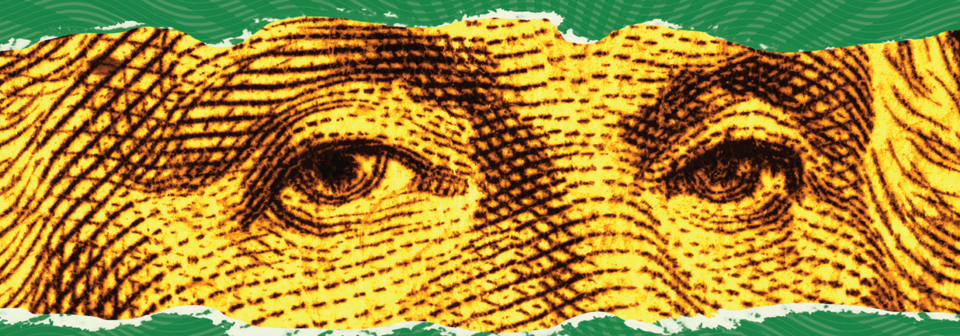
The Dollar Dilemma

WHERE TO FROM HERE



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The Dollar Dilemma: Where to from Here

Where We Are

It's a fallacy to believe the US has a free market economy. The economy is run by a conglomerate of individuals and special interests, in and out of government, including the Deep State, which controls central economic planning.

Rigging the economy is required to prevent market forces from demanding a halt to the mistakes that planners continuously make. This deceptive policy can last only for a limited time. Ultimately, the market proves more powerful than government manipulation of economic events. The longer the process lasts, the greater the bubble that always bursts. The planners in charge have many tools to perpetuate confidence in an unstable system, but common sense should tell us that grave dangers lie ahead.

Their policies strive to convince the unknowing that the dollar is strong and its status as the world's reserve currency is secure, no matter how many new dollars they create of out of thin air. It is claimed that our foreign debt is always someone else's fault and never related to our own monetary and economic mismanagement.

Official government reports inevitably claim inflation is low and we must work harder to increase it, claiming price increases somehow mystically indicate economic growth.

The Consumer Price Index is the statistic manipulated to try to prove this point, just as they use misleading gross domestic product (GDP) numbers to do the same. Many people are now recognizing these reports are nothing more than propaganda. Anybody who pays the bills to maintain a household knows the truth about inflation.

Ever since the Great Depression, controlling the dollar price of gold and deciding who gets to hold gold has been official policy. This advanced the Federal Reserve's original goal of demonetizing precious metals, which was fully achieved in August 1971. Today, even though the official position of all central banks is that gold is not money, central bankers constantly rig the dollar price of gold, pretending the dollar is stronger than it really is. Just as the market overrode the artificial price of $35 per ounce in the 1970s, today's price will soar when the dollar is dethroned as the king of the world's currencies.

In the rigged financial system, stock and bond prices are kept artificially high for the wealthy on Wall Street. To do this, interest rates have to be kept below market rates—which is a major contributing factor to gross economic distortions and financial bubbles.

The false belief setting the stage for an economic crash is the doctrine of "deficits don't matter," endorsed universally in the nation's capital, and it has been going on for decades. We are destined to soon find out that deficits do matter, and matter very much. Denying economic truth and common sense for long periods of time always ends badly.

If one were to listen only to the mainstream media recite government economic reports, concerns for the future would be minimal. Low unemployment rates, negligible inflation, no hot war going on, and the US remains the wealthiest and militarily the most powerful nation in history. Are the worriers justified in their concerns?

There are a lot of them, yet the Fed doesn't seem to be concerned, but then again it has never warned of trouble ahead, even when a major correction was at our doorstep. This is either because the Fed chairmen don't know any better, or because they don't want to panic the people into preparing for a crisis by knowing the truth. My guess is that it's both.

One thing for sure is that middle-class America is not of much concern to the money managers. What occupies their minds is how to protect Wall Street from any financial crisis that might arise. The monetary elite are alert as to who will be blamed, and the Fed in particular must be protected.

Since 1987, it's been the responsibility of the "Plunge Protection Team" (PPT, the president's Working Group on Financial Markets) to protect Wall Street from sudden and severe corrections in the stock and bond markets.

There are four powerful agencies that secretly can do just about anything they care to do to protect the monetary elites. They are the Federal Reserve Bank, the Treasury Department, the Securities and Exchange Commission (SEC), and the Commodity Futures Trading Commission (CFTC). It's my opinion that the Treasury's Exchange Stabilization Fund, which was funded by gold confiscated in 1934 by President Franklin D. Roosevelt at $20 per ounce and immediately repriced at $35, is still "legally" permitted to be engaged in the gold market and foreign exchange rates.

The key individuals, involved in any rescue operation during a financial crisis, are the Fed chairman, the Treasury secretary, the chairman of the SEC, and the CFTC. We can be assured that they were quite active in the financial crisis of 2007 and in the years of quantitative easing failures that followed. Today's amazing stock market "success" (as of January 2018) is especially interesting, since there is a net outflow of funds from the market. This means that the PPT has been successful in delaying the major correction that is required.

Abnormally low interest rates permit buybacks, mergers, and direct intervention in purchasing stocks and bonds by the PPT or by its allies around the world, with funds clandestinely provided by the Fed, to prop up the market and manipulate the gold price. There's good reason the financial elite hysterically oppose an audit of the Fed.

If more people knew how fragile the economy is and what is required to hold things together, there would be a lot less optimism. But the bigger question is: Do people accept the government's favorable reports on the state of the nation's economy?

Even the mediocre GDP reports overstate economic growth. Since 2008, government debt has grown much faster than GDP, which some claim supports the notion that the more debt the Congress runs up, the better off the economy will be, rather than admitting there's been no overall growth.

The increase in prosperity has been limited to the already wealthy. It is true that the rich are getting richer and the middle class is being wiped out. Belief in the government's reports is fiction, and the seriousness of the problem, which more than half the population now realizes, explains the anger and frustration the people feel. Debt may make one feel wealthier in the short term, but it is not wealth.

