notes. All denominations were issued from 5 to 10,000 Dollars. The notes from 5 to 100 Dollars are series of 1914. The higher denomination notes from 500 to 10,000 Dollars are series of 1918. With the

establishment of the Federal Reserve System, a new type of currency came into existence. The notes issued under this system are the **Federal Reserve Bank Notes** and the **Federal Reserve Notes**.
The **Federal Reserve Bank Notes** were also inscribed "***National Currency***"; the **Federal Reserve Notes** are not so inscribed and are currency of the system as a whole rather than issued by individual banks in the system. The obverse designs of these two issues are markedly different while the reverses are similar.

The **Federal Reserve Notes** were issued by the United States to all twelve Federal Reserve Banks. The notes were not issued by the banks themselves (as were the **Federal Reserve Bank Notes**) and the obligations to pay the bearer were borne by the government, and not by the banks. Hence, these notes were not secured by United States bonds or other securities as had been the case with the **National Bank Notes**. In reality, the notes were secured, but the nature of the security is not certified on the actual notes. The obligation on the **Federal Reserve Notes** is completely unlike that on the **Federal Reserve Bank Notes**, and is as follows,

> "***The United States of America will pay to the bearer on demand Dollars . . . This note is receivable by all national and member banks and Federal Reserve Banks and for all taxes, customs and other public dues. It is redeemable in gold on demand at the Treasury Department of the United States in the city of Washington, District of Columbia or in gold or lawful money at any Federal Reserve Bank.***"

There were two separate issues of the **Federal Reserve Bank Notes**, the series of 1915 and series of 1918. The first issue was authorized by the Federal Reserve Act of December 23rd, 1913 and consisted only of 5, 10 and 20 Dollar notes. These were not issued by all twelve banks in the system but only by

the banks at Atlanta, Chicago, Kansas City, Dallas and San Francisco. The last named bank issued 5 Dollar notes only. These notes are inscribed "***National Currency***" and are similar to the earlier **National Bank Notes**. The obligation to pay the bearer on demand is made by the specific Federal Reserve Bank and not by the United States. The obligation on the first issue of **Federal Reserve Bank Notes** is similar to that on the **National Bank Notes**. There is a slight variance in the wording but not in the meaning.
The second 1918 issue of **Federal Reserve Bank Notes** was authorized by the Act of April 23, 1918. The notes were issued by all twelve banks. Part of the obligation on this issue differs from that on the first issue, as follows,

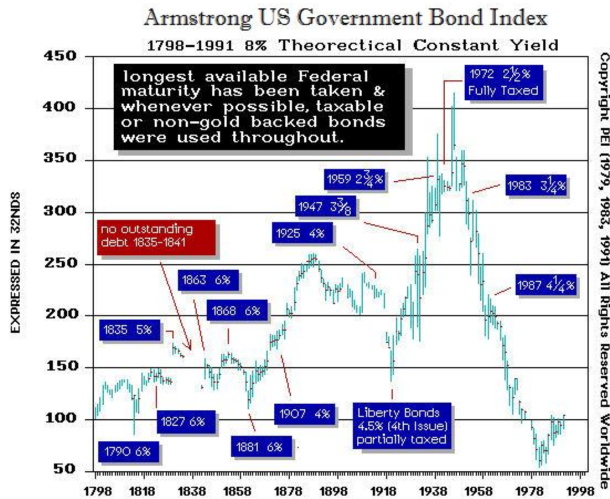
> "***Secured by United States bonds or United States Certificates of indebtedness or United States one-year gold notes, deposited with the Treasurer of the United States of America. ...*** "

Federal Reserve Bank Notes are all quite rare for most were redeemed. The **Treasury Department** records only a little more than $2 million dollars is still outstanding out of a total issue of nearly $762 million dollars. Obviously, such notes were redeemed most likely prior to 1934 and the confiscation of gold under Franklin D. Roosevelt. To reduce the cost of printing currency, the notes were reduced in size to the current format by the ***Act of July 10th, 1929***. After the enactment of the ***Gold Reserve Act of 1933***, the obligation was changed to read: "***This note is legal tender foe all debts, public and private, and is legal tender for all debts, public and private, and is redeemable in lawful money at the United States Treasury, or at any Federal Reserve Bank.***" Of course gold was no longer lawful money domestically, so exactly what could the notes be redeemed for was at best coins.

