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Ending the Fed


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Real money: For millennia, silver and gold were the primary forms of money, because their durability and portability made them ideal for exchange and for storage of value while their scarcity made their supplies impossible for governments and bankers to manipulate to their advantage.

The Federal Reserve has been with us for more than a century, and the gold standard in the United States was abandoned, for all intents and purposes, in the 1930s. Silver coinage persisted into the 1960s, and the limited Bretton Woods gold standard for foreign holders of U.S. dollars was finally abandoned in 1971, when President Richard Nixon closed the gold window. That fateful year marked the end of the last remnant of a precious-metal currency standard of any kind in the United States, and completed the ascendancy of the Federal Reserve over American finances and monetary policy.

From that day to this, the U.S. dollar and financial system — and the rest of the world's finances, which are tethered to it — have been an inflationary system anchored by a fiat currency, completely dependent on the whims of the Federal Reserve Board of Governors, in concert with the U.S. Treasury Department, the decision-makers at the New York branch of the Federal Reserve and its primary dealers, and their counterparts in a handful of financial centers overseas. This system is in essence a mechanism to create money out of debt both public and private. On the one hand the Federal Reserve is able to create new money (or "inject liquidity," as the obscurantist jargon of economists puts it) by purchasing U.S. Treasuries via open-market operations, and paying for them with newly created money. On the other, the broader commercial bank system tied to the Federal Reserve can expand the money supply by loaning out new money (money pyramided on top of existing or "fractional" reserves), either in response to lower interest rates or lower reserve requirements determined by Fed officials. In either case, the end result is the same: both debt and the money supply expand, and the economy maintains the illusion of prosperity, thanks to growth fostered by debt and printing money. And under this system, debt — particularly public debt — and the fiat dollar are inextricably connected. The same force driving inflation and the debasement of the U.S. dollar is also propelling the national debt to ionospheric heights.

This is the complexion of the American and global financial system in the 21st century. It is no exaggeration to say that the finances and, indeed, the entire economy of the United States are utterly beholden to a small caste of secretive bankers, financiers, and political appointees upon whom the godlike power to create money at whim has been conferred. Few enough understand this much; fewer still are willing to contemplate a change in the status quo, believing that the existing system, despite its obvious injustices and lack of constitutional standing, is too entrenched to be changed. Monkey with the fiat dollar and the Federal Reserve, they believe, and the entire economic and financial system will unavoidably crash. Far better, they conclude, to stick with the devil we have known for the past century.

Yet there are and have been a few voices, such as former Congressman Ron Paul of Texas, who have advocated for ending the Federal Reserve. Considering the nature of the beast, this would appear to be an attractive option, if for no other reason than to head off America's headlong plunge into bankruptcy. But is there any realistic way to end the Fed, and with it the illegitimate regime of fiat money?

Call him correct: Former Congressman Ron Paul devoted a lot of time to trying to get the Federal Reserve, the source of America's inflationary system, audited by Congress and eventually terminated. (AP Images)

The beginning of wisdom must be the recognition that, if we are ever to restore constitutionally legitimate government, we must end the Federal Reserve and restore the bimetallic money standard. That a central bank emitting fiat currency is unconstitutional is beyond rational dispute, given that the Constitution confers no such power, either directly or by any reasonable implication, on any of the three branches of the federal government. In point of fact, the relevant clause in the Constitution, in Article I, Section 8, which defines the powers of Congress relative to monetary policy, says only that "Congress shall have power … to borrow money on the credit of the United States … to Coin Money, [and] regulate the Value thereof." There is no mention of a central bank or printing money. A clause in the Articles of Confederation, from which some of the language in the Constitution was lifted, reads: "The united states, in congress assembled, shall have the authority to … borrow money or emit bills on the credit of the United States." (To "emit bills" or "bills of credit" was the 18th-century term for printing fiat currency. It was pursuant to this authority that the United States printed fiat "Continental" dollars to fund the American Revolution, which resulted in ruinous inflation.) This was not included in the Constitution. Lest the omission of this power be regarded as a mere oversight, Article I, Section 10 of the Constitution, which defines certain limits on the powers of states in the new federal system, is very explicit: "No State shall … emit Bills of Credit [or] make anything but gold and silver Coin a Tender in Payment of Debts."

So, quite aside from being a financial, political, economic, and social disaster, the Fed is blatantly unconstitutional. The first thing that needs to be done is for Congress to unambiguously declare it such, and begin a rational, step-by-step process to disentangle America from its tentacles. The next step, recommended by the likes of eminent Austrian economist Ludwig von Mises, is to stop the creation of any more new fiat money. As Mises put it:

> From the point of view of monetary technique the stabilization of a national currency's exchange ratio as against foreign, less-inflated currencies or against gold is a simple matter. The preliminary step is to abstain from any further increase in the quantity of domestic currency. This will at the outset stop the further rise in foreign-exchange rates and the price of gold. After some oscillations a somewhat stable exchange rate will appear, the height of which depends on the purchasing-power parity.

The reference to foreign-exchange rates is a reflection of the fact that Mises was writing at the time of the "currency wars" of the 1930s, when the world's central bankers had not yet learned the subtle art of inflating in concert to maintain the illusion of currency stability. More important for our purposes is what Mises is saying about gold. Then, as now, fiat money is characterized by an uneven but steady increase, over time, of the price of gold, reflecting the gradual erosion of the value of the dollar. Since the arrival of the hapless Biden administration, the price of an ounce of gold has jetted to new heights, teetering north of $2,200 at the time of this writing, nearly $1,000 higher than only five years ago.

A piece of legislation halting further expansion of the money supply would stop the rise in gold and silver prices, but would require certain key provisions. To stop new money creation in its tracks, the bill would have to prohibit the Fed from making any adjustments to the interest rates or to member-bank reserve requirements, and would also have to prohibit the Fed from conducting open-market operations other than for the purposes of stabilizing the price of gold at a certain target level (presumably somewhat above the current market rate, to instill confidence in a smooth transition). At the same time, the Fed would begin selling off its considerable paper assets for gold, to begin accumulating more gold reserves.

These preliminary changes would leave the Federal Reserve System, and in particular the New York

Fed and its primary dealers, confined to the roles of financial regulators, gold purchasers, and middlemen for the sale of U.S. Treasuries to third parties. These roles, of course, are themselves constitutionally problematic and economically deleterious — but far less so than the full-fledged fiat money system currently reducing most of us to serfdom.

Once the value of the dollar is stabilized and gold stockpiles are deemed sufficient, an outcome that might require a few years to attain, the dollar could once again be pegged to gold (and, as a bonus, the federal government would resume minting gold and silver coins in lieu of the debased metal disks now passed off as small change).

One bugbear invoked routinely by those who favor the status quo is the supposed peril of "deflation" — the one thing, we are assured, that would be worse than the inflation that already afflicts us. Under a deflationary scenario, the prices of consumer goods and assets would fall, rather than rise. This would be good news for those on fixed incomes, or who live paycheck to paycheck, or who rely on cash and savings, but would be bad news to those who have come to rely on inflationary asset bubbles to enrich themselves. Simply put, it would be bad for the investor class, but good for the working class, the savers, and the retirees.

Moreover, the deflationary phase would be temporary, since the real objective is to restore a stable currency system, one in which the elites in government and finance no longer have the ability to hold the entire country hostage by levying the inflation tax. In the past, the gold standard conferred stable prices from one generation to the next on consumer goods and assets such as houses. Investments and profits were made, then as now, by development, innovation, and taking advantage of opportunities overlooked by others.

Under an honest, precious metal-based currency, most government control over not only the money supply, but also how Americans choose to spend their money, would be stripped away, and with it, all of the current worries about central bank digital currencies, government snooping into private finances, and the like. Before the age of fiat money, cash — in the form of gold, silver, and promissory paper notes — was king. People routinely carried around or kept in their private safes large amounts of money, and this was all money that the government had neither the means nor the interest to track. Anyone who has ever watched a Western knows that it was not at all uncommon for people to carry around purses full of Morgan silver dollars and gold coins such as quarter eagles, half eagles, and double eagles. The silver content in a single Morgan dollar coin is worth more than 30 dollars today, while the melt value today of one of the smallest gold coins, the "quarter eagle" Indian head with a face value of $2.50, is today more than $260. The melt value of any of the once-popular "double eagle" $20 gold pieces is now more than $2,100. All of these coins were once in common circulation. But nowadays, how many of us have even $20 cash on hand, dependent as we are on credit cards, debit cards, and other noncash instruments of payment that reflect our near-total reliance on the virtual fiat monetary system?