There are many reasons why Americans should be deeply concerned. Evidence readily exists that our prosperity and our liberties are threatened. Our bipartisan foreign policy of interventionism is needlessly driving us toward a major military conflict. In the last several decades, the US has engaged in constant military conflict, remaking the Middle East and elsewhere. Whether it's a Republican or Democrat administration, the policy remains the same—an obsession to constantly aggravate Russia, China, Iran, North Korea, Syria, Iraq, and Afghanistan. One of these days we can expect the victims of our interventions in their internal affairs to declare "enough is enough" and gang up against us. The American people will likewise get tired of financing our senseless warmongering policies and demand that they stop.

Our economy is burdened with multiple problems: unsustainable government deficits at all levels; unfunded liabilities; student loan debt; stagnant wages; lingering consequences of the Fed's quantitative easing (QE) policy; gross maldistribution of wealth, which generates huge social conflicts; a broken educational system; a breakdown of the family unit affecting all races and classes; and excessive dependence on government benefits and special interest privileges—all of which contribute to anger, frustration, and concern for the future.

Corruption in government is epidemic. Few people believe the lies our officials tell us, and most Americans know that the truth tellers (i.e., the whistle-blowers), are punished, while the criminals in government are rewarded. Commissions, special investigations, and prosecutors are set up to investigate government malfeasance, but instead are used to cover up mistakes and political crimes and never to seek the truth.

Economic conditions, our disastrous foreign policy, and the worsening moral chaos all justify the disillusionment of the

American people. Polls show more than 70 percent of Americans believe the sinister Deep State is in charge of running our government, not our elected leaders.

Because of the dangerous financial situation in which we find ourselves, many people now recognize that it's caused by the massive debt that results from excessive government spending on war and welfare. It's becoming common knowledge that this constant spending beyond our means could not occur without the Federal Reserve accommodating congressional spendthrifts with endless monetary inflation. This is why the call for monetary reform is getting louder. These dangers prompt a growing number of people to plan for an alternative monetary system. This is good news.

The reason deep concern about monetary policy is so important is that it acknowledges how our current political system is failing. It confirms that the policy of central economic planning, inflationism by central bankers, the swollen welfare-warfare state, the casual acceptance of deficit financing, and corporatism has failed. Though it is self-evident, the politicians remain in denial. The constant and outrageous petty partisan fights that dominate the news distract from the failure of the current policies, which both parties endorse. They're "all Keynesians now."

The struggle is simply over power and whose special interests are being served. The issue of authoritarianism versus voluntarism is never considered. The constant political noise we're exposed to avoids dealing with the significance of monetary policy. The main purpose of the Federal Reserve is to finance an immoral and unworkable system. Much can be achieved with a better understanding of how the monetary system works. A growing interest in market-driven competing currencies and sound money offers an opportunity to challenge the relationship of fiat money and government tyranny.

The Case for Gold

For years, as a member of Congress, I supported the principle of competing currencies in the marketplace, offering legislation that would eliminate the Fed's monopoly control of monetary policy. This included removing sales and capital gains taxes on silver and gold if the market chose to use them as money. The fraud of counterfeiting US currency, as is routinely committed by the central bank, would be prohibited. This is consistent with Hayek's proposal for the denationalization of money, "an idea whose time has come."

The beneficiaries of the current fiat system will vigorously resist such a plan. Control over money has been cherished for thousands of years by all forms of governments, in collusion with bankers. This partnership has been destructive to the middle class while enriching the well-off. The unfairness of a fiat monetary system frequently has led to dangerous social and political upheavals. Our current system is drifting in that direction and has prompted the current interest in monetary reform.

There are several major efforts being made to replace the fiat dollar with gold or cryptocurrencies, while other countries are making plans to challenge the dollar as the world's reserve currency.

The collapse of the Bretton Woods Agreement in 1971 created monetary chaos the following decade, with gold going from $35 per ounce to an astounding $800. Very high price inflation of 15 percent and interest rates as high as 21 percent resulted, along with a very weak dollar. In 1980 Congress enacted legislation directing that a commission be set up to study the role of gold in the monetary system. President Carter signed the bill into law, and the "Gold Commission" met in 1981. I was a member of that 17-member commission, which was stacked against gold supporters 15 to 2. The establishment easily won the "debate" to continue and massively expand the fiat dollar standard, guaranteeing that the problems we now face would be much worse.

My dissenting views, cosigned by Lewis Lehrman, were published in the book *The Case for Gold.* The only positive outcome was the commission's recommendation that the US Treasury mint gold and silver eagles. This was another significant step away from FDR's 1933 executive order that made it illegal for American citizens to own gold. Legislation passed in 1975 nullified that executive order.

The world now, under very different circumstances, is once again considering official use of gold in the monetary system. A growing consensus agrees that a worldwide monetary crisis is fast approaching, and once again the importance of gold as money is being discussed. Those who benefit from the fiat dollar standard are not pleased with this renewed interest in gold, nor with the possibilities that blockchain technology may provide a nongovernment alternative to the current system of money and banking. The principle of gold as money has been acknowledged for thousands of years and is not going to be ignored any time soon.

The current financial chaos brought back the debate over the exact role gold should play in the international monetary system. There are many signs that various governments are considering using gold as an alternative to the fiat dollar. China for the past three years has been a net seller of dollar-denominated assets and a major importer of gold. It is making an effort to popularize a gold yuan to be used in place of the dollar in international oil transactions. China may well have more clout in this endeavor than is generally realized. Other countries like Russia, India, and Brazil are cheering the Chinese on and are net purchasers of gold. The US, picking a fight in a senseless trade war with China, only adds to that country's resolve to stand up to our domineering attitude.

Provoking China with threats over sea-lanes isn't necessary and provides no benefit. China has near-monopoly control over rare earth minerals, which, if needed by other countries, can be used as leverage against us in a trade or currency war with them. China has an advantage of being a creditor nation, while we are the world's largest debtor nation. As conditions deteriorate this will become a big problem for us and aid China and others in their efforts to implement an alternative currency to the dollar.

We're in a precarious position with China, and the importance of gold is going to be more beneficial to them than to us when the monetary crisis hits. We will no longer be in the driver's seat in world financial matters as we have been in the past 100 years.

Just figuring out exactly where physical gold sits and who actually owns it is a challenge. It is believed that essentially all the gold discovered in human history still exists somewhere. Its durability and universal attractiveness are what, throughout the ages, have qualified it as the most unique and desired commodity to be used as money. Approximately 190,000 tons have been mined to date: all of this gold would fit into a cube 23 yards on each side.

Already the approaching currency crisis has prompted some countries to repatriate their gold from the safe havens chosen during the various crises that occurred in the twentieth century. US vaults were especially popular during the various wars in Europe.

The effort today by some countries to get their gold back reflects a growing loss of confidence in the dollar and America's stature around the world to be the "keeper of last resort." Our weak financial condition is not being ignored. Government spending and huge deficits are unsustainable, and we're starting to pay a price for it.

There is now a growing awareness of a problem in locating gold, identifying exactly who the owners are, and determining how much of it has been loaned out without its rightful owner's knowledge. This is now acknowledged as a common practice. The effort to return some gold has not gone smoothly. Delays and excuses are common. Germany, Italy, Hungary, Austria, and the Netherlands are asking that their gold be returned from the countries where it has been stored.

The current Treasury secretary, Steven Mnuchin, was curious enough about gold to visit Fort Knox in Kentucky, something only two other Treasury secretaries had bothered to do. He joked, "I assume the gold is still there," but added that "the gold was safe." This is something nobody can be sure of, since the last audit was in 1953.

During the Gold Commission hearings in 1981, I proposed that we request an audit of US gold holdings. The request was defeated 15 to 2. I suspect that access to this gold is available only to the "Deep State" and not to the American people from whom it was taken at $20 per ounce.

Central bankers are coy about gold's importance as a monetary metal. Former Fed chair Ben Bernanke, at one of our hearings, claimed flatly that gold was not money. When I pressed Bernanke on why, then, do central banks hold gold, he declared after a long pause that it was merely "tradition." He had no interest in my suggestion that the gold could be sold off to the American people if it's not money. The point is that due to today's impending crisis, many governments are now accumulating more gold—while others are holding onto what they have with the expectation it will once again be used in the monetary system.

Even former Fed chair Alan Greenspan has had an on-again off-again favorable relationship with gold. Basically, when working within the establishment he was anti-gold, but as a private citizen he has been much more sympathetic. This is what he had to say about gold in 1966, in his frequently quoted article "Gold and Economic Freedom": "Gold and economic freedom are inseparable. . . . Government deficit spending under a gold standard is severely limited." And more: "The abandonment of the gold standard made it possible for the welfare statists to use the banking system as a means to an unlimited expansion of credit" (by the Federal Reserve). He closed his article with a couple truisms: "In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. . . . Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process."

In private, I asked Greenspan about this article, and surprisingly he said that he had just recently reread it and still totally agreed with it. When I met with him I had an original copy of the article (from the *Objectivist Newsletter*) with me, which he agreed to autograph. While he signed it, I asked if he'd like to add a disclaimer. He said there would be no need for that. Since leaving the Fed, he has said a few things that were slightly favorable to gold. We must remember, though: it's what people do, not what they say, that reflects the "Truth Standard." That's what counts.

Paul Volcker became chairman of the Fed on August 7, 1979. His responsibility was to end the economic debacle of the 1970s that resulted from the breakdown of the Bretton Woods monetary system, established in 1945 after World War II. Ironically Volcker was involved in Nixon's decision to close the gold window and thus usher in the fiat dollar standard which we now find is on its last legs. At the time, he was the undersecretary for monetary affairs under Treasury Secretary John Connally.

The task of reversing the 15 percent inflation rate and interest rates of 21 percent was not an easy one. Volcker was well aware of the political consequences of ratcheting down money growth in a weak economy. During this time, gold had reacted predictably by going from $35 per ounce in 1971 to over $800 in 1980. But since the gold price reflects dollar confidence, or the lack thereof, this was annoying to Volcker. He declared that gold, and those who "speculated" in it, were the enemy. Actually, the gold price was a helpful indicator, since once the money supply growth was restrained the gold price drifted back to $300 per ounce. Volcker had a tough job, but the problem was created by the Fed and the failure of the Bretton Woods pseudo–gold standard, both of which caused the financial crisis of the 1970s. It was the absence of an honest gold standard that was the problem. Gold was not the enemy.

During this period of turbulence Chairman Volcker invited me to a private breakfast with him and his aide. Lew Rockwell, my chief of staff at the time, accompanied me. Lew and I, along with Volcker's staffer, arrived first. When Volcker arrived and before any greetings were exchanged, he immediately went to his aide and with some urgency asked: "What's the price of gold?" In reality what he was asking was "How's the dollar doing?" The price was somewhere in the $700 range. It impressed me how important the gold price was to him. We had a cordial breakfast, which dealt with some legislation he was anxious for me to support. Volcker, although part of the establishment, came across as decent and respectful.

Since leaving the Fed Volcker has indicated that he's open to the proposal for a new Bretton Woods–type arrangement. He's always favored a rule-based system. I believe he now recognizes, due to the mess we're in today, we need some central bank rules that incorporate gold. This is a break with the narrative, and shows that even central bankers are concerned that the current system needs reform. It shouldn't be difficult to convince any reasonable observer that Bretton Woods was a complete failure—and its replacement, the fiat dollar standard, has caused a much greater worldwide crisis than we faced in the 1970s.

In a private conversation I had with then president Ronald Reagan, about 10 years after the breakdown of the Bretton Woods Agreement, he stated flatly that: "any time a great nation went off the gold standard it no longer would remain great." This has turned out to be an appropriate statement, since our "greatness" has been on the wane for quite some time.

Thoughts on the History of Gold and Its Moral Significance

Throughout history, governments have defrauded their people by debauching the currency. Gold was required time and again to restore confidence in currencies and to reestablish economic order. If history is any guide, gold will play a significant role in the monetary system again. This will be met with stiff resistance from those who are currently in charge of the monetary system, and from some of those who are offering cryptocurrencies as an option. The option to use gold or cryptocurrencies requires that governments permit legal competition to their money monopoly. That will not be achieved easily.

When it comes to competing currencies, gold with its very long history has an edge over the recent efforts to devise a currency using blockchain technology. Gold must first be understood if it's to be challenged by advanced technology. Understanding the role of government in monetary affairs, something that has existed throughout history, is also required. This is true regardless of whether the replacement for the fiat dollar system is precious metals, modern technology, or both.