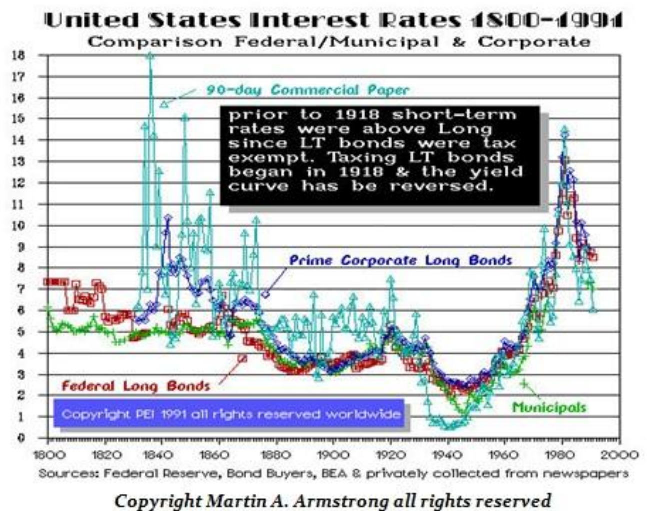
Yet through all of this, there is a tremendous problem with this perception of the role of the Federal Reserve. It is absolutely true that we **NEED** the Federl Reserve to provide stability to the banking system. However, that **NEED** is to be limited to the role of J.P. Morgan during the Panic of 1907. All the Fed should have done was to be there to provide liquidity in times of economic upheaval. A bank would place its secured loans up at the Fed if it needed instant cash to stop a run. It has been Congress that just can't keep its hands in its own pockets. The Fed when designed had 12 regional branches each functioning independently so that interest rates would **NOT** be a single national rate because the United States is not a single economy by diverse with industry, agriculture, commodity production (oil & mining) all in different regions. Service industry tends to be clustered predominatly with the population. So one size does not fit all. During commodity booms in oil, Texas is living the large life andd New York is suffering. This single rate nonsense was usurped in 1927 by the Fed trying to bailout Europe. We forgot this part of the design.

1934 The new Roosevelt Money

The reason for the **BANKS** operating the Fed was to divorce the two words Political Economy. This was not



an evil design, but politically practical. For you see, to stimulate the economy, the Fed was initially set up to buy corporate paper injecting money directly into the local economy. Because of World War II, the Democrats were worried about the war creating oinflation as did every war before it. Thus, Americans were traditionally isolationists and did not want to get into Europe's battles. After much manipulation, FDR managed to get the USA into the war. To eliminate the effects of the massive expenditures, they changed the Fed's role. **FIRST**, they formally usurped all powers consolidating it into one national poliicy. **SECONDLY**, instructed the Fed to create **MONEY** to support the Federal bonds at **PAR** to prevent any decline. **THIRDLY**, they eliminated the Fed buying corporate paper to stimulate the economy instructing it to buy only Federal bonds instead. We can see in this perpetual index of Federal Bonds from 1798 to 1991 the impact of these policies.



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Here we have the interest rates between 1800 and 1991 showing the spikes during the Civil War and World War I. This was neutralized during World War II but the political usurpation of the Fed.

Our problem is NOT the Fed, it is the role it keeps being forced into. Now the Fed is in charge of the economy and it can bailout anything, not just banks. So you can see that we have gone from the plain and simple role of J.P. Morgan into a complex entity that keeps being changed and reshaped by people who have no clue what they are doing.

There have been many attempts to create a monetary system within the United States which have plagued politicians resulting in a highly tortured past. The US dollar currently is the established de facto **WORLD RESERVE CURRENCY** ever since 1944 and **Bretton Woods**. However, it has been our misconception of **MONEY** that has driven these failed attempts at creating some sort of superpower within the economy, and then we yell and scream that the Fed is own by bankers. It was not created for the purpose it is being used today. Because the US dollar is the **RESERVE CURRENCY,** our **<u>domestic</u>** policy objectives in the USA are **<u>exported</u>** via the currency to the entire world making this entire system completely nuts. We are far beyond any rational design here. This is because politicians keep tinkering with the role of the Fed for political objectives, not sound economics.

THE RESERVE CURRENCY

Thanks to two world wars, the USA became both the arms dealer and the breadbasket for the world. That status caused the gold to flow to the United States in addition to the instability of a political economy in Europe. The Europe and Asia had been devastated by war. There were no tanks that invaded America. This logically resulted in making the dollar the **RESERVE CURRENCY** of the world. For you must understand that **PAPER MONEY** began as a mere receipt for what was on deposit at the **Wisselbank**. That middle ages tradition led to checks and receipts being exchanged in lieu of the actual metal. Coins could be clipped or counterfeited and when a transaction was expressed in a specific amount of coin, it required a moneychanger to verify the correct agreed upon sum of the transaction by verifying the coins. Hence, **PAPER MONEY** became worth **MORE** than coins because it eliminated the cost of a moneychanger. This emerged into was became known as "**Bank Money**" meaning it required no verification. Even today, try counting a million dollars in cash verifying each bill. When I was in the gold business, counting a half-million took more than an hour and the count was never the same twice. It is a nightmare. Bank money is clean, correct, and instantly usable.

