“Money, Banking and the Federal Reserve”

the complete English transcript.

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Ludwig von Mises Institute, 1996.

Voiceover: The Federal Reserve System virtually controls the nation's monetary system, yet it is accountable to no one. It has no budget, it is subject to no audit and no Congressional Committee knows of, or can truly supervise its operations.

These are the words of the late professor Murray N. Rothbard, economist and academic advisor of the *Ludwig von Mises Institute*. The institute is dedicated to the ideals of a free market and sound money. This programme is dedicated to the memory of Murray N. Rothbard and his prolific work on money and banking.

For more than twenty years the living standards of middle class Americans have steadily declined; incomes have remained flat or falling and the opportunities and security we once took for granted have begun to fade. For most families one income no longer pays the bills; it requires two or more incomes to afford an home, pay medical and child care expenses and put children through school. Unless present trends change, young workers are unlikely to ever live as well as their parents. Good jobs with a future are harder to come by, education doesn't count for what it once did, taxes continue to rise while social security is going bankrupt. Private pensions are no longer reliable, economic volatility and uncertainty are on the rise. Politicians expose numerous theories about the cause of this country's economic woes; seldom however do these officials look below the surface: the roots of our economic ills can be traced to central banking and our present monetary system.

The Federal Reserve claims to manage our money, instead it makes our money worth less and less every day. It has generated continuous and worsening business cycles and lowered our living standards.

Lew Rockwell: It's really no difference from a burglar in your house wanting to steal your money. That's what the Federal Reserve does. It depriciates your savings, it takes away your economic security and it ought to be treated as an institution that does that rather than something of alleged benefit.

Voiceover: Money is supposed to serve as a reliable standard of economic value, not a source of instability. Until we restore sound money and take away the government's ability to debase it, we have little hope of restoring the freedom and prosperity that made America great.

Lew Rockwell: And we really have a choice of what we want in money. Do you want money that is going to be losing its value over year or do you want money that is going to be gaining in value? If you are happy with your money loosing value, then you want the present system, if you want money to increase in value, then you want a gold standard.

Voiceover: What is money? As the good that makes exchange possible, it's the foundation of every economic activity. In the earliest times, people traded goods and

services directly. This form of exchange is known as "barter".

Joseph Salerno: That is, if a fishing tribe desired to have maybe wheat, which they themselves did not produce, they would seek out other individuals that produced wheat and then they would exchange theirs for fish.

Voiceover: But barter had limitations in the marketplace.

Joseph Salerno: Well, actually people perceived pretty quickly problems with their direct exchange: if you wanted, for example, fish and you had wheat but the people who had fish didn't desire the wheat, you were stuck, ok? Unless you went out and found some other good, possibly berries that every one in that society consumed. Then you would trade the wheat for the berries and for confidence that you could turn around and trade the berries for the fish or anything else you desired.

Voiceover: Eventually, the most widely accepted goods in a society became valued for their use in indirect exchange. Money is simply another name for the most generally accepted medium of exchange.

Through our history many goods have served as money. Feathers from the Quetzal birds were used for echange by the Mayan indians up to the 15th century in Central America. Tea leaves compressed into bricks were traded in East Asia through the 1800. Wampum shells were money to North American indians while early American colonists traded beaver pelts which had an high value both at home and abroad. Metal coins first emerged in Greece and Asia Minor during the 7th century b.C. Gold and silver were valued for their use in beauty and jewelry and the decorative arts. They were durable, easily divisible, and limited in supply. These precious metals also had a high value-to-weight ratio, making them easily transportable.

Joseph Salerno: You might think back, we can think back to a time when iron was used as money, for example in Africa, but imagine going into the "Sears, Roebuck" and trying to purchase, uhm... let's say: a lawnmover for 350 dollars. They would take a ton of iron, whereas it only takes an ounce of gold.

Voiceover: In 1536, less than fifty years after Christopher Columbus set foot on the American soil, a Spanish mint in Mexico City struck the first coins made in the New World. These silver coins eventually found their way into the British Colonies. Great Britain's mercantilist policies deliberately tried to keep precious metals out of America, so the Spanish mint dollar became the unofficial currency. It was often divided into eight pieces for smaller transactions, hence the term "pieces of eight", with ¼ of the coin being "two bits". In 1792, Thomas Jefferson adopted the dollar as this country's official monetary unit.

Lew Rockwell: He looked around investigating what was the american people using and that was the dollar. So that's why that dollar became the standard United States'. And we went onto a gold and silver standard, and started minting gold coins with the American eagle, a 10 dollar gold coin.

Voiceover: Jefferson in particular spoke eloquently of the dangers of paper money. During the war for independence, the continental Congress printed vast sums of paper money out of thin air to finance the army. The diluted money supply naturally depreciated to almost nothing, leading to the phrase "*not worth a continental*".

Lew Rockwell: The people held onto this notes, who tended to be patriotic Americans concerned about wanting America to be free of British control, lost everything whereas the Tories, who wanted nothing to do with this American goverment money and immediately get rid of that, where benefited and Pelatiah Webster, the 1st American economist, and others who looked to this, saw that this paper money unbacked by gold was extremely dangerous.

Voiceover: As early as the 16th century in Europe goldsmiths stored gold coins for their customers for a fee and issued receipts for the gold to the depositor. Thus began the use of paper as money.

Joseph Salerno: In other words, if you came in and deposited 10 ounces of gold for safe-keeping, you got back a receipt in the amount of 10 gold ounces and those receipts entitles you to instantaneously redeem that gold.

Voiceover: These receipts soon became widely accepted as means of exchange since it was easier and safer to use the receipts for significant transactions. These was the original banknotes as money substitutes. These first bankers then took that process one step further.

Joseph Salerno: In effect, if the Goldsmith had 1,000 ounces of gold and 1,000 ounces of legitimate receipts being held by the depositor of that gold, he could increase his profits by merely printing another thousand ounces worth of receipts, and lending them out. In which case he would effectively get 50% reserve banking, or fractional reserve banking. Only a fraction, a 50% of the receipts were now backed by gold.

Voiceover: There was no longer a one-to-one ratio of paper to gold. Now there could be three or four pieces of paper in circulation for every unit of gold in the vault. These bankers were no longer simply storing or warehousing gold for a fee, they were artificially inflating the money supply and loaning out these phony receipts at interest. This system became known as "*fractional reserve banking*" and was later trasported to the early American colonies. It formed the root of the American commercial banking and ultimately the Federal Reserve system.

Lew Rockwell: This is a fraudolent system, it’s not allowed in any other business. If you had a grain warehouse that had loaned out to the grain you was supposed to have in storage, that’s considered criminal and you would have to go to jail. But the banks are the one industry that’s allowed to get away with this and to profit from it.

Voiceover: Alexander Hamilton became the 1st Treasury Secretary and in 1791 set up the "First Bank of the United States" as America’s central bank to expand the supply of paper money for the benefit of the government and the commercial banks.

Joseph Salerno: Alexander Hamilton believed in a strong central government and he saw a central bank as one of the means by which the government could be centralized and by which its power could be expressed.

Voiceover: Thomas Jefferson opposed this view. He saw a central bank as an undemocratic tool of the northeastern banking establishment. It was dismantled after twenty years.

Joseph Salerno: Jefferson was an opponent of the strong central government and at all costs wanted to remove the central bank.

Voiceover: In 1816 the federal government made another attempt to set up an inflationary central bank, but this "Second Bank of the United States" was denounced by president Andrew Jackson as a monster bank, for benefitting a few at the expense of many.

Joseph Salerno: They inflated money supply which brought about a boom initially, that is a prosperity for the country, followed by a bust, when they stop inflating the money supply many businesses that had depended on the loaning rates that were introduced or induced by the initial inflation went out of business.

Voiceover: Jackson succeeded in abolishing this second central bank in 1836. But by then speculators had set up hundreds of new private banks with little or no gold to back the notes they issued. The nation's monetary system became more stable when the United States introduced the gold standard in 1834. The dollar was worth approximately one-twentieth of 1 ounce of gold.

Joseph Salerno: The gold standard was understood by the founding fathers, by Andrew Jackson and others, as being a money of the people. That is, it was a hard money, a money that could not be tampered with, that could not be inflated to permit government expenditures skyrocketing.

Voiceover: But by 1862 Abraham Lincoln needed to found his invasion of the South, so once again the government began to print up paper money.

Joseph Salerno: Basically the United States went off the gold standard in order to finance the civil war and you find in history that almost every large war, every major war, has involved a departure from the gold standard because the gold standard put strict limits on goverment financing.

Voiceover: Lincoln's notes became known as "*greenbacks*" because the were printed in green ink rather than the more usual black ink on the reverse side. These so-called "*fiat notes*" were deemed legal-tendered by the government but they were not redeemable in gold.

Lew Rockwell: Lincoln, under cover of war issued tremendous numbers of greenbacks, gold was still circulating but people where forced to accept these greenbacks as if they were at par with gold.

Voiceover: The government's power to print unbacked paper notes would later become the pillar of the Federal Reserve system.

After the Civil War the nation's monetary system became sounder, when the US adopted the gold standard.

Lew Rockwell: We where back on the gold standard. In 1879 we had probably the greatest period of growth and prosperity ever on the country's history.

Voiceover: For nearly twenty years the total output of goods and services grew at an unprecedented rate of 4% per year.

Joseph Salerno: The reason being that with the sound money and without the ability to manipulate the interest rate we had a lot of genuine saving and investment of which then led to more capital goods and higher labor productivity in the United States.

Voiceover: In the midst of this prosperity, the big industrialists and financeers were plotting to expand their empires with the help of government. With the passage of the "Interstate Commerce Act" of 1887, the large railroad succeeded in blocking their smaller competitors through regulation.

Joseph Salerno: The ICC was put in place in order to protect the railroad owners from competition. It was not the case that it was going to protect consumers or shippers. In fact consumers were hurt because ultimately, with higher railroad rates they were forced to pay higher prices for goods and services that were shipped across the country.

Voiceover: By 1896 they were poised to do the same thing with the banks. Two camps emerged as leaders in this economic war. They were led by J.P. Morgan, the world's most powerful private banker and John D. Rockefeller, the oil tycoon.

Morgan and Rockefeller were great adversaries, but despite their business differences is they both favored a central bank. They wanted cheap credit and an inflated money supply to finance the expansion of their empires. Together, they led the campaign to sell the idea to the American public, which later led to the founding of the Federal Reserve.

Joseph Salerno: If the american people got wind of the fact that this bank was not in their interests, in fact if they understood instead it was in the interests of the financial leads who would use it to inflate the money supply and in doing so increase their own revenues, there would have been hell to pay, legislation would have never passed on those conditions, so it had to be sold to the american people as a way of making their currency more elastic.

Voiceover: The bank reform campaign received a boost in 1907, when there was a run on some of New York's biggest banks, thanks to their fractional reserves. Panic spread among depositors who got wind of the bank's insolvency and tried to withdraw their money.

The Knickerbocker trust failed, and two other institutions went to the brink of bankruptcy despite a 35 million dollar bailout from J.P. Morgan. Wall Street swiftly adopted the fear of bank failures to sell the idea of a central bank, or *lender of last resort*, to the American public.

Lew Rockwell: And so the Federal Reserve was to be the lender of last resort. In case any bank had any trouble, they wouldn't have to worry, they would get the cash from Washington D.C.

Hans Hoppe: The question is however: "Was it really desirable to have such a sign as a lender of last resort?".
The correct position appears to me that every single bank should be responsible for its own debts and contractual obligations and if banks do inprudent policy then go bankrupt this should not be considered a bad sign but in fact considered to be a magnificent sign because bankruptcies or the danger of bankruptcies is precisely what makes banks adhere to sound policies.

Voiceover: Bank runs and failures continued at an alarming rate. In 1908 the National Monetary Commission headed by John D. Rockefeller Jr's father in law, Senator Nelson

Aldrich, was set up to push for a central bank.

In november 1910 , under the guise of a duckhunting trip six men took a secret train ride to an exclusive private club on Jekyll Island, Georgia, to write a "Central Banking Act". The classified gathering read like a who's who of American banking. There were two Rockefeller men: Aldrich and Frank Vanderlip of the National City Bank of New York. Two Morgan men: Henry P. Davison from Morgan Bank and Charles D. Norton, president of Morgan's First National Bank of New York. Paul Walberg, a Kuhn & Loeb partner and Assistant Treasury Secretary A.P. Andrew who was friendly to both camps.

They spent a week at the luxurious club as Morgan's guests, crafting the proposal that would form the basis of the Federal Reserve system. It would be three years before their vision was realized. Just before Christmas 1913 the "Federal Reserve Act" was passed by Congress and signed by President Wilson. It estabilished a Federal Reserve system to oversee monetary policy and regulate the commercial banks.

Lew Rockwell: Strong coincidence, the Federal Reserve system was estabilished by the Wilson administration. That was the height of the progressive years, a time of tremendous government expansion, special interest deal in Washington.

Voiceover: There are twelve original reserve banks concentrated in the East and in the Midwest. The board of governors of the Federal Reserve controls and coordinates their activities. The board is made up of seven members appointed by the President. Even though there were twelve original banks, Wall Street soon ran the show. As president of the New York Fed, Morgan's protege Benjamin Strong seized control of the boards of Open Market Committee operations. Strong would remain the dominat force of the Fed until his death in 1928.

The Federal Open Market Committee now based in Washington directs the Fed's most important instrument of monetary policy: the purchase and sale of government securities on the open market. To increase the supply of money and credit, that is “to inflate,” the Fed buys government securities from a few hand-picked firms with newly created money. To tighten money and credit the Fed sells securities. In this, it can act on his own discretion.

Joseph Salerno: Every government wants the ability to create new money: it's an alternative to raising taxes. Taxes, we said, when they are raised tend to be... evoke a lot of resistance among the public. It's much less painless to increase the money supply. The effects, the negative effects don't occur until six months, a years, two years later, at which time the increasing prices can be blamed on other factors: the weather, speculators and so on.

Voiceover: Another device the Fed uses to control the amount of money in circulation is setting the discount rate: this is the interest rate charged to member banks when they borrow short term from the so called “discount window”. If the Fed lowers the discount rate for its loans, commercial banks will likely borrow more from the Fed. This increases the amounts of funds banks have to lend. Bank credit does becomes cheaper, as reflected in lower interest rates on bank loans and credit cards. The increasing funds available for banks to lend also increases the amount of money in the economy.
The Fed can also manipulate the nation's money supply by raising or lowering the reserve requirement. Banks are required to set aside a percentage of their deposits as reserves to meet depositors' demands. When the Fed was estabilished in 1913, it cut reserve requirements in half over the next four years, doubling the money supply by the end of World War I. But the Fed's real power lies in its monopoly to create money. Although the

US was still on the gold standard in 1913, it was quickly eroded as the Fed continued to expand the money supply. The first step was backing Federal Reserve notes by only 40% in gold, allowing the money supply to be increased two and a half times. The inflationary effect to fractional reserve banking was also heightened by the central bank.

Hans Hoppe: The commercial banks are permitted to create checkbook money on top of Federal Reserve notes, that is to say: the commercial banks are only obliged by law to hold reserves, in the form of Federal Reserve notes, of 10% to back all demand deposits that they have. 90% of that demand deposits are backed by nothing.

Voiceover: The Federal Reserve system adds another inflationary layer to an already unstable banking system. For example if the central bank has 100 dollars worth of gold reserves in its vaults and a 10% reserve requirement, it can print up 1,000 dollars of new notes in deposits, which become the reserves of the commercial banks. The commercial banks take this 1,000 dollars and if they're required to hold 10% again in reserve, they can multiply the 1,000 dollars into 10,000 dollars through fractional reserve loans. So an inverted pyramid is created with 100 dollars worth of gold, or real money ad the bottom and 10,000 dollars of inflated paper money at the top. As this 10,000 dollars of new paper money circulates in the economy, it drives prices up, therefore reducing the buying power of ordinary citizens.

Lew Rockwell: When they spend that money, the people who get that money first are able to buy products with it and benefit and the people who get it at the end lose because when they go to spend it the prices have already gone up and so they're able to buy less and so there's a transfer of wealth and of power from some segments of the economy to others because of the actions of the central bank and basically those who benefit are the government itself, big banks, government contractors and anybody who is a close associated with the federal government.

Voiceover: By making enormous amounts of credit easily available the Fed can also drive down interest rates, sending out the wrong signals to investors. It sets in motion an unsustainable investment boom that carries with it the seeds of its own destruction. It's this business cycle that's ultimately responsible for economic disasters such as the Great Depression. Soon after the Federal Reserve was established, the US entered World War I. Once again, the government temporarily abandoned the gold standard to print more money to finance the war effort. The US government borrowed heavily and the national debt ballooned from 1 billion to 27 billion dollars. A sharp spike of inflation followed: this set off a cycle of rapid expansion and contraction in the economy. To dampen the overheated economy the Fed halted its inflation, causing interest rates to nearly double over the next 18 months.

By 1921 the market begun to recover: new technology helped to increase productivity, markets developed for new cars and appliances. The 1920s were a period of extraordinary growth but behind the scenes much of this growth was distorted by a Fed generated inflationary credit expansion.

Joseph Salerno: These were the roaring '20s, this was a period of increasing affluence. That hid the inflation from American economists.

Voiceover: The Fed generated bubble burst in the Wall Street crash of October 1929. Speculators who had borrowed money to buy shares when bank credit was readily available saw the stock market lose one third of its value. Bank loans totalling 7 billion

dollars were outstanding. As the speculators defaulted on their loans, bank failures spiralled and the Great Depression set in.

Joseph Salerno: Depositors lost their bank accounts, both their savings deposits and checking deposits: they saw them disappear into thin air.

Voiceover: In 1932 Franklin D. Roosevelt was elected president and quickly implemented a New Deal policy of "spending us to prosperity". Even though we needed lower taxes and lower spending, his administration would seek unprecedented amounts of money to finance its big government programs. In his inaugural speech of March 4th 1933, Roosevelt vowed to put an end to poverty and the unemployment lines and get people back to work. It didn't work: the depression got worse. Thanks to increased central planning. FDR only succeeded in making the monetary system even less sound. Just after taking office the president declared a four day nationwide bank holiday, absolving the bankrupt fractional reserve banks of any need to repay their depositors. But before the banks reopened, the Roosevelt administration had to come up with a scheme that would lead people to believe that new deposits would be safe. It created the Federal Deposit Insurance Corporation to load the public into a sense of security. In reality, the Federal Deposit Insