NATIONAL CENTER FOR CONSTITUTIONAL STUDIES

37777 W. Juniper • Malta, Idaho 83342 • 208-645-2625 (fax-2667) Products orders: 800-388-4512

Seminar information: 480-832-6326 • Internet: http://www.nccs.net

October 2008

The Founders' Amazing Monetary System Would Solve Today's Monetary Crisis

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. Their system relied on four major principles.

1. The people's representatives in congress must develop and carefully control the money system and make sure the amount of money remains stable. That's why the Constitution gives this power exclusively to Congress in Article I, Section 8.
2. To be honest, a medium of exchange must have "intrinsic" value or in other words it must have value in and of itself. The Founders knew only money based on gold and silver would provide this value.
3. There must be no fractional reserve banking. As Jefferson said: "No one has a natural right to the trade of a money lender but he who has the money to lend."
4. In order to prevent undue pressure on the demand for money and to make sure federal officials did not have so much power they could be "bought off", the Founders clearly said that money from the federal treasury can be spent only for the 20 powers listed in Article I, Section 8, and then only if such expenditures were for the "general welfare" or in other words if such expenditures benefited the whole nation and not specific groups, locations, or businesses.

Let's look at what happened to each of these founding principles.

The Big Bankers Take Control of United States Monetary System

With the adoption of the Constitution, Jefferson hoped the nation would go back to pre-revolution days with government issuing its money based on a precious metal standard. The treasury could then set up branches for loaning money and all payments of interest would go to the general funds of the nation, thereby greatly reducing the required taxes.

The first of Jefferson's hopes was realized when the gold and silver standard was explicitly written into the Constitution. However, his second hope was shattered when Alexander Hamilton was appointed Secretary of the Treasury and came up with a plan to monetize the nation's mammoth war debt by issuing bonds and selling them to private banks. He also urged the President and Congress to allow these bankers to temporarily (for twenty years) establish a private bank in the name of the United States and be responsible for issuing money, controlling the amount, fixing its value, and financing the United States government. It was this last factor which appealed to President Washington.

There was, of course, no Constitutional authority to have the federal government set up such a bank, but Hamilton persuasively argued a theory of "implied powers" which has seriously damaged the whole concept of "limited" government ever since. Although the argument was sufficiently strong to impress Congress, Washington was uncomfortable with it. In fact, he was actually contemplating a veto of the banking act when Hamilton drew him aside and filled his mind with such glowing promises of stability and prosperity under this "temporary" expediency, that Washington finally overrode his professional instinct as one of America's most successful farmers and signed the bill. Jefferson later accused Hamilton of complicating the whole scheme with such elaborate trappings that it had confused the President. It turned out that Washington's original instinctive anxieties concerning the dangers of the bill were fully justified.

Over the decades since then and through a series of man-made boom and bust cycles, the powerful banking lobby, with the behind-the-scenes pressure from Wall Street, has persuaded Congress to give them permanent authority over our money and credit in violation of the Constitution and the express will of the people. This power was permanently consolidated in 1913 into the misnamed Federal Reserve System, which is neither "federal" nor "reserve." Time and time again the big bankers who privately control the Federal Reserve have shown elected officials in Washington that indeed they are the ones that have the real power in our land.

The very basis which gives money its value is destroyed

Anything of value requires the input of labor. If it requires little or no labor, the item becomes worthless. Historically, gold and silver have always been in demand and have always required labor to accumulate, therefore giving sustainable value. Because of its universal demand it is a perfect medium of exchange.

As do-good politicians desired to expend large sums of money for programs not authorized in the Constitution, they ran up against a major problem. If a program would cost, say $100 million of new money, then that much gold and silver would have to be deposited to back up the new money. This requirement provided a real restraint and roadblock to huge give-away programs, such as FDR's New Deal. So what did he do? In 1933, he signed an executive order taking the backing of gold from our dollars! LBJ did the same thing to fund his Great Society in 1964 and took the redeemability of silver off of our dollars. Now, not having to put up the gold and silver, the politicians could merely crank up the printing presses and distribute money at will. This, of course, came with the reminder to the welfare recipients to remember these politicians at the next election.

The Origin of Fractional Reserve Banking or Making Money out of Nothing

Dr. W. Cleon Skousen explains how banks came to "make money out of nothing" and how they hooked the United States Government into the deal:

"We call this magic formula 'fractional banking' or 'reserve banking.' Here is how it all began and how it works.

"Several hundred years ago the goldsmiths of Europe were under the necessity of building substantial vaults for their precious metals. As one might have expected, it wasn't long before many others asked to leave their gold in these vaults for safekeeping. The goldsmiths consented and gave each depositor a certificate which could be used to reclaim the precious metal at any time. These certificates were therefore considered 'as good as gold' and soon circulated in business channels as though they were gold.

"In fact, they were so much more convenient to handle than gold that very few depositors ever went back to the goldsmiths except to make more deposits.

"In very short order it became entirely apparent to the goldsmiths that since only a small percentage of the depositors came back for their gold, the goldsmiths only had to keep enough on hand as a 'reserve' to satisfy those who did come back. Realizing this, the goldsmiths decided they could safely issue considerably more gold certificates than the amount of gold 'on deposit.' By this set of fortuitous circumstances they had discovered how a shrewd goldsmith could issue certificates on gold he didn't have and thus become super rich by 'making money out of nothing.' Furthermore, these spurious certificates could be used to buy up all kinds of tangible property or they could be loaned out on interest. Here indeed was the royal road to wealth.

"Of course, it was important to keep a good "reserve" for those who did want to cash in their certificates, but this ordinarily involved only a fraction of the certificates in circulation. Thus 'fractional banking' was born.

Fractional Bankers Do Something Ordinary People Cannot Do

"It will be immediately realized that 'making money out of nothing' is selling something the money managers don't really have.

"We know it is considered criminal fraud if a person sells a house he doesn't own. The same thing is true if he sells something which doesn't exist and never will exist. Then how do the bankers get away with it? The answer is rather amazing.

"Apparently the bankers saw the danger of their position and decided to protect themselves by getting the government in on the deal. They reasoned that the government certainly wouldn't prosecute the bankers if the government itself were getting a significant benefit from the operation. So this is what the bankers set out to achieve, first in Europe and more recently in the United States.

"The trick was to create a privately owned bank for the whole country. By cutting the government in on the benefits, it became feasible to call the bank by a name which implied that it was an official branch of the government. This is precisely what William Paterson did when he set up the Bank of England. Similar banks soon appeared in every nation in Europe.

"Each of these central banks became the most powerful influence in its particular country, both economically and politically. It became the manager of money and credit for the nation. It handled major investments in agriculture, industry, homes, and factories. Best of all, it loaned money to the government, especially in times of an emergency such as a war.

"The governors of these banks soon found themselves in the position of managing the affairs of government as well as the economy.

Central Banks Suffer from Two Temptations

"The record shows that when the managers of a central bank in any particular country are looking around for ways and means to accumulate more wealth, they are often tempted by two things which are inherently evil and totally destructive to the foundation of civilized countries. One is to encourage an involvement in war so the nation will be forced to borrow heavily. Bonds (which are really government IOUs paying substantial interest to the lenders) are considered to be a most valuable form of collateral assets in a central bank.

"The other temptation is to promote a cycle of 'boom and bust' economics. This simply consists of starting a boom with generous loans at low interest and easy credit and after a few years suddenly raising the interest rates, calling in loans, and bankrupting homeowners, industries, farmers, and millions of people who had trusted the bank to continue its policies.

"Some economists, including Karl Marx, have tried to maintain that these boom-and-bust cycles are an inescapable characteristic of a free-market economy. The truth of the matter is that these so-called boom-and-bust cycles are primarily a phenomenon of manipulated economics, engineered by men who find themselves in an extremely powerful position to control money and credit but seem to lack the moral integrity to resist the opportunity of fleecing the common people who have genuinely trusted them."

The Founders' Answer to the Wall Street Mess

First of all, the people must recognize the current "crisis" is man-made and the market is trying to adjust to unnatural tampering of it by scheming financiers and politicians.

Secondly, it will do no good to put more band-aids on the boiler in the form of more debt brought about by the issuance of worthless money and credit created out of nothing. Eventually this inflated monetary bubble is going to burst unless it is gradually deflated by making basic changes to our system to restore sanity and honesty.

Thirdly, Americans must be aware that this is another attempt to further consolidate economic power. Politicians say that the credit markets are drying up, and yet the largest banks like Bank of America and J P Morgan Chase seem to have the money necessary to buyout the failing companies and banks. We seem to be fast approaching the predicted time when no one will be able to buy or sell without obeying the demands of those who have consolidated enormous economic power over us.

Fourthly, by their own admission, most politicians in Washington do not have answers to this current situation. It is definitely time, with an election coming soon, to make wholesale changes in public officials who really know the Founders proven, workable solutions and have the courage to implement them.

It is interesting that CNN, in a recent attempt to find answers, turned to a congressman who does know the answers to the current crisis. Here is what Congressman Ron Paul told CNN when asked his opinion about the proposed $700 billion bailout:

> "Well, I think that's a mistake because we don't have the money. But that doesn't mean you have to do nothing. I mean, we could reform the system. We could return to sound money. We could balance our budget. We could change our foreign policy. We could take care of our people at home. We could lower taxes. There are a lot of things that we can do. But the worst thing that we can do is perpetuate the bad policies that gave us this trouble in the first place, and that is that we no longer, over the last quite a few decades, believed in free-market capitalism. Capital is supposed to come from savings. We're supposed to work hard and save.
>
> "As a matter of fact, the Chinese work hard, right now, and they save, and they're buying up the world. But we borrow and spend and consume, and now it's caught up to us and it's undermining our whole system. ... So this $700 billion is not going to do it.
>
> "… this plan does not help Main Street. This is Wall Street in big trouble and sucking in Main Street, now, and dumping all the bills on Main Street. ... And you can't solve the problem of inflation, which is the creation of money and credit out of thin air, by more money and credit out of thin air, and not changing policy. We have to change basic policy….
>
> "Yes, it would be painful, but it wouldn't last so long. What they're doing now, they're propping up a failed system so the agony lasts longer. They're doing exactly what we did in the Depression…. So, yes, there are going to be losses, but everybody lived beyond their means when the prices of houses were going up. Nobody cared about it. They kept borrowing against it. Oh, yes, that was fine and dandy. Everybody was making money, and homeowners kept borrowing and living beyond their means. Now they have to live beneath their means….
>
> "What the government is doing now -- and this new program is trying to prop up prices. You want the price structure to adjust. You want the price of houses to go down. You don't want to fix the price of housing. You can't price-fix. We've had too much of that. We need a market economy. We need to believe in ourselves. We need to believe and understand how the economy got us -- how the government got us into this mess. And believe me, it wouldn't be that tough. It would be a bad year. But, this way, it's going to be a bad decade."

Sincerely,

Earl Taylor, Jr.

Earl Taylor, Jr.