The special nature of gold, its beauty and usefulness, has been recognized from the beginning of time, even before it was used in trade. The first evidence of a written language was approximately 3400 BC. There's evidence that Egyptian pharaohs valued gold in a special manner, as it was used in religious ceremonies and incorporated in the ancient pyramids as early as 3000 BC. Purifying gold by smelting was accomplished as early as 3600 BC by the Egyptians. This enhanced its beauty and value, inviting its use in art and jewelry.

It took a long time before the first international gold standard was established by King Croesus of Lydia in 564 BC. This sequence of events is important for understanding the difference between a market-developed commodity money and a government fiat system. Some modern-day anti-gold economists argue that because Croesus arbitrarily chose to make the first coins out of gold, others followed until it became a common practice. They claim that if he had picked any other metal it would have sufficed as the money of choice; at least until the fraud of fiat money could be established.

This is essentially the argument Bernanke made when he dismissed gold as a monetary metal, arguing that central banks held gold merely out of "tradition." Of course, that is complete nonsense. Even before gold coins were minted, gold was eagerly sought after and was used in trade and for estimating value. This was awkward because there was no identifiable unit of account and retail transactions were done with barter. When coins of dependable weight and purity were introduced, it tremendously enhanced retail transactions, domestically and internationally.

Interestingly, one of the first things Croesus did was to pass a law prohibiting private citizens from minting their own coins. Gold, by its very nature as a precious metal, was chosen by the marketplace as natural money. Croesus did not pronounce gold as money by edict. The market did it when the people recognized the special characteristics that a commodity must have to function efficiently as money. Over the centuries various commodities have been used as money, many times on a temporary basis in times of emergency, but gold and silver have survived as the precious metals of choice to be used in providing a sound currency.

Whether it's been tobacco, beads, seashells, bronze, copper, salt, stones, alcohol, tea, or various grains tested as money, their usefulness was quite limited compared to that of precious metals. It was soon understood that for a currency to be efficient, it must serve as a standard of value.

Direct barter was very inefficient as a means of exchange, yet it lasted for thousands of years while greatly restraining the advancement of civilization. Replacing bartering with commodity money gave a great boost to productivity and the standard of living of average citizens. Like most great discoveries, the idea of sound money was challenged by governments. Rulers want to control money as a way to secure wealth and maintain power. It started with King Croesus when he monopolized the world's first coinage 2,600 years ago, and it continues today with the Federal Reserve clinging to its authority to manage the worldwide fiat dollar system, even though it has caused havoc with our current financial system.

In time, it was acknowledged that lugging heavy bags of gold around for larger purchases was impractical and that substitutes for the precious metals would be helpful. Though great benefits were achieved from this change, it invited abuse and counterfeiting of the certificates representing claims to actual metals. Even before the introduction of promissory certificates, impure and false-weight coinage was known to be used.

Counterfeiting

Man's yielding to immorality and temptation has been with us from the beginning of time, and it has always been a concern when dealing with the issue of money. Biblical history is explicit in advocating morality and honesty in all weights and measures. For hundreds of years alchemists searched for the philosopher's stone, hoping to convert lead into gold, among other ambitions. They were more like early chemists and didn't qualify as typical modern-day counterfeiters. But their motivation to produce gold showed how they considered it the number one choice to be used as money.

Egyptian Arabs in the seventh century were active in this effort to convert lead into gold. It was not just to have more gold money; they saw gold as something very special and even spiritual, with many potential uses. If they had been successful it would have diminished the benefits of gold as money due to its naturally limited supply. The alchemists believed that it was the "perfect metal" in general, while all other metals were deemed inferior. It was believed that gold had medicinal benefits, which turned out to be true in modern times. It's interesting that most of the great religions recognized this uniqueness, as did the kings and pharaohs. The Magi, in recognizing Jesus as a newborn king, brought gold as a gift to celebrate his birth. It's this special attitude that also made gold, for thousands of years, the most acceptable of all items used as money.

Gold and silver are frequently mentioned in the Bible as money. From Genesis to Revelations there are 417 references to gold and 320 to silver. Their rarity and beauty were instrumental in achieving this special attention that helped promote them as monetary metals.

Although gold was used in religious ornaments and recognized as something special and superior to other metals (and thus became money), it also motivated crime and corruption. Wars have been fought over gold throughout recorded history. And power struggles have been resulted over gold stores needed to pay the expenses of armed conflict. Christ was motivated to throw the corrupt money changers out of the temple, showing his contempt for dishonest dealing in money.

Even today we see various countries, fearful of a major financial crisis, compete in many ways for the world's gold. Governments and insiders rig gold and silver prices to serve their special interests, which is still a common practice. In spite of a constant effort by the so-called monetary experts to deemphasize the importance of gold as universal money, by holding down the market price of gold for their benefit, it only works in the short term. Market prices always prove superior to all government wage and price controls, even if it takes time and an underground market to sort out real value.

The earliest mentions of honesty in money and the significance of gold as money were recorded three to four thousand years ago in the Torah, the first five books of the Bible written by Moses, which recognizes that gold and silver were early examples of money. Since money represented a weight of a precious metal, the admonition for “honest weights and measures” was spelled out early and often in the Bible. Not using an honest weight in any commodity transaction was considered theft. Today, the deliberate debasement of our currency by monetary authorities is theft, and equivalent to counterfeiting. Our Founding Fathers saw counterfeiting as a serious crime, deserving the death penalty.

Reasons Why Gold and Silver Became the Premier Money

It has been estimated that primitive bartering was used as early as 100,000 years ago. The importance of commodity money, especially gold and silver, started about 6,000 years ago, a comparatively new discovery. Gold and silver, due to their special qualities, were chosen early on as the money of choice to replace barter and facilitate more efficient trading of goods and services. Though gold was accepted quite naturally over time as superior to barter, we have discovered the reasons why and the unique significance of this process only over time.

Precious metals were voluntarily chosen as money by the people and were not designated as such by government force. Very early on, though, once the importance of money became obvious, governments took control of those metals.

