Chapter 22
The Urgent Need for Monetary Reform

[Editor's Note: Many years ago, when I first started to "learn the truth" I discovered *The Naked Communist* and *The Naked Capitalist* by W. Cleon Skousen. These two legendary works from 1959 provided me with some of the first insights into the world as it really is. Their value remains the same today. I am pleased to include this summary of *The Urgent Need for a Comprehensive Monetary Reform*, dated 1983, and confirm that Dr. Skousen, along with Federal Reserve, turned 90 this year. Might I add, however, that the similarities end there.]

INTRODUCTION
The American Founding Fathers originally intended a monetary system quite different from the one we have now. In fact, they had hoped to prevent many of the fiscal and economic problems with which our present monetary system is afflicted.

Historically, the principal mistakes grew out of two rather amazing monetary institutions that crept into our system. The first institution, the Federal Reserve, which poisoned the monetary well, was the development of a privately owned central bank copied after the Bank of England. The second institution which brought on us a cycle of "boom and bust" economics was the adoption of a procedure for the creation of "money out of nothing" through a system of fractional banking.

FEDERAL RESERVE SYSTEM OPERATES ON THREE FALSE PREMISES
The whole purpose of establishing the Federal Reserve System was to prevent depressions, stabilize the currency, and protect the savings and checking deposits of the people in the custody of the banks.

However, there are three things that the Founding Fathers identified as outright enemies to any sound money system, and the Federal Reserve contains all three of them.

The first thing they said the nation should avoid is turning over to a group of private bankers the right to print the official currency of the nation. They said this right is inherent in the people and belongs to the people's government. Whenever this right has been delegated to private bankers, they have always used it to abuse the people and gradually devour the wealth of the nation. It will be recalled that Jefferson wrote:

> If the American people ever allow private banks to control the issue of currency, first by inflation, then by deflation, the banks and corporations that will grow up around them will deprive the people of all property until their children will wake up homeless on the continent their fathers occupied. The issuing power of money should be taken from the banks and restored to Congress and the people to whom it

> belongs. (Quoted in Olive Cushing Dwinell, *The Story of Our Money*, 2nd ed. [Boston: Forum Publishing company, 1946] p 247.)

Abraham Lincoln also warned about possible abuses by private bankers. After the National Bank Act was passed in 1863, he wrote:

> I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country. Corporations [of banking] have been enthroned, ah era of corruption in high places will follow, and the money power of the country will endeavor to prolong its reign by working upon the prejudices of the people, until the wealth is aggregated in a few hands and the Republic destroyed.

WHEN THE U.S. PRINTS ITS OWN CURRENCY –
IT HAS TO PAY INTEREST ON IT

The second deception in the whole Federal Reserve System is the fact that the private banks which own the stock in the Federal Reserve System charge the United States interest for borrowing the country's own currency!

The Federal Reserve scheme provides not only that all U.S. currency shall be printed as Federal Reserve notes, but also that if the government wants to use these notes it must give the Federal Reserve lOUs in the form of government bonds on which interest will be paid until the bonds have been redeemed.

The question immediately arises, "Well, what did the banks loan to the government in exchange for these bonds?" The answer is, "Nothing, absolutely nothing." The banks paid for the printing of their Federal Reserve notes and gave them to us, but they are not redeemable in gold, silver, or anything else of value. They are just paper, backed by virtually nothing. The question next arises, "Then why are they able to charge us interest when all they are doing is printing our own currency?"

The answer is that in 1913 the Congress gave the Federal Reserve the legal "right" to print our money, and that right is "as good as gold." Therefore, if we want to use the Fed's money, we have to borrow it and give them federal IOUs for the amount obtained. And, of course, each IOU (government bond) is something on which interest must be paid.

This whole arrangement is so totally irrational that the former chairman of the Banking and Currency Committee, Congressman Wright Patman (D-Texas), asked Marriner S. Eccles, the Utahn who served as chairman of the Federal Reserve Board from 1934 to 1948, the following:

> "Mr. Eccles, how did you get the money to buy these two billion dollars of government bonds?"
>
> Mr. Eccles: We created it.
>
> Mr. Patman: Out of what?
>
> Mr. Eccles: Out of the *right* to create credit money.

A DENUMCIATION OF THIS SECOND FALLACY IN GOVERNMENT FINANCING

Since it is the government's right to create money in the first place, why should it have to borrow its own money from the Federal Reserve banks and give interest bearing bonds or lOUs in exchange for the money?

