A New Monetary Architecture
The New Monetary Paradigm

How to eliminate taxation, fund government at unprecedented levels, and make welfare and poverty obsolete, all at the same time.

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Prologue:

The financial system within which all Western nations operate today, operates much like a tape worm or other parasite operates within the body of its host. And, while the parasite feeds voraciously upon its host, and in the case of the tape worm for example, it releases substances that cause the host to crave those things that will nourish the parasite to the detriment of the host, so too, the international banking cartels feed upon their unwary populations. The end result of continuing this parasitic feeding frenzy by the central banks on their host countries will be, not only the destruction of the host countries, but of the bankers themselves, just as the tape worm will die along with its host, when the time comes.

The solutions proposed here remove the parasitic functions of the current monetary system but retain its positive functions and redirect the profits from the Federal Reserve Bank (*the Fed*), a private central bank, to the public Fisk. The principals advocated here, adhere rigorously to the doctrines of the Austrian School of Economics based on the teachings of Ludwig Von Mises. The system proposed here is self regulating and, if implemented fully, is incapable of causing inflation or deflation because participation in the system is always voluntary and based upon the economic demands of free commerce, such that the money supply cannot be inflated or deflated to the benefit of a few, but rather expands and contracts only in response to self balancing and competing economic forces.

More importantly, the system proposed here will fund government treasuries at unprecedented levels heretofore unknown in the history of the world and, all without the need for taxation of any sort. I know that may sound impossible, but it is in theory quite simple and easily accomplished. However theory in order for theory to meet reality, a sea change in the average person's understanding of money will be required. Thus, mustering the political will to make it happen is another problem all together and the motivation for this paper!

For the individuals and citizens this distinction between government funded by taxation and government funded by interest on the money supply is critically important. Until now, even the greatest thinkers appear to have operated on the presumption that the only means of raising revenues for the operations of government were through taxation or borrowing. Despite the best efforts of the framers of the Constitution for the United States of America, like all governments before it, and since, through steady erosion and accretion of tax laws and regulations, the tax system has become a mechanism for the transfer of massive wealth from one group to another. As the great author Frederick Bastiat so eloquently explained in his book "The Law," whenever government acts in a manner that would be criminal for the individual, then government loses its legitimacy. This is true because only individuals can have rights endowed by their creator, or "human rights." Groups, or the collective, can never have any right or group of rights, the group can only possess power as a group. When the group takes by brute force, or police power, from one individual, to give to another individual or group, that is theft.

All ideas, all creativity, all production, and all rights are the possession of, and fruits of, the individual. The group, or the collective, may aggregate those individual products into knowledge, civilization, industry, and power, but the roots of all of all these lie only in the possession of the

individual. Thus, protecting individual rights against coercion and pilferage by the group is the only legitimate function of government, whether such coercion comes from the immediate tribe or in the form of threat from an outside group. And, such protection of the individual from abuse by the group or from outsiders is the mechanism by which the group can preserve its health and vitality. In the final analysis, any group is only a collection of individuals; there is no such thing as "group health" but only that of a group of healthy individuals. This understanding is the key to healthy and vibrant societies,.

Nothing is more central to civilization than its economic and monetary system. For it is by free and volitional trade that mankind thrives, as none of us has within our individual power or lifespan the knowledge, ability, or time, to create all of the goods and services upon which we, as individuals, depend for sustenance and comfort. Thus, government exists for the sole purpose of protecting and facilitating commerce between consenting individuals by protecting the rights of each and every individual equally against the force, coercion, and frauds of others.

This monetary plan, when fully implemented, creates an economic structure whereby government derives all needed operating revenues, far in excess of what may be collected through taxation and borrowing, without coercion upon any of its citizens and without the possibility of taxing or borrowing from any one group to the benefit of any other group. This is made possible by a mechanism that places the engine for generation of government revenues squarely where it belongs, on the health and efficacy of the economy as a whole.

Even more importantly, this plan represents the least disruption of the current status quo of any plan put forward to date. And, this system makes it absolutely impossible for government or bankers to inflate the money supply.

However, in order for consensus to be reached such that this plan may be implemented, it is necessary to dispel several myths that are too often perpetuated in the honest money movement. Among these myths are the following:

Myth #1) Only a commodity backed (*gold backed*) currency can prevent inflation.
Truth #1) History has proven time and again, that while precious metals based currency does provide some impediment to inflation, debasement of the coin and circulation of notes in excess of reserves has repeated itself throughout history in almost every instance of such coin based monetary systems.

Myth #2) Only a commodity backed (*gold backed*) will prevent expansion of the money supply through the practice of fractional reserve banking.
Truth #2) As the examples given in this paper prove, commercial banking is not possible (*i.e. could not be conducted profitably*) without some type of fractional reserve. After all, if I lend you any portion of the funds held in my warehouse (*bank*), it is axiomatic that the funds remaining will be a fraction of what was in the warehouse before the loan. The only question then becomes what "fraction" is an acceptable and safe norm.

Myth #3) Only a commodity backed (*gold backed*) currency can prevent expansion of the money supply through debt lending in excess of the money available in circulation to repay such debt. That is to say, hard money proponents assume incorrectly that a gold backed system will prevent the "problem" of the total debt in circulation exceeding the total money in circulation.
Truth #3) As the examples given in this paper prove, commercial lending always creates more debt than there is money in circulation at the time the debt is incurred. If I loan you 100 ounces of gold at 10% interest on day 1, at the end of the year (*day 365*), there would need to be 110 ounces of gold in circulation just to cover the interest. Commercial lending always has this effect on an economy. It makes no difference whatsoever whether the currency is gold based or fiat.

Myth #4) Fiat currencies have always resulted in runaway inflation.
Truth #4) The first Colonial Continental Script (*a completely fiat currency circulated in the American colonies before the Revolutionary War*) was a resounding success and spurred the colonies to great financial abundance. So much so that the coinage and currency acts of Parliament were enacted specifically to forbid the use of the first “Continental” and by destruction of the Continental those acts became the primary causes of the Revolutionary war. The truth is a Fiat currency is far superior to a commodity-based currency if the government and the banks can be stripped of the ability to artificially inflate the currency. The plan presented in this paper removes the ability of the government and of the bankers to artificially inflate the currency.

There are other myths and misunderstandings, which are addressed in the examples and history presented in this paper but are beyond the scope of this brief introduction.

However, if you, the reader, has any doubts about the above myths being incorrect, please read the appendix which explains in great detail why the above myths are untrue. You will also find the theory and examples necessary to understand the mechanisms of modern fractional reserve banking.

Today, in the United States, and in all the European Union countries, we have a financial crisis of unprecedented magnitude. It is obvious to any informed observer that the cause of these problems are the direct result of a few demonstrably inept men who govern the various central banks for each nation, and the E.U.. I use the word "inept" because at the core of the situation we find that these institutions have each been given the authority to create legal tender money, and through the interest charged upon its circulation, earn almost unfathomable profits for themselves and other shareholders of these privately owned central banks. Yet, through their greed and ineptitude these very few individuals have brought the West to the brink if financial ruin.

Tragically, the crisis we are witnessing was brought about by design, through repeated and unnecessary expansion and contraction of the money supply so that the populace can be sheared, like sheep, of real assets and real wealth with each contraction cycle. While this may appear brilliant to the central bankers, as with any parasite, it will result in the death of both the parasite and the victim, and is therefore, demonstrably inept. Despite the unconscionable profits available by implementing a more stable and conservative operation of the money supply, the central bankers have pushed their various fiat currencies beyond any possibility of stability. As culpable as those who conspired to create these central banks may be for crimes against their countrymen, they are not the root cause of the problem.

The root cause of the problem:

The root cause of this problem is that, almost universally, mankind has viewed taxation as the only means by which government may raise revenue without incurring debt. The bankers have closely guarded the secret that money is created through the lending process. It is the creation of money which gives the central bankers incredible power and leverage in the world at large, and which has financed their near complete control of governments the world over.

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The Solution: A New Monetary Paradigm

This proposal, when implemented will:

1) Completely eliminate the need for taxation of the private sector to fund government. It will eliminate all forms of "income taxes" which are the most egregious infringement on individual liberty and economic growth. This one aspect of the plan alone would completely change the relationship between the people and their government, for the better. Equally important, it would usher in an era of economic growth and prosperity that would change the future forever, for the better.

2) Fund government at levels several times their current annual budgets, with complete liquidity.

3) Allow us collectively, to provide a much higher level of social programs and welfare benefits than we currently have, without the need to confiscate the fruits of the labor of one group to fund the benefits of another group. In other words we could have more and better welfare systems without strangling economic growth or individual liberty.

4) Be self-regulating. That is, this system will fund government based on the economy's demand for money and finance. Since the government cannot force people to borrow, the level of funding to government will be directly dependent on how well government manages its lending operations.

5) Provide for the constitutionally required circulation of gold and silver coin by the states, concurrently with the circulation of the fiat Treasury Notes proposed herein, printed by the federal government, and loaned into commerce through the states, and through the counties. Thus, the market will always have "real money" (*gold and silver*) in circulation as a last resort and, if general distrust of the Treasury Notes rises the market can abandon notes and opt for coin already circulated abundantly. In addition to the safeguards against inflation of the fiat currency inherent in this plan, the circulation of gold and silver coin acts as an additional balancing and self-regulating mechanism of the plan, without distorting the true value of specie through a fixed exchange rate.

The New Monetary Paradigm is the only solution that fosters human rights and liberty.

Before continuing, the reader should note that many well-intentioned ideas have been promulgated by conservatives who understand that a stable, sound money supply is the key not only to economic prosperity, but to freedom itself. No more pervasive form of servitude exists than that of debt. Many today fail to recognize this important lesson of history. The reason that slavery, serfdom, and indentured servitude have gone by the wayside is because they are inefficient for the capitalist. The slave owner, for example, has a limited useful work-life from a slave, but still bears the burden of care until death. It was this realization, along with the Christian notions of the sanctity of human life that caused serfdom to replace slavery during the Dark and Middle Ages of Europe. Serfdom was more efficient in that it caused the serf to earn his own keep and pay a tax to his overlord in the form of a percentage of his produce. Thus, the burdensome costs associated with caring for the very young, the old, and the infirmed, was shifted to the serf. Indentured servitude, being more of a form of contract slavery, carried many of the same burdens as slavery, for both parties, and fell into disfavor for the same reasons.

Nowadays, in most Western countries, the populace clings to delusions of freedom, but has willingly made themselves slaves through the creation of burdensome tax systems that tax their labor, and through debt. No one is more hopelessly enslaved than he who believes he is free, but whose very subsistence is subject to taxation. After all, if your government claims the legal authority to tax 1%

of your labor, then it can just as easily tax 100% of your labor. Taxation of labor is slavery (*involuntary servitude*) by percentages.

By far the most insidious and powerful form of taxation is that of inflation of the money supply, or debasement of the currency. The population at large is deluded into believing that inflation is an inevitable component of any monetary system, which is a patent falsehood. Inflation is not merely the expansion of the money supply, but rather its disproportionate expansion relative to the economy as a whole. Obviously, as an inflationary process proceeds, those with first access to the money enjoy greater value from it. As the money "trickles down" into the economy, those who have last use of the money derive the least value from it, as the purchasing power of the money has been substantially diminished by the time the money arrives in the hands of the final user. For example, as of this writing, the U. S. Federal Reserve Note has lost 96% of its purchasing power since the first issue in 1914.

As if these problems weren't troublesome enough for the average citizen, by far the most egregious crime of our current system is that our governments have abandoned their sovereign power to create money for the benefit of the citizens, and delivered that power over, wholesale, to private profiteers who we now call "Central Banks." In the United States, the central bank is called the Federal Reserve System, and it is no more a part of the federal government than other private companies who use the word "Federal" in their name, such as "Federal Express," the well known common carrier. The Federal Reserve Bank will be referred to here as the "Fed." The Fed occupies its sole and unique position as the United States' central bank by virtue of the "Federal Reserve Act" of 1913, which gave the bank a charter to issue and manage the currency of the United States.

The Fed, like all private stock corporations, exists to make profit for its shareholders. The only involvement the United States government has in the Fed's operations is the ability to appoint a board of governors and the chairman of that board, from a list compiled by the bank itself. The other tie to the federal government is that the United States Treasury is obligated to print "Federal Reserve Notes" upon demand by the Fed, and to deliver those notes to the Fed at manufacturing cost. The one major advantage the politicians get out of the arrangement is the ability to borrow on demand from the Fed. Because of this single feature of the Federal Reserve Act and its amendments, the federal government can spend money without the approval of the people, and it is this feature of the current system that has wrested control of the government from the people, and placed it squarely under the control of the Fed and its shareholders, who also control the major Wall Street banks, and through them the major multi-national corporations.

Obviously, if the constitution is to be revived, if freedom itself is ever to be restored to the people, then a solution to the current monetary crisis must involve abolishing the most pernicious aspects of the status quo. To that end, many ideas have been put forward. Unfortunately, those that get the most press are those being promoted by the international bankers themselves. Such ideas universally call for a centralized "world bank" that oversees the operations of all the various country's central banks. Obviously such proposals are merely a ruse to place the entire planet under the debt control of a few unimaginably enriched men who would then control the proposed world central bank, thus compounding the problems further and promoting a despotism that would make even Machiavelli blush.

However, there are many other solutions being proposed by well-intentioned scholars and economists. Most of these call for a return to a gold standard, or commodity backed monetary system. Some are calling for an abolition of "fractional reserve" banking. Still others are proposing the abolition of interest bearing loans or "usury," or some combination of the above. With due respect for the benefits such proposals would provide if adopted, they all miss the mark by a wide margin. This is because they overlook what Abraham Lincoln called the greatest creative opportunity for government, namely, the creation of money itself.

This proposal, when adopted, will free government to provide any service the population needs or demands. But, more importantly it will free the people to engage in free enterprise and to truly prosper, decreasing popular dependence on government, and usher in a new age in the history of the world, one where government is truly the servant of the people and where the budget to fund necessary governmental functions and social welfare programs is almost unlimited.

Critics of this plan are likely to fall into 3 primary categories.

1) Those who simply do not understand it and who parrot criticisms raised by the other 2 groups.

2) The international and central bankers who are currently raping the economies of the world and aggregating to themselves the entire wealth of nations. This group wields such disproportionate power that they will, and do, foment wars, cause famines, and destroy entire economies in order to protect their ill gotten hegemony over the industrialized nations of the world. And,

3) Those who seek a constitutional monetary system but lack the courage or vision to look beyond their preconceived notions as to how to implement a reliable and commercially viable solution. Since the dawn of commerce, markets have always preferred notes over specie for day-to-day transactions.

There is nothing that can be done about groups 1 and 2. In a world awash with information, there is no solution to group 1 ignorance, since learning is available to all, no matter what their economic disadvantage. The United States has had free public libraries in virtually every hamlet, town, and city, for almost 100 years now. Those who remain ignorant do so by choice. There simply is no cure for intentional stupidity, despite its pervasiveness. As for group 2, it is to be expected that those who profit the most from the status quo will do whatever is necessary to protect their golden goose. So beware the talking heads on major networks, especially the so-called "conservative" news programs, as all the major media is owned by a very few multi-national corporations.

This leaves only group 3, the well-intentioned conservatives who simply have misguided ideas about how to fix the problem. This paper is dedicated to them, and all the hard working men and women of the entire world. This paper is for you. This proposal will foster freedom, relieve both government and the private sector of the cost and overhead associated with tax, planning, reporting, enforcement, and collection, and most importantly, it will provide a self regulating economic environment that will greatly reduce the burden associated with regulating money supply. I would like to emphasize that while I am describing this plan within the context of the US Federal Reserve system ("*the FED*"), it can be easily adapted for any country or political system.

Important note to the reader:

The reader is strongly encouraged at this point to skip to the appendix and read it first. The facts and proofs presented in the appendix are critical to understanding what follows immediately below. That information, while critical to the understanding of this paper, was placed in the appendix because it is prerequisite material that any economist should know, but few actually do. Therefore, unless you "know everything" it is respectfully suggested that you read the appendix before proceeding to the New Monetary Paradigm proposal.

Before reading this proposal it is presumed that you know enough about the origins of modern banking, fractional reserve banking in both commodity based currency systems and fiat currency systems, as well as the basics of how the Federal Reserve System works in the United States. The reader is reminded that the central banks of all the Western nations work on nearly identical principals. In fact this type of fractional reserve, privately held, central bank is common throughout the western world. There are numerous statements of fact which follow and which the reader is presumed to know. Among these are the following:

1 - Fractional Reserve banking. The lending of other people's money held in a collective warehouse is ALWAYS a fractional reserve loan. Why, you might ask?

2 - The commercial lending of money ALWAYS leads to the creation of new money.

3 - Interest (*Usury*) vs. (*Participation*) Venture capital. Lending money at interest is more economical to both lender and borrower than venture capital loans.

4 - Expansion of the money supply with zero inflation. In a fractional reserve banking system, the value of the aggregate economy will expand in direct proportion to the value of the loans made, or in inverse proportion to the reserve percentage.

5 - Gold based currency has no effect on the business of banking. Even with a precious metals based currency commercial lending is not possible without fractional reserve banking, interest (*or usury*), expansion of the money supply, and expansion of the economy which can induce the expansion of the money supply in equilibrium, or result in deflation, or stimulate the mining of excess new gold, causing inflation.

6 - Bank credit always expands the money supply.

7 - Bank credit leverages the bank's ability to make loans in inverse proportion to the reserve requirement.

8 - Bank notes are money.

It is also presumed that you understand all of the mechanics contained in the section of the Appendix titled "The Money Supply."

If you doubt any of the following presumptions or facts as stated, then please read the appendix. The concepts presented there are not difficult to understand. Then, after educating yourself as to these basic principles of banking, come back to the next section and see whether or not the solution proposed here solves the serious problems we are experiencing as a nation.

End of note.

Proposal For A New Monetary Paradigm

It requires no great power of observation to see that the current system is designed to produce obscene profits for the central bankers, and to completely corrupt government by offering unlimited credit for unbridled government spending, and it places the public at large into a vicious financial serfdom not only to the banks but also to government taxation and oppression. All of these evils are further compounded by the taxing effect of inflation destroying what little money John Q. Public may have saved. Since politicians can access an unlimited supply of money (*by floating bonds which if not sold in the general bond auctions, the Fed, by virtue of the Federal Reserve Act, is required to buy*), they can afford to hire armies of bureaucrats and police to harass the people at every turn. In short, the Federal Reserve System is the mechanism of political tyranny and enslavement of the people to a financial elite who own our politicians, lock, stock, and barrel (*to coin a military cliché*).

The monetary, economic, and political problems we are witnessing today are a direct result of this pernicious system of monetary plunder.

So the question becomes: How do we the people correct this vital problem? Many suggestions have been put forward. One of the more attractive options is a return to a gold or commodity based currency. Another has been to suggest that we allow fiat currencies to float against each other in an open market, with no ties to gold or any other commodity. And there have been a spectrum of suggestions in between.

However, I believe that the problem stems from a misconception of the role of government in the creation of money. That all of the suggestions put forth up to now will only be treating the symptom and will fail to correct the root cause of the problem, and therefore are destined to fail.

The root cause of the problem:

The root cause of this problem is that almost universally, mankind has viewed taxation as the only means by which government may raise revenue without incurring debt. The bankers have closely guarded the secret that they create money through the lending process. It is the creation of money which gives them incredible power and leverage in the world at large, and that has financed their near complete control of governments the world over.

Even the founding fathers of these United States overlooked the prerogative to create money through the lending process as a potential means to finance government. Even they looked exclusively to taxation and borrowing to raise revenue for government. It is this oversight that has caused our present problems.

As is demonstrated clearly in the appended material, we know that gold backed banking in the time of the goldsmiths requires a fractional reserve banking mechanism by which banks create money. And we showed how that happens in a gold-based currency as well as with fiat currencies. So, clearly a return to a gold standard will not solve the problem. Certainly, a gold standard would curb inflation to the extent that actual gold circulates as money, and it would make the financial system and the economy more stable. In fact, deflation might occur as often as not. However, the gold standard alone can not eliminate the enormous windfall profits that banks enjoy when they create new money in a fractional reserve system, windfalls which cannot be avoided as long as commercial lending is exists. Therefore, of course, a return to gold can never eliminate the lever of money creation that occurs by the mere act of commercial lending in any form. We also know that commercial lending is the only feasible way for capital to find its highest and best use in the

economy. The key then, is to return the profits derived from commercial lending of money created by authority of the government, back to the people, to whom it really belongs.

Some argue that eliminating fractional reserve banking would solve the problem. However as we see with our goldsmith examples (*in the appendix*), without a fractional reserve system there would be no incentive to make commercial loans because insufficient cash would be available to facilitate an expanding economy and the incentive to take lending risks would be diminished to the point of seriously discouraging commercial ventures. Who wants to put their hard earned money at risk if you can only make one or two percent differences in the interest rate? Similarly, without fractional reserve banking, banks would be required to take money from their depositors to make loans, this would tie up depositors cash and put the depositor at risk. Thus, the depositor would have to be paid adequate interest to take the risk in the first place and the bank would not have enough of the interest pie to make lending a profitable commercial enterprise. So, eliminating fractional reserve banking would be like trying to stamp out prostitution, or abolish alcohol and recreational drugs. It simply would not work and would engender an underground economy in loan sharking. Organized crime would flourish.