Against this backdrop, the monetary system established at **Bretton Woods** was nothing new. It was traditional that now the dollar was tied to gold and became the historical receipt that circulated instead of the actual gold. Most people don't know that there were once $100,000 notes. These were purely **RESERVE** currency notes that sat in bank vaults and did not circulate within the economy.

Bretton Woods

While it is true that the gold standard aspect of **Bretton Woods** collapsed, it is **NOT** true that the entire structure created in 1944 collapsed. To the

contrary, everything else remains in place from the ***World Bank*** and ***IMF*** to the fact that the dollar remains as the **RESERVE CURRENCY** of the world. However, this monetary system of 1944 remains as the chicken that is still running even though the head (***gold standard***) was cut off. This gave birth to the ***Floating Exchange Rate System*** we have today that was not designed and is simply ***ad hoc***. This is also why it has not been taught in any university because nobody designed it. The dollar is no longer an **IOU** for gold representing some **TANGIBLE** asset. **MONEY** has transcended beyond that Western tradition of being a receipt for something tangible and has thus undergone a metamorphosis evolving into a completely new medium of exchange that nobody has quite fully understood – **VIRTUAL MONEY**.

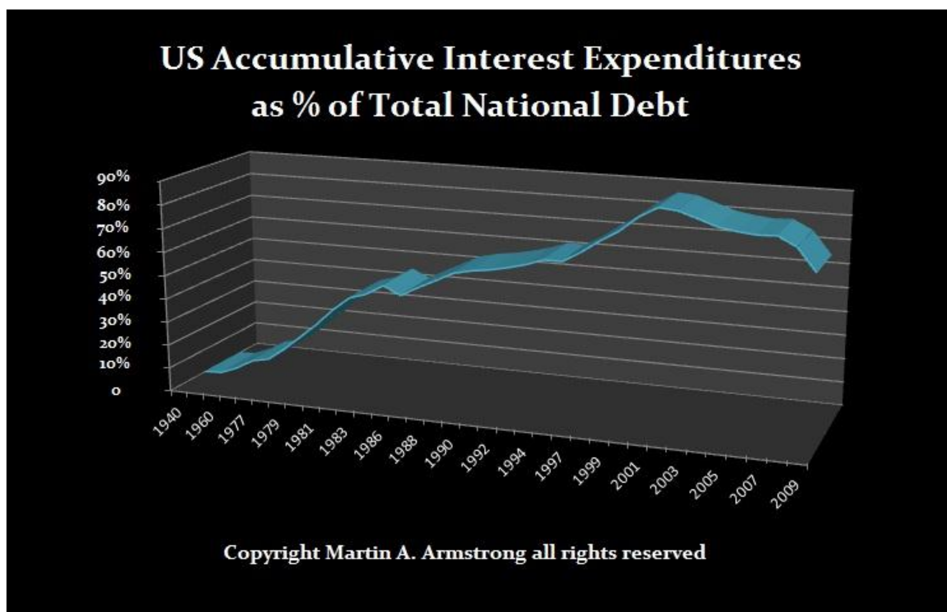
Consequently, the core design of the **Bretton Woods** system established in 1944 remains alive and well. The US dollar is **STILL** the **RESERVE CURRENCY**. Of course, the dollar was tied to gold internationally *not domestically* and this is why the average American did not line up in 1975 to buy gold after it had been at long last declared legal following the 1933 Gold Act after about 41 years. So what actually took place in 1971 was that Nixon closed the "***gold window***" ending the dollar convertibility to gold for foreign nations **ONLY**, which had no material effect on domestic citizens who had been conditioned to look at the **PAPER DOLLAR** as **MONEY** in and of itself. The fundamental structure of **Bretton Woods** outside of the gold standard remained intact and thus the **INTERNATIONAL ECONOMY** was directly altered by the closing of the gold window compared to the domestic economy. Most Americans did not even blink-an-eye.

Because the original idea of the Fed to divorce **POLITICS** and **ECONOMICS** to secure the stability of the economy long-term failed because politicians could not keep their hands out of the pockets of the Fed and Treasury, we have a monetary system that few really understand. Economic policy in the developed world over the past 25 years has followed one overriding principle: the avoidance of recession at all costs. For much of this period monetary policy was the weapon of choice. When markets wobbled, central banks slashed interest rates. But the problem today is that government is spending uncontrollably. We now have cries for austerity in the middle of an economic decline. It has not been the Fed and its interest policy that creates assets bubbles, but the increase in money supply through the creation of debt, which in turn serves as a reserve for banks as well as central banks. Hence, this policy unleashed a series of debt-financed asset bubbles. When the last of those bubbles burst in 2007 and crashed into 2009, the Fed had to add fiscal stimulus and quantitative easing (QE) to the policy mix

which has been ineffective. The Feb bought back long-term government debt, but in a global economy where 40% of the interest payments are exported overseas, there is absolutely **NO** way to ensure the bonds being purchased were not previously in the hands of foreign holders. In such a case, the money paid is simply exported for foreign lands and provides **ZERO** domestic stimuli.

John Maynard Keynes (1883-1946)

Politicians only listen to what they want to hear. Most people blame John Maynard Keynes (1883-1946) for all the deficit spending. However, Keynes only advocated such spending in a depression to counter-balance the collapse in private **DEMAND**. During a milder recession, he advocated reducing taxation. By no means did Keynes advocate perpetual deficit spending year after year. Most economists regard these deficits may have been necessary to avoid a repeat of the Depression. This will probably be debated 100 years from now. Franklin Roosevelt's **New Deal** program was partially effective in the 1930s. It was primarily the devaluation of the dollar raising gold from $20 to $34 an ounce that did most of the stimulating by raising prices. Now we face the dire consequences of the political usurpation of Keynes' temporary solution transforming it into a perpetual debt machine with no intention to ever pay off anything. Any decline in the deficit trying to bring in austerity will act as an opposing force within the economy. Government will be spending less and taxing more, even if tax rates are not increased, tax collection has become very aggressive. Reducing spending is akin to taking a bottle of booze away from a drunk. There will be no easy transition because politicians once again approach the economy as if they were some medieval doctor pulling body parts out until the pain stoops or the patient is dead.



The consequence of all of this debt creates a serious problem. Not even a **BALANCED BUDGET** is a solution because the interest on existing debt will continue to rise as a percent of total. This means that **ALL** other spending social and military will be crowded out by the obligation to service the debt by paying interest of which 40% is exported.

As a result governments have been reluctant to cut the deficit too quickly for fear of sending their economies back into recession. But unless there is a rapid recovery, the debt will keep piling on, making the ultimate problem harder to solve. The accumulative interest expenditures will simply rise to the point they bring down the entire system. For you cannot cut the interest expenditures without defaulting on the debt. Austerity is not the answer for cutting spending, raising taxes, will reduce economic growth, increase unemployment, and cause a further decline in tax revenues. There is just way too much debt to get out of this trap without some clever default. And, on top of all of this, the USA is in the best shape compared to Europe and Japan.

Public Debt of the U.S., 1870-2009

Source: Bureau of Public Debt, U.S. Dept. of the Treasury

Fiscal year	Debt (bil)	Debt per cap. (dollars)	Interest paid (bil)	% of federal outlays
1870	$2.4	$61.06	—	—
1880	2.0	41.60	—	—
1890	1.1	17.80	—	—
1900	1.2	16.60	—	—
1910	1.1	12.41	—	—
1920	24.2	228	—	—
1930	16.1	131	—	—
1940	43.0	325	$1.0	10.5%
1950	256.1	1,688	5.7	13.4
1960	284.1	1,572	9.2	10.0
1970	370.1	1,814	19.3	9.9
1977	698.8	3,170	41.9	10.2
1978	771.5	3,463	48.7	10.6
1979	826.5	3,669	59.8	11.9
1980	907.7	3,985	74.9	12.7
1981	997.9	4,338	95.6	14.1
1982	1,142.0	4,913	117.4	15.7
1983	1,377.2	5,870	128.8	15.9
1984	1,572.3	6,640	153.8	18.1
1986	2,125.3	8,774	190.2	19.2
1987	2,350.3	9,615	195.4	19.5
1988	2,602.3	10,534	214.1	20.1
1989	2,857.4	11,545	240.9	21.0
1990	3,233.3	13,000	264.8	21.1
1991	3,665.3	14,436	285.5	21.6
1992	4,064.6	15,846	292.3	21.2
1993	4,411.5	17,105	292.5	20.8
1994	4,692.8	18,025	296.3	20.3
1996	5,224.8	19,805	344.0	22.0
1997	5,413.1	20,026	355.8	22.2
1998	5,526.2	20,443	363.8	22.0
1999	5,656.3	20,746	353.5	20.7
2000	5,674.2	20,106	362.0	20.2
2001	5,807.5	20,361	359.5	19.3
2002	6,228.2	21,616	332.5	16.5
2003	6,783.2	23,326	318.1	14.7
2004	7,379.1	25,130	321.6	14.0
2005	7,932.7	26,754	352.4	14.3
2006	8,507.0	28,414	405.9	15.3
2007	9,007.7	29,804	430.0	15.4
2008	10,025.0	33,237	451.2	16.2
2009	11.956.6	38,850	383.4	26.0