A modern scholar, H.S. Kenan, has written:

> Government, possessing the power to create and issue currency and credit as money and enjoying the right to withdraw both currency and credit from circulation by taxation or otherwise, *need* not and *should* not borrow capital at interest as the means of financing governmental work and public enterprise. The government should create, issue, and circulate all the currency and credit needed to satisfy the spending power of the government and the buying power of consumers. The privilege of creating and issuing money is not only the supreme prerogative of government, but it is the government's greatest creative opportunity. (Kenan, *Federal Reserve Bank, p.* 202; emphasis added.)

By creating and issuing its own money, Kenan said the people could avoid a "debt" economy which bankers instinctively promote. He wrote:

> The taxpayers will be saved immense sums in interest, discounts, and exchanges. The financing of all public enterprises, the maintenance of stable government and ordered progress, and the conduct of the Treasury will become matters of practical administration. The people can and will be furnished with a currency as safe as their own government. Money will cease to be master and become the servant of humanity. Democracy will rise superior to the money power. (Ibid., p. 202.)

THE THIRD FALLACY OF THE FEDERAL RESERVE IS "FRACTIONAL" BANKING

As we mentioned earlier, fractional banking was invented in Europe around four hundred years ago. It allows a bank to set up a "reserve" to cover any claims which happen to come in, and then to go ahead and loan many times more money on credit than the "reserve" in the bank. By this means the bank loans out and charges interest on considerable credit it doesn't even have. For everybody else, it is a fraud to loan, rent, or sell something, which does not exist. Fractional banking should have been outlawed many years ago.

One of the most dangerous devices employed by the Federal Reserve under fractional banking is its power to bounce the level of required reserves up and down so as to control the money supply and the inte3rest rates. The Congress, which passed the Federal Reserve Act, assumed that this would be done in the interest of the public, but as we have seen, the opposite has occurred.

THE INHERENT DEFICIENCIES OF THE FEDERAL RESERVE SYSTEM

No one should have difficulty in immediately recognizing why the present American money system has produced such a sick dollar. From our earliest history the Congress has never fulfilled its responsibility to issue our money Constitutionally and "fix the value thereof." The creation of the Federal Reserve System was the most serious mistake of all. During its operation for nearly three-quarters of *a* century, here is what it has done to the American people:

1. Allowed a group of private central bankers to issue the people's money and make fabulous profits by manipulating the economy to the advantage of their own special interests

2. Manipulated the dollar until it has lost 90 percent of its buying power since 1913.

3. Practiced fractional banking on the people, wherein it was able to use a small "reserve" to loan out many more times as much money on its "credit" so as to artificially expand the money supply and bloat the economy. At regular intervals it has withdrawn this make-believe money supply or credit so as to contract the economy and provide an excuse to foreclose on farms, homes, factories, and savings accounts. By this means the fractional bankers have been able to replace their make-believe wealth or "credit" with tangible wealth, which would later be sold at a substantial profit.

4. It is now known that the money managers behind the Federal Reserve System lobbied legislation through Congress, which forced the American people off the gold standard in 1934 and off the silver standard by 1964. They further succeeded in having the people's gold confiscated in quantities which would now be worth several hundred billions of dollars.

5. Studies show that the stock of the Federal Reserve System is known to have been controlled to a large extent by the private bankers who operate the central banks of Europe, and they have continually manipulated the American economy and its Federal Reserve System to their own selfish advantage. By alternately using war and depressions, they have drained off so many billions of dollars from the American people that it is now difficult to comprehend the extent of it. Although a few members of Congress have tried to expose these frequent manipulations, the intricacies of the Federal Reserve System have been so complex that most Congressmen have failed to realize what was actually happening.

6. Most importantly, the managers behind the Federal Reserve System have accumulated such fabulous quantities of wealth that they have been able to buy up the major news media and make such extensive grants to the foundations and universities that it has been virtually impossible for alarmed Congressmen and economists t: project their warning through the educational and communications systems of the nation. This has kept the public in almost total ignorance of what has been taking place. It has also prevented the mobilization of the political forces needed to recapture the monetary system

from this gigantic establishment of monopolized power, which has a vested interest of hundreds of billions in the Federal Reserve System.