Further, either or both of these solutions, as well as virtually every other solution I've heard proposed, would be disastrous for the funding of government. If we were to adopt either of the above solutions, government would shrink to a size disproportionately small to the services that we require from government, the most important of which is protection from brigandage and invasion.

The obvious solution:

Obviously, the bankers themselves have provided us the solution(s). The government treasury needs to become the central bank. In the United States Federal Reserve System, this would be as simple (*theoretically*) as revoking the FED's charter and nationalizing the Fed. If we did this, based on 2007 monetary supply figures and a 1% rate of interest on the money in circulation (M3), the flow of money into government coffers would be 2.6 times the entire federal budget. With that kind of income stream, we could eliminate all federal and state taxes on the public, and the federal government would have 2.6 times the revenue it now requires to meet its budget. And, government costs would go down dramatically as the resources employed to administer, police, and collect taxes would be obviated.

The Primary Problem With Nationalizing the Fed:

There is one glaring and huge problem with the above solution, however. That is that by providing the mechanism of money creation exclusively to the federal government, the states, whom the federal government was created to serve, would be left without the benefit of a revenue stream from the money creation prerogative, too much power would flow into the federal government as a result of its new found wealth, and there would be no checks upon the excesses of politicians in control of such a powerful financial tool. The government would destroy itself and the country, much like it is doing now as a result of access to unlimited credit. Moreover, the sovereignty of the nation lies in its citizens and they vest their sovereignty collectively in their state governments. The federal government is merely a coalition, federation, or union of the several states. Thus, it is imperative that the states control their servant, the federal government, politically as well as financially, not the other way around. This author would go so far as to suggest that the federal flag be flown below the state flag as a symbol of the true relationship between the states and the federal government.

The real goal behind any solution would be to create a stable self-regulating monetary system that benefits the people, not the elite on Wall Street or in Washington. Therefore, the following is my proposal for a new monetary system.

Proposed New Monetary Architecture :

This proposal is to nationalize the FED by shifting the discount window from the FED to the U. S. Treasury, and shift the twelve regional federal Reserve Banks to the treasury departments of the 50 states. In essence we would abolish the FED, but maintain the architecture of the FED. However, instead of twelve regional FED banks we would then have 50 state banks.

Under this proposal the United States Treasury (*UST*) could loan currency in the form of United States Treasury Notes (*USTNs*) and credit, ***ONLY*** to the treasuries of the 50 states, according to demand by the states.

The states, in turn could loan currency and credit ONLY to their respective county treasuries. The counties then, loan money only to commercial banks, who in turn, loan money to the public. Initially, during the period of transition to county regulatory authority, all counties would be required to honor the existing licensed lending institutions within their jurisdictions. After the transition, the counties maybe free to license and create "Municipal Banks" that compete with commercial banks. Such a move would provide a much greater revenue stream to the public treasury but also place Municipal Banks in direct competition with commercial banks within the same county.

Existing banks and credit unions would continue to function normally, with the exception that instead of being in debt to the Fed system for funds borrowed from the Fed, they would instead owe that money directly to the county in which they are domiciled. In essence, the counties would become the assignee of all debts currently owed by lending institutions to the Fed.

The critical feature of this system is that the UST could only loan to the states at a commercially attractive rate of interest (*we presume an interest rate of 2% in our pro-forma example that follows*). The states could only loan to the counties at a higher interest rate (*we presume an interest rate of 4% in our pro-forma example that follows*), and the counties would then make loans to commercial lending institutions (*banks and credit unions*, *we presume an interest rate of 6% in our pro-forma example that follows*), and the commercial lenders (*and eventually municipal banks too*) would then make loans available to the public at the interest rate of their choice. In this way, each level of government would earn interest on the money it loans to the subsequent level of government (*we presume an interest rate markup of 2% for each level of government in our pro-forma example below*). Further funding of the public fisk would be achieved by the leverage on the money loaned by municipal banks, who would compete directly with private commercial banks.

At the federal, state, and county levels, no minimum fractional reserve requirement is imposed, based on the fact that they are not depository institutions and so no "run on the bank" is possible. Rather, they are presumed to have incentive to lend out all of their allotted currency, whether in actual printed notes or in electronic or digital form. Thus, for each level of government they can borrow from the level of government above, as much currency as the market demands. But, for example, if a state government were to borrow "too much" or in excess of current market demand for loans, the state could find itself owing excessive interest to the UST relative to the interest it is collecting from its counties. The same could be true if a county borrowed "too much" from the state. So, in order to keep the system well regulated, **currency reserve maximums** will be placed on the various levels of government so as to prevent excessive government debt relative to its interest income earned from lending operations.

Presumably, the currency reserve maximums would be amounts sufficient to enable the timely provision of new loans to borrowers, but nothing more. These maximum reserve restrictions may perhaps be set to only enough to cover over-night or over-holiday demands. Thus, the governmental side of the new system will have reserve maximums, while commercial lenders and deposit institutions would still have fractional reserve minimums. It is important to note that there is a self regulating effect created by the fact that government will earn more interest by requiring higher

reserve ratios, while the commercial and municipal lenders will earn more through the leverage of lower reserve requirements. Thus, this new system creates a competitive dynamic that will generate the maximum return at all levels when the right equilibrium is struck between the government sector and the combined municipal and commercial sector, with respect to minimum reserve requirements.

Thus the only level of government that may opt to be involved in holding deposits and lending to the public are the municipalities. Because they are holding deposits and could be exposed to "a run on the bank" only municipal banks and commercial lending institutions will be required to hold "reserve minimums" which are presumed in our pro-forma example to be 25% reserves. We assume 25% to insure stability and also to set a theoretically satisfactory level of currency issued by the UST to the states.

At the point when the FED is nationalized, the existing debts owed to the FED system will be assigned to the county government wherein the commercial banks holding notes owed to the FED are domiciled. Thus, and FED debt owed by Bank of America branches in San Diego County, California, will automatically become assets of the County of San Diego. And, likewise, any FED debt owed by Bank of America in Yellowstone County, Montana, will automatically become an asset of the County of Yellowstone. Of these Fed debts assigned to the counties 1/3 will be assigned to the state, and another 1/3 of will be assigned to the UST, thus, reallocating the outstanding debt on the current money supply to the various levels of government according to a well regulated nationalization of the monetary system.

Requirement For States To Mint And Circulate Hard Currency Is Essential

In addition to the above changes, which are relatively simple compared to other alternatives, the states would be required to mint their own gold and silver coin according to specifications established by the federal government (*per the Constitution*), such that the states will use only USTNs, gold, and silver coin for money, as required under Article 1, Section 10 of the federal constitution. Of course, there would be no prohibition for one state to contract with another for the supply of such coinage or to purchase it directly from the United StatesMint. So, for example, 1/4 ounce 99.9% silver coins (*the new quarters*) would be minted for each of the 50 states, such that we would have quarters with the state of Florida's design circulating along with quarters minted by or for each of the other 50 states. The same would be true for 1/10 once silver coins (*the new dimes*), and all other legal tender coin. Just how much specie in the form of minted coin will be set by act of congress, but is presumed to be a reasonable proportion to the proportion of fiat currency and coin currently in circulation.

The New Abolition - Internal Taxation MUST Be Abolished

The third and most critical element of this proposal is that all levels of government will be required to eliminate all forms of internal taxes except that, in the unlikely event of a budget shortfall, the federal government may still collect apportioned taxes from the states as needed in times of emergency, such as invasion. Also, tariffs and other forms of import and export taxes on goods crossing the national borders would still be allowable for foreign policy and balance of trade reasons.

It is important to note however, apportioned taxes will be necessary only for emergencies because the states, and especially counties, and municipalities will be flush with money (*see pro-formas that follow*) and should have no difficulty whatsoever in meeting such budget contingencies as exist now or may arise. Over time, the federal budget will shrink as states and counties assume more and more of their proper burden in funding and maintaining public infrastructure and assitance such as highways, militias, and social programs.

Currently we employ a horribly inefficient system of states collecting taxes for the funding of federal programs, sending the tax money to Washington by way of unconstitutional direct federal taxation of labor, and then the states must beg for funds back from Washington in order to pay for federally mandated social programs. often times the federal government holds funds hostage in order to coerce states to adopt abusive policies toward their citizens. This obscenely inefficient method of public finance will fall by the wayside immediately upon the adoption of the nee monetary paradigm and the various level of government will begin to assume their proper roles as servants of the people because funds will be readily available from the city level up, rather than the other way around.

Government will be prohibited from borrowing to fund government operations.

There will also be a prohibition on all levels of government from borrowing for budget needs. That is, there will need to be a law that no level of government can borrow money except to lend out, and that no federal taxation, direct or indirect, of the public will be allowed, with the exception of emergency apportionments and tariffs at our borders, if need be, for balance of trade reasons.

Thus federal government will be required to fund itself entirely by the profits made on principal and interest payments earned from creating and lending money to the sates, who can only borrow for the purpose of providing loans to the counties, which, as we shall demonstrate below, will be more than ample.

By adopting the system proposed here, the obscene profits from the creation and lending of money will flow directly into the public treasuries at all levels of government.

This new system is self-regulating.

Under this system, the federal, state, and local governments will profit from creation and expansion of the money supply by the same mechanisms the Federal Reserve Banks and commercial banks do today. Again regulation is accomplished through adjustment of reserve ratios and interest rates, just as in the current system.

However, it is very important to note that regulation is not an issue in this system except at the municipal level or commercial bank level where public deposits and public banking are taking place. For the county, state, and the federal treasuries, very little regulation is needed since the money market will be essentially self-regulating. That is because the federal government cannot force the sates to borrow more money than they need to fund their respective counties' currency demands.

Neither can the states force the counties to borrow more money than they need to make loans to their respective counties. Thus, the money supply will only expand according to commercial need as demanded by the economy at large. Politicians will be powerless to expand or contract the money supply by fiat since expansion can only occur with real demand and any artificial contraction by government (*as opposed to market driven contractions*) will only reduce revenue flows to the government. Of course, interest rates can be adjusted as needed, with very predictable results. The economy could for example; experience intercounty or interstate "carry trade" whereby savvy investors borrow from counties with low interest rates to make commercial loans in other counties with high interest rates, much as we commonly see in the international FOREX markets today.

The important point here is that the system is self-regulating. If the government charges excessive interest, commercial activity will shrink, and government revenues will fall. If interest is excessively low, commercial activity and borrowing demand will increase, as government revenues shrink, thus creating a disincentive to lower interest rates.

To prevent any possibility of significant inflation and to meet constitutional mandate, the states will also be required to circulate gold and silver coin according to weights and measures established by federal law, as specified by the constitution. The circulation of hard money, along side USTNs and normal bank and commercial paper, will allow the markets to resort to specie whenever inflation appears to be a higher risk. Thus, whenever inflation begins to become significant, the demand for state issued gold and silver coin will increase and the demand for USTNs will decrease. Again, the federal and state governments cannot force the public to borrow. Neither could the public be forced to accept USTNs over state minted coinage. Only public debts (*loan payments from the public borrowers to the county banks, payments by the counties to the states, and payments by the states to the federal government*) will be required to be paid in USTNs. Of course, the USTNs will be "legal tender" for all debts public and private, in the same way that Federal Reserve Notes are now. However, there will be no need for a fixed redemption ratio for the paper USTNs to specie, since the market itself will establish the gold and silver redemption rate based on supply and demand.

The demand for USTNs will be supported in large part by requiring that all government business be transacted in USTNs. And, of course all loan payments to the municipal banks would be required to be in USTNs, as would be true for payments by the counties to the states, and for payments by the states to the federal government. Also, all payments offered in USTNs must be accepted since it will be legal tender. At the same time, private parties and commercial banks would be able to negotiate debts in specie as they see fit. Under this model, if the USTN becomes undesirable compared to the gold and silver coinage, then government will slowly become the only place where USTNs are needed and government revenues will shrink, particularly in real buying power as USTNs fall into disfavor. This mechanism provides the ultimate inducement for government to exercise prudence in management of its lending practices, which forms the basis of the money supply. It is especially well suited for maintaining a concentration of financial power in the states, counties, and municipalities where the body politic actually exists, leaving Washington D.C. to fulfill its proper purpose of being a servant to the states and our representative agent to the rest of the world.

A practical example of this new monetary system in action:

Lets take a look at how this idea measures up given the current money supply. We assume all of the money (*Federal Reserve Notes and debt owed to the Fed*) in circulation is nationalized and all outstanding debts owed by banks to the Federal Reserve Bank are assigned to the county treasuries wherein each bank is situated. We will also assume the reserve requirement is 10% which is the norm for the current Federal Reserve system. Ideally however, the reserve ratio requirement should be gradually adjusted to optimal levels from time to time. Increasing the reserve requirement is the single most effective way to insure the stability of banks and reduce or eliminate the need for such things as the FDIC, and other nonsensical regulatory burdens. Conversely, commercial lenders and municipalities will earn more profit from the increased leverage achieved by lower reserve requirements. The county, state, and federal governments will have no reserve requirements since they will have no depositors, only borrowers in the form of commercial banks and municipal governments who are the final lenders of money into the economy would be rquired to meet reserve requirements.

Real-world numbers:

In the real world, things actually look much better than suggested above. In the table that follows, we use the "M-2" money supply figure, plus the total of all other "non M1 M2 funds" as published by the Federal Reserve Board as of Oct. 13, 2011 (*www.federalreserve.gov/releases/h6/current*). We further assume a 10% reserve requirement. Thus, if the US Treasury loans $1 to the states, the states can loan $1 to the counties, the counties can loan $1 to the commercial banks and municipal banks who can then loan $9 into to the economy and hold $1 in reserve. The results are also based on a 2% simple interest calculation for each level of government. Thus, the US Treasury loans to the states at

2% simple interest, the states loan to the counties at 4% simple interest, and the counties lend to the municipal and commercial banks at 6% simple interest. In reality, interest would be compounded on a monthly basis, which improves the bottom line across the table, but we wanted to keep the example simple to make it easier to understand.

Because current reserve requirement is 10%, we must assume that only 10% of the M3 money supply currently in circulation is debt owed to the Fed. Thus in our example we first calculate the total value of M3, and then divide by 10 to arrive at a reasonable estimate of Fed debt that would immediately be assigned to government. In reality, the amount is actually much higher. This is because since the crash of late 2007, and the reduction of the Fed "discount rate" (the rate at which the Fed loans money to member banks) the bulk of new money has been pumped into the banking system to shore up the banks' balance sheets so that they are not declared "bankrupt" due to the precipitous fall in their aset values caused by toxic derivatives, falling real property values, and the precipitous rise in real estate foreclosures. In sum the actual percentage of M3 which is debt owed to the Fed is significantly higher than 10%. This is relevant here because the higher the percentage of M3 owed to the Fed at the time of nationalization, the greater the immediate revenue stream to government. In other words, the revenues made available to predicted in our pro-forma spreadsheet that follows is very conservative.

The results listed in the following table improve significantly when interest is compounded, and when the reserve requirement is increased. This inverse effect of the reserve rate is noteworthy, as evidenced by the following table.

Federal budget figures were obtained from *http://www.gpoaccess.gov/usbudget/fy12/db.html* under the heading "Outlays" and the state budgets listed were obtained from: *http://sunshinereview.org*, and are the cumulative budgets of the states, counties, and cities. Money in circulation through each state is calculated as a pro-rata percentage of the total money supply.

Following pro-forma chart shows federal and cumulative state budgets. Projected revenues are calculated from lending interest only. Note the final column "Budget Multiple" which shoes the revenue available at the state or federal level as a multiple of their current budget. This is significant because not one of the entries is less than 1. On the contrary all levels of government would immediately earn interest income in multiples of their current budgets. Given that few governments at any level can currently collect enough tax revenue to meet their budgets, the New Monetary Paradigm funds government at several times their current budgets and all levels of government. Just think what that would do for business growth in the United States. By achieving balanced budgets and budget surpluses without the need for internal taxes we will have the ability to attract commerce, industry, and jobs at unprecedented levels.

These pro-forma projections also indicate that the federal government will be earning $4,037,452,000,000 in interest income, over and above its 2012 budget of $3,728,686,000,000. In other words, the surplus will be 20 times its budget and, that is without collecting any taxes, nor does it include the windfall profit to the federal government in the face value of circulating the money it creates as debt, before any interest is earned on it.. When the surpluses from the states are added, the total surplus revenues available nationally are 144 times their combined budgets. Thus, under the plan proposed here, the all levels of government could easily eliminate all internal taxes and still have huge surpluses in excess revenue. There is no better way to fund government and at the same time free the people from the shackles of taxation.

Bear in mind, that while there may be argument as to whether or not it is a proper role for government to provide welfare and social services for the needy, under this plan a robust welfare system could easily be financed without the need for government to tax one group to subsidize

another, which is patently unjust and undeniably involuntary servitude which also illegal under any reasonable or rational reading of the Constitution for the United States.

Under this plan any injustice or questions about the legality or constitutionality of the welfare system would be rendered moot by the fact that the revenues to fund such government services are derived exclusively from general commercial borrowing and the interest paid on the money borrowed.

Beyond the question of financing welfare, one must keep in mind that in the robust economy that would emerge under this plan, the need for welfare will decrease as entrepreneurship, commercial, and industrial fortunes become more attainable for ordinary people.

Pro forma revenues under the new monetary architecture for each state and the federal government follow on next 2 pages.