Withdrawing stimulus is not just risky economically, but hard politically, as well. We have rising discontent everywhere. Riots in Greece are not unique. The youth have unemployment rates of 25%-50% in most countries producing riots in England. We have had "***Occupy Wall Street***" in the United States and this is rather unique despite the fact that the New York Press is playing down the story desperately. The New York Press should tread carefully and stop just supporting the corrupt market manipulators. Previous periods where the corruption was present as in the **Panic of 1869** resulted in the mob dragging bankers out into the street and hanging them. This is the origin of the term "Black Friday" for the government had to call out troops to suppress the riot. Then there was the 1920 bombing on Wall Street of J.P. Morgan during that Panic of 1920.

Panic of 1869 Mob Hangs Bankers

EVENING BANNER

EPTEMBER 17, 1920. PRICE 2 CENTS; 12 CENTS PER WEEK.

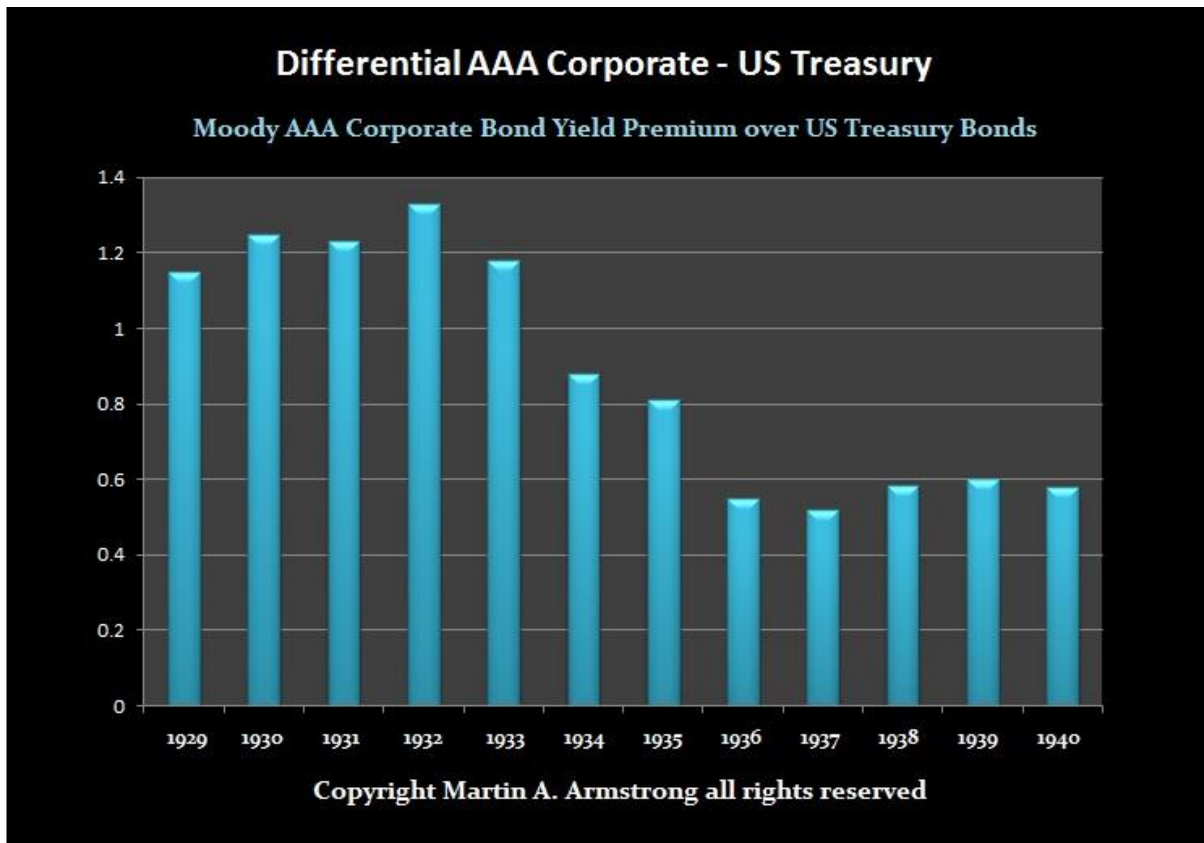
ological Moment To Make a Fool of Himself---Atchison Globe

DEATH TOLL OF BOMB EXPLOSION TOTALS 36 MORE THAN 200 HURT

Property Damage Will Run as High as $2,500,000—Financial Centers Throughout Country Converted Into Armed Camps to Prevent Similar Disasters—Troops in New York in Readiness to Uphold Law and Order.