Today, the characteristics of a commodity that make it acceptable as money are generally agreed upon. When these characteristics are abandoned and government, for nefarious reasons, forces a fraudulent substitute on the people, a fiat currency is established. The currency is then no longer a commodity money convertible into something tangible.

There are special characteristics of gold (and silver) that satisfied the people looking for the most practical metal to be used as money.

- Beauty; sought after for ornaments and jewelry.
- Easy to identify; not difficult for the average person to recognize.
- Of limited supply; work and effort required to increase the supply, independent of the government.
- Easily divisible; can produce coins of precise weights.
- Portable; convenient to use in small retail trade.
- Durable; most gold ever mined is still in existence.
- Precise definition; by weight and quality.
- Difficult to counterfeit.
- Tangible; when confidence is questioned in a monetary substitute, its authenticity can easily be checked by converting it into gold or silver or whatever substance was promised. This characteristic is the brake that limits the ability of money man agers to debase the currency. History shows that the temptation to gain wealth and power without work and effort is over whelming and must be enthusiastically guarded against.
- Morality; gold may be the best choice for a sound monetary system, but it is limited by the moral stature of those who guarantee the system, whether they are in or out of government.

Closely related to the characteristics of commodity money, which took years to precisely identify, are its functions that need to be understood. There are three main functions it should fulfill: (1) a store of value; (2) a unit of account to serve as a standard of value; (3) a medium of exchange.

A store of value makes money useful and conveys confidence that its purchasing power will not be arbitrarily diminished by the creation of additional units out of thin air by government authorities. Ships have sunk laden with gold and silver coins only to be recovered hundreds of years later with the purchasing power of the gold or silver coins intact. This does not happen with fiat currencies. A 30-year US bond, by contrast, loses value because the dollar is a fiat currency rather than a sound currency.

A well-defined unit of account, by weight and quality, becomes the yardstick for measuring economic value. The purchasing power of each unit can fluctuate, but the definition of the particular unit should be rigid. The supply and demand for the monetary unit affect prices, just as the supply and demand for the product or service being purchased do. This understanding precludes the practical use of bimetallism, which attempts to fix the ratio of gold to silver.

A practical medium of exchange is the most important function of a commodity used as money. Hundreds of different items have been tested over the centuries, and their efficiency as money depended on the circumstances that existed at any one particular time. Water in a desert may be superior to a gold coin. Emergency conditions that exist with a war or a natural disaster may provide a temporary incentive to use different commodities as money.

The monetary choice should always be made by the people themselves and not imposed or prohibited by the government. Fraud in dealing with the monetary unit should never be tolerated. Promises that substitutes or certificates issued for a currency are backed by a commodity mean nothing if there is no guarantee of convertibility. When there is no guarantee, a commodity-backed currency becomes a fiat currency. That is what occurred with the breakdown of the Bretton Woods Agreement in 1971. The dollar then became a pure fiat currency, which ushered in the current and worst-ever worldwide currency and financial crisis.

The Ultimate Consequences of Fake Money

Various types of fiat currencies have been used for centuries, and they have all ended badly. They not only present a danger to economic prosperity, but they undermine liberty as well.

The current dollar standard is the largest fiat system the world has ever seen. Since 1971, when the dollar became a 100 percent fiat currency, gross distortions in the international financial and political system have resulted. Since the current environment has been built on false information, generated by monetary and interest rate manipulation and made worse by subprime lending, the amount of worldwide debt and mal-investment has reached record highs. Natural market forces always require the liquidation and correction of the excesses that the central economic planners cause by monetary manipulation. If sound economic growth is ever expected to return to the world economy, the excesses of the past 17 years must be dealt with. The problems that will come with this adjustment are huge, and will be both economic and geopolitical. How long and painful the correction is depends on government policy, and how serious we are about instituting sound money.

Paper money never lasts for long periods of time. Commodity money like gold and silver can last for thousands of years.

Fiat money is institutionalized by government, which guarantees its mismanagement.

Fractional reserve banking and its shortcomings are close companions of fiat money and inflation.

Creating money out of thin air is a politician's delight and a powerful tool for incumbents. Paying for extravagant spending can be delayed for long periods of time, and the beneficiaries don't pay; innocent victims do.

Deficits are facilitated by the Fed's willingness to monetize them, which would be impossible with a commodity-defined currency.

Subprime interest rates add to the problem of a central bank assuming it knows how to fix rates better than the market place.

Fiat money opens the doors for government spending that the endless numbers of special interest groups lobby for. This is the reason both conservatives and liberals never challenge the Fed. Both sides have their reasons for spending, and neither side shows any concern for deficits.

Being able to create money out of thin air guarantees that spending will rise, government will grow, deficits will grow, and the nation's wealth will shrink.

The longer the fiat system lasts, the greater will be the sacrifice of liberty, which will be maintained with a deception of reality.

Under a fraudulent monetary system, debt in real terms becomes impossible to pay, and the required debt liquidation can be accomplished only by debasement of the currency.

Fake money rewards the special interests most closely associated with money managers: the Deep State, the military-industrial complex, Wall Street, and the many beneficiaries of government spending.

Unfair distribution of wealth is a characteristic of a fiat monetary system and is seen today in its extreme, with the three richest people in the US owning more than the bottom 50 percent of the world's population.

This is not a new phenomenon and always leads to social and civil strife. Authoritarians and demagogues promote tyrannical solutions to an unnatural inequality that was largely facilitated by dishonest money, false promises, ignorance of economics, and loss of love for liberty.

Fiat money abhors morality and creates an immoral society. It requires rejection of a convertible commodity standard, and can be enforced only with powerful legal tender laws.

Economic bubbles are creatures of fiat currencies and central bank manipulation of the money supply and interest rates.

A fiat currency eliminates a definable unit of account, which is needed for sound economic calculation.

A world run using fiat currencies, each defined by its relationship to the US dollar as the world's reserve fiat currency, guarantees that competitive devaluations, trade imbalances, and trade wars will occur.

Economic conditions fueled by fiat currencies make wars, black markets, and bartering all more likely. Legitimate substitutes and other monetary commodities are not fiat money.

Anyone who thinks that peace and prosperity are worthy goals must reject fiat currencies.