Interest Revenues From
M3 Money Supply
Available To Fund Government

New Monetary Paradigm

Rates: Federal to States 2%
State to County 4%
County to Banks 6%

Money Supply per Fed. Feb. 2015 (in $Billions)			M0	M1	M2	Other	M3	M3 In Dollars	
Est. Debt to Fed -->	$388,306,900,000,000		$3,840,341	$2,988	$11,820	$27,920	$3,883,069	$3,883,069,000,000,000	
State	Population	Population as % of Total	Current Public & Private Debt Owed to FED Per State in Proportion to M3	Cumulative County Interest Revenues Earned at 6% Interest	Cumulative State, County, & City Budgets in dollars	State Interest Debt owed to US Treasury at 2% Interest	Net State & County Interest Revenues	State Surpluses Available For Federal Apportionment	Budget Multiple
				6.00%		2.00%			
Alabama	4779736	1.55%	$ 6,023,176,123,066	$361,390,567,384	$ 5,200,000,000	$ 120,463,522,461	$240,927,044,923	$235,727,044,923	**46.33**
Alaska	710231	0.23%	$ 894,996,376,591	$53,699,782,595	$ 5,280,000,000	$ 17,899,927,532	$35,799,855,064	$30,519,855,064	**6.78**
Arizona	6392017	2.07%	$ 8,054,889,260,125	$483,293,355,607	$ 8,400,000,000	$ 161,097,785,202	$322,195,570,405	$313,795,570,405	**38.36**
Arkansas	2915918	0.95%	$ 3,674,489,066,848	$220,469,344,011	$ 4,500,000,000	$ 73,489,781,337	$146,979,562,674	$142,479,562,674	**32.66**
California	37253956	12.09%	$ 46,945,508,762,188	$2,816,730,525,731	$ 86,600,000,000	$ 938,910,175,244	$1,877,820,350,488	$1,791,220,350,488	**21.68**
Colorado	5029196	1.63%	$ 6,337,532,714,237	$380,251,962,854	$ 18,200,000,000	$ 126,750,654,285	$253,501,308,569	$235,301,308,569	**13.93**
Connecticut	3574097	1.16%	$ 4,503,892,204,909	$270,233,532,295	$ 17,700,000,000	$ 90,077,844,098	$180,155,688,196	$162,455,688,196	**10.18**
Delaware	897934	0.29%	$ 1,131,529,990,127	$67,891,799,408	$ 3,090,000,000	$ 22,630,599,803	$45,261,199,605	$42,171,199,605	**14.65**
Florida	18801310	6.10%	$ 23,692,438,551,911	$1,421,546,313,115	$ 67,400,000,000	$ 473,848,771,038	$947,697,542,076	$880,297,542,076	**14.06**
Georgia	9687653	3.14%	$ 12,207,879,313,449	$732,472,758,807	$ 17,800,000,000	$ 244,157,586,269	$488,315,172,538	$470,515,172,538	**27.43**
Hawaii	1360301	0.44%	$ 1,714,180,972,209	$102,850,858,333	$ 3,710,000,000	$ 34,283,619,444	$68,567,238,888	$64,857,238,888	**18.48**
Idaho	1567582	0.51%	$ 1,975,385,768,868	$118,523,146,132	$ 5,700,000,000	$ 39,507,715,377	$79,015,430,755	$73,315,430,755	**13.86**
Illinois	12830632	4.16%	$ 16,168,498,910,033	$970,109,934,602	$ 25,000,000,000	$ 323,369,978,201	$646,739,956,401	$621,739,956,401	**25.87**
Indiana	6483802	2.10%	$ 8,170,551,970,462	$490,233,118,228	$ 26,500,000,000	$ 163,411,039,409	$326,822,078,818	$300,322,078,818	**12.33**
Iowa	3046355	0.99%	$ 3,838,859,028,696	$230,331,541,722	$ 5,600,000,000	$ 76,777,180,574	$153,554,361,148	$147,954,361,148	**27.42**
Kansas	2853118	0.93%	$ 3,595,351,754,551	$215,721,105,273	$ 13,700,000,000	$ 71,907,035,091	$143,814,070,182	$130,114,070,182	**10.50**
Kentucky	4339367	1.41%	$ 5,468,245,882,957	$328,094,752,977	$ 16,100,000,000	$ 109,364,917,659	$218,729,835,318	$202,629,835,318	**13.59**
Louisiana	4533372	1.47%	$ 5,712,720,950,985	$342,763,257,059	$ 26,000,000,000	$ 114,254,419,020	$228,508,838,039	$202,508,838,039	**8.79**
Maine	1328361	0.43%	$ 1,673,931,835,987	$100,435,910,159	$ 4,680,000,000	$ 33,478,636,720	$66,957,273,439	$62,277,273,439	**14.31**
Maryland	5773552	1.87%	$ 7,275,531,651,053	$436,531,899,063	$ 31,700,000,000	$ 145,510,633,021	$291,021,266,042	$259,321,266,042	**9.18**
Massachusetts	6547629	2.12%	$ 8,250,983,455,047	$495,059,007,303	$ 28,000,000,000	$ 165,019,669,101	$330,039,338,202	$302,039,338,202	**11.79**
Michigan	9883640	3.21%	$ 12,454,851,995,378	$747,291,119,723	$ 8,300,000,000	$ 249,097,039,908	$498,194,079,815	$489,894,079,815	**60.02**
Minnesota	5303925	1.72%	$ 6,683,731,992,422	$401,023,919,545	$ 27,400,000,000	$ 133,674,639,848	$267,349,279,697	$239,949,279,697	**9.76**
Mississippi	2967297	0.96%	$ 3,739,234,225,582	$224,354,053,535	$ 5,500,000,000	$ 74,784,684,512	$149,569,369,023	$144,069,369,023	**27.19**
Missouri	5988927	1.94%	$ 7,546,936,087,931	$452,816,165,276	$ 23,000,000,000	$ 150,938,721,759	$301,877,443,517	$278,877,443,517	**13.13**
Montana	989415	0.32%	$ 1,246,809,615,385	$74,808,576,923	$ 3,800,000,000	$ 24,936,192,308	$49,872,384,615	$46,072,384,615	**13.12**
Nebraska	1826341	0.59%	$ 2,301,460,478,942	$138,087,628,737	$ 6,900,000,000	$ 46,029,209,579	$92,058,419,158	$85,158,419,158	**13.34**
Nevada	2700551	0.88%	$ 3,403,094,711,156	$204,185,682,669	$ 16,000,000,000	$ 68,061,894,223	$136,123,788,446	$120,123,788,446	**8.51**
New Hampshire	1316470	0.43%	$ 1,658,947,412,730	$99,536,844,764	$ 5,290,000,000	$ 33,178,948,255	$66,357,896,509	$61,067,896,509	**12.54**
New Jersey	8791894	2.85%	$ 11,079,090,145,842	$664,745,408,751	$ 29,400,000,000	$ 221,581,802,917	$443,163,605,834	$413,763,605,834	**15.07**
New Mexico	2059179	0.67%	$ 2,594,870,885,321	$155,692,253,119	$ 8,810,000,000	$ 51,897,417,706	$103,794,835,413	$94,984,835,413	**11.78**
New York	19378102	6.29%	$ 24,419,282,001,502	$1,465,156,920,090	$ 113,000,000,000	$ 488,385,640,030	$976,771,280,060	$863,771,280,060	**8.64**
North Carolina	9535483	3.09%	$ 12,016,122,548,923	$720,967,352,935	$ 19,000,000,000	$ 240,322,450,978	$480,644,901,957	$461,644,901,957	**25.30**
North Dakota	672591	0.22%	$ 847,564,395,144	$50,853,863,709	$ 3,970,000,000	$ 16,951,287,903	$33,902,575,806	$29,932,575,806	**8.54**
Ohio	11536504	3.74%	$ 14,537,705,730,286	$872,262,343,817	$ 25,900,000,000	$ 290,754,114,606	$581,508,229,211	$555,608,229,211	**22.45**
Oklahoma	3751351	1.22%	$ 4,727,258,529,015	$283,635,511,741	$ 6,700,000,000	$ 94,545,170,580	$189,090,341,161	$182,390,341,161	**28.22**
Oregon	3831074	1.24%	$ 4,827,721,330,738	$289,663,279,844	$ 24,700,000	$ 96,554,426,615	$193,108,853,230	$193,084,153,230	**7818.17**
Pennsylvania	12702379	4.12%	$ 16,006,881,112,039	$960,412,866,722	$ 28,050,000,000	$ 320,137,622,241	$640,275,244,482	$612,225,244,482	**22.83**
Rhode Island	1052567	0.34%	$ 1,326,390,499,878	$79,583,429,993	$ 4,600,000,000	$ 26,527,809,998	$53,055,619,995	$48,455,619,995	**11.53**
South Carolina	4625364	1.50%	$ 5,828,644,512,017	$349,718,670,721	$ 5,000,000,000	$ 116,572,890,240	$233,145,780,481	$228,145,780,481	**46.63**
South Dakota	814180	0.26%	$ 1,025,987,530,666	$61,559,251,840	$ 3,140,000,000	$ 20,519,750,613	$41,039,501,227	$37,899,501,227	**13.07**
Tennessee	6346105	2.06%	$ 7,997,033,332,064	$479,821,999,924	$ 30,000,000,000	$ 159,940,666,641	$319,881,333,283	$289,881,333,283	**10.66**
Texas	25145561	8.16%	$ 31,687,135,569,055	$1,901,228,134,143	$ 182,000,000,000	$ 633,742,711,381	$1,267,485,422,762	$1,085,485,422,762	**6.96**
Utah	2763885	0.90%	$ 3,482,904,942,637	$208,974,296,558	$ 4,800,000,000	$ 69,658,098,853	$139,316,197,705	$134,516,197,705	**29.02**
Vermont	625741	0.20%	$ 788,526,447,993	$47,311,586,880	$ 2,480,000,000	$ 15,770,528,960	$31,541,057,920	$29,061,057,920	**12.72**
Virginia	8001024	2.60%	$ 10,082,476,671,698	$604,948,600,302	$ 37,300,000,000	$ 201,649,533,434	$403,299,066,868	$365,999,066,868	**10.81**
Washington	6724540	2.18%	$ 8,473,917,548,292	$508,435,052,897	$ 32,100,000,000	$ 169,478,350,966	$338,956,701,932	$306,856,701,932	**10.56**

Interest Revenues From
M3 Money Supply
Available To Fund Government

New Monetary Paradigm

Rates: Federal to States 2%
State to County 4%
County to Banks 6%

West Virginia	1852994	0.60%	$ 2,335,047,211,182	$140,102,832,671	$ 6,800,000,000	$ 46,700,944,224	$93,401,888,447	$86,601,888,447	**13.74**
Wisconsin	5686986	1.85%	$ 7,166,445,654,616	$429,986,739,277	$ 14,200,000,000	$ 143,328,913,092	$286,657,826,185	$272,457,826,185	**20.19**
Wyoming	563626	0.18%	$ 710,252,337,271	$42,615,140,236	$ 4,130,000,000	$ 14,205,046,745	$28,410,093,491	$24,280,093,491	**6.88**
District of Columbia	*599657*	*0.19%*	$ 755,656,740,127	*$45,339,404,408*	*$ 5,400,000,000*	*$ 15,113,134,803*	*$30,226,269,605*	*$24,826,269,605*	***5.60***
Totals	**308143815**	**100.00%**	**$ 388,306,900,000,000**	**$23,298,414,000,000**	**$ 1,078,454,700,000**	**$ 7,766,138,000,000**	**$15,532,276,000,000**	**$14,453,821,300,000**	***14.40***
	Population	**Population**	**Current Public & Private Debt Owed to FED Per State**	**Federal Interest Revenue Earned From States at 2%**	**Federal Budget**	**State Interest Debt owed to US Treasury**	**Net Federal Interest Revenue**	**Net Federal Revenue Surplus**	**Budget Multiple**
Federal Budget	**308143815**	**100.00%**	**388,306,900,000,000**	**$7,766,138,000,000**	**$ 3,728,686,000,000**	**$ -**	**$4,037,452,000,000**	**$18,491,273,300,000**	**1.08**

Analysis of the real world pro-forma.

In reviewing the foregoing chart we can see that after debt service to the federal treasury, all the states have a significant surplus and could eliminate all internal taxes under this plan. **But, most important is the fact that the federal government shows a surplus of $18,491,273,300,000 (*18 trillion*) surplus over and above the 2012 federal budget!** Thus, from the very start, the federal government will have more money than it needs and the goal of eliminating internal taxes at the federal level would jump start the biggest economic boom in history.

Not only would this new monetary architecture put the local and state governments in the driver's seat, financially earning the lion's share of the money supply profits, but it would enable and fully fund the type of government originally envisioned by our founders. That is a government of the people, by the people and for the people, generating the bulk of revenues from commercial activity at the county and local level. Whether the business activity funded is local or international, the counties would takes those lending risks and reap those rewards. Commercial banks chartered by the counties would need to charge a higher interest rate, but would also prosper from this monetary system.

There would be no fiscal need for taxation of individuals or businesses at the federal level, thus relegating federal taxes to the junk heap of history. The government, rather than rely on income taxes for budgeted expenses, would instead rely on banking profits from acting as the exclusive central bank. The central bank, the United States Treasury (*the FED fully nationalized and owned by the Treasury*), could still increase reserve ratios and/or interest rates to control inflation, profits from interest and money supply expansion, if need be. But the self regulating function of commercial demand and concurrently circulating hard money would minimize any such needs.

Government administrative cost burdens will shrink significantly with the elimination of internal taxes and the concomitant administrative burden of assessing, collecting, prosecuting, and administering the tax laws.

While the FRN (*Federal Reserve Note*) would be replaced by the USTN (*United States Treasury Note*), the USTN will remain a fiat currency. But, it would be tied to the value of gold and silver due to the fact that all coin would revert to gold and silver specie and the free market would determine whether the precious metal coins or the USTNs were in higher or lower demand at any given point in time.

However, by far the greater restraint on inflation is the fact that this would be a demand based monetary system, allowing money to flow into the market exclusively by the mechanism of demand for loans, so the government could not inject any more money into the system than the market demands. Also, there would be an ever present and intrinsic relationship between the USTNs circulated and the gold and silver coin to be circulated coincidentally. Market participants could at any time start to hoard coin if indications of instability or devaluation became evident for the paper currency. So, it would be a near perfect supply and demand equilibrium, yet still adjustable by adjustment of interest rates and reserve requirements.

Government would have at its disposal all the money needed to provide both infrastructure and social services. However, with the elimination of taxes, a wealthier population could focus more intently on control of their government to prevent excessive regulation or restrictions on freedom. Further, because government revenues would be tied directly to the health of the economy there would great incentive to elect representatives and executives who are responsible managers and have good economic common sense. All of these factors would lessen the effect of special interests, and the abolition of taxes would eliminate the KGB-like revenue agencies at the federal and state levels.

With the average wealth and affluence of the population at large increasing under this system, poverty will decrease proportionally and charitable giving will increase proportionally. Poverty will find its lowest level in human history at a time when the public Fisk will be able to provide the "safety net" that most people agree should be available in a wealthy society such as ours. More importantly, "welfare" and "social services" can be provided without the need to plunder one segment of society to distribute to another.

With internal taxes eliminated, industry, commerce, and innovation would not only return to our shores, but flourish, thus creating greater and greater demand for currency and USTNs. As the economy expands the revenues to government would expand proportionally.

Effect of the new monetary system on government.

Thus, under this system government would need to focus on maintaining a flourishing commercial environment, which increases the demand for money and credit. Therefore, if government imposes laws and regulations that restrict commercial activity or the freedom to engage in commerce, the economy will shrink and there will be less demand for money and credit. The lower demand for borrowing will reduce the revenues to government, thus providing a strong incentive for government to facilitate commerce and leave people free to create and build businesses. But all of this is only possible if the ability to levy indirect or unapportioned direct internal taxes is stripped from the federal government and abandoned by the states.

This proposal would eliminate any possibility of destroying the advantageous aspects of the current monetary system in terms of the efficiency and convenience of handling, moving, and exchanging money. We would not be returning to the days of having to carry a sack of heavy coins around everywhere we go. The financial well being of the middle and poorer classes would be greatly improved since vast new supplies of public funds would be available to pay for our social programs.

Our nation would become incredibly more productive as the lifting of direct internal taxes would incubate vast numbers of new businesses and attract both foreign and former US industries back to within the our geographical borders, thus rekindling the demand for labor and capital equipment. Net and gross domestic product would increase proportionally, primarily because and businesses and individuals alike would be relieved of direct taxes within the country.

In the short term, as soon as this system is implemented, the relief on the economy of the burden of direct internal taxes, creates an instant cash resource to the economy as a whole, to jump-start the economy. And, it also creates a secondary and continuing wave of borrowing as the economy revives. The only way for government to increase revenues is to either raise interest rates, or encourage productivity and capital expansion, which would then require increased borrowing from the private sector. If government fails to adequately balance these two opposing mechanisms for increasing revenue, then revenues will drop, forcing the treasury to either lower interest rates or remove regulatory impediments to economic expansion. Thus, rather than continuing to harm the economy through taxation and over-regulation, government would now have a vital imperative to foster economic activity within the private sector. Furthermore, the ability to shift governmental resources from tax collection and enforcement to other much needed areas will help to improve both government efficiency and trust in government by the people it serves.

This plan relieves the central banks of the burden of managing the economy and places that burden where it naturally belongs, at the local level, where all commerce is incubated and takes place. This frees the state and federal government to focus more on oversight of global and emerging market trade balances and economic growth, with oversight of domestic economic activity being reduced primarily to managing US treasury borrowing and reserve ratios.

Commercial bank failures would then become almost irrelevant to all but the shareholders, as the assets of the bank would then flow to the bank's primary creditor, which would, of course, then be the county Treasury, and those assets would then either be sold to other banks or liquidated at public auctions. Thus, bank failures would not require “bail outs” by government, as those assets would be liquidated to satisfy the major creditor, the County Treasury and ultimately all the people of the United States.

Adopting this plan would require minimal changes to the FED and our current monetary structure, and could be implemented almost immediately. If new currencies are needed in order to combat counterfeiting or other destructive influences, that could be accomplished over time without adversely affecting the economy. Everyone benefits from this plan. The only major hurdle would be the abolition of internal or domestic direct taxes. However, once the majority of people see the benefits of this plan, it is safe to assume that the public will welcome such relief, leaving only government employees unions who may be unnerved by job losses in the various taxing agencies. Such fears can be completely alleviated by giving those employees the option of either a generous severance package, or comparable work in other agencies, or in the expanding private sector, thus protecting those employees and their jobs. Given that the states and counties will have vastly expanded budgets, we could actually see a growth in government jobs with no adverse affects on the economy.

Write your congressman and senator and send along a copy of this report, asking them to read it and take the steps necessary to adopting this plan. We can't return to the past, we can only move forward, and this plan guides us down the most promising path.

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Appendix:

APPENDIX

Disclaimer:

Much of what follows is taken in directly from other sources. Thus, it should not be considered the original work of this author, but rather a compendium of writings from a wide variety of sources to numerous to be cited. It would be best for the reader to presume that all of the historical material that follows is plagiarized, at least to the extent that such considerations are relevant to the reader.

Introduction:

Here are some important points that you will find explained in detail and proven, in order to destroy the many myths circulating about how a sound money system will work. Caution, you may feel the hair raising on the back of your neck as you read some of these. But one' man's myth is another man's religion. In this paper, the only religion the author adheres to is the religion of truth, in that while often elusive, truth and wisdom are the only treasures of lasting value, and God, whatever else he or she may be, is and must also be truth. The following truths "a - c" are contrary to popular myth:

a) There is no system of commercial banking possible that does not "expand" the money supply. This is true whether the currency is gold backed or fiat. In other words, the "creation" of new money is an inescapable function of commercial banking. It cannot be eliminated unless borrowing is outlawed entirely, and even in an underground economy any profitable banking operation would still have the effect of creating new money where none existed before, thus expanding the money supply.

b) There is no system of commercial banking possible that is not "fractional reserve" in nature. This is true whether the monetary system is gold based or fiat. It is impossible to have reserves and lend from them without a resultant "fractional reserve." This is a simple but profound mathematical certainty.

c) This plan would REQUIRE the states to issue and circulate gold and silver coin according to federal standards and in compliance with the constitution (*"No state shall ... make any Thing but gold and silver Coin a Tender in Payment of Debts;" Art. 1, Sec. 10*). These state issued coins would always be circulating in the economy to compete with the paper currency and electronic "accounting units" to be issued by the various levels of government and commercial banks. However Congress retains the power to "*coin Money and regulate the value thereof,*" (*Art. 1, Sec.8*) and whether such coin is actually minted by the federal government, or by the states according to federal standards, is an academic question irrelevant to this discussion. The fact remains that the states must define legal tender in terms of a gold and silver standard, whether or not the federal government circulates a script or fiat currency at the same time. According to the constitution legal tender must be gold and silver.

The financial crisis that we are witnessing today could not have been avoided in the monetary environment we currently operate under. However, before we can discuss the solution proposed here, it is important to understand the current model that has brought the world to the precipice of economic havoc. This proposal involves only a few minor changes, which compared to the benefits offered, are almost insignificant. But, without understanding how we arrived where we are, it is impossible to evaluate this proposal. Having previously provided brief a description to those who I had always presumed to be educated about our monetary system, it quickly became clear that there are large gaps in understanding that sometimes prevent even educated and sophisticated thinkers from making a competent evaluation.

Appendix:

In addition to the material I will cover in this proposal, I have also attached a copy of "Modern Money Mechanics" which is a primer on how the Federal Reserve Bank operates. Such terms as "open market operations," "fractional reserve banking," "time deposits," "money stock statistics, M1, M2, M3, etc," "national debt," and many other essential concepts necessary to understanding the current status quo, are defined and explained in that book. Modern Money Mechanics is published by the Chicago Federal Reserve Bank, and should still be available from their web site. But, prior to an understanding of how the FED works, it is necessary to understand some basics that predate the FED and over which there appears to be a great deal of misunderstanding.

A very brief history of the evolution of money:

In ancient times many things were used as money. Essentially, any medium of exchange, which can be used to conduct commercial transactions, could function as money. The English word "capital" goes back to the Latin word for head, which evolved from a still more ancient word for cow or cattle. Indeed, cattle and many other things have functioned as money over the centuries. Modernly, even such abstract things as cell phone minutes have been used as money in some African countries where hyperinflation has destroyed the national currency. However, over time, the most consistent, stable, and revered form of money has always been certain precious metals, with Gold and Silver having the most common and long-lived use.

The reasons for the commercial preference for gold and silver have been manifold. Gold and silver do not rust or deteriorate when exposed to the elements, so they are very stable materials, which resist moisture and most chemicals. Gold and silver are reasonably rare such that the supply of gold and silver cannot fluctuate dramatically in a short period of time. Conversely, there have historically been sufficient supplies to facilitate commerce. That is, they are not so rare that supplies have been inadequate to function as money. Finally, and perhaps most importantly, precious metals, particularly in the form of coin, were very small and dense when compared to their relative or commercial value. In other words, a merchant wanting to purchase any given quantity of a given commodity, corn for example, could pay for it with a much smaller quantity (*by weight and volume*) of gold or silver than other forms of money such as cattle, or any other commodity that might be used in trade. Thus, precious metals offered all of the best qualities for a universal medium of exchange and because of their unique qualities evolved into currency in every great civilization since ancient Samaria. By the time of the Italian Renaissance, Gold and Silver were well established as the primary medium of exchange in the west and were readily accepted or preferred in almost every part of the known world.

The Spanish Milled Dollar:

One of the problems with any precious metal used as money has been the debasement of the money through counterfeit coins, which may not be of the purity expected by the commercial participants, or the weight of the coin may have been reduced by some very minor percentage, through a process called shaving. Archimedes of Syracuse (*c. 287 BC – c. 212 BC*) was a Greek mathematician, physicist, engineer, inventor, and astronomer who first discovered how to check for the purity of gold and silver by comparing the displacement to the weight of a material to determine the density and thereby the purity. Archimedes showed how it was possible to determine the purity of gold and silver with reasonable accuracy by using the displacement method. Silver presented a bit more of a problem due to its lighter weight and the ability to alloy it with heavier metals such as lead.

However, until the modern age, it was practically impossible for counterfeiters to debase gold and silver coin by debasing their purity with other metals such as lead and tin, since metallurgy involving the capability to alloy metals mimicking the density of pure gold or pure silver was beyond the capability of many monarchs and certainly not a readily available method of debasing coin for the average man. Therefore, once a mint (*usually belonging to the monarch or the very wealthiest of merchants*) established a reputation for the purity of their coins, debasement of the purity was the exclusive purview of the monarch or the mint itself.

Appendix:

The most common problem for early precious metal currencies was by far the problem of shaving. As coins circulated it was not uncommon for users to shave tiny amounts from coins as they passed from hand to hand. Unless there was a very good system of weights and measures at every step of the transactions in coin, even very pure gold or silver coinage would be debased through shaving, resulting in weight loss.