TREMENDOUS ADVANTAGES OF A CONSTITUTIONAL MONETARY SYSTEM

In response to these deficiencies and to establish the advantages of a constitutional monetary system, I propose a Federal Monetary Amendment that would provide for supervisory responsibilities over all banks and loans associations to verify their liquidity and promptly detect any fractional banking practices or other violations. Because the Founder’s original formula for monetary freeform has never been made fully operational, a brief period of adjusting and fine tuning would be necessary to bring it up to top efficiency. However, once it began operating at speed, it would no doubt achieve everything, which the central bankers feared it might. Here is what it could accomplish within a short time:

1. Put the authority to issue the people's money back in the hands of Congress, as required by the Constitution.
2. Allow money to be created as needed without borrowing or paying interest for it.
3. Get the United States completely out of debt.
4. Keep the money supply in balance with the productive quantity of goods and services so that the buying power or "value" of the U.S. dollar would remain approximately the same from generation to generation.
5. Stabilize the dollar; take the major risk out of putting savings in the bank, making industrial investments, and buying a home; modernize[1] America's industry; stimulate investment in research and technology; stabilize the market; and provide a realistic security for retiring on a fixed income.
6. Prevent inflation. The money supply could not increase above 3 percent and the monitors would have the power to pull it back even from this minor amount of dislocation.
7. Prevent depressions. Since the money supply would not be allowed to drop below 3 percent of the GNP at any time, the trustees would closely monitor the price index, and if it revealed any tendency toward a slump, a new supply of money and credit could be immediately released to make up the difference.
8. Reduce federal taxes tremendously. The 3 percent interest paid to the Monetary Fund for loans to commercial banks, public institutions, and loan associations would go directly into the United States Treasury.
9. Eliminate practically all bankruptcies among financial institutions. State-incorporated commercial banks and loan agencies would no longer be subject to the boom-and-bust cycle. Nor would they be subject to the whims of the New York and European money trusts, which have forced tens of thousands of American banks and loan associations out of existence during the past two hundred years.
10. Permit commercial banks and loan association to borrow money from the proposed Federal Monetary System at 3 percent and loan it out competitively to the public at a higher interest provided it did not exceed 10 percent. They would charge a reasonable fee for servicing checkbook accounts and maintain a dollar-for-dollar balance for all demand (checkbook) deposits so there would never need to be a "run on the

bank" to recover these deposits. Savings, or time deposits, would also be the basis for loans at interest rates not exceeding 10 percent and the proposed Federal Monetary System would monitor the accounts to make certain that every loan had been realistically underwritten by substantial collateral. The banks and loan associations would therefore operate like any other business and make their profits from the services rendered rather than gambling on fractional reserves and being required to participate in boom-and-bust economics, which have destroyed the credibility of thousands of banks and forced them out of existence.

11. Help stabilize overall prices through the stabilization of the money supply. No longer would the farmer find himself paying rapidly inflated prices for equipment, fertilizer, and fuel while his crop prices remained stagnant. No longer would manufacturers find themselves being forced to pay highly inflated prices for raw materials and labor, thereby pricing themselves out of the world market.
12. Greatly reduce the likelihood of strikes and tempestuous labor disputes, for reasons similar to those listed above.
13. Greatly accelerate the velocity of business. However, studies show that the rapid turnover of money does not need to result in an inflationary cycle as many had supposed. It does produce a remarkable increase in goods and services, but as this occurred the monitors of the proposed Federal Monetary System would simply create additional money to keep the monetary supply in balance with the rising GNP.
14. Encourage every nation in the world to adopt a similar monetary system. This system would proliferate prosperity all over the world and would help to eliminate abject poverty, one of the most pernicious causes of war.

MONETARY REFORM IS A PRACTICAL SOLUTION TO CURRENT FISCAL PROBLEMS

A careful review of these provisions will demonstrate the realistic possibility of an early solution to the many fiscal problems presently plaguing the nation. For two hundred years Americans have been wandering away from a Constitutional monetary policy and have repeatedly paid the penalty for a variety of experiments in fiscal futility. These experiments have seriously eroded the dollar, subjected the people to exploitation and abuse, and continually threatened the stability of local banking establishments.

It is now time for an urgent reform to the United States monetary system. The suggested Monetary Reform Amendment would set up a Federal Monetary system to replace the Federal Reserve System. It Founders' original intent to modern circumstances so as to regulate the supply of money, and hence the "value of money" in terms goods and services (GNP). This would stabilize the dollar, protect savings and fixed incomes, eliminate fractional banking, restore a gold and silver base for American money, prevent depressions, make strikes unnecessary, stabilize both banking and business, and give the American people sound, honest money as the Founding Fathers originally intended.