Recovering from the damage caused by a fiat currency is much more difficult than rejecting the temptation to initiate a fiat currency as the unit of account in the first place.

Honest money is a required ally of LIBERTY.

Are Cryptocurrencies the Answer?

(Analysis is political, economic, historic; not an assessment of blockchain and distributed ledger technology.)

Gold and silver imperfectly served our monetary needs from our early history until 1971, when the last official link of the dollar to gold was severed. Even with the intervals of suspension and abuse, the importance of dollar convertibility was acknowledged, though under Bretton Woods it was reserved only for foreign holders of dollars. This pseudo–gold standard failed to restrain the Federal Reserve from excessively creating dollars at will, and it accommodated Congress's march toward the welfare/warfare state, financed by deficits. Predictably, this process led to the total collapse of the Bretton Woods Agreement and ushered in the era of the fiat dollar and its reign as the reserve currency of the world. This literally has provided a license to steal for the US government, and has ushered in the current financial crisis. The dollar is in the process of being dethroned from its special status, and the turmoil of finding a replacement has begun.

Will precious metals return to serve as the foundation to a new system, or will the recently developed concept of cryptocurrencies participate in a new monetary order? The proper course is to make certain that free people in the marketplace make the choice whether to use cryptos absent the dictates of government and central banks. This process requires the rejection of the use of force and fraud for any chance of achieving success.

Competition in seeking an efficient monetary unit is required in deciding whether or not modern technology, using the blockchain concept, can create a currency that will challenge the historic acceptance of precious metals as money. A decision of this magnitude will take a significant amount of time to achieve a consensus.

In the event of a total economic collapse, spontaneous use of various dollar substitutes likely would occur. This adaptation has been used throughout history, especially during wartime and other emergency conditions. Let's hope our leaders come to their senses before we have a Venezuela-like crisis—when the necessary reforms can be accomplished more smoothly, in an environment of legalized competing currencies. The marketplace is quite capable of sorting out the advantages and disadvantages of cryptocurrencies and precious metals. The biggest challenge will be to get the government out of the way to allow this choice.

It's conceivable that cryptocurrencies, using blockchain technology, and a gold standard could exist together, rather than posing an either-or choice. Different currencies may be used for certain transactions for efficiency reasons. The desire for storage and speed can make a difference in choosing a currency. It appears that decentralized ledger technology will also be useful outside the sphere of digital currencies. A combination of gold and crypto will prove to be a lot more achievable than getting people to adapt to a totally new concept of money.

Privacy will always be a concern to those who seek to avoid constant surveillance by the state, even when it's for many reasons other than taxes. Retail trade, under primitive conditions associated with a currency crisis, will lend itself to using tangible precious metals in preference to a digital cryptocurrency requiring active networks. Large transactions, at greater distances, may best be served by a proven and trusted cryptocurrency, however.

The greatest challenge will be satisfying the need to provide a currency with a precise definition of the unit of account. It cannot be arbitrary, or confidence will not be achieved with any substitute or proposed reform of the dollar. It was because a determined effort to maintain a precise definition of the dollar was abandoned in 1971 that the dollar became fiat and ushered in the financial/debt crisis that the world now faces.

The challenge today is to look to the knowledge accumulated over thousands of years about the nature of money and apply it to modern-day technology. A workable currency must convey confidence, because that's critically important to the average person. A guarantee that the monetary unit can be easily and reliably exchanged for something of real value is crucial.

Throughout history all currencies, though they were made popular in the marketplace, inevitably were taken over by government or a banking entity. Since that will continue, every effort must be made to keep the management of the monetary system out of the hands of government officials. Hopefully, modern technology will help keep financial transactions private. Cryptocurrencies are designed to keep business activities anonymous, yet transparent, with blockchain technology that permits rapid transmission and storage of information.

Because of the aggressive nature of government taxing authorities, with the power they wield due to the guns they carry, they will have the upper hand in ignoring our Fourth Amendment rights. This we know is just as true under a commodity standard of money. In the midst of economic and political chaos or a severe currency crisis, simple barter and exchange of precious metal coins could end up serving as the ultimate survival tool. Long-term reform of the monetary system needed in order for society to survive is another matter.

After a very long period in monetary history, primitive bartering was steadily replaced with precious metal coinage and the use of substitutes. More rapid forms of communication, used in domestic and international trade, tremendously improved monetary transactions over the centuries. Supporters of cryptocurrencies and blockchain technology are optimistic that such technology will provide faster communication and more efficient record keeping with modern-day distributed ledger technology. The goal is to keep all transactions both transparent and anonymous without paying bank transaction fees. Adapting to the regulators and the taxing authorities, while curtailing illicit expansion of the currency supply, will prove to be a challenge.

For society to advance to the point of accepting a truly denationalized monetary system, a significant amount of energy will be required to rein in the power of government authoritarians. A modern-day currency needs an enlightened attitude about what the proper role for government ought to be in a civil society.

Technological advances over the past two centuries were vital in eliminating the cumbersome system of monetary exchange that existed with barter, and problems making direct trades with precious metals without the benefit of substitutes. Technological advances permitted rapid transfers of monetary assets over great distances.

Many changes have occurred since prehistoric times when human exchanges were done on foot or with assistance from animals and carts. Water was transported by sailing ships for the purposes of exchange and barter for goods even before precious metals were used as money. For thousands of years these exchanges were slow and inefficient.

Travel for the purpose of fighting wars and trading, remained tedious and slow up until the beginning of the industrial age in the early nineteenth century. Sailing across the Atlantic in the eighteenth century and the early part of the nineteenth, using only wind power, would generally take six weeks. Business transactions and financial activities across the Atlantic in that period were carried out at a snail's pace.

The steam engine changed all of that. During almost the whole eighteenth century many inventors experimented with steam power. It was first used for pumps that provided tremendous assistance in the mining industry. The nineteenth century was a different matter. Steam power initiated the Industrial

Revolution, along with dramatically increasing the speed of travel, financial transactions, and trade. This, along with the use of monetary substitutes redeemable for actual gold, spurred international trade. Replacing of lugging heavy bullion around the world, the use of certificates with a guarantee of convertibility was a great benefit to trade. But the speed of travel, by land or sea, continued to place limits on trade and economic growth.

The time to cross the Atlantic, after the advent of steam boats in the first half of the nineteenth century, was reduced from six weeks to a little over one week. But the transmission of information relating to financial transactions was about to become much faster.

A huge technological development occurred in 1844 that revolutionized the transmission of information. This benefitted news reporting, affected vital military strategies, and dramatically improved the transfer of financial information and monetary assets.

Sending a message via the electric telegraph was successfully accomplished for the first time on May 24, 1844, between Samuel Morse in Washington, DC, and Alfred Vail in Baltimore, Maryland. The memorable message—"What hath God wrought?"—was quite appropriate and accurately reflected the huge significance of the age in to which mankind was entering.

Up until that time, transmission of general information and monetary instruments was tediously slow and cumbersome. The world became much smaller with this invention. The Western Union Telegraphy Company successfully laid a transcontinental telegraph line in 1861. The first successful cable to cross the Atlantic was laid in 1866. The spread of this technology worldwide was swift, dramatically changed the speed of all communications, and was especially beneficial in the area of banking and commerce. In 1871 Western Union started an amazingly successful business of wiring money to almost any place in the world. This represented an astounding improvement over sailboats, steamships, and railroads. In the not-too-distant past, it had taken weeks to cross complete financial transactions across the Atlantic. This time was reduced to days and suddenly to minutes, and greater efficiency was yet to come.

The unbelievable sudden improvement in communication speed that was accomplished with the electric telegraph has not yet been matched. However, the quality and choices in transmission technology have continued to make astounding progress.

Dr. Gary North makes an interesting comparison of travel time for information. He points out that from the time of Christ to the inauguration of the electric telegraph, it went from 1.25 miles per hour to 186,000 miles per second. Even with many magnificent technological improvements in the twentieth century, none can compare to the degree of speed improvement that the telegraph achieved. This invention was a major historic event, and its speed is relatively fixed to the speed of light. Although speed of transmission was no longer the issue, improvements to the quality and flexibility of electronic communication brought about miraculous developments which continue to this day.

Up until the age of the electric telegraph, the invention of the printing press in 1454 stood out as the greatest human achievement for spreading and preserving information.

It didn't take long for telephone technology, developed in latter part of the nineteenth century, to push the telegraph aside. In the twentieth century, new technology constantly became available that improved information transmission. The telephone was followed by the radio, television, fax machines, and the internet, all to be used for enhancing the quality of transfer and storage of information relating to all matters: social, medical, aeronautical, transportation, military, and financial.

The particular "vehicle" or "process" used for these improvements varied by wavelength, and complicated electronics were recognized as tools to be used to facilitate the transmission of information.

Economic value came from entrepreneurs who provided marketable services to the public, like AT&T and Western Union, using telegraph technology. One could not own a unit of "telegraph technology," or radio or TV waves. We can't get a piece of the action by buying a "unit" of internet transmission. To participate financially in modern-day internet technology, we have to invest in companies like Facebook or Google. The technical vehicle or process that permitted fantastic technology to be developed, technology like electricity and the telegraph, cannot be bought and sold like a share of AT&T stock.

A value for transmission service can be determined, but that is different from buying and selling a tangible asset. If a technological process like emailing can't be bought and sold, it cannot be used as a unit of account and would not qualify as money. One cannot monetize, with any precision, the activity that uses technology, but a service, like credit card transactions, can be provided for a fee. Services, financial assets, and money are each different from one another.

We can use technical science for advancing civilization, but no one can "own" it. As valuable as wheel technology was, no one ever bought and sold this technology as a piece of property. The question that can only be answered by the marketplace is whether blockchain technology is just another great scientific breakthrough, or if it can, in combination with cryptography, become a functional currency. The basic question boils down to this: Do all new currencies need to be based on something tangible?

It appears that blockchain and distributed ledger technology, like all workable scientific discoveries, is innovative and has a fantastic future in multiple areas for efficiently transferring, storing, and securing information. It is not considered “tangible” in the classical definition of a monetary unit. Time will tell if the modern ideas on crypto money will be adaptable to the old line of thinking about the nature of money.

Being able to wire money, as early as 1871, did not make the electric telegraph a currency—yet the technology used was the greatest invention up until that time for transmitting financial information and money, worldwide. The telegraph can best be described as a valuable “tool” in commercial transactions.

Speed and efficiency of transmission of information remains a challenge for both cryptocurrencies and banking transactions. According to Simon Black, banks have been caught flatfooted and are feverishly competing with the use of distributed ledger technology and cryptocurrencies. The development of advanced systems like the New Payments Platform is being done and tested in a few banks in Australia. In the US, work is being done on an advanced program called Real-Time Payments (RTP) in hopes of replacing the commonly used, much slower process—the Automated Clearing House (ACH).

An interesting question: How will all this technology affect the calculation of prices if the velocity of money soars when fears are driven by runaway inflation? When the end stages of a fiat currency become evident, and all confidence is lost, chaos ensues and the need for reform becomes obvious. The need to carry bags of paper money around and spend it as quickly as possible to protect against a rapid depreciation and rampant price increases may never occur. Knowing how to convert rapidly depreciating fiat money into a sound currency, of reliable value and in a way capable of storing that value, is crucial. Obviously, being prepared before the crisis gets out of control is preferable to watching and waiting until it's too late to act.

Many people are already in the process of doing just that. An Egyptian billionaire recently put one-half of his $5.7 billion into gold to protect from what he sees coming. As time goes on and the unraveling of the economy accelerates, a lot more people will be seeking protection from the monetary crisis.

Summary

Investors and politicians worldwide are waking up to the fact that the current economic system of debt and fiat money is unsustainable, and are quietly and secretly preparing for the worst. Governments will do what they always do in a financial crisis: protect insiders and those close to the Deep State.

Average middle-class citizens, already suffering from the corrupt monetary system, are scrambling to find the best way to protect their wealth and safety in these challenging times. Understanding how we got ourselves into this mess is key to preparing for the tough times that lie ahead.

All fiat currencies are self-limiting, since they are based on fraud and are equivalent to counterfeit. Unfortunately, they can last for prolonged periods of time, only making the economic distortions much greater.