The Spanish dollar (*also known as the piece of eight*) was a silver coin minted in the Spanish Empire after the Spanish currency reform of 1497. It was legal tender in the United States until an act of Congress discontinued the practice in 1857. Because it was widely used in Europe, the Americas, and the Far East, it became the first "world currency" by the late 18th century.

The feature that made the Spanish dollar such a successful currency was its milled edges, which we see on many coins today. The milled edge made it very easy to see whether or not a coin had been shaved and was therefore underweight. This important feature enabled commercial traders to use the piece of eight as a medium of exchange, with great confidence. Many existing currencies, such as the Canadian dollar, United States dollar, and the Chinese Yuan, as well as currencies in Latin America, and the Philippine peso, were initially based on the Spanish dollar and other 8-reales coins. The term peso was the common Spanish term used to refer to the piece of eight, and it became the basis for many of the currencies in the former Spanish colonies, including the Argentine, Bolivian, Chilean, Colombian, Costa Rican, Cuban, Dominican, Ecuadorian, Guatemalan, Honduran, Mexican, Nicaraguan, Paraguayan, Philippine, Puerto Rican, Peruvian, Salvadoran, Uruguayan, and Venezuelan pesos.

A very brief history of banking:

Along with the evolution of currency itself, the foundations for modern banking were also being laid. While the value of gold and silver was well recognized throughout the history of civilization, transport of precious metals involved significant risk. Stories of highway robbers attacking caravans for the wealth they transported are perhaps the most common stories in recorded history. Obviously, protecting wealth is one of the fundamental problems for civilized man. Governments are the creatures of man's commercial need for mutual protection against brigandage. As humans moved from hunting and gathering societies to agricultural based societies, (*which is recognized by most historians and archeologists as the transition that gave birth to civilization itself*) other groups quickly realized that it might be easier to simply attack and confiscate their neighbors produce, through violence, rather than be burdened with the toil of production themselves. This process is the origin of war, conquest, and slavery.

Thus, the productive class requires protection against the violent class. The returns to violence require the producers to either become both effective farmers and effective warriors to defend against attack, or to hire protection, through the employment of mercenaries. This need to protect the productive class of the civilized society forms the birth of government.

At its root government exists for the primary and fundamental purpose of facilitating commerce. This concept is enshrined in the Declaration of Independence for the United States where Jefferson writes that all men are created equal with the right to life, liberty, and the pursuit of happiness, and that governments are instituted among men to protect those rights, deriving their just powers from the consent of those governed. With an amazing economy of words Jefferson not only sums up the proper role of government, but also points out that when the hired protectors become the plunderers, that government is no longer legitimate. Put in a more primitive context, when the chief of the clan is lining his pockets at the expense of the clan itself, then it is the right and duty of the clan to topple the chief from power.

Rise of the Knights Templar:

Thus, the need to protect commercial transactions, wealth itself, has been a basic problem for civilization from the beginning. There have been many times in the history of civilization where merchants have used notes and warehouse receipts to reduce the risk of theft when transporting

wealth. However, for modern capitalism, the story is best picked up with the Knights Templar, which emerged from the 1st Crusade (*1099*) and were officially recognized as a military monastic order in 1129. The history of the Templars is the stuff of legend, but their contribution to modern banking is the only part of their history, which is relevant to this discussion.

The Templars acquired a great deal of wealth, the great majority of which was presumed to be in the form of precious metals and rare commodities. Because the Templars had been given Papal protection throughout Europe, they were able to establish monasteries in almost all the major cities of Europe as well as a network that allowed for relatively quick communication from one location to the other. The Templars employed a system of warehouse receipts, notes, and bills of exchange, which was modeled after earlier Venetian merchant practices. The net result of this accumulation of Templar wealth, combined with an extensive network of trained monastic soldiers and a system of using notes rather than physical metal for common transactions, was that the Templars built a financial empire which held, protected, transacted, moved, and financed many of Europe's governments as well as that of the Vatican, before they were disbanded in 1312.

Whether the Templars employed a system of fractional reserve banking is unknown as no records survived which shed light on that aspect of their financial undertakings. What we do know is that they only moved physical metal from one location to another when there was a need for reconciliation and balancing of accounts between their various monasteries, which implies that fractional reserves were held and loans were made. Thus, a king or crown prince could deposit large sums of gold with the Templars and rest assured that the gold would be protected by the best trained military order in Europe at that time, and with the backing of the papacy which presumed to be the supreme authority over all Christian monarchs. In addition, if a monarch or merchant needed to pay a distant merchant for a particular transaction, the Templars could facilitate the transaction by transporting a note for payment of the debt from a monastery in one location to a monastery in the distant location, thereby insuring that the physical metal would not be put at risk in transit.

Of course, over time, the aggregate quantity of gold on account in one location may diminish while the aggregate quantity in another might increase. From time to time, the Templars would then arrange for a transfer of the physical metal from one location to another, under carefully planned and well protected modes and routes for the transfer. Thus, under the Templar system, the only time physical specie needed to be moved was to balance the accounts between monasteries, and then only under heavy guard and with substantial precautions. By far, the Templar financial services to the monarchs and merchant class represented a huge advance in finance and commerce for medieval Europe.

The Templars incurred the ire of Phillip the 4th of France, and Pope Clement the 5th, which resulted in their persecution in 1307 and disbanding in 1312. It is unclear whether this dispute with Phillip and fall from grace with the Pope was the result of Templar malfeasance or that of Phillip and Clement. Either way, the Templar banking franchise came to an abrupt end in the early 14th century. What became of the Templar wealth appears to be shrouded in mystery. What is noteworthy, however, is that there are no records of merchants or monarchs outside the order reporting losses as a result of the shakedown. So, it is unlikely that the Templars were engaged in any significant financial malfeasance.

There were numerous other "banks" in the middle ages, however the emphasis here on the Templars is due to the fact that they provided the most efficient, respected, and well protected network for moving money and capital from place of storage to place of investment and back again. The Templar financial services were instrumental in the development of wide ranging commerce throughout medieval Europe and their unmeasured wealth may have provided the financial seed capital which gave rise to the renaissance and many of the great accomplishments of medieval and renaissance Europe including expeditions to the "new world."

Appendix:

The rise of the merchant guilds:

With the Templars out of the picture, commercial banks and merchant guilds sprang up in major cities all over Europe, but especially in Italy, and Venice, in particular. This was the age of Marco Polo, and commercial expeditions pushing further East and South Searching for and returning with valuable commodities.

The merchant class and trades formed guilds of various sorts. As the more successful merchants accumulated wealth in the form of gold and precious commodities, the problem of warehousing wealth had to be addressed. Often it was most practical to cooperate in a well-protected and mutual warehouse for storage of gold and precious commodities. Through cooperation, superior protection could be provided, in a time when brigandage was common and protection was paramount. Since the monarchs and the wealthy merchants employed skilled smiths to work gold and silver into beautiful and ornate works of art that fill our museums today, it was very common for the local goldsmith or goldsmiths' guild to warehouse the gold and silver for the very wealthy.

As a result of being the best equipped to warehouse gold and silver, the goldsmith would commonly have a warehouse full of gold, most of which was held on account for others. At the same time, merchants seeking to finance some new business venture, such as a ship to the East Indies in order to return with valuable spices or silk, might approach the goldsmith(s) for loans to finance their ventures. The merchant may have some money of his own, but needed more in order to finance the voyage. When the ship came in and the commodities were sold for a profit, then the loan could be repaid. So, it was very common for the goldsmith to be approached to arrange financing for ventures, as well as to warehouse gold. This gave rise to the goldsmiths' conundrum.

The goldsmiths' opportunity:

Naturally, the goldsmiths, having both supply and direct access to significant gold and silver, as well as a continual demand for loans, were faced with both an opportunity and a problem. The gold held in the smiths' warehouses was, for the most part, the property of depositors. Therefore, the smith lacked the legal or ethical authority to make risky loans from these deposits, since the money did not belong to him. Thus, the best that the goldsmith could hope for was to make a referral fee of some sort by putting the lender and borrower together. However, the profits to be made by referrals were tiny compared to the profits that could be made by making the loans directly, and none of this would be possible in the first place, but for the special services and opportunities that the warehousing and safekeeping of money by the smiths provided. So, the problem for the goldsmiths was to figure out a way to be in the lending business rather than the referral business, without risking the loss of the money that was entrusted to him for safekeeping.

Example 1 - The basic banking example: (*Commercial and consumer credit only*):

To explain the goldsmiths' conundrum, consider this example. On any given day, the typical goldsmith might have 100,000 ounces of gold in storage in his warehouse. Out of this 100,000 ounces, perhaps only 1,000 actually belongs to the goldsmith, and the remainder belongs to depositors in his warehouse. Out of this 100,000 ounce total, on the average, only about 5,000 ounces is involved in withdrawals and deposits, while the remaining 95,000 ounces sits idle, collecting dust.

On this same typical day 5 merchants needing a total of 2,000 ounces for reasonably reliable and sound business ventures may approach the smith. At first, the natural response of the goldsmith is to arrange for various depositors to finance the loans from gold on deposit with the smith, which would otherwise sit idle, and also arrange for some compensation for making the introductions and

arrangements. However, after a short time, it becomes obvious to the smith that if he can get his depositors to agree to leave significant portions of their deposits in his warehouse for a period of time and accept a reasonable payment for giving up access to their deposits for that period of time, then he could use those funds to make loans to qualified merchants. If he does a good job of assessing and limiting his risk, he can guarantee the time deposit to his depositors and take the risks associated with the merchant's loan upon himself. Thus the goldsmith becomes a banker.

Fractional reserve banking emerges as an essential element of commercial lending:

A less obvious but much more significant aspect of this banking arrangement is that the goldsmith has not only become a banker, but he has also become a "fractional reserve" banker. This aspect of the goldsmith's "trade" is the most subtle, most powerful, but also most overlooked aspect of banking and finance. When we consider the mathematical aspects of the goldsmiths' accounts in making a loan, we can see that employing a fractional reserve system cannot be avoided without incurring a loss. And, by far the most important point is that by the mere act of lending, the banker is also expanding the money supply at the same time. Bear in mind that in this example, we are discussing a completely gold-based monetary system and currency. Let's take a closer look at what happens to the goldsmiths' accounts as the above described banking transactions unfold.

On day 1, our goldsmith has 100,000 ounces on deposit. On day 2, he makes a merchant loan of 2,000 ounces. His depositors' accounts still show an aggregate 100,000-ounce balance. But now he also has an outstanding loan to the merchant of 2,000 ounces. His physical inventory in the warehouse has decreased to 98,000 ounces. His liabilities to depositors remain at 100,000 ounces. Therefore, his reserves are a fraction of his liabilities to depositors. In this example, his reserves are 98% of his liabilities. On day three, he makes another loan to a different merchant of 2,000 ounces. His liabilities to his depositors remain at 100,000 ounces. But his physical inventory has now decreased to 96,000 ounces. Thus, at the end of day three, his reserves are 96% of his liabilities. Thus, his reserves are a "fraction" of his total deposits, which represent a liability he owes his depositors.

However, he now has 4,000 ounces on loan to merchants, which are owed to him, plus interest. If we assume, just for the sake of this example, that the rate of interest that he charges his merchant borrowers for the loans he has made to them is the exact same as the rate of interest he has agreed to pay his depositors for their time deposits, then he will break even on interest when the loans are repaid by the merchants to him. Obviously, he would charge more interest than he is paying, so that he can make a profit on the interest spread, but we can ignore that for this example in order to focus more clearly on the other important aspects of this trade.

The 4,000 ounces on loan to his merchant borrowers are owed to him also. Therefore, on his account ledgers, the loans he has made represent an asset on his books. So, when we factor in the asset value of the debt that the merchant borrowers owe to him, his accounts balance. That is, he has a liability to his depositors of 100,000 ounces of gold, he has 4,000 ounces of gold owed to him from his merchant borrows which are an asset, and he has 96,000 ounces of physical metal still in his warehouse, so his assets are also 100,000 ounces. His physical inventory is 96,000 so he has a 96% reserve of physical gold, or fractional reserve of 96%.

Every profitable loan expands the money supply in direct proportion:

At this point, everything appears to balance according to the asset and liability ledger. But what about the 4,000 ounces which is owed to our goldsmith? When it is repaid, the loan is extinguished and comes off the books as an asset, and the gold is returned to the warehouse, as both an asset and a liability. So repayment of the loan extinguishes the debt as an asset and replaces it with physical inventory in the warehouse maintaining the balance of accounts. But, if we recall, when the loan was

made, the depositors owned and were owed the entire 100,000 ounces of gold, 4,000 ounces of which was in the form of an I.O.U. from the goldsmith to their account(s), and the merchant borrowers were also in possession of 4,000 ounces of gold. When the merchants ship comes in, they will be bringing into the community 4,000 ounces worth of new goods. These new goods did not exist in the economy before that ship returned with them.

Assuming the merchants know their trade and how to buy cheap and sell dear, the goods that come in on that ship will be worth more than the 4,000 ounces of gold it cost to acquire them. At a minimum, those goods will have a market value of 4,000 ounces, plus the interest on the loan, plus the value of the merchants other costs such as his home, office, food and clothing. As a practical matter, for the venture to be worth the risk, the market value for the wealth brought back on the ship needs to return the principal value of the loan, plus interest, plus the merchant's overhead, plus some margin of profit above that. This influx of valuable commodities financed by the goldsmith's loan represents new wealth pouring into the community and eventually finding its way into the deposits at the goldsmiths' warehouses.

Lesson 1 - Fractional Reserve banking:

The first point that must be recognized in this example is that what we have described is a "fractional reserve" banking system. This is an extremely important point, which will become more evident as we move through this explanation. But, we must recognize that the lending of other people's money held in a collective warehouse is ALWAYS a fractional reserve loan. Why, you might ask?

Any time gold is withdrawn from the warehouse to loan on a merchant venture, there is only a fraction of that gold left in the warehouse. In a fractional reserve system the "reserve requirement" is merely the percentage of gold that must be kept on hand to satisfy daily liquidity requirements. The higher the reserve requirement the safer the bank is. For example a bank that loans out 90% of its gold and only keeps 10% in reserve, will not be as safe as a bank that limits its loans to 50% of the gold on deposit, and always keeps 50% on hand.

Many well meaning people rail against the idea of "fractional reserve" banking, however, such complaints are born out of ignorance of how money and credit work in the economy. This is best explained by way of comparison. If we object to fractional reserve banking what will we use in its place? Many people complain that loaning money at "interest" is "usury" which is prohibited in the Old Testament. But again, what are the alternatives?

To examine this question we first have to agree on one fact, which is presumed throughout this article. The fact is that no person in possession of any significant quantity of gold would be willing to loan that gold to others in a commercial setting, unless there was a profit motive for doing so. We should not need to belabor that fact. A profit motive must be present, or human nature dictates that the risk of loss will outweigh any inclination toward altruism.

Lesson 2 - The commercial lending of money ALWAYS leads to the creation of new money:

The second lesson from example 1 is that the commercial lending of money forces new wealth into the economy as the borrowers must repay loans either through labor for more money, or trade for goods, or both. Of course, some loans do not get repaid, for a variety of reasons. Loan losses are a component of the risk calculation and are factored into the final interest rate for any given loan. But in the aggregate, commercial lending results in the creation of new money. Thus, the mere act of commercial lending (*on average*) creates new money by forcing the borrower to produce enough new goods and services to both repay the loan and cover his overhead, plus profit. Again, we can safely assume a profit motive, since no sane person would go into commercial debt without the belief that the profits from the venture will exceed amount borrowed plus interest and overhead.

Appendix:

Lesson 3 - Interest/Usury vs. Participation/Venture capital:

In any economic system, those who have money will only be willing to make commercial loans if there is a probability of profit from the loan. In the final analysis, there are only two ways to do this. One is by charging a fee for the use of the gold by commercial borrowers. That fee would quite naturally be established by the level of risk associated with the loan and the length of time it will require to pay back the loan. This form of loan is actually defined as "usury" by the Old Testament. That is to say that the borrower pays the lender for the "use" of the gold. Nowadays we call that form of loan an "interest bearing" loan. So, what we modernly call "interest" is in actuality "usury" as defined by the scriptures.

The only other way for a lender to make a profit from the loan of gold to a commercial borrower is to take an "interest" in the venture for which the loan is being made. Thus, in biblical times or in renaissance Venice for example, a lender would take an interest in the venture. In an interest or participation type loan the lender would receive a percentage of the profits from the venture. Thus, using our example above, when the merchant's ship came in, the lender would receive his loan repayment and profit from the sale of the goods brought back on the ship. With an "interest" type loan or "participation" loan, the lender's profit on the loan is directly proportional to the success of the venture.

These are essentially the only two ways to make loans for profit. In essence, for either model of lending to be successful, the lender must prudently assess the risk of each loan or venture made. If we take away the profit motive, no loans will be available to commerce. There is a spectrum of variations on these two primary methods of making loans. But, in the final analysis these are the only two types. Because the modern term of "interest" is actually what was called in times past "usury" and the classical interest loan which represents participation in the merchant's venture is most often referred to as "merchant banking," "venture" or "participation" capital and more recently "Islamic banking," it can become quite confusing trying to understand what type of loan is being discussed, unless we define the terms we are going to use from this point forward.

Therefore, for the sake of this discussion, we will use the term "interest" or "interest bearing" in the modern sense of the word to mean a loan where a set percentage of the loan amount is the measure of repayment and profit to be realized by the lender upon full repayment of the loan. We will use the term "participation" or "participation loan" to mean a loan where a percentage of ownership in the merchant's venture, is the measure of repayment and profit to be realized by the lender.

There are some obvious advantages and disadvantages to the parties in each type of loan transaction. With interest bearing loans, the actual cost for the loan is fixed in advance and both the merchant and the lender can have a sum certain to deal with when assessing the risks and rewards of borrowing or lending. Obviously, with this type of loan, the merchant can realize a great deal more profit from a given venture without having to share those profits with the lender. Further, the merchant is freed from the whims or caprice of the lender after the loan is made. From the lender's perspective, making an interest-bearing loan is much safer because he can look to other assets of the borrower to satisfy the debt and, therefore, be comfortable that he will be repaid even if the venture fails to make a profit, or fails entirely. Because of the certainty to both parties, interest bearing loans are typically much less expensive for the borrower and much less risk prone for the lender. For these reasons the interest type loan has become the staple of modern commerce.

With a participation loan, the lender becomes a partner in the venture being financed. This can cause undue intermeddling in the venture by the lender with the merchant and complicates the politics of the merchant's business. If there is a great deal of profit to be made, the borrower will have to share that profit with the lender on a percentage basis, which then reduces the net profit to the borrower.

Appendix:

From the lender's perspective, the risks are much greater because repayment of the loan is based on the borrowers ability to make a profit from this particular venture regardless of what other assets he may have. The lender must therefore gain a much more intimate knowledge of the borrower's character as well as the details of the venture itself, which involves much more due diligence than merely verifying assets and collateral as in an interest bearing loan. So, this kind of loan is always more costly to the borrower and much more speculative for the lender. For these reasons, the participation type loan is usually only used in venture capital and merchant banking scenarios, where the borrower or venture cannot qualify for an interest-bearing loan.

So, our third major point, with respect to our first and simplest example, is that borrowing at interest is less costly and generally preferable to participation type loans. Outlawing interest-bearing loans would drive the cost of borrowing up for the borrower and is far less efficient for both borrower and lender.

Lesson 4 - Expansion of the money supply with zero inflation:

The fourth point to observe, regarding a fractional reserve banking system, is that the wealth of the aggregate economy will expand in direct proportion to the value of the loans made, or in inverse proportion to the reserve percentage. This is a critical point that must be understood for any rational discussion of monetary policy to take place.

To recap; the goods that the merchant brings back on his ship represent new wealth entering the economy. In order for those goods to be purchased with gold, either new gold of equivalent value must be mined and brought to the market to purchase the new goods, or stored gold must be taken out of the warehouse (*bank*) to pay for it. However, if stored gold is used to purchase these new goods, the value of stored gold spent on those goods will be greater than the 4,000 ounces borrowed to finance the venture. That is, less gold will buy more goods than before. If this process continues, at some point, all the gold stored will be spent on new goods and the only way to purchase more goods will be to reduce the amount of gold needed to make the trade (*deflation*), or to mine new gold from the ground, thus increasing the money supply.

The point is that the new goods coming into the market will either force an increase in the gold supply, or force the increase in the value of gold, as existing gold will become more scarce relative to goods in the market. Therefore, every successful loan causes the creation of new money (*newly mined gold*) or an increase in the value of money already in existence (*deflation*), or a combination of the two. More to the point, commercial lending will always expand the money supply either by making money more valuable or inducing new money into the market.

We can see that so long as new goods and services are entering the market, a proportional increase in the money supply will merely maintain equilibrium between the two and is neither inflationary nor deflationary. If too little new money enters the market, the money already in existence will become more valuable, which is deflation of money. On the other hand, if the money supply expands faster than the value of goods entering the market place, the money becomes less valuable, which is inflationary. Therefore, inflation and deflation are merely words to describe whether the ratio of money to goods in any given economy is increasing or decreasing.

Lesson 5 - Gold based currency has no effect on the business of fractional reserve banking:

The fifth point to be gleaned from our basic example is that all of the above effects occurred in a completely gold backed currency. With a precious metals based currency we still have; fractional reserve banking, interest (*or usury*), expansion of the money supply, and expansion of the economy which can induce the expansion of the money supply in equilibrium, or result in deflation, or stimulate the mining of excess new gold, causing inflation.

Appendix:

Now that we have those basics in mind, we can move on to consider a slightly more complex banking system. In our previous example, the bank was only lending to merchants and consumers. Our next example will consider a situation where banks lend to one another as opposed to lending exclusively to merchants and consumers. So, in this next example we will see what happens when bank credit enters the market in addition to commercial credit and consumer credit. Bear in mind, that at this point we are still dealing with a gold backed currency.

Example 2 - Banking with bank credit, commercial credit, and consumer credit:

In this example we will presume that all of the factors of example 1 are the same. We have a bank with 100,000 ounces of gold on deposit, with commitments to store the gold for a specified term (*time deposits*) and an agreement that the bank will pay a nominal fee to the depositor whenever a merchant borrows gold from their account to make a loan, which we will call "commercial loans" because they represent the commerce of the bank, and foster commercial ventures in the market place.

However, in this example, we are going to add another bank of identical size and situation except that it will be in a different location and serving a different market. So, for the sake of our example, bank "A" will be in Paris, France, and bank "B" will be in Cairo, Egypt. Let's further assume that we have a merchant from Paris who wants to borrow 4,000 ounces of gold from bank A in order to hire a ship and go to Egypt to purchase cotton which he intends to bring back to Paris and sell to textile mills for a profit. Lets further assume that Bank A has agreed to make the loan for a term of 1 year with simple interest fixed at 10% per year.

When the banker A realizes that the merchant is going to take delivery of the cotton in Cairo harbor, he informs the merchant that, for security reasons, he will give the merchant 500 ounces of gold to hire the ship and crew, and a "note" for 3,500 ounces of gold to give to banker B in Cairo who will deliver the remainder of the gold to the merchant when he gets to Cairo. Banker A explains that this is much safer for the merchant because only the merchant will be able to redeem the note at bank B in Cairo. Thus, if the ship is attacked by pirates en route, or lost due to storm, the entire loan amount will not be lost or put in jeopardy, at least for the first leg of the voyage. The merchant thinks this makes good sense and agrees.

So, the merchant sails away and upon landing in Cairo, he presents his note from bank A to the banker at bank B and the banker examines the note and its signature and seal and says that he will accept it. Then he inquires what the merchant plans to do with the gold, to which the merchant replies that he intends to buy fine Egyptian cotton. Banker B says: "Oh, very well!" Then he explains to the merchant that he knows every cotton dealer in the city, and they all keep their gold in his bank, and that Cairo is a rough town. He suggests that rather than carrying around all that gold, the merchant should consider leaving the bulk of it in the bank where it is safe, and when he makes his purchase, he will simply transfer the purchase amount of gold to the cotton dealers account from the merchant's account. When he is ready to leave, the banker explains that he will deliver any unused portion of the gold to the merchant for his return home, or, if he would prefer, give him a note for the balance which he can take back to bank A in Paris. The merchant thinks about it briefly and realizes that it is a good idea, so he agrees.

Bank B then creates an account for him at the bank for the balance. The merchant then goes about finding his preferred cotton dealer and makes his purchase. He gives the cotton dealer a note for the purchase amount in gold and, after confirming that the note will be honored by bank B, the cotton dealer loads the cotton onto the merchant's waiting ship. Because the merchant was a savvy negotiator, he gets the cotton at a much lower cost than he expected, partially because Egypt had a bumper crop that year and the merchant arrived at the peak of the cotton harvest when all the cotton warehouses were full and bursting at the seams. The cotton dealers were anxious to unload their

excess cotton and the merchant obtained a very favorable price. Before embarking on the voyage back to Paris, he settles his account with Bank B, and finds that he has 1,000 ounces of gold remaining in his account. So, bank B gives our merchant a note for 1,000 ounces of gold, which he can redeem at bank A in Paris.

Meanwhile, while our merchant in Paris is arranging and carrying out his voyage to Cairo for cotton, at the same time we have a merchant from Cairo who also wants to embark on a venture for profit. Our merchant from Cairo goes to bank B and gets a loan for 4,000 ounces of gold in order to finance a voyage to Paris, France to buy French wine and bring it back to Cairo where he will sell it for a profit. Bank B approves the loan and, like bank A, bank B gives our merchant from Cairo a note to present to Bank A upon his arrival. Our merchant from Cairo has a similar experience, in that he is convinced by bank A to keep the bulk of his gold in the bank and to pay for the wine he purchases with a note, all of which he does. And, coincidentally, our merchant from Cairo gets a stellar bargain on his wine purchase and leaves Paris for Cairo with a boat load of wine and a note for 1,000 ounces of gold which he can redeem at bank B upon his return.

Both of our merchants return to their homeports with a ship full of goods ready to be sold at market for a significant profit. We now know that the profit from these ventures represents an expansion of the money supply because it either drives up the value of gold, or attracts newly mined and minted gold into the market. Both merchants also returned to their homeport with a note for 1,000 ounces of gold which could be redeemed at their local bank. So far, so good.

Now lets consider what happened with the banks. Bank A loaned 4,000 ounces of gold, but only delivered 500 ounces of gold to the Parisian merchant headed for Cairo. Bank B also loaned 4,000 ounces of gold but only delivered 500 ounces to the Egyptian merchant headed for Paris. Therefore, both bank A and bank B created loans of 4,000 ounces but only had to deliver 500 ounces in physical gold to their respective merchant borrowers. So what happened to the balance sheets for these two banks? Each of them created a loan for 4,000 ounces, and each of them only physically delivered 500 ounces. Therefore, both bank A and bank B never saw their reserves dip below 99,500 ounces. This means that both banks could earn the interest on a 4,000 ounce loan while only putting 500 ounces at risk. And, at the end of the voyages, both banks owed each other the exact same amount of gold, thereby canceling their debts to each other so that neither bank ended up owing the other a single ounce!

But wait! What if the two merchants had different loan needs and one of the banks did end up in debt to the other? In that situation, the banks have a choice. They can ship gold via the most secure method to offset any outstanding balance or, they can wait until a few more merchants come and go, to see if maybe the accounts won't balance by virtue of a balance in trade between Cairo and Paris. In reality some of both occurs. There are several new lessons to be learned from this example.

Lesson 6 - Bank credit expands the money supply:

In our second example we saw that the banks, by extending credit to each other and honoring each other's notes, were able to fund a 4,000-ounce loan with only 500 ounces of physical gold. In essence, the bank issued "notes" were able to replace the physical gold and, at the same time, afford all parties greater safety, since the merchants did not have to carry the full value of the loan in physical specie. Therefore, the bank issued notes acted as a substitute for money and were accepted as money, while at the same time, there remained 99,500 ounces of gold in each bank. So in effect, the bank notes expanded the money supply by 3,500 ounces for the duration of time that they were in use. Obviously, when the merchants redeem their final remaining notes, the money supply will return to zero in circulation and 100,000 ounces on deposit in each bank.

Appendix:

Lesson 7 - Bank credit leverages the bank's ability to make loans:

Another important point about our second example is that the use of inter-bank notes, or bank credit extended to other banks allows the bank to make more loans. Under the circumstances described in the example, each bank had 99,500 ounces remaining on deposit with a 4,000-ounce loan outstanding. Thus, the bank could make 7 more loans of an identical type, for a total of 8 loans of 4,000 ounces each and limit its exposure to the same level of risk as it would have in example 1.

Arguably, the risk with 8 bank note funded loans is still less because the risk is spread across a spectrum of borrowers making a total loss much less likely. Of course, the flip side of that risk benefit is that, as the number of loans increases, the likelihood of some losses also increases. Just how the statistical probabilities would stack up is a problem we will leave for the statisticians. For now, all that matters is that we understand the principles at work. The primary point being that bank-to-bank credit allows the money supply and credit to expand exponentially, while at the same time reducing and controlling risk, which is ultimately safer for the banks' depositors as well.

Example 3 - Trade in bank notes:

Considering all of the factors that we laid out in examples 1 and 2 above, lets now consider another possibility for our goldsmiths turned banker. Let's say that our merchants in example 2 had requested that the bank give them 16 notes for 250 ounces each. Then, they each took those notes and traded 2 of them initially to local merchants for ship and supplies for the voyage. Then, the local suppliers and shipping company took those notes they had received from the merchant and redeemed them at the bank for yet smaller note denominations of 10 ounces each. These local businessmen then gave those notes to their suppliers and workmen as payment or compensation for labor. In this scenario, each person in the chain of custody of these bank notes could at any time go to the bank and redeem the note for gold in the amount indicated on the note. However, until the note is actually returned to the bank, it can circulate as money in the marketplace. Thus bank notes quickly become a currency wherever the people in the marketplace served by that bank trust the value of the note.

Lesson 8 - Bank notes are money:

Example 3 stands for the simple proposition that bank notes will be preferred over physical specie as currency wherever the value of the note and reputation of the bank behind it is trusted by the market.

With these 8 lessons from our 3 basic examples we are now ready to continue our review of the evolution of money from the renaissance period to the modern day. Remember, all of the above lessons occurred in a purely gold based monetary system. Also keep in mind that the extension of credit for commercial purposes to credit-worthy borrowers always expands the economy and, generally, the money supply of the economy in direct proportion to the amount of credit extended. And, where multiple banks are involved and honor each other's bank notes, the expansion of credit and money can be logarithmic. And, most importantly, remember that the expansion of the money supply in an asset-backed currency such as gold and notes redeemable in gold, brings new wealth, new commodities, and new capital into the market. The expansion of money and credit will always drive up the value of gold until the gold miners trade their newly mined and minted gold for capital and other commodities which decreases the value of gold in direct proportion. Credit stimulates commerce and production.

Continuing now our very brief history of money, it was not long before European banks of the late renaissance and on into the 18th century discovered the leveraged power that trusted bank notes could wield. Of course, one problem that could prove devastating for any bank was its reputation and the level of trust the market would place in notes issued by that bank. If a particular bank overextended itself and a rival bank were to learn of that, then a rumor that the bank might be

insolvent could send a wave of note-holders to the cashier's window demanding physical specie for their notes. This is known as a run on the bank. If a bank was overextended and could not honor all its outstanding notes, that would force the bank to close and hence we get the word "bankrupt" as in a ruptured bank. Even if the bank was solvent and able to honor all of its notes, it might be left with such meager reserves on deposit that it could no longer compete in the market place.

A rumor of this nature could be started with something as simple as one bank refusing to honor the notes issued by another. The bank to be perceived as more solid would seem to be the bank refusing to honor the notes of the impliedly inferior bank. The average merchant might reason that if the note was not acceptable to a trusted bank, then maybe he should not be trusting in notes issued by that bank either. And so, the proper management of both reserves and reputation became of paramount importance to the banker.

Another closely associated problem with the circulation of bank notes as money is that of counterfeiting. Crafty criminals, sometimes even employed by rival banks, might be able to print forged notes that passed as originals and circulate them in the market. The larger the volume of bank notes in circulation, the more susceptible the bank would be to counterfeiters. Needless to say counterfeiting could ruin a bank. Therefore, banks would go to great lengths to make their notes so intricate that counterfeiting would be very difficult. In the final analysis, the success of any asset backed paper currency, such as bank notes redeemable in gold, is completely dependent upon the trustworthiness of the bank issuing the notes.

From the fall of the Roman Empire onward, Europe was a battleground between competing peoples and potentates. In the dark ages, tribes of Angles, Saxons, Franks, Lombards, Danes, and Goths ravaged the landscape and harassed the inhabitants, as the quest for arable land and mineral deposits attracted wave after wave of invaders. The Roman peace (*Pax Romana*) had given way to a free for all of competition and war between rival groups for the rich farmlands and control of the waterways which were the most efficient means of transporting goods and materials over long distances.

Historian and professor, Will Durant, in his Story of Civilization, Volume 4, The Age of Faith, correctly points out that much of the success of Roman Catholicism lies in the fact that the church quite literally fell into the vacuum of authority left by the fall of Rome. When law fails, people quite naturally fall back upon their faith and customs, which are the origin of law. Roman law having vanished, the church, or the papacy, was the only institution that could hold the monarchs of Europe in check. The authority of the Pope and his ability to moderate disputes, spared the peoples of medieval Europe untold additional bloodshed, in spite of the fact that those times were brutal and bloody anyway.

The political and military rivalry between monarchs and ambitious "noblemen" created a constant need for funds to raise and provision armies all over Europe. Like the merchants, kings and noblemen would turn to the goldsmiths and bankers for loans to fund their wars. Typically, the loan was to be repaid out of the subjugation and pilferage of the target rival's lands. Unfortunately for many bankers, it was extremely difficult to say "no" to the king. So, often times, loans to monarchs were compulsory under threat of death. Another equally problematic aspect of loans to a king was that of collecting on a debt after the war. Whether victory or failure resulted from the campaign, not all monarchs could be relied upon to repay their loan, particularly when the loan was compulsory.

A Note About the Role of the Jews in the development of European banking.

An often overlooked and even more often misunderstood fact about the evolution of banking in the West has been the role of the Jewish culture in developing the banking industry.

Appendix:

From the fall of Rome forward, the Catholic Church had a longstanding prohibition against lending money at usury. This was in deference to the Levitical law of the Old Testament proscribing usury among the Jews. However, in the Jewish tradition, there was no prohibition against loaning money at usury to non-Jews. Thus, throughout the middles ages and onward, we find that Christians were forbidden from making profitable loans and that Jews are frequently the successful bankers and goldsmiths. This of course, was the direct result of the Papal proscription for Christians, and had nothing to do with any sort of “Jewish conspiracy.” Quite the contrary, the conspiracy, if one existed at all, was completely Catholic, and created a vacuum in the marketplace for a basic commercial need, that of loans to finance commerce. The royalty of Europe have always, and continue to this day to lust for war. Wars are always expensive and so these "nobles" inevitably turned to the wealthy merchants and goldsmiths to borrow in order to fund their wars.

Naturally, the Jews, being the only other religion tolerated in “Christian lands” and who were ostracized and excluded from many forms of social and economic interaction with Christians, found money lending to be both lucrative and one of the few occupations they were allowed to pursue without extreme opposition. Thus, by default, the successful Jewish merchants and smiths became the lenders of choice to the royalty and nobility of Europe, which was often a dangerous enterprise since the king was as likely to default on the debt and then to execute the lender, as he was to repay the loan. It is noteworthy also that Judaism, as a culture and religion, focuses on close family and community relationships. These facts, combined with the ostracism of the Jew by Christians and frequent confinement to ghettos, resulted in significant misunderstanding and distrust between Christians and Jews in medieval Europe.

Pogroms, or riots of murderous violence against the Jews were common throughout medieval European history. These atrocities were primarily the result of cultural distrust between Christians and Jews, as a direct result of segregation, and they serve as a reminder of the terrible results that come from institutionalized prejudice and segregation as we see repeated most prominantly in the history of the black population in the United States.

The Bank of England:

The Bank of England (*formally the Governor and Company of the Bank of England*) is the central bank of the United Kingdom and is the model on which most modern, large central banks have been based. It was established in 1694 to act as the English Government's banker, and to this day it still acts as the banker for the UK Government. The Bank has a monopoly on the issue of banknotes in England and Wales, although not in Scotland or Northern Ireland. The Bank's Monetary Policy Committee has been given devolved responsibility (*sometimes called independence*) for managing the monetary policy of the country. The Treasury has reserve powers to give orders to the committee "if they are required in the public interest and by extreme economic circumstances" but such orders must be endorsed by parliament within 28 days.

The Scotsman William Paterson founded the bank in 1694 to act as the English Government's banker. He proposed a loan of £1.2m to the government; in return the subscribers would be incorporated as The Governor and Company of the Bank of England with long-term banking privileges including the issue of notes. The Royal Charter was granted on 27 July through the passage of the Tonnage Act of 1694. Public finances were in so dire a condition at that time, the terms of the loan set the interest rate at 8% per annum, and there was also a service charge added of £4000 per annum, for the management of the loan. The charter was subsequently renewed in 1742, 1764, and 1781.

The Bank was originally constructed above the ancient Temple of Mithras, London at Walbrook, dating to the founding of Londinium in antiquity by Roman garrisons. Mithras was, among other things, considered the god of contracts, a fitting association for the Bank. In 1734 the Bank moved to

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its current location on Threadneedle Street, slowly acquiring the land to create the edifice seen today.

The 1844 Bank Charter Act tied the issue of notes to the gold reserves and gave the bank sole rights with regard to the issue of banknotes. Private banks, which had previously had that right, retained it, provided that their headquarters were outside the City of London, and that they deposited security against the notes that they issued. A few English banks continued to issue their own notes until the last of them was taken over in the 1930s. The Scottish and Northern Irish private banks still have that right. The United Kingdom remained on the gold standard until 1931 when the gold and foreign exchange reserves were transferred to the Treasury. But their management was still handled by the Bank of England. In 1870, the bank was given responsibility for interest rate policy. From 1920 to 1944, the Bank made deliberate efforts to move away from commercial banking and become a central bank. In 1946, shortly after the end of WWII, the Labor government nationalized the bank. Since 1946 it has remained an ostensibly "state-owned" institution. Of course, the UK is still a monarchy.

However, in 1977, the Bank set up a wholly owned subsidiary called BANK OF ENGLAND NOMINEES LIMITED, (BOEN), a private limited company, no. 1307478, with 2 of its 100 £1 shares issued. According to its Memorandum & Articles of Association, its objectives are: “To act as Nominee or agent or attorney either solely or jointly with others, for any person or persons, partnership, company, corporation, government, state, organization, sovereign, province, authority, or public body, or any group or association of them….” Bank of England Nominees Limited was granted an exemption by Edmund Dell, Secretary of State for Trade, from the disclosure requirements under Section 27(9) of the Companies Act 1976, because “it was considered undesirable that the disclosure requirements should apply to certain categories of shareholders.” Its Royal Charter status, and the Official Secrets Act also protect the Bank of England. Thus, despite apparent “nationalization” of the Bank of England, the original shareholders merely disappeared into a shell corporation that owns a major portion of the people’s bank through the BOEN. Thus, the Bank of England is not a wholly “state-owned” institution as is implied in its public literature.

On 6 May 1997, following the 1997 general election, which brought another Labor government to power, it was announced by the Chancellor of the Exchequer, then Gordon Brown, that the Bank of England would be granted operational independence over monetary policy. Under the terms of the Bank of England Act 1998, the bank's Monetary Policy Committee was given sole responsibility for setting interest rates in order to meet the Government's stated Retail Prices Index (*RPI*) inflation target of 2.5%. The target has now changed to 2% since the Consumer Price Index (*CPI*) replaced the Retail Prices Index as the treasury's inflation index. If inflation overshoots or undershoots the target by more than 1%, the Governor is required to write a letter to the Chancellor of the Exchequer explaining why, and how, he will remedy the situation. Here again, we see that the bank, while remaining controlled by its private shareholders of the BOEN, is given further autonomy over the money supply for the U.K..

The Rothschilds:

Of particular note in our review was the establishment of the Rothschild family banks between 1773 and 1800. The family's rise to international prominence began with Mayer Amschel Rothschild (1744–1812), the son of Amschel Moses Rothschild, a moneychanger. Born in the ghetto (*called "Judengasse" or Jew Alley*) of Frankfurt am Main, he developed a finance house and spread his empire by installing each of his five sons in European cities to conduct business. An essential part of Mayer Rothschild's strategy for future success was to keep control of their businesses in family hands, allowing them to maintain full discretion about the size of their wealth and their business achievements. Mayer Rothschild successfully kept the fortune in the family with carefully arranged marriages between closely related family members. His sons were:

Appendix:

* Amschel Mayer Rothschild (1773–1855): Frankfurt
* Salomon Mayer Rothschild (1774–1855): Vienna
* Nathan Mayer Rothschild (1777–1836): London
* Calmann Mayer Rothschild (1788–1855): Naples
* Jakob Mayer Rothschild (1792–1868): Paris

The Rothschild coat of arms contains a clenched fist with five arrows symbolizing the five sons of Mayer Rothschild, a reference to Psalm 127. The family motto appears below the shield, in Latin, Concordia, Integritas, Industria, (*Harmony, Integrity, Industry*). The German family name means "Red Shield".

In the late 18th century one of the largest, if not the largest chain banks, were the Frankfurt banks of Bethmann Brothers and Ruppell & Harnier. However, the Rothschild family of banks held a strategic advantage in having a familial alliance with family owned banks all over the continent. Their network of banks could always be depended upon to honor each other's notes and drafts, which gave them a huge advantage in terms of apparent trustworthiness. This combined with their network of correspondents, spies, and informers allowed them to become a force to be contended with in a short period of time. In addition, they were able to hedge their losses on loans to risky military campaigns of monarchs and noblemen by their ability to often finance both sides of a conflict.