POLICE CONVINCED

The Unsolved Bombing of J.P.Morgan & Co on September 16, 1920 killing 38 and injuring 143 people

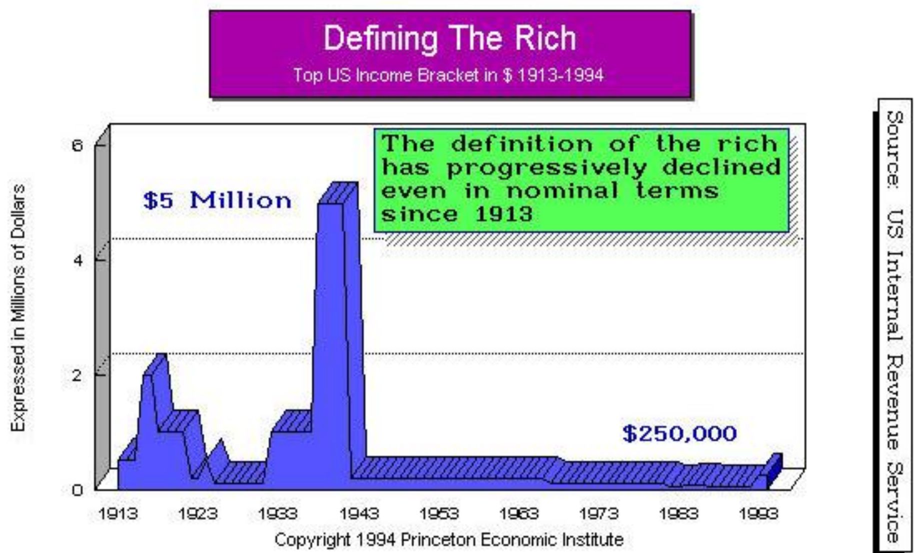


IT'S THE DEBT STUPID

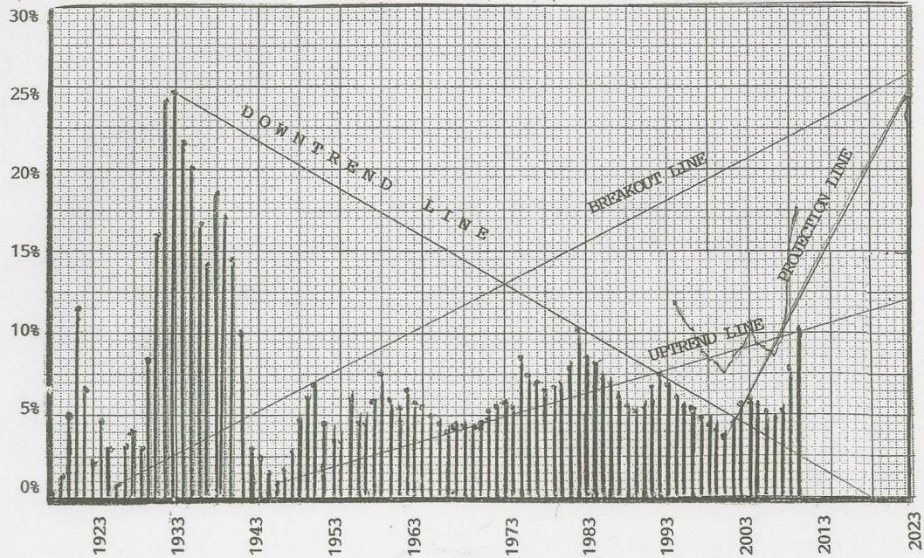
The S&P US Downgrade was highly suspicious. Just follow who was short in advance and you will find who S&P told before the made their announcement. This I believe was an inside job for the purpose of one of New York's famous market manipulation attempts. The reason I say this is because the US is the best looking in the ugly contest. S&P should have downgrade everyone in Europe before the US because the dollar is the **RESERVE CURRENCY** and that means regardless of what S&P has to say, it is the only game in town to park big money until it is ready to shift to the private assets as was the case during the Great Depression. We can see that from 1932 onward, the spread between corporate AAA paper and government declined showing the shift from public to private assets that corresponded with the rally in the stock market for that same period. The US debt market is the deepest with the least problem compared to Europe and Japan. Since the dollar is the **RESERVE CURRENCY,** that means everything trades in dollars including oil, gold, commodities, etc. So even Russia has $250 billion in US Treasuries because they have to, despite the fact they complain the US$ should not be the **RESERVE CURRENCY**. I do not believe that S&P is really that stupid so I believe this is another sorted example of rigging the game. How could they rate mortgage backed time bombs AAA when the underlying component wasn't and yet they downgrade the USA? That is the real question remains why would S&P downgrade the USA when the markets disagree? It appears it may be manipulation once again.

As Milton Friedman said: "***The Great Depression, like most other periods of severe unemployment, was produced by government mismanagement rather than by any inherent instability of the private economy.***" We are standing on the edge in the middle of nowhere. A certain element in New York seeks to rig everything to make sure they only make money and never lose even a penny. Unfortunately, they have so infected the system from top to bottom, that they will attack anyone to hold on to their power. The mainstream press in New York will never utter a word. They too buckle to the pressure of the market manipulators. It is not the individual journalists. It is their editors and senior staff. Do you really think Bloomberg News will cover New York Police beating protestors and arresting hundreds in the "**Occupy Wall Street**" movement when Bloomberg is the Mayor or the very institutions behind this usurpation of the free markets are their biggest clients? Until there are term limits and all political campaign funding is from a central fund where candidates cannot even use their own funds, we simply will never have a free society or economy.

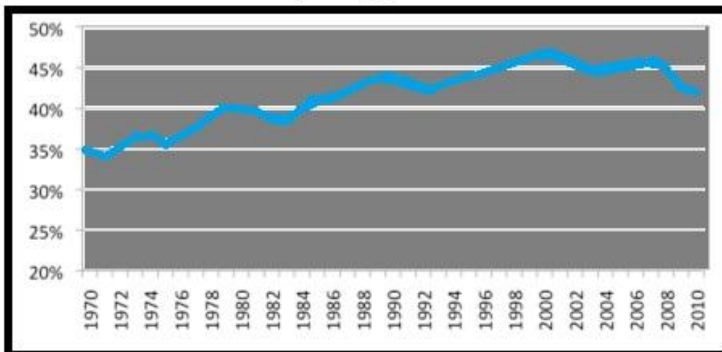
The **Sovereign Debt Crisis** has been brought to you by those hiding in the shadows in New York. That have advised government to borrow all the time, for you see, the government does **NOT** sell its own debt. It relies on these same people to sell their debt. So why would the press ever report wrong-doing by any of them? Why would the government ever criminally charge any of them? Yet these are the people who are destroying society and have been caught so many times behind the scenes trying to craft some new time bomb to blow-up foreign government national debts. It is the debt that will destroy society for it always has been just about the debt.



The government likes to inflate the economy because it gets to spend as it pleases, yet at the same time, it pushing the taxpayer into higher tax brackets. Additionally, the government keeps talking about taxing the rich to pay for everything, but there just are not enough of them. So the government keeps lowering the definition of the rich. Now it is not even individual income, but "**household**" income. Soon, because children have a rough time finding employment, they are staying home longer and most likely that will include everyone in the house to push that income into the $250,000 bracket to plunder their living.



Unemployment will continue to rise for under this austerity philosophy, state and local governments will be forced to reduce the size of their workforce. We are looking at the official rate of unemployment reaching the 15% level while unemployment among the black community and youths, is likely to rise even to reach near the 50% level. If we look at jobs as a percent of total population, we see that the peak was in 2000 with the Bubble Top in the NASDAQ. The economy in real terms has been declining. By understating inflation, government is able to create the illusion of growth.



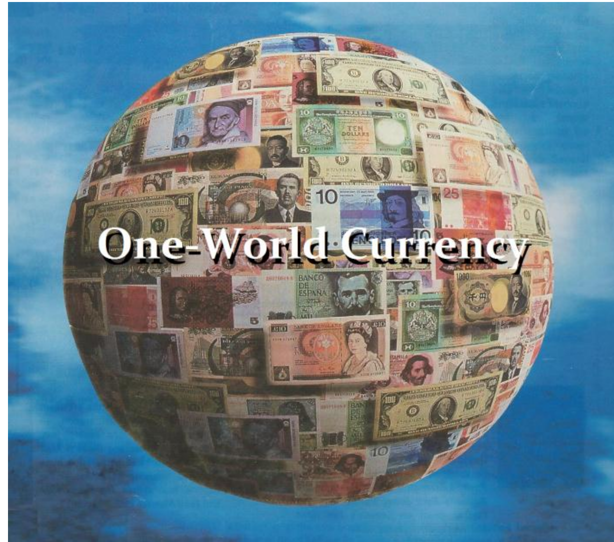
The debt crisis will compel more aggressive taxation and combined with austerity and a rising debt burden, it's a recipe for social unrest and political instability. The only way out of a debt crisis of this magnitude will be to cleverly default, create a new currency, swap this one for that old stuff, and count on confusing the masses to make them think they saved their future when the blew it up.

