



11350 Random Hills Road, Suite 800, Fairfax, Virginia 22030 Phone (703) 934-6101 Fax (703) 352-3678

fff@fff.org www.fff.org

Gold, Freedom, and the Fed

by Jacob G. Hornberger

The following is a non-verbatim transcript of a speech I delivered on November 23, 2009, at the End the Fed rally in Philadelphia.

With the possible exception of the Internal Revenue Service, the federal agency that is the greatest threat to the financial well-being and freedom of the American people is the Federal Reserve. This is the agency that has the power to wipe you out. It can destroy all your savings and the value of your income. Worst of all, it can do all this secretly and surreptitiously.

I would assume that most of you are not independently wealthy. You work for a living. You bring home a paycheck. You try to make ends meet. You try to save a portion of your income, perhaps to help pay for your children's education, to provide for a rainy day, or for your later years in life.

But if you're like most Americans today, you're having a difficult time making ends meet. Moreover, not only are you not saving a large portion of your income, you're likely not saving anything at all. You're just getting by.

The reason for this is the Federal Reserve, in conjunction with the Internal Revenue Service.

Here's how the process works.

With a few notable exceptions, such as Ron Paul, the federal government attracts the type of people who love spending money, as long as that money has been forcibly taken from others. This love of spending other's people money knows no bounds. These big spenders are able to come up with an unlimited number of programs that they are convinced are essential to the security and well-being of the nation. Their imagination on how to spend other people's money has no bounds.

Of course, we see this phenomenon play out with both the welfare state at home and the warfare state abroad.

Here at home, we have Social Security, Medicare, Medicaid, education grants, SBA loans, food stamps, public housing, corporate bailouts, stimulus plans, payments to cronies on Wall Street, and much, much more.

There are also the never-ending array of regulatory agencies and programs, with the 35-year old failed and destructive war on drugs being the premier one. There is also the SEC, with its ridiculous insider-trading laws and other silly regulations. Or the FTC. The list goes on and on.

It's the same with the warfare state. New planes, bombs, drones, soldiers, coups, assassinations, sanctions, embargoes, invasions, wars of aggression, and occupations. The list of things on which to spend other people's money abroad is endless. And like the welfare state and regulatory programs, they're all considered vital to the well-being and security of the nation.

To pay for all these programs, government officials turn to the IRS, a vicious and terrifying agency if there ever was one. That's the agency that is charged with collecting the money to pay for the grandiose welfare-warfare programs that federal officials come up with. We all know what happens if someone refuses to pay the money that funds these programs. They will prosecute, incarcerate, and fine those who prove to be recalcitrant.

However, a certain problem always arises: The amount of money the IRS is collecting is not sufficient to cover the costs of the grandiose plans that federal officials come up with to spend other people's money. The costs of the programs — which, again, have no limit in the minds of government officials — begin to far exceed the amount the IRS is forcing people to send in.

Of course, there is an obvious solution to this quandary. All that U.S. officials have to do is simply order the IRS to go out and collect a higher percentage of people's income. Instead of requiring people to send in 25-30 percent of their income, for example, people could be ordered to send 40 percent, 50 percent, or higher to cover whatever the programs are costing.

But that approach is problematic. As taxes go higher, the taxpayers start getting upset. Tax resistance and tax revolts become more popular, inducing the IRS to more severely crack down on people by sending more of them to jail, producing more anger and resentment. High taxes have even been known to result in revolutions. In a democracy, high taxes create a problem for incumbents because a disgruntled citizenry tends to vote them out of office.

So, what's the solution to this problem? It's simple. The grandiose big spenders simply go out and borrow the money to cover the difference between what they're spending and what the IRS is collecting from people.

Now, permit me to digress a moment. Some 40 years ago, both liberals and conservatives sent some 58,000 men of my generation to their deaths thousands of miles away, in Vietnam, in one of those foreign wars that are so beloved to both conservatives and liberals. The rationale for sending those men to their deaths, along with killing more than a million Vietnamese people, was the communist threat, a threat that was considered by conservatives and liberals to be even more frightening than the terrorist threat today. We were told that if these American men weren't

fighting and dying in Vietnam, the dominoes would start falling and finally end with a communist conquest of the United States. We were told that the communists were one gigantic block of people, led by the Chinese communists and Soviet communists.

We were constantly reminded of how evil and destructive these communist regimes were, which was about the only truthful thing U.S. officials ever said.

Now, some 40 years later, guess who has become the premier foreign lender-in-chief for the U.S. government. You guessed it: The Chinese communists! Imagine that. That's where both conservatives and liberals have been borrowing a large portion of the money to fund their grandiose welfare-warfare programs for the past 8 years. What better example of moral debauchery and hypocrisy than that? After all, the Chinese communist regime in China hasn't changed its essential nature one iota in the last 40 years.

Do you remember when liberals used to travel to China and lecture the Chinese communists on their human-rights abuses? Not anymore. Do you remember when conservatives would puff out their chests and quote Ronald Reagan's famous line to the Soviet communists: "Tear down this wall!"? Well, you won't see them in China declaring, "Tear down this evil system!"

The reason for the silence is not difficult to decipher. It's not wise to antagonize one's lender. Today, U.S. officials, from the president on down, travel to China to pay homage to their chief foreign lender and plead that it not call in the loans by dumping its U.S. debt instruments onto the market. They arrive in China, kneel before their banker, and kiss the hands of these communist tyrants. And all to fund their grandiose programs without the political costs associated with raising income taxes.

During President Obama's recent visit to China, his lenders demanded assurances with respect to repayment of their loans. What they were referring to is the time-honored way by which governments pay off massive accumulated debts — by simply printing new money and paying off the creditors with it. After all, the alternative is to raise income taxes to pay off the accumulated debt — again, your personal share of this debt is \$40,000 — something that might get voters upset.

Enter the Federal Reserve. That's its job — to monetize the debt — to print the necessary money that pays off federal debt without raising income taxes. This is why the Fed was created. No, it had nothing to do with stabilizing the value of money. The mission of the Fed was — and is — to enable federal officials to spend to their heart's content on their unlimited number of welfare-warfare state programs.

Now, we all know from Economics 101 that when you increase the supply of something, ordinarily its price is going to go down. The principle is no different when it comes to the supply of a currency. As the Fed cranks up the printing press and begins supplying the market with more dollars, the price of the dollar tends to fall. And there is only one way in which that decrease in price to be reflected — by rising prices of everything that dollars buy. When you see the dollar

prices of everything rising, that's a consequence of lots of newly printed Federal Reserve dollars having flooded the market.

Obviously, creditors get wiped out by this process, as they are receiving payment with money that has a significantly lower value than the money they initially loaned. We often hear that the Chinese would never be stupid enough to dump their U.S. securities onto the market all at once because they would lose a lot of money. But what happens if the Chinese decide that holding onto the securities and receiving debased currency in payment will be more costly to them than simply taking their lumps all at once by dumping the securities on the market? If that day comes, Americans might well have the opportunity of witnessing a monetary crisis that boggles the imagination.

Another group of people that are hurt by this inflationary process are the poor, the people with very low incomes who are least able to withstand a significant decrease in the value of their earnings. Or consider the little old widow whose husband was naïve enough to invest in U.S. savings bonds. She soon discovers that her \$1,000 in fixed monthly income now buys only \$250 worth of goods and services.

Nonetheless, the liberals will continue repeating their mantra about they love the poor, needy, and disadvantaged, and conservatives will repeatedly remind people how compassionate they are.

As prices in society begin rising in response to the devaluing dollar, the average person doesn't have any idea that the government is behind it, which is precisely why government officials love a central bank so much. They know full well that the average person is going to lay the blame for rising prices on such things as greed, capitalism, free enterprise, and profit. Seeing prices rise, he'll blame the oil companies, the service station owners, the grocers, and clothing stores. The last thing he'll consider is that it is the federal government itself, operating through the Federal Reserve, that is responsible.

After all, most people look upon the federal government as a friend, a parent, even a god. Our government is our provider, they say. It provides our retirement, food, unemployment compensation, health care, education, and so forth. It also protects us from the terrorists, the communists, the drug dealers, the illegal aliens, and other scary creatures. It would never do anything bad to us, much less seize our income and earnings secretly and surreptitiously through monetary debasement.

Federal officials themselves feed into this mass ignorance. Behaving as if inflation is akin the flu — like some sort of ailment that just strikes a nation at random, they exhort the citizenry to help defeat the enemy of rising prices. For example, they'll distribute buttons for people to wear that declare "WIN — Whip Inflation Now." More ominously, they impose price controls on businesses, which produce shortages, which make people even angrier at private-sector businesses.

Of course, government officials just smile at this entire process because from their standpoint, it is so successful. With the help of the Fed, they're able to fund all their grandiose programs without paying the political price that would be associated with increasing the amount of money people are forced to pay to the IRS. And when prices rise in response to what the Fed is doing, people blame the private sector rather than the federal government.

Now, there's another important aspect here to the Fed's operations. We've heard a lot about socialism lately. People are saying that President Obama is moving our nation in a socialist direction, as exemplified by his national health-care plan. Of course, they're right. After all, national health care in Cuba is the pride and joy of Fidel Castro, a socialist par excellent.

But when Republicans point their finger at Obama, they should keep in mind that three other fingers pointing back at themselves. The fact is that Republicans are as devoted to socialist programs as Democrats are, notwithstanding their pro-free-enterprise rhetoric.

But it's important that we note that there are different aspects to socialism.

There is the pure socialism, where the government owns everything and everyone works for the government.

But there are also socialistic programs in which the government takes money from one group of people in order to give it to another group, exemplifying the Marxian principle "From each according to his ability, to each according to his need."

Another aspect of socialism is when the government owns and operates particular businesses, like the communist government does in China ... and like the U.S. government does here with insurance companies, banks, and auto companies.

But another aspect of socialism — one that relates directly to the Federal Reserve — is socialistic central planning. This is the process by which a group of public officials plan complex activities that would ordinarily be left to the free market. As the Nobel Prize-winning Austrian economist Friedrich Hayek pointed out, these people have a "pretense of knowledge," honestly believing that they possess the requisite knowledge to plan and direct complex market phenomena. As the Soviets learned, central planning inevitably leads to chaos and crisis.

A good example of central planning involves public (or government) schools. A bureaucratic or political board, either at a national, state, or local level, plans, in a top-down, army-like fashion, the educational activities of hundreds, thousands, or millions of students. And people wonder why public schooling is such a mess!

It's no different with the Federal Reserve. Here you have a board of government officials pretending to have the requisite knowledge to determine some ideal quantity of money in society. And so they're constantly expanding and contracting, in the process producing booms and busts, chaos and crisis.

As libertarians, we understand the importance of capital to prosperity and a rising standard of living. When people save, they place their savings in the bank. That increase in the

supply of available capital causes interest rates to drop, sending a signal to businesses that additional capital is available in the marketplace. Businesses borrow the money to purchase tools and equipment that make their workers more productive. More productivity increases the revenue of the firm, thereby making more money available to pay higher wages.

Along comes election time, which is an important time for incumbent public officials. To assist them, the Fed engages in intricate operations that artificially lower the interest rate, thereby sending a false signal into the market. Businessmen rely on that signal, borrow the money, and expand their operations. A couple of years later, things shake out. The so-called bubble bursts, as it has in the home-mortgage market. The irony is that the statist, Republicans and Democrats alike, blame inevitably blame the crises on “free enterprise” and call for socialist measures to solve the problem, as they have in the current mortgage crisis.

One of the most fascinating crises the Fed has caused since it was established in 1913 was the Great Depression. Oh yes, I know the official story we were all taught in our public (i.e., government) schools. The Great Depression was the failure of America’s free-enterprise system and Franklin Roosevelt’s New Deal programs saved America’s free-enterprise system.

Long ago, another Nobel Prize winning economist, Milton Friedman, established that it was actually the Federal Reserve that caused the Great Depression. Taking the same position were the Austrian economists, most notably Hayek and Ludwig von Mises. By over-expanding the money supply during the 1920s and then over-contracting, the Fed precipitated the 1929 stock-market crash that triggered the Great Depression.

Several years ago, Ben Bernanke, before he became chairman of the Federal Reserve, was speaking at a dinner in honor of Friedman. In what has turned out to be one of the most remarkable admissions by a public official, Bernanke [openly and publicly admitted](#) that it was the Federal Reserve that caused the Great Depression.

Franklin Roosevelt seized on that government-caused crisis to revolutionize America’s economic system, foisting on our land a panoply of socialist and fascist programs, in the name of “saving free enterprise.” In fact, Roosevelt’s programs mirrored what the Benito Mussolini was doing in fascist Italy and what Joseph Stalin had been doing in communist Russia. Indeed, even the chancellor of Germany in the 1930s sent Roosevelt a letter commending him on his economic programs, stating that he were doing the same thing in Germany.

So, what’s the solution to all this mess? The solution involves returning to first principles, the founding principles of our nation. We need to review the heritage of economic liberty of our nation and examine where we got off course. We need to examine why the Founding Fathers and why our American ancestors rejected not only a central bank but also an income tax and an IRS. We need to restore the principles of liberty on which our country was founded.

The Constitution expressly prohibits the states from making anything but gold and silver coins legal tender. How could you have a clearer expression of intent than that? It also prohibits

the states from making emitting bills of credit, which means paper money. The Constitution also did not grant the power to Congress to issue paper money or to make paper money legal tender.

In other words, the Framers clearly rejected paper money and legal-tender laws. They understood the inflationary horrors that public officials had inflicted on people throughout history. They intended us to have a gold standard.

Now, one of the biggest myths about the gold standard is that is supposedly involved some exchange ration between paper money and gold. That's nonsense. All that the gold standard meant was that Americans would use gold and silver coins, and nickel and copper coins for smaller transactions, as their money.

Throughout that time, federal officials would periodically borrow money — that is, borrow gold. They would evidence that indebtedness with promissory notes. Sometimes, in order to finance grandiose programs, they would over-issue notes. When people would discover that the government had issued \$10 million in notes and only had \$5 million in gold, the notes would begin being traded at a discount. In other words, the gold standard placed a practical limit placed on the ability of government officials to pay for their grandiose projects.

In blaming the Great Depression on free enterprise, Roosevelt and his cronies also convinced people that part of the problem was the fact that the American people were using gold coins and silver coins as their money. Nothing could be more ludicrous. Nonetheless, Roosevelt used the economic emergency to commit one of the most heinous crimes in U.S. history. He ordered every American to turn in his gold to the federal government, at a devalued price. What had been the money standard for more a century now became a federal felony offense.

There are those who are concerned that President Obama might seize their guns. It's a legitimate concern, especially in the context of a new emergency. People should also be concerned about Obama's potential seizure of people's gold. Like his icon Franklin Roosevelt, Obama knows that people buy gold to protect themselves from the Federal Reserve, and statist hate that. Moreover, the re-nationalization of gold would provide a new source of revenue to fund the ever-growing, grandiose programs of the statist.

By prohibiting Americans from owning gold in the 1930s and by converting America to a fiat money standard (without even the semblance of a constitutional amendment), the big spenders in government had finally fulfilled their dreams. Decade after decade, they could spend other people's money to their heart's content. It is not a coincidence that the value of the paper dollar today is worth about 5 percent of what it was worth before the Fed was created. That's what decades of monetary debasement have accomplished.

To restore a free society to our land requires the abolition of many departments and agencies of the federal government. Chief among these are the twin jugular veins of the welfare-warfare state — the income tax and the Federal Reserve. People should be free to choose whatever money they want. It's what Hayek called "the denationalization of money."

We must never fall for the siren song of “reform.” We must rid our nation of these statist scourges. In the monetary arena, that can only mean one thing: End the Fed.

Jacob Hornberger is founder and president of The Future of Freedom Foundation.

This article was originally published in November 2009.