One of their earliest successes was the cultivation of an almost exclusive financial relationship with Prince William Landgrave of Hesse-Kassel (*1787-1867*). Prince William was notorious for being temperamental and difficult to deal with. He was particularly problematic for the Bethmann Brothers, Ruppell & Harnier bankers who had incurred his scorn. The brothers Rothschild stepped into this gap and offered to act as a liaison between the Frankfurt bankers and Prince William.

The early fortunes of the Rothschild family were made through a conjunction of financial intelligence and the wealth of Prince William Landgrave, who succeeded his father as king in 1837. In 1785 the Landgrave of Hesse-Kassel died, leaving his immense wealth (*largely gained through the loan of his Hessian mercenaries to other monarchs, and most notably to Great Britain during the American Revolution*) to the young Prince William. During the Napoleonic wars the Prince saw necessary to have his fortune hidden from Napoleon by using his long standing Jewish friend's home in Frankfurt. This money then saw its way through to Nathan Mayer, (*N.M.*) in London, where it helped fund the British movements through Portugal and Spain. The interest made from this venture was reaped by the budding Rothschild bankers, who used it to swiftly develop their fortune and prestige in Europe and Britain. It was not long before their riches outweighed that of their benefactor, the Prince William of Hesse-Kassel.

Someone once said that the wealth of Rothschild consists of the bankruptcy of nations. Amschel Mayer is quoted as having said: "Give me control of a nations' currency and I care not who makes the laws."

But there is more to it than that. In 1804 the Danish treasury consisted entirely of debt obligations. Mayer Rothschild was well aware of this fact and that Landgrave was suffering from a surplus of money to the extent that he didn't know what to do with it all. Furthermore, Landgrave was the nephew of King Frederick of Denmark, so it was natural that Prince William would be willing to come to the aid of Denmark, particularly since a kingdom makes pretty good collateral. The problem was that it is bad business to disclose to your relatives how rich you are. Loans to family members are too easily transmuted into gifts. Mayer concluded that the wise course of action was to make the loan incognito, through an intermediary or straw-man, but not through Bethmann Brothers, nor Ruppell & Harnier. Obviously, the loans to the Danish crown were arranged through the house of

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Rothschild and not only saved the Danish crown from bankruptcy, but ingratiated the fledgling bankers to the prince and future king of the Austrian empire. This of course, was a huge coup for the Rothschilds and infuriated the major Frankfurt bankers, but by that time it was too late. It also shows that bankruptcy is not the only possible outcome for nations involved with the Rothschilds. In 1810, Prince William Langrave was married to the Princess Louise Charlotte of Denmark (*1789 -1864*).

The Rothschild banking fortune was aided immensely during the latter stages of the Napoleonic Wars. From 1813 to 1815, Nathan Mayer Rothschild in London was instrumental in the financing of the British war effort, handling the shipment of bullion to the Duke of Wellington's army in Portugal and Spain, as well as arranging the payment of British financial subsidies to their Continental allies. Through the commissions earned on these transactions, the Rothschild fortune grew enormously.

The four brothers helped co-ordinate activities across the continent, and the family developed a network of agents, shippers and couriers to transport gold and information across Europe. This private intelligence service enabled Nathan to receive in London the news of Wellington's victory at the Battle of Waterloo a full day ahead of the government's official messengers. This, of course, enabled Rothschild to short the Napoleon dependent issues and long the British dependent issues on the London stock exchange the very next day. This stock-trading coup remains legendary in the history of stock trading and furthered the wealth of the Rothschild holdings immeasurably as the total profits from those trades have never been made public.

Nathan Mayer Rothschild started his London business, N. M. Rothschild and Sons in 1811 at New Court in St. Swithin's Lane, City of London, where it trades today. In 1818, he arranged a £5 million loan to the Prussian government, and the issuing of bonds for government loans formed a mainstay of his bank’s business. He gained a position of such power in the City of London that by 1825–6 he was able to supply enough coin to the Bank of England to enable it to avert a market liquidity crisis.

The Rothschild banks became the financiers of virtually every royal family in Europe, and earned a particularly good reputation in helping the Danish crown to remain solvent and in meticulously honoring any payment obligation they incurred. However, they also earned a bad reputation in the way that debtors were dealt with. As was pointed out earlier, a kingdom makes pretty good collateral. Whereas, much of the money that flowed through Rothschild banks was the wealth of monarchs lending to other monarchs, when loans were not repaid it normally required a war to levy upon the collateral.

Some have opined that every war in Europe since the 16th century can be traced to one king or baron defaulting on a loan to another. While this may not be factually correct, the opinion is not wholly without foundation either.

By the mid-1700s, the British Empire was approaching its height of power around the world. Britain had fought four wars in Europe since the creation of its privately-owned central bank, the Bank of England. The cost had had been high. To finance these wars, the British Parliament, rather than issuing its own debt-free currency, had borrowed heavily from the Bank. By the mid- 1700s, the government's debt was £140,000,000 - a staggering sum for those days. Consequently, the British government embarked on a program of trying to raise revenues from its American colonies in order to make the interest payments to the Bank.

These machinations of international finance and the disastrous effects that aggressive and predatory lending practices can have on the economy and people of a nation were not lost on the founding fathers for the United States of America.

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The United States:

But in America, it was a different story. The scourge of a privately-owned central bank had not yet landed in America, though the Bank of England exerted its baneful influence over the American colonies after 1694.

Resounding Success of the first "Colonial Script:"
Four years earlier, in 1690 the Massachusetts Bay colony printed its own paper money - the first in America. This was followed in 1703 by South Carolina and then by other colonies. In the mid-1700s, pre-Revolutionary America was still relatively poor. There was a severe shortage of precious metal coins to trade for goods, so the early colonists were increasingly forced to experiment with printing their own home-grown paper money. Some of these experiments were successful. Tobacco was also used as money in some colonies with success.

In 1720, every colonial Royal Governor was instructed to curtail the issue of colonial money. This was largely unsuccessful. In 1742, the British Resumption Act required that taxes and other debts be paid in gold. This caused a depression in the colonies and "*property was seized on foreclosure by the rich for one-tenth its value*."

Benjamin Franklin was a big supporter of the colonies printing their own money. In 1757, Franklin was sent to London to fight for colonial paper money. He ended up staying for the next 18 years - nearly until the start of the American Revolution. During this period, ignoring Parliament, more American colonies began to issue their own money.

Called Colonial Scrip, the endeavor was successful, with notable exceptions. It provided a reliable medium of exchange, and it also helped to provide a feeling of unity between the colonies. It is important to remember that Colonial Scrip was just paper money, debt-free money, printed in the public interest by the colonial government and not backed by gold or silver coin, although its relative value to gold and silver was easily ascertained by virtue of the free market. That is, you knew the value of the script by how much gold or silver you could purchase with a given amount of script. In other words, it was a fiat currency. But, the Colonial Script was working and readily accepted by merchants, primarily because the various colonial governments were judicious in restricting its issue.

Officials of the Bank of England asked Franklin how he would account for the new-found prosperity of the colonies. Without hesitation he replied:

"*That is simple. In the colonies we issue our own money. It is called Colonial Scrip. We issue it in proper proportion to the demands of trade and industry to make the products pass easily from the producers to the consumers, in this manner, creating for ourselves our own paper money, we control its purchasing power, and we have no interest to pay to no one.*"

This was just common sense to Franklin, but you can imagine the impact it had at the Bank of England. America had learned the secret of money, and that genie had to be returned to its bottle as soon as possible. As a result, Parliament hurriedly passed the Currency Act of 1764. This prohibited colonial officials from issuing their own money and ordered them to pay all future taxes in gold or silver coins. In other words, **it forced the colonies onto a gold and silver standard**. This initiated the first serious depression in America, and also sewed the seeds of the Revolutionary War, which ended in defeat for the Money Changers, beginning with the Declaration of Independence, and concluded by the subsequent peace Treaty of Paris 1783.

How the "Gold Standard" crushed the prosperity of the American colonies:
For those who believe that a gold standard is the answer for America's current monetary problems, look what happened to America after the Currency Act of 1764 was passed. Writing in his autobiography, Franklin said:

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"*In one year, the conditions were so reversed that the era of prosperity ended, and a depression set in, to such an extent that the streets of the Colonies were filled with unemployed.*"

Franklin claims that this was even the basic cause for the American Revolution. As Franklin put it in his autobiography:

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

In 1774, Parliament passed the Stamp Act which required that a stamp be placed on every instrument of commerce indicating payment of tax in gold, which threatened the colonial paper money again. Less than two weeks later, the Massachusetts Committee of Safety passed a resolution directing the issuance of more colonial currency and honoring the currency of other colonies.

On June 10 and June 22, 1775, the "Congress of the Colonies" resolved to issue one million in paper money based on the credit and faith of the "United Colonies." This flew in the face of the Bank of England and Parliament. It constituted an act of defiance, a refusal to accept a monetary system unjust to the people of the colonies.

"*Thus the bills of credit* [i.e. paper money] *which historians with ignorance or prejudice have belittled as instruments of reckless financial policy, were really the standards of the Revolution. They were more than this: they were the Revolution itself.*" - Alexander Del Mar, historian.

By the time the first shots were fired in Concord and Lexington, Massachusetts, on April 19, 1775, the colonies had been drained of gold and silver coin by British taxation. As result, the Continental government had no choice but to print its own paper money to finance the war.

At the start of the Revolution, the colonial money supply stood at $12 million. By the end of the war, it was nearly $500 million. This was partly a result of massive British counterfeiting. As a result, the currency was virtually worthless. Shoes sold for $5,000 a pair. George Washington lamented, "A wagon load of money will scarcely purchase a wagon of provisions."

Earlier, Colonial scrip had worked because just enough was issued to facilitate trade and counterfeiting was minimal. Today, those who support a gold-backed currency point to this period during the Revolution to demonstrate the evils of a fiat currency. But remember, the currency had worked so well twenty years earlier during times of peace that the Parliament of England was compelled by the crown's need for gold, to outlaw it, and during the war, the British deliberately sought to undermine it by counterfeiting it in England and shipping it "by the bale" to the colonies.

This was particularly problematic during the revolution. To finance the war, congress had no choice but to keep issuing paper currency and floating war bonds, both of which depreciated rapidly as soon as they were issued as English counterfeits quickly flooded the market.

As a result of King George’s prohibition, the only coins that entered the colonies came through trade with the Spanish and Portuguese merchants and traders, by way of the West Indies. This resulted in coins of all different kinds entering the colonies, including some from Britain. But much of the foreign coins that entered the colonies were of poor quality, often clipped, shaved, hollowed and refilled and otherwise adulterated. Merchants had to be scrupulous about weighing and measuring any coin they accepted for payment due to the ubiquitous adulteration. By far the most preferred coin was the Spanish Milled Dollar, also called the Spanish Real (*Råy-all, Literal: “Royal”)* or piece of eight. The “eight” was used because the dollar was sub-denominated into eighths. Just as we are

accustomed to "quarters" and "half dollars" one Spanish Real was the equivalent of eight pieces of eight.

In the last decade of the eighteenth century, the United States had just three banks but more than fifty different currencies in circulation: English, Spanish, French, and Portuguese coinage, scrip issued by states, cities, backwoods stores, and big city enterprises. The values of these currencies were wildly unstable, thereby making it a paradise for politically indifferent currency speculators thriving on uncertainty. In addition, the value and exchange rate was almost always outdated or unknown by the party agreeing to receive it, especially the farther it moved away from the coast; and because of distances, primitive roads, and absence of communications technology, values were not only unknown but unknowable as well.

As was pointed out earlier, the Rothschilds were intimately familiar with the finance of war. That was, after all, the favorite pastime of kings. The Rothschilds had been instrumental in the financing of Wellington during the Napoleonic wars, and George III during the American Revolution, by their association with Landgrave, who provided the Hessian mercenaries used extensively by the British against the colonists. Thus, when the founders convened the first continental congress and hammered out the details of the Constitution for the United States of America, they had much debate over the monetary system to be established in the new nation. Alexander Hamilton was perhaps the most vocal proponent of a centralized National Bank. His vision resulted in the Bank of North America and then later in the first Bank of the United States. These central banks were thought necessary primarily because of the large debt the colonies had incurred as a result of the war with Britain.

The Bank of North America

Immediately after the revolution, speculators in the United States bought up the war bonds for about 15 cents each and, through Hamilton's plan, were paid their face value of one dollar. Which completely outraged most Americans, especially the veterans of the revolutionary war, and was one of the reasons Aaron Burr accused Hamilton of disloyalty, ultimately resulting in Burr’s death by duel with Hamilton.

Towards the end of the Revolution, the Continental Congress, meeting at Independence Hall in Philadelphia, grew desperate for money. In 1781, they allowed Robert Morris, their Financial Superintendent, to open a privately-owned central bank in hopes that would help. Incidentally, Morris was a wealthy man who had grown wealthier during the Revolution by trading in war materials.

Called the Bank of North America, the new bank was closely modeled after the Bank of England. It was given a monopoly on issuing bank notes, acceptable in payment of taxes. The Bank's charter called for private investors to put up $400,000 worth of initial capital. But when Morris was unable to raise the money, he brazenly used his political influence to have gold deposited in the bank which had been loaned to America by France. He then loaned this money to himself and his friends to reinvest in shares of the bank.

Soon, the dangers became evident. The value of American script currency continued to plummet, so, four years later, in 1785, the Bank's charter was not renewed. The leader of the successful effort to kill the Bank, a patriot named William Findley, of Pennsylvania, explained the problem this way:

"*This institution, having no principle but that of avarice, will never be varied in its object ... to engross all the wealth, power and influence of the state. Plutocracy, once established, will corrupt the legislature so that laws will be made in its favor, and the administration of justice, to favor the rich.”*

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The men behind the Bank of North America - Alexander Hamilton, Robert Moms, and the Bank's President, Thomas Willing - did not give up.

First Bank of the United States:

The First Bank of the United States was commissioned in 1791, and the first United States mint was established in 1792. Officially proposed by Alexander Hamilton, Secretary of the Treasury, to the first session of the First Congress in 1790, the concept for the Bank had both its support and origin in and among Northern merchants and more than a few New England state governments. It was however, eyed with great suspicion by the representatives of the Southern States, whose chief industry, agriculture, did not require centrally concentrated banks, and whose feelings of states' rights and suspicion of Northern motives ran strong. Supporters of the bank argued that if the nation were to grow and to prosper, it needed a universally accepted standard coinage and this would best be provided by a United States Mint, aided and supported by a national bank and an excise tax.

Along with establishing a mint and an excise tax, the purpose of Hamilton's proposed bank was to:
- Establish financial order, clarity and precedence in and of the newly formed United States.
- Establish credit (*both in country and overseas*) for the new nation.
- To resolve the issue of the fiat currency, issued by the Continental Congress immediately prior to and during the United States Revolutionary War, the "Continental".

Hamilton proposed establishing the initial funding for the Bank of the United States through the sale of $10 million in stock of which the United States government would purchase the first $2 million in shares. Hamilton, foreseeing the objection that this could not be done since the U.S. government didn't have $2 million, proposed that the government make the stock purchase using money loaned to it by the Bank, the loan to be paid back in ten equal annual installments. The remaining $8 million of stock would be available to the public, both in the United States and overseas. The chief requirement of these non-government purchases was that one-quarter of the purchase price had to be paid in gold or silver; the remaining balance could be paid in bonds, acceptable scrip, etc.

By continuously insisting on these conditions, the Bank of the United States might technically possess $500,000 in "real" money that it could, and would, use as security to make loans up to its capitalized limit of $10 million. However, unlike the Bank of England from where Hamilton drew much of his inspiration, the primary function of the Bank would be commercial and private interests. The business it would be involved in on behalf of the federal government (*a depository for collected taxes, making short term loans to the government to cover real or potential temporary income gaps, serving as a holding site for both incoming and outgoing monies*) was considered highly important but still secondary in nature.

There were other nonnegotiable conditions for the establishment of the Bank of the United States. Among these were:

- That the Bank was to be a private company.
- That the Bank would have a twenty year charter running from 1791 to 1811, after which time it would be up to the Congress to renew or deny renewal of the bank and its charter; however, during that time no other federal bank would be authorized; states, for their part, would be free to charter however many intrastate banks they wished.
- That the Bank, to avoid any appearance of impropriety, would:
  1. be forbidden to buy government bonds.
  2. have a mandatory rotation of directors.
  3. neither issue notes nor incur debts beyond its actual capitalization.

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- That foreigners, whether overseas or residing in the United States, would be allowed to be Bank of the United States stockholders, but would not be allowed to vote.
- That the Secretary of the Treasury would be free to remove government deposits, inspect the books, and require statements regarding the banks condition as frequently as once a week.

To ensure smooth compliance to both the current and future demands of its governmental accounts, the Bank required a source of additional funding, "for interest payments on the assumed state debts would begin to fall due at the end of 1791...those payments would require $788,333 annually, and... an additional $38,291 was needed to cover deficiencies in the funds that had been appropriated for existing commitments."

To achieve this, Hamilton repeated a suggestion he had made nearly a year before, increase the duty on imported spirits, plus raise the excise tax on domestically distilled whiskey and other liquors. This was the origin of the Whiskey Rebellion. In essence, Hamilton's vision was for a Privately owned, centralized, National Bank, much like the Bank of England, which was controlled by that time, primarily by (*you guessed it*) the Rothschilds.

Like most members of Congress, both in the Senate and in the House, neither Secretary of State Thomas Jefferson nor Representative James Madison had any particular objection in two of Hamilton's tripartite recommendations: the establishing of an official government Mint, and the chartering of the Bank of the United States. They both believed the South would not benefit from either a central mint or bank, as these were mostly to the benefit of business interests in the commercial north, not southern agricultural interests. But, like their fellow Southerners, Jefferson and Madison did object to Hamilton's third recommendation: The matter of increasing the excise tax on imported and domestic spirits, and that this money was to facilitate the operations of the Bank of the United States as a private bank with the benefits of the tax flowing to the shareholders rather than the treasury of the United States was of great consequence. Southern congressmen also feared the burdens of this proposed excise tax would fall disproportionately heavy on the South, where, cotton and tobacco exports were often traded for distilled spirits imports.

To get the bank bill through the Congress, Hamilton struck a deal with several of its members to support their efforts to move the capital from Philadelphia to the banks of the Potomac. Many Americans were concerned that a national bank would result in a "money-monopoly" of private stockholders manipulating interest rates and harming the very business interests it was proposed to protect. The establishment of the bank also raised early questions of constitutionality in the new government. Hamilton, then Secretary of the Treasury, argued that the Bank was an effective means to achieve the authorized powers of the government implied under the of the Constitution. Secretary of State Thomas Jefferson argued that the Bank violated fundamental property laws by placing the money powers delegated by the constitution to congress, into the hands of private stockholders, and that it had no basis in constitutionally authorized powers. The decision ultimately fell to President George Washington.

Washington was hesitant about signing the "bank bill" into law. He asked for a written opinion from all his cabinet members. Attorney General Edmund Randolph from Virginia opined that the bill was unconstitutional. Jefferson, also from Virginia, argued that Hamilton's proposal was against both the spirit and letter of the Constitution. In addition, Jefferson asserted that the bank bill violated the laws of mortmain, alienage, forfeiture and escheat, distribution and monopoly. Washington, overwhelmed by the arguments, sent Hamilton copies of Randolf's and Jefferson's opinions, inviting Hamilton to defend the bank bill if he could." Hamilton's rebuttals were varied, but chief among them were:

- What the government could do for a person (*incorporate*), it could not refuse to do for an "artificial person", a business. And the Bank of the United States, being privately owned and not a government agency, was a business. "Thus...unquestionably incident to sovereign power to erect

corporations to that of the United States, in relation to the objects entrusted [sic] to the management of the government."

- Any government, by its very nature, was sovereign "and includes by force of the term a right to attainment of the ends...which are not precluded by restrictions & exceptions specified in the constitution."
- Hamilton pointed out that Jefferson, Madison, and others, had looked upon the creation of the Bank of the United States (*and the excise tax that went with it*) as an end rather than a means to an end.

Still Washington hesitated, wondering if it might not be more prudent to merely wait, to do nothing, and allow the bill to become law without his signature. Ultimately, whether because of, or in spite of the bill's opponents, on April 25, 1791, Washington signed the "bank bill" into law. As we shall see later this was probably the greatest mistake ever made by George Washington, not only did it set into motion the Whiskey rebellion, which resulted in the first abuse of federal military power against its own people, but also it brought to pass every evil, which opponents of the bill had feared.

After Hamilton left office in 1795, the new Secretary of the Treasury Oliver Wolcott, Jr. informed Congress that due to the existing state of government finances more money was needed. This could be achieved either by selling the government's shares of stock in the Bank, or raising taxes. Wolcott advised the first choice. Congress quickly agreed. Hamilton objected, believing that the dividends on that stock had been inviolably pledged for the support of the sinking fund to retire the debt. Hamilton tried to organize opposition to the measure, but was unsuccessful. Thus, the federal government divested itself of any ownership in the First Bank of the United States and the bank became wholly owned by private financial interests, who now controlled the money and monetary policy of the United States. At the expiration of its charter in 1811, the public in both the North and the South disfavored the Bank of the United States and the bank charter was not renewed.

Second Bank of the United States:

Throughout the remainder of the 19th century, there was a tug of war between the international banking cartel and the government of the United States. The War of 1812 had put the United States in significant debt. The debt of the nation led to an increase in banknotes among the new private banks, which loaned money to the federal government to cover its debts and, as a result, inflation increased greatly. In an attempt to bring order to the situation, President Madison and Congress agreed to form the Second Bank of the United States (*SBUS*).

The SBUS was therefore chartered in 1816 for a period of 20 years. The SBUS was in no capacity a government institution, but rather it was a completely privately held banking corporation. However, much like our current central bank, the Federal Reserve Bank, the SBUS had a unique relationship with the federal government that gave the bank and its shareholders access to substantial profits from the issuance of legal tender. Its role as the depository of the federal government's tax revenues and the windfall profits from the issuance of "United States" Bank Notes which were deemed "legal tender" by operation of law, gave it a monopolistic profit advantage over banks chartered by the states who objected strenuously.

The legality of the Bank was upheld in the U.S. Supreme Court case McCulloch v. Maryland, 17 U.S. 316 (1819). In the case of McCulloch v. Maryland, the state of Maryland imposed a tax on the bank's operations in Maryland, and when James McCulloch, the cashier of the Baltimore branch of the Second BUS, refused to pay the taxes, the issue quickly rose to the Supreme Court. The state of Maryland argued that the federal government did not have the authority to establish a bank, because that power was not delegated to them in the Constitution. Supreme Court Chief Justice John Marshall wrote the unanimous decision for the court that declared the tax imposed by the state of Maryland against the SBUS was unconstitutional. To paraphrase Marshall, he conceded that **the**

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Constitution does not explicitly grant Congress the right to establish a national bank, but noted that the "necessary and proper" clause of the Constitution gives Congress the authority to do that which is required to exercise its enumerated powers. Thus, the court affirmed the existence of implied powers.

At the same time, the SBUS was being created, despite the national debt resulting from the war of 1812, the United States also experienced an economic boom. Due to the devastation of the Napoleonic Wars in Europe and the extensive damage to Europe's agricultural sector, the U.S. agricultural sector underwent a dramatic expansion. The Second Bank of the United States fueled this boom through unrestrained lending at low rates of interest, which encouraged speculation in land. This lending allowed almost anyone who could fog a mirror to borrow money and speculate in land, sometimes doubling or even tripling the prices of land. The land sales for 1819, alone, totaled some 55 million acres (*220,000 km2)*. The federal government having completed the Louisiana Purchase in 1803, held title to much of the land being sold and aggressively encouraged land sales and financing through the SBUS. The obvious reason for this was, of course, that the sale of land provided income to the government to help pay its national debt. With such a land boom, hardly anyone noticed the wide spread fraud occurring at the Bank as well as the economic bubble that had been created. It is noteworthy that very nearly this exact same set of circumstances gave rise to the financial crisis we are experiencing today.

By the early 1830s, President Andrew (O*ld Hickory*) Jackson had come to thoroughly dislike the Second Bank of the United States because of its fraud and corruption. Jackson then had an investigation done on the Bank the conclusion of which he said established “beyond question that this great and powerful institution had been actively engaged in attempting to influence the elections of the public officers by means of its money.” Although its charter was bound to run out in 1836, Jackson wanted to "kill" the Second Bank of the United States even earlier. Jackson is considered primarily responsible for its demise, seeing it as an instrument of political corruption and a threat to American liberties. The head of the Second Bank during Jackson's presidency, Nicholas Biddle, had decided to seek an extension of the bank's charter four years early, in 1832. Henry Clay helped to steer the re-chartering bill through Congress, but Jackson then vetoed it.

The Second Bank of the United States thrived from the tax revenue that the federal government regularly deposited. Jackson struck at this vital source of funds in 1833 by instructing his Secretary of the Treasury to deposit federal tax revenues in state banks, soon nicknamed "pet banks" because of their loyalty to Jackson's party. In September 1833, Secretary of the Treasury Roger B. Taney transferred the government's Pennsylvania deposits in the Second Bank of the United States to the Bank of Girard in Philadelphia. This was the successor bank to the Bank of Stephen Girard. Stephen Girard had purchased the assets of the First Bank of the United States when its charter was not renewed in 1811. He then named his new bank the Bank of Stephen Girard. He became a major financier of the War of 1812, including most of the war loan of 1813. He was the original organizer and a major shareholder of the Second Bank as well.

President Andrew Jackson strongly opposed the renewal of the SBUS charter which was set to expire in 1836, and built his platform for the election of 1832 around doing away with the Second Bank of the United States. Jackson and many others were of the belief that specie (*gold and/or silver*) was the only true money, and that the constitutional proscription against any state making anything but gold and silver legal tender for the payment of debts (Art. 1 § 10, Cl.1) was an implied requirement for the federal government as well. And, **Jackson believed that the delegation of authority to congress to coin and mint money and regulate the value thereof (*Art. 1 § 8, Cl. 5*) was a duty which could not be delegated to a private bank, for obvious reasons**. Jackson called attention to the fact that bestowing power and responsibility upon a private bank was the cause of government deficits, inflation, and all the other evils experienced by the country with both the FBUS and now the SBUS. The decisive actions taken by Jackson against the private central bank ushered

in an era wherein the United States became debt free and the treasury was carrying surpluses until the war between the states, which started in 1861.

United States Treasury Notes:

During the opening year of the war between the states (*aka, the "Civil War"*), 1861, the expenses incurred by the union Government far outstripped its limited revenues from taxation, and borrowing was the main vehicle for financing the war. Predictably Lincoln, needing money to finance his war effort, went with his sSecretary of the Treasury, Salmon P. Chase, to New York to apply for the necessary loans. The money changers in New York, who were heavily beholden to foreign investors wishing the Union to fail, offered loans at 24% to 36%. Lincoln declined those offers.

Instead, Lincoln implored congress to find a solution. The Act of July 17, 1861, authorized the treasury to raise money via the issuance of $50,000,000 in "Treasury Notes" payable in gold or silver specie, on demand. These Demand Notes were paid out to creditors directly and used to meet the payroll of soldiers in the field. While issued within the legal framework of Treasury Note Debt, the Demand Notes were intended to circulate as currency and were of the same size as and, in appearance, closely resembled common banknotes of the day. In December 1861, economic conditions deteriorated and a suspension of specie payment led the government to cease redeeming the Demand Notes in coin. Also, in 1861, at General Grant's Headquarters, Edmund Dick Taylor mentioned his idea for greenbacks.

The Legal Tender Acts

The beginning of 1862 found the Union's expenses mounting, and the government was having trouble funding the escalating war. U.S. Demand Notes (*which were used, among other things, to pay Union soldiers*) were unredeemable, and the value of the notes began to deteriorate. On January 16, 1862, in a private meeting with President Lincoln, Edmund D. Taylor advised him to issue greenbacks. Congressman Elbridge G. Spaulding, of New York, prepared a bill, based on the Free Banking Law of New York, that eventually became the National Banking Act of 1863. Recognizing, however, that his proposal would take many months to pass Congress, in early February Spaulding introduced another bill to permit the U.S. Treasury to issue $150 million in notes as "legal tender." This caused tremendous controversy in Congress, as hitherto the Constitution had been interpreted as not granting the government the power to issue a paper currency. "*The bill before us is a war measure, a measure of necessity, and not of choice*," Spaulding argued before the House, adding, "*These are extraordinary times, and extraordinary measures must be resorted to in order to save our Government, and preserve our nationality*." Spaulding justified the action as a "*necessary means of carrying into execution the powers granted in the Constitution 'to raise and support armies,' and 'to provide and maintain a navy*.'" Despite strong opposition, the First Legal Tender Act, was signed into law by President Lincoln on February 25, 1862, authorizing the issuance of United States Notes as a legal tender. The paper currency soon became known as "greenbacks." In his correspondence, Lincoln credited Edmund Dick Taylor for his suggestion of the greenback currency, and named him "Father of the Greenback."

Initially, circulation was limited to $150,000,000 total face value between the new Legal Tender Notes and the existing Demand Notes. The Act also called for the new notes to be used to replace the Demand Notes as soon as practical. The Demand Notes had been issued in denominations of $5, $10, and $20, and these were replaced by United States Notes nearly identical in appearance. In addition, notes of entirely new design were introduced in denominations of $50, $100, $500 and $1000. The Demand Notes' printed promise of payment "On Demand" was removed from the greenback, and the statement "This Note is a Legal Tender" was added.

Appendix:

Legal tender status guaranteed that creditors would have to accept the notes despite the fact that they were not backed by gold, bank deposits, or government reserves, and bore no interest. However, the first legal tender act did not make the notes an unlimited legal tender, as they could not be used by merchants to pay customs duties on imports and could not be used by the government to pay interest on bonds. The Act did provide that the notes be accepted by the government for short term deposits at 5% interest, and for the purchase of 6% interest 20-year bonds at par. The rationale for these terms was that the Union government would preserve its credit-worthiness and support the value of its bonds by paying bond interest in gold.

Early in the war, customs duties were a large part of union tax revenue. By making these payable in gold, the union would generate the coin necessary to make the interest payments on its bonds. Also,, by making the bonds available for purchase at par in United States Notes, the value of the notes would be supported as well.

The limitations to the legal tender status of United States Notes were quite controversial. Thaddeus Stevens, the Chairman of the House of Representatives Committee of Ways and Means, denounced the exceptions, calling the new bill "mischievous" because it made United States Notes an intentionally depreciated currency for the masses, while the banks who loaned to the government got "sound money" in gold. (*No bank left behind!*) This controversy would continue until the removal of the exceptions in 1933.

In the first legal tender act, Congress limited circulation of United States Notes to $150,000,000; however, by 1863, the second legal tender act of July 11, 1862, and the third legal tender act, of March 3, 1863, had expanded the limit to $450,000,000, the option to exchange the notes for United States bonds at par had been revoked, and notes of $1 and $2 denominations had been introduced as the appearance of fiat currency had driven even silver coinage out of circulation through justifiable hoarding by anyone who could. As a result of this inflation, the greenback went on to trade at a substantial discount from its face value in gold. This rather precipitous devaluation of the greenback prompted Congress to pass the short-lived Anti-gold futures act of 1864, which was soon repealed after it became obvious the effect of the act was only to accelerate the decline in value of the greenback.

Based on his writings it appears that Lincoln hoped the Greenback would not only enable the union to fund its war effort, but also propel the country to economic prosperity as occurred with the first Continental Script. Unfortunately, Lincolns murder eliminated any possibility of him having any influence over the fate of the Greenback. Modern research suggests the possibility of a conspiracy linking Lincoln’s Secretary of War Edwin Stanton, John Wilkes Booth, Booth's eight co-conspirators, and others, to the Rothschild banking empire. After Lincoln's murder, Booth’s diary was recovered by union troops and was delivered to Secretary Stanton. When it was later produced during the investigation, eighteen pages had been torn out. These pages were later found in the attic of one of Stanton’s descendants, containing the aforementioned names. Also, a coded message was found in Booth’s travel trunk, that linked him directly to Judah P. Benjamin, the Civil War campaign manager in the South for the house of Rothschild.

When the war ended, the key to the code was found in Benjamin’s possession. The assassin, Booth, portrayed as a crazed lone gunman with a few radical friends, escaped by way of the only bridge in Washington not guarded by Stanton’s troops on the night of Lincoln's assassination. Three days after escaping from D.C., Booth was found hiding in a barn near Port Royal, Virginia. He was shot by a soldier named Boston Corbett, who fired without orders. Whether or not the man killed was Booth is still a matter of contention, but whoever it was, the record is clear that he had no chance to identify himself. It was Secretary of War Edwin Stanton who made the final identification. Some now believe that a dupe was used and that the real John Wilkes Booth escaped with Stanton’s assistance.

Appendix:

Mary Todd Lincoln, upon hearing of her husband's death, began screaming, "*Oh, that dreadful house!*" Earlier historians felt that this spontaneous utterance referred to the White House. Some now believe it may have been directed to Thomas W. House, a gun runner, financier, and agent of the Rothschild's during the Civil War, who was linked to the anti-Lincoln, pro-banker interests. For these reasons there is some speculation that Lincoln was murdered through Rothschild intrigue as vendetta for refusing the exorbitantly high interest rate loans offered by the New York banks at the start of the war. All of this is highly speculative, but not completely without foundation.

The largest face value of greenbacks outstanding at any one time was calculated as $447,300,203. The union's reliance on expanding the circulation of greenbacks eventually ended with the issuance of Interest Bearing and Compound Interest Treasury Notes, and the passage of the National Banking Act. The National banking Act, passed by Congress in 1863, established a system of nationally chartered banks and required the currency issued by them to be backed by government securities. The act was subsequently amended to also require the taxation of state currencies, but not of national bank notes. This produced the intended effect of creating a uniform national currency. State banks and state currencies, none-the-less, continued to expand. However, the end of the war found the greenbacks trading for only roughly half of their nominal value in gold.

At the end of the Civil War, some economists, such as Henry Charles Carey, argued for building on the precedent of non-debt-based fiat money and making the greenback system permanent. However, Secretary of the Treasury McCulloch argued that the Legal Tender Acts had been war measures, and that the United States should reverse them and return to the gold standard. The House of Representatives voted overwhelmingly to endorse the Secretary's view. With an eventual return to gold convertibility in progress, the Funding Act of April 12, 1866, was passed, authorizing the treasury to retire $10 million of the Greenbacks within six months and up to $4 million per month thereafter. This was done until only $356,000,000 were outstanding as of February 1868. At that time, the wartime economic boom was over, the crop harvest was poor, and a panic in Great Britain caused a decrease in exports resulting in recession and a sharp drop in prices in the United States. However, the contraction of the money supply was blamed for these deflationary effects, and led the public to successfully appeal for a halt to the retirement of the remaining United States Notes.

In the early 1870s, Treasury Secretaries George S. Boutwell and William Adams Richardson proposed that, though Congress had mandated $356,000,000 as the minimum Greenback circulation, the old Civil War statutes still authorized a maximum of $400,000,000, and thus they had at their discretion a "reserve" of $44,000,000. The Senate Finance Committee under John Sherman disagreed, being of the opinion that the $356,000,000 was a maximum as well as a minimum, although, no legislation was passed to assert the Committee's opinion. Starting in 1872, Boutwell and Richardson used the "reserve" to counteract seasonal demands for currency, and eventually expanded the circulation of the Greenbacks to $382,000,000 in response to the Panic of 1873.

In June 1874, Congress officially capped the Greenback circulation at $382,000,000, and in January 1875, passed the Specie Payment Resumption Act, which authorized a contraction in the circulation of Greenbacks towards a revised limit of $300,000,000, and required the government to redeem Greenbacks for gold, on demand, after 1 January 1879. As a result, the currency strengthened and by April 1876, United States Notes were on par with silver coins, which then began to re-emerge into circulation. On May 31, 1878, the contraction in the circulation was halted at $346,681,016 (*a level which would be maintained for almost 100 years afterwards*). While $346,681,016 was a significant figure at the time, it is now a very small fraction of the total currency in circulation in the United States. The year 1879 found Sherman, now Secretary of the Treasury, in possession of sufficient gold and silver specie to redeem notes as needed. This brought the value of the greenbacks into parity with gold for the first time since the Specie Suspension of December 1861. Nevertheless, the public continued to voluntarily accept greenbacks as money.

Appendix:

While United States Notes had been used as a form of debt issuance during the Civil War, afterwards they were used as a way of moderately influencing the money supply by the federal government (*such as through the actions of Treasury Secretaries Boutwell and Richardson*). During the Panic of 1907, President Theodore Roosevelt attempted to increase liquidity in the markets by authorizing the Treasury to issue more Greenbacks, but the Aldrich-Vreeland Act provided for the needed flexibility in the National Bank Note supply instead. Eventually, the "Aldrich plan" was passed into law in 1913 under its new name, the Federal Reserve Act and, pressure in congress to eliminate the circulating quantity of United States Notes, increased. Soon after passage of the Federal Reserve Act, private ownership of gold was banned in 1933. This meant that for every ounce of silver in the U.S. Treasury's vaults, the U.S. government (*not the Federal Reserve Bank*) could continue to issue money against it. These silver certificates bore the name of United States Treasury Note (*not Federal Reserve Note*) and, they were shredded upon redemption since the redeemed silver was no longer in the Treasury. United States Notes and United States Treasury Notes continued to circulate from 1862 until issuance was completely discontinued in 1994, although redemption in was discontinued on 1933 and, redemption in silver discontinued in 1968.

With the world market price of silver exceeding $1.29 per troy ounce from 1960 onward, Congress repealed specie redemption for Silver Certificates on June 4, 1963. However, then president, John F. Kennedy, believing the government had a moral obligation to honors its debts and that Treasury Notes and United States Notes represented a debt, or a "promise to pay on demand," responded with Executive Order 11110, stating that the Treasury should continue to "issue silver certificates against any silver bullion, silver, or standard silver dollars in the Treasury." Those "Series 1958" notes introduced an additional $4.29 billion worth of United States Notes into circulation, consisting of $2.00 and $5.00 bills; and although they were never issued, $10.00 and $20.00 notes were in the process of being printed when Kennedy was murdered in 1963. But the Treasury was being emptied of silver rapidly; in March 1964 issuance of the Series 1958 Silver Certificate was stopped and redemption in silver dollars was suspended completely effective June 24, 1968, the last day for redemption of United States Notes or United States Treasury Notes in silver.

It is noteworthy here, that president John F. Kennedy, and his brother, Attorney General, Robert Kennedy, were assassinated in public, as was the case with Abraham Lincoln. And, just as with the evidence linking Lincoln's assassin Booth, to the house of Rothschild, the evidence linking the Kennedy brothers' assassins to Executive Order 11110, or to any prominent bankers, are wildly speculative. Nevertheless, the coincidence of these two presidents both having rejected borrowing from private banks as a means of funding the public treasury and, both meeting the same fate, is a coincidence that is difficult to ignore and one which strongly invites such speculation. But, as far as this author is aware, these facts are merely coincidental and nothing rising to the level of proof has surfaced in support of the theories linking any of their deaths to the international banking cartel.

Thus, from 1933 until 1968, all of the remaining types of circulating currency, silver certificates, Federal Reserve Notes, and United States Notes, were redeemable only for silver. Eventually, even silver redemption stopped in 1968, at which time all U.S. currency (*both coins and paper currency*) was changed to fiat currency. At this point for the general public, there was little to distinguish United States Notes from Federal Reserve Notes. As a result, the public circulation of United States Notes, which was then mainly in the form of $5 bills, was replaced with $5 Federal Reserve Notes, and the stock of United States Notes was mostly converted into $100 bills, which spent most of their time in bank vaults. No more United States Notes were put into circulation after January 21, 1971. In September 1994 the Riegle Improvement Act released the Treasury from its long-standing obligation to keep the notes in circulation and finally, in 1996, the Treasury announced that its stock of $100 United States Notes had been destroyed.

The United States Note was a national currency whereas Federal Reserve Notes are issued by the privately owned Federal Reserve System. Both have been legal tender since the gold recall of 1933.

Appendix:

Both have been used in circulation as money in the same way. However, the issuing authority for them came from different statutes. United States Notes were originally created as fiat currency, in that the government has never categorically guaranteed to redeem them for precious metal (*even though after the specie resumption of 1879, federal officials were authorized to do so if requested)*.

The difference between a United States Note and a Federal Reserve Note is that a United States Note represented a "bill of credit" and were circulated by the Treasury free of interest. Federal Reserve Notes are completely fiat and backed by nothing, and are circulated at interest owed to the Federal Reserve Bank, a private bank operating for the profit of its shareholders. Congress was lured into granting the federal reserve the authority to issue legal tender by the feature of the Federal Reserve Act (1913) which requires the Federal Reserve Bank to purchase any and all debt issued by the United States (Treasury Bonds, Bill, and Notes) at par, if there is no higher bidder. Thus, the Federal Reserve Act allws congress to spend without constraint since there is no limit on the amount of federal debt the Federal Reserve Bank may be required to purchase.

The Regional and State Bank Wars of the late 19th Century:

From the time of Andrew Jackson, and for the remainder of the 19th century there was fierce competition between the large banking institutions. Just as gold, oil, other precious minerals, timber, and rich farmland were fueling an expansion westward and waves of new immigrants to the United States, so also did these various economic trends fuel greed and speculative bubbles in the corporations and financiers emerging around them. None of this was new to America. The colonial period during expansion into the Ohio Valley and the time of Daniel Boone, was no different. What was changing however was the face of government. From British colonies to a fledgling republic, then to a fully-fledged nation, the rise of federal power went almost unnoticed by the common man, largely because growth was occurring at a hectic pace and there seemed to be a never-ending expanse of wilderness where a man could escape bureaucrats and live in peace.

However, during all this time, and despite all of the new ideas in industry and commerce that were born out of the American expansion, no new ideas of government finance emerged. The founders had put restraints upon the use of anything but gold and silver as legal tender for states but had left a loophole for the federal government by not explicitly restricting federally issued notes to mandatory hard money backing. The federal courts, essentially a warehouse for political activists, retired prosecutors, and political sycophants, established a legacy of chicanery when government or large institutional litigants sought to undermine constitutional safeguards against financial corruption of the government. The litany of cases that demonstrate this unsavory indictment of the federal judiciary and Supreme Court is too lengthy to list here. But starting with early cases such as McCulloch v. Maryland (*cited above*), the courts handed down a series of decisions generally referred to as the “paper money” cases, which interpreted the “necessary and proper” clause and the “general welfare” clause so expansively, that any restraints on the money powers, or abrogation of those powers of congress, imposed by the constitution, were effectively swept away. Thus, rather than impose the rather limited discipline of the constitution upon congress with respect to banking and money, the federal courts gave the congress and the major Wall Street banks carte blanche instead.

From one administration to the next and from one economic boom to the next bust, the Wall Street financiers wrestled with the Robber Barons and Oil tycoons for the largest monopolies over money and raw materials. These contests between the super rich and powerful always worked to the detriment of the average person and caused huge imbalances in the availability of money and credit from one region to the next. Between the start of the Civil War and the end of the 19th century it would be difficult to determine which was more damaging to the country, the war between the states, or the financial chaos caused by corporate greed. Through all of this, the federal and state

governments relied on the two age old but, as we shall see in a moment, largely self destructive mechanisms for raising revenue, taxation and borrowing.

The Rise of the Federal Reserve Bank:

Ever since the time of Andrew Jackson, the idea of a central bank was periodically proposed, and various attempts were noteworthy. However, due to the failure of the first two banks of the United States and the relatively balanced budget and frequent surpluses of the federal government over the years, it was difficult to make a good case for a national central bank. The Constitution allowed for apportionment of direct taxes to pay for debts incurred by exigent circumstances, such as wars, and otherwise the duties, imposts, and excises, being indirect taxes, were reasonably effective for providing ample government revenue in proportion to the expansion of the economy.

However, due to the large imbalances of available cash and credit between regions, by the end of the 19th century, most of rural America, which was geographically well over 90% of the country, were angered by the concentration of money, credit, and power, in the large financial centers, most notably of course, New York. There seemed to be a continual string of banking “crisis” and the general public was fed up with it. Local banks had to borrow at high rates from larger banks, and the steep interest rates increased the flow of money from the producers in the field to the financiers on Wall Street, many of whom were operating with huge investments from foreign banks and investors.

To solve this problem, congress adopted a plan proposed by none other than the bankers themselves. The plan became know as the Federal Reserve Act of 1913. What this act did was to create a private bank called the Federal Reserve Bank whose board of governors would be appointed by the President from a list of candidates provided by the bankers. The FED, as it has come to be known, was given exclusive power to issue legal tender notes for the United States known as Federal Reserve Notes. The FED has 12 regional Federal Reserve Banks, which act as the central bank for their respective regions. Commercial banks in the various regions who wanted direct access to new money from the FED are required to subscribe to FED stock in the amount of 6% of their capital, and in so doing they would become regional "member" banks. All other banks and lending institutions would then be required to obtain new money from one of the member commercial banks. Because the Federal Reserve Bank is owned by member banks which are all publically traded companies, the Federal Reserve bank is not owned by the government or the public, but rather, it is owned indirectly by private parties and investors who own shares of the member banks. Thus the profits earned by the interest on our money supply do not benefit the public at all unless you own stock of one of the banks that own stock in the Fed. Because the Fed is not a publicly traded company, it is not required to disclose its ownership. Thus, we are required to speculate as to who exactly owns the Fed. It certainly is not owned by we the people of the United States of America.

Obviously, and in no uncertain terms, the Federal Reserve Act gave this private bank, the FED, a complete monopoly over the nation’s money supply. How could congress be so stupid, one might ask? Well, the bankers promised that this system would end all of the regional imbalances in money and credit and provide a stable and uniform monetary environment for all areas of the country. We don’t have time here to go into detail about the conspiracy to create the FED and steal the entire country’s wealth, but there are numerous authoritative and well-documented books on the subject. One of the better-known titles is: “Creature from Jekyl Island,” by G. Edward Griffin. We are more concerned here with the mechanics of the FED, or the “Modern Money Mechanics” of the FED as that is the title of a book on the subject published by the Federal Reserve Bank of Chicago.

The Money Supply:

In essence, the FED tells the United States Treasury how much money the FED will need in the form of “Federal Reserve Notes.” The FED pays the treasury “manufacturing cost’ for the notes delivered

to the FED by the United States Mint. Currently "manufacturing cost" is approximately 6¢ per note, regardless of face value. Thus, for example, a $100 Federal Reserve Note is printed by the Treasury and delivered to the FED at a cost of only 6¢ to the FED. Of course, this creates a $99.94 windfall profit for the FED when the note is placed in circulation. Similarly, a $5 Federal Reserve Note costs the FED the same 6¢ price tag. The windfall profit on the $5 note is then $4.94, and so on for $1, $10, $20, and $50 notes. From 1913 to approximately 2000, the "manufacturing cost" of notes to the FED was only about 2¢ per note. So, the windfall profit on the face value of notes circulated is staggering. Add to that that every note goes into circulation at interest. Thus, if all debts were paid, there would be no money in circulation and there would be unpaid interest outstanding and owing.

To better comprehend the significance of this point, consider that every Federal Reserve Note *(FRN*) printed since 1913 was delivered to the FED with an automatic windfall profit on each and every note in excess of 99% of the note's value, with the exception of $1 FRNs which went from 98% of the face value in profit to the current 94% face value profit. Put another way, if you owned 99% of every dollar ever printed since 1913, how much money would you have? That is how much windfall profit the FED has earned from this arrangement before interest, on what is known as the cash money supply, or M1 as it is known in industry terms.

In order to get the FRNs (*currency or money*) into circulation, member banks borrow money from the FED at the "Discount" rate. These funds are provided to the member banks through what is known as the "Discount Window." All of this currency, for which the FED enjoys in excess of a 99% windfall profit on the face value of, therefore goes into circulation at interest set by the Discount Rate. So, the obscene 99%+ windfall profit to the FED on notes delivered by the U.S. Treasury is compounded by the interest charged on that money as it is loaned into circulation.

But, of course, cash FRNs are not the only form of money issued by the FED. Member banks can also borrow from the Discount Window, at the Discount Rate, non-cash money in the form of credit from the FED. Therefore, a member bank may borrow $1 million from the FED, of which only $100,000 is in the form of cash FRNs and balance of which ($900,000) is in the form of credits from the FED. This non-currency money generally circulates in the form of checks, and other non-currency transactions such as electronic check and debit transactions, credit transactions and all exchanges of money that do not utilize cash. This segment of the money supply is loosely described as M2 in industry terms. Please note that M2 dwarfs M1 in terms of total dollar value, liquidity, and frequency of exchange.

The various money supply measurements are defined as follows:

- M0: The total of all physical currency, plus accounts at the central bank that can be exchanged for physical currency.
- M1: The total of all physical currency part of bank reserves + the amount in demand accounts (*"checking" or "current" accounts*).
- M2: M1 + most savings accounts, money market accounts, retail money market mutual funds, and small denomination time deposits (*certificates of deposit of under $100,000*).
- M3: M2 + all other CDs (*large time deposits, institutional money market mutual fund balances*), deposits of Eurodollars and repurchase agreements.

The federal government also borrows from the FED. As you may have guessed, the federal government delivers FRNs to the FED at 6¢ per note and then borrows them back at face value, as well as borrowing non-cash credit, also at face value. However, the federal government finances its debt by the sale of bonds to the public. Part of the Federal Reserve Act requires to FED to purchase

government bonds on demand, whenever there is insufficient bidding by others to satisfy the financial requirements of the government. The FED's obligation to purchase U. S. Treasury notes, bonds, and bills, are known as the FED's "Open Market Operations," due to the fact that these transactions are done in the open market.

Therefore, while it is true that private investors hold U. S. government debt the world over, the FED is the single largest buyer of U. S. government debt instruments by a wide margin. Please note however, we did not say that the FED is the single largest "holder" of U. S. government debt, as the FED very frequently resells the Treasury securities they acquire to other investors, after the fact. Thus, while the FED is the single biggest "buyer" of Treasury obligations, they may not be the largest "holder" at any given time. At the time of this writing the Peoples' Republic of China is believed to be the single largest holder of U.S. government debt.

So, lets recap. The Federal Reserve Bank is a PRIVATE bank, only the "member banks" hold stock in the FED as well a various other private shareholders whose names have never been released. Those shareholders reap the profits from the FED's operations. The FED creates profits by taking delivery of Federal Reserve Notes from the Department of Treasury at manufacturing cost, which is less than 1% of the face value, and then loaning the money into circulation at face value plus interest. The FED also generates profits by loaning non-currency credit money into circulation (*which has zero cost to the FED*) at face value plus interest! In addition, the FED generates profits by buying and selling United States government debt securities in the form of bonds, notes, and treasury bills.

To better understand these facts consider the following:

1) If all the money in circulation enters the market as a loan from the FED at interest, then the debt can never be repaid because the money to pay the interest would also need to be borrowed from the FED and that money would be borrowed at interest too. Therefore, it is mathematically impossible to repay the debt to the FED.

2) If all the debts in the country, i.e. every loan of every lender, were repaid, then no money would be left in circulation.

3) The above two facts reveal that the FED requires an ever-expanding money supply in order to function.

4) The FED makes a windfall profit when it circulates (*loans out*) new notes at face value after having paid only 6¢ or less per note for manufacture.

5) The FED makes even more profit when it circulates new money in the form of credits to member banks at face value after having paid nothing to create those funds. These non-cash funds are created by bookkeeping entry and represent a 100% face value windfall profit to the FED and its shareholders, plus interest.

6) The Fed makes ongoing profits by collecting interest on every dollar, whether a physical note (*currency*) or as a credit on account (*bookkeeping entry*) which is put into circulation through the discount window.

7) The FED uses this free money to buy United States government debt, thereby loaning the government money at face value which the FED paid little, or nothing for.

Note: The FED claims in its published literature that it makes no profit because it returns to the government all profits earned in its "open market operations" after deducting costs. This of course is

quite simply a lie. It may be true that it makes no profit on its "open market operations" but those operations are narrowly defined as the FED's United States Treasury securities transactions. Although the United States government debt is huge, and growing exponentially, it remains but a small fraction of the total U.S Dollar (*"Federal Reserve notes"*) in worldwide circulation. Profits are made by the windfall to the FED in the creation of money, and the interest on that money earned after loaning it into circulation, in addition to profits from its government bond (*Open Market*) operations. The mere fact that the FED returns any profits earned on U. S. government debt transactions is of little significance.

Effects of the Federal Reserve System on the government:

Considering the absolutely obscene profits earned by the FED, one must wonder why the United States Congress would grant such a lucrative charter to a private institution. What was in it for the government?

The simple answer lies in the fact that the constitution limits the ability of the government to tax. However, politicians always have more ways to spend money than they have of ways to collect money. By granting the FED the people's exclusive power ability to create money, congress also wrote into the law a requirement that the FED is mandated to purchase any government debt that is not sold to others. Therefore, if the treasury needs a couple billion dollars to fund spending programs enacted by congress, it can simply issue the bonds and the FED is required to buy them at the coupon rate, unless the Treasury can sell them for that amount or more to third parties.

This mechanism is the vehicle by which the federal government can spend money it does not have and never seem to run out. As long as the FED is required to facilitate the purchase of all government debt through its "open market operations" the government will never run out of money, no matter how large the debt becomes or how far behind in interest payments it may be. If a default looms large on the horizon, the treasury simply issues more bonds, the FED is then required to buy any or all of that debt which does not bring the minimum bid in the marketplace. The FED essentially "makes the market' in U. S. government bonds.

This arrangement appears to be a politician's wet dream, limitless money on demand. Certainly, the current orgy of spending we are witnessing these days is proof of these facts.

Effects of the Federal Reserve System on the Member Banks:

The Federal Reserve System is a "Fractional Reserve System" which we discussed above. As was pointed out above, reserves are deposits that banks have received but have not loaned out. In the U. S., the Federal Reserve regulates the percentage that banks must keep in their reserves before they can make new loans. This percentage is called the minimum reserve. We are told by encyclopedias and propaganda published by the banking industry that this means that if a person makes a deposit for $1000.00 and the bank reserve mandated by the FED is 10% then the bank must increase its reserves by $100.00 and is able to loan the remaining $900.00.

But, that is not really true. First, we must remember that all FRNs are loaned into circulation from the FED to member banks and then to the public and non-member banks. Therefore, before any of this money can go into circulation a member bank must first borrow some of it. So, let's say Bank 1 borrows $1,000,000 through the discount window. One might imagine that it would then be required to keep $100,000 in reserves, and loan out the remaining $900,000. However, what a sophisticated banker does instead, is keep the entire $1,000,000 in reserves and loan out an additional $9,000,000. As we explained above banks can create money too, in the form of credit. Thus, Bank 1 could make a $9,000,000 loan to General Motors, for example, and simply write a check, or better yet, simply credit GM's bank account at Bank 1 with a $9,000,000 credit. No actual currency would be needed

to fund the loan. So, not only does the FED create money in the form of Credit, but all commercial banks create money in the form of credit too. And, just as the creation of money through extension of credit is a 100% face value windfall to the FED plus interest, the same holds true for commercial banks when they create money in the form of credit.

The maximum amount of money the banking system can legally generate with each dollar of reserves is called the (*theoretical*) money multiplier, and is calculated as the reciprocal of the minimum reserve. For a reserve of 10%, the money multiplier, followed by the infinite geometric series formula, is the reciprocal of 10%, which is 10. Which means quite simply that, with a 10% reserve requirement, the money supply can expand beyond the reserve aggregate by a multiplier of 10. With a 20% reserve requirement, the multiplier would be 5. So, if the FED issues $1,000,000 in new currency and credit to member banks, that money can expand in the marketplace by a multiple of 10, if the reserve requirement is 10%.

Ostensibly the FED can control the money supply by increasing or decreasing the reserve requirements for commercial banks. However, the FED has rarely, if ever, changed the reserve requirement since its over tightening in the late 1920s which caused the great depression. Instead the FED reduces or increases the interest rate, or "discount rate" in order to expand or contract the money supply. An interesting but sadly predictable effect of relying on interest rates rather than reserve rates to control the expansion of the money supply is that interest rate manipulation has a much greater affect on the end user of the money but does little to affect bank profits which stem primarily from the creation of money. Whereas, manipulating reserve requirements restrict the banks' ability to create money, which is a windfall profit to the bank at the face value of the money created, and has little or no adverse affect upon the end user of the borrowed funds. So it does not require any great intellect to understand why interest rates are manipulated to the detriment of the borrowing public while reserve rates are maintained at ridiculously low levels at great profit to the banks and great peril to the economy. Ten percent is demonstrably too low of a reserve requirement to be reliable, stable, or sound. Conversely, a reserve requirement of 90% is arguably too high a reserve requirement to allow capital to find its highest and best use.

One might assume that if a bank can create money that it would have no need for depositors or customers, since it could in essence fund itself. However, that is not the case. Banks must seek to acquire as many customers or depositors as possible for several very important reasons.

Consider what would happen if Bank 1 in our example above had no depositors, and its only customers were borrowers. Bank 1 would then be making loans, but instead of funds from those loans being deposited at Bank 1, the borrowers instead deposit at other banks. In a very short time Bank 1 would have no reserves and would have to borrow an additional $800,000 from the FED. This is because the money it created is being deposited in other banks, but none of the money created by other banks is being deposited in Bank 1. In this event, Bank 1 would lose the value of the money creation process in making the loans because $800,000 of it would have to come from the FED to satisfy its obligations to the borrowers depository banks, and the interest it earns on the loans would then only be the difference between the 5% interest rate it is collecting minus the discount rate of interest which must be paid to the FED on the $800,000 it would need to fund the loans.

If on the other hand, Bank 1 had a healthy base of depositors, then deposits from its customers, who get loans from other sources, will offset the loans it makes to borrowers, which may be deposited in other banks. In today's economy, when we write checks to pay a vendor, that vendor deposits the check in his or her bank. That bank then sends the check to the "clearing house" where all the checks, from all the banks in the region, are "cleared." The clearing process results in some banks owing other banks money at the end of the day. A bank gets into trouble when it cannot meet its clearing obligations to other banks. The insolvency of a commercial bank therefore can only happen in two primary ways.

Appendix:

1) It has insufficient depositors to support its lending activity and falls behind on its clearing obligations to other banks. Or,

2) It has a high percentage of its loans that go into default, which reduces its income or revenue receipts to the point that it cannot meet its clearing obligations to other banks.

This why when recently, after a huge wave of mortgage defaults, the huge U. S. banks received "bailout" and/or "stimulus" money but, that money did not result in increased lending to the public as the politicians had promised. Instead, the banks used that money to replenish there depleted reserves and satisfy their clearinghouse obligations to each other. Had Congress simply given that money to the American people to pay their mortgages, there would have been no mortgage defaults and the crisis would have been averted while at the same time wiping out the largest component of consumer debt. Without mortgage payments and without the possibility of mortgage defaults, consumer spending would have surged and reignited the economy. If that was not an option, then the only other correct course of action would have been for Congress to simply let the banks fail, and allow the free market to assimilate their assets through liquidation. But, once again, banking industry greed prevailed over the interests of the American people, and a new depression has begun as a direct result.

Effects of the Federal Reserve System on the Economy:

In a word "Disastrous!" Let's take the example of a couple, we will call the "Bakers," who take out a loan to buy a home. Let's assume that the home sells for $500,000 and that the Bakers are able to put 10% down payment on the purchase price. The Bakers take out a loan in the amount of $450,000 from Bank 1 at 5% interest. We know from the reserve ratio that Bank 1 will have created a minimum $405,000 of new money to fund the loan, and if the seller of the home is a depositor at Bank 1, the entire $450,000 might actually be newly created money. And the Bakers have agreed to pay all of the back to the bank, plus interest.

As we discussed above in the goldsmith examples, whenever fractional reserve banking is employed, new wealth is forced into the market because the borrower is forced to produce enough to repay the loan and interest. This repayment is the fruits of the borrowers labor, whether that be crops, timber, minerals, or machines these items are brought to market to sell for money to be used to repay the loan. With a gold based currency, either new gold will eventually be mined and refined to keep pace with the new products goods and services funded by the newly created money which was lent out, or the value of gold will rise due to the fact that there are now more goods and services in the market for the same amount of gold currency. This is overly simplistic in that it ignores depreciation of assets, but we will keep the example simple for the sake of illustration.

In a purely fiat currency system where notes cannot be redeemed for anything of intrinsic value, the currency and/or money supply will always expand faster than the economy (*gross domestic product*) because the interest on the newly created money can only be repaid by introduction of still more money. Keeping this in mind, let's see what happens with the Bakers' loan if they repay the entire balance, and also if they default.

Obviously, if the Bakers repay the entire loan, the bank receives the face value of the money it created back, plus all of the interest. So, in that case the Bank 1 receives $450,000 of the Bakers' blood, sweat, and tears expended in earning that money. But Bank 1 had only a 10% risk and provided nothing of real value, only a loan of perceived value due to its ability, or its license, to create money and participate in the clearinghouse process. In essence Bank 1 made a bookkeeping entry, which gave it a windfall of $450,000 plus interest over 30 years, which cumulatively added another $900,000 - $1,300,000 in revenue. It doesn't take a great deal of intelligence to figure out

that this is a really sweet deal for Bank 1. For the Bakers it may appear to be fair, after all they could not afford the house if they were unable to get the loan, so the bank did them a favor. But, they were forced to pay not only the principal value of the note, but the interest too, in exchange for something that cost the bank next to nothing (*only 10% of the face value of the loan was ever put at risk by the bank*). So, in reality that is really not a very good deal for the Bakers, since all of the money created in the transaction is made possible by their labor and toil, for which they receive nothing in retunrn, having paid for the house in full.

But, what would happen if the Bakers defaulted on their loan to Bank 1? In that case, the Bakers would lose their equity in the property, and Bank 1 would either sell the property at auction for the remaining balance of the note, or take title to the property, in effect buying it at the auction for the value of the unpaid balance of the loan, or the "creditor's bid" amount. In that case the property would become what is know in the banking industry as an "REO" an acronym for "*Real Estate Owned*." Obviously, banks do not like holding real property because when vacant, it deteriorates rapidly, it is vulnerable to vandalism, and it is very labor intensive to manage. So banks wring their hands and complain whenever defaults occur. But, in reality, the bank has only put at risk a bookkeeping entry and 10% of the face value of the note (*the reserve requirement*), to acquire real property that has real value and required real labor and real materials to create. Even if the bank sells the house for less than the unpaid balance of the loan, all that does is reduce its windfall profit on the money it created to fund the loan. There is no real loss for the bank in this situation. It is true that the loan was an "asset" on the banks books, which has been wiped out, but that asset was created at no cost to the bank whatsoever. So, the bank still makes a profit, even on a defaulted real estate loan, because it now has a real, tangible asset that it did not have before the loan was created. And, it cost the bank nothing to acquire that asset. Further, when the property is auctioned off, the bank realizes a profit that is equal to the auction sale price plus all the principal and interest the Bakers did pay prior to their default, minus the 10% reserve requirement and the bank's costs to administer the loan.

Conversely, the Bakers are all but destroyed by the loss of their down payment ($50,000) plus all the principal and interest they did pay prior to their default. So, in this system, the game is rigged so that if the coin toss comes up heads, the bank wins and if is tails, the borrower loses.

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