Prior to the establishment of the Federal Reserve in 1913, the US did reasonably well, recognizing gold and silver as legal tender as the Constitution mandated. The Fed was started for various reasons, none of which included maintaining a sound currency backed by gold or silver. The fiat dollar did not arrive immediately after the Fed was established. It came seductively and slowly in a planned strategy between 1913 and 1971.

The dollar became a total fiat currency on August 15, 1971, the day Richard Nixon, by executive order, severed all links of the dollar to gold. This ushered in the radical and dangerous Age of Fiat, which solidified the American empire and dollar hegemony. This con game has been going on for nearly 50 years, and the concern now is about when and how this house of cards comes down—not if.

Early on, the handwriting on the wall was recognizable when control of the monetary system was turned over to the Fed and its bank allies to operate in secret. Even at its inception, many recognized that the Deep State would be sure to protect their profits and pass their losses on to the people, and that in the long run a central bank would be devastating to our economy.

It didn't happen overnight, but in the past 100 years we have inexorably marched toward the disaster which we now face. The climactic end to the fiat dollar standard is now on the horizon.

Major events occurred along the way warning us of the dollar's vulnerability. FDR's confiscation of gold from the American people in 1933 by executive order was a recognition of our bankruptcy. By this act the US government refused to honor its commitment to pay gold for the gold certificates it had issued.

After World War II further attempts were made to institute a global fiat currency, and the US dollar was the currency of choice. The Bretton Woods Agreement created a pseudo–gold standard that was destined to fail, as Henry Hazlitt predicted at the time.

August 15, 1971 confirmed that the fiat dollar would reign for the foreseeable future. Nixon's order denying the convertibility of the dollar from gold to foreign holders concluded our declaration of technical bankruptcy, commenced by FDR in 1933. This act by Nixon should be known as an atrocious "act of infamy" for the world's monetary system, from which we continue to suffer.

The problems that we now face are the predictable consequence of this experimental system of fiat money. It has been supported by an economic and political philosophy that promoted the odd idea that "printing" unlimited amounts of money and ignoring the dangers of debt creates wealth. This effort to establish a utopian society, managed by a benevolent US empire, was well received by many patriotic Americans. These well-laid plans for a permanent "guns and butter" economy have failed, and the piper is now demanding payment.

The unwinding of history's largest financial bubble is now upon us, and presents many dangerous unknowns. As it evolves, the seriousness of the challenge, not yet realized by most people throughout the world, will become readily apparent. Venezuela gives us an idea of what may be in store for those who are unprepared. Due to the return of primitive bartering in Venezuela, a haircut has been calculated to be worth five bananas and two eggs. Barter, to some degree, always returns whenever a nation's money managers destroy the currency.

What will the scenario be like when the debt bubble bursts and dollar supremacy is challenged? What can we do about it? When will it happen? What is the biggest fear? Will it be limited to one or two countries? How long will the crisis last?

Unfortunately there are no precise answers to these questions. No one can anticipate and prepare for every possible problem that might arise.

We all must make an attempt to financially protect ourselves and our families and know who our true friends are. Providing for personal safety should be high on our list of concerns. There is no single answer for achieving these goals, as our circumstances vary from one to another. However, there are some facts to be aware of.

A government that bankrupts a country and destroys its currency will not provide for the economic needs of the people. Any promise to do so should not be believed. Likewise, a bankrupt government cannot provide physical safety. All government efforts will be designed to cling to power, by expanding it. Paying attention to the current catastrophic mess in Venezuela gives us a hint as to what will happen if we don't wake up and change our ways. That's worth working for, but the odds are very slim that the American people are going to demand that the politicians in Washington quit supporting the welfare-warfare state.

The most important responsibility is to restore a love and understanding of liberty. It was the failure of our gov ernment officials to protect liberty that caused this crisis. Without restoration of the people's liberty, survivalist efforts will not be enough to achieve peace and tranquility within the United States.

Our government did not hesitate to "steal" the gold savings of American citizens in the midst of the Great Depression, which was a consequence of Federal Reserve policy. This move kept it illegal to own gold in the US for the next 42 years. And today, there's even less respect by our government for liberty than there was in the 1930s.

We should do whatever we can to protect ourselves, our families, and our wealth, but we must remember that without liberty our greatest threat will come from our own government. Look at what has been lost since our leaders announced that we are in a permanent “Global War on Terrorism.” While our “foreign enemies” have been created by design, our “domestic enemies” have proliferated and present an existential threat to our freedom as we know it.

Let me offer some suggestions for what we should be doing to reform or change the system.

Striving for a voluntarist society should be our goal. This can be accomplished by:

- Legalizing competing currencies.
- No sales or capital gains taxes on money.
- No tolerance of fraud.
- Repealing legal tender laws.
- Auditing the Fed with an eye to abolishing it.
- Exposing the evil of fractional reserve banking for the fraud that it is.

Be aware that anyone who promotes a cashless society is not a friend to freedom of choice in monetary affairs. I’m hoping that blockchain technology will not be a tool that advocates of the “value-added tax” can use to enhance the power of the state to collect taxes. Technology experts will need to deal with this concern and reassure us or find an answer to prevent it.

Also:

- Audit the Pentagon, the CIA, and all foreign expenditures.
- No more bailouts of private or government entities.
- To get through the crisis, consider real estate, precious metals, and crypto ownership.
- For some, expatriation may be an option.

But none of this is of any value if the government, at will, is allowed to expand its authoritarian rule and control our every move, every expression, every thought, and every thing we own.

The most important investment we can make is to do whatever is humanly possible to protect the liberty of all persons. This is the responsibility of everyone who has discovered the magical value of living in a free society.

The time has come for us to get engaged in the struggle to reignite an interest in the principles that motivated the colonists to separate themselves from the British Empire.

We can start by talking about the necessity of a sound currency and the danger of central banking. The fact that Italy, not exactly a champion of laissez-faire economics, is talking about a parallel currency to compete with the euro may be telling us something.

We, too, should make every effort to legalize competition to the US dollar and participate in the great debate over the fiat dollar, precious metals, and crypto blockchain technology. It may sound like only a concern about "money," but it has everything to do with living in a free and prosperous society. Let the competition begin.

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