INTERNATIONAL VALUE

There is something out there that is truly Adam Smith's **Invisible Hand**. This is a nebula of **International Value** that is kind-of like the new Cloud Computing. It is tangible in the mind of each nation, yet lacks a solid mass in the form of a global currency per se making it simultaneously intangible. Still, it collectively combines through human perception into an **International Value** of exchange that is purely conceptual yet it is as real as a tangible currency in a collective virtual world of finance. Those who grasp this concept even unknowingly then engage in the much more complex world of **International Arbitrage**. In truth, this murky field of **International Value** was the origin of our global economy. It is the very heart and soul of everything around us. It gave rise to ***Mercantilism*** where people traveled among nations searching for a product that possessed an **International Value** in one country that could be transported and sold in another at a higher value (***profit***)! Banking thus began after the Dark Ages with merchants engaging in international trade. This led to moneychangers aware of how to conduct foreign exchange. This is truly the source of what we conceptualize to be **MONEY** and it is how **International Trade** even flows. Without differences in **VALUE**, trade would cease. For all international trade is effectively arbitrage. It is essential to understand for this even supports David Ricardo's observations of **Comparative Advantage** among nations, where a nation should not squander its resources producing something that can be purchased in international trade at a price far less than its domestic cost of production. Unions fought against the simple principle and lost. The more inflexible they became the most jobs they lost. The Marxists pointed to the "***greed***" of the employer unwilling to pay a higher wage. They ignore the role of the consumer who has the ultimate vote. Maintaining excessively high and uncompetitive wages imposes higher prices on the consumer and reduces his living standard. If a consumer has a choice between two products of equal quality, he will take the best price.

In reality, there is this composite ***Virtual International Currency*** based upon value that is equated into local currency in each country. If there is a benefit (profit) to cause capital to migrate, that will take place amounting to the process of international arbitrage. A currency is merely an element within the global context that is like a language. It is **NOT** a store of wealth, for **MONEY** in its official form is always depreciated with time. If you hid $50,000 in a draw in 1980 when it would buy a Porsche, today it will not pay for half of that same car. Clearly, **MONEY** is **NOT** and never has been a store of value. It is **ONLY** a medium of exchange.

This ***Virtual International Currency*** exists regardless of what political states try to do. It is the foundation of international investment. Capital will flow globally like water seeking the lowest point of cost for the same quality of product. Everything is converted in the mind of a buyer to his host currency to make that decision in the global economy. If the product in question is cheaper for the same quality when converted back to their currency, then a transaction will take place. In this manner, everything is effectively arbitraged. This is why there is emerging market investment and the migration with time of the **Financial Capital of the World**. Everything is simply relative to **VALUE** expressed in your home currency.



THE ONE-WORLD CURRENCY

When this subject comes up some envision a currency everyone has worldwide. That does not seem to be practical and it would still require the surrender of culture and sovereign identity. You can't get everyone to agree in the same country no less the world. The ***One-World Currency*** that is coming is a **RESERVE CURRENCY** to replace the dollar. No single country should serve as the **RESERVE CURRENCY** for whatever domestic policy objectives it takes that will be immediately exported to the rest of the world. The only solution going forward will be to create a neutral **RESERVE CURRENCY** that is administered by a group of major nations where there is no debt.

The American political system is far too unstable to provide a sound structure for a **RESERVE CURRENCY.** The tax rate is just as volatile as the stock market rising and falling with every change in political power. This produces a clash with economic policies where spending for domestic political gain is exported to the rest of the world in grossly unfair. Britain after World War I tried to regain her glory and set the pound back at its pre-war levels overvaluing the pound, which was a leading cause in the demise of the British Empire. Other nations were unable to export goods since they were using the pound as the **RESERVE CURRENCY** forcing the collapse of the Empire that first appeared economically abandoning the pound.

In the instant case, we will need to create a neutral **RESERVE CURRENCY** whereby all exchange in goods globally will need to be between two independent currencies converted through the **RESERVE CURRENCY**. Therefore, all commodities instead of trading in dollars will be traded in this new **NEUTRAL RESERVE CURRENCY**. Each nation will have its own currency that will allow it to retain its national culture and sovereignty. Because the dollar is the **RESERVE CURRENCY** at this time, it enjoys a status that means the demand for dollars will be retained for central banks will require dollars in the forms of bonds and this is created by both the need for reserves as well as the fact that most commodities trade in dollars and thus a supply of dollars is necessary to facilitate trade.