Under honest, noninflationary money, many people would quickly return to the old-fashioned virtues of savings and thrift, conscious of the fact that the conservative interest rates paid out by savings accounts and certificates of deposit would still guarantee a decent return over time in a context where the value of the dollar remained constant. And those who retained a reflexive distrust of banks would not lose any money by keeping their savings in cash in a home safe or other non-bank secure storage facility.

Perhaps the most important consequence of returning to sound money would be the unavoidable curtailment of government spending. In fact, sound money is one of the greatest checks on government power. Denied the ability to finance government by deficit spending and fiat money creation, governments must rely on revenues from tariffs, excises, and direct taxes, a circumstance that imposes severe limits on how much government can spend, especially in peacetime. It is no accident that the 20th century, when the age of inflation began, was also the century of militarism, including world wars, massive peacetime military buildups, and endless foreign interventionism. It is also not an accident that that century witnessed the rise of the modern welfare state in both the Old World and the New. None of these aspects of the modern leviathan state would be possible without the magic of central banks such as the Federal Reserve and permanent inflation of fiat currencies such as the U.S. dollar. Taking away the latter will kneecap the former.

Finally, restoring the gold standard would cause foreign investment to pour into the United States as never before. The Dutch Republic owed its meteoric rise in wealth and technological advancement in the 16th and 17th centuries to the city of Amsterdam and its ability to attract wealth from all over the world. At that time, the Bank of Amsterdam, operating not only on the gold standard but also as a full-reserve bank (meaning it was unable to inflate the money supply by loaning out its own deposits), had an unparalleled reputation for security and honesty. Wealth flowed into its coffers, allowing the tiny and rather loosely organized republic to defeat the mighty Spanish Empire after a war of 70 years — all the while building great universities and leading the world in science, publishing, architecture, art, and trade. All of this happened because of the ability of the Dutch to attract and create capital, thanks to their unrivalled banking and monetary system. And much the same would come to pass here, were America to take the momentous step of restoring the gold standard and getting rid of the Federal Reserve.

There is no doubt that ending the Federal Reserve and the inflationary monetary system would entail some short-term pain, no matter how carefully planned and implemented. But there is also no doubt that, unless America voluntarily takes this needed step, the pitiless laws of economics will someday force the issue, and the outcome will be far worse.

And in the not-very-long term, a post-Federal Reserve America with sound, constitutional money would experience both a resurgence of prosperity and a dramatic alleviation of the twin scourges of public debt and Big Government.

What You Can Do

by Peter Rykowski

There is much that Americans — including members of Congress and state legislatures — can do to restore sound, constitutional money. Here are key actions that all Americans can take:

Congress: Call and schedule in-person meetings with your U.S. representative and senators, and urge them to take the following actions:

- Introduce and pass legislation to abolish the Federal Reserve.
- Pass H.R. 24 (in the House) and S. 3566 (in the Senate), the Federal Reserve Transparency Act. These bills would mandate a full audit of the Federal Reserve System, shedding much-needed light on the central bank's activities.

- Pass H.R. 2435, the Gold Standard Restoration Act, which would require the secretary of the Treasury to "define the Federal Reserve note dollar in terms of a fixed weight of gold, based on that day's closing market price of gold" and make it "redeemable for and exchangeable with gold."

States: Call and schedule in-person meetings with your state legislators, and urge them to take the following actions:

- Introduce and pass legislation to officially recognize gold and silver as legal tender — and take concrete steps to treat it as such — in accordance with Article I, Section 10 of the U.S. Constitution. (Arkansas, Oklahoma, Utah, and Wyoming have already enacted legislation doing this.)
- Repeal all taxes — including sales and capital-gains taxes — on gold and silver, helping to effectively treat gold and silver as money. (Multiple states have already enacted such legislation, Wisconsin being the most recent.)
- Require the state government to hold part of its financial reserves in gold and silver, protecting its purchasing power and financial independence, and bypassing the Federal Reserve. (This includes, but is not limited to, establishing a bullion depository, as Texas did in 2015.)

Individuals: In addition to influencing your state and federal officials, take the following actions:

- Create an informed electorate by educating fellow citizens about sound, constitutional money. This will generate greater pressure on elected officials to take the actions listed above.
- Work with others locally through membership in The John Birch Society. Efforts will be far more effective when done in a concerted manner through a national, Constitution-based organization.

For more information and resources, including model legislation and legislative alerts to easily contact Congress and state legislators, go to JBS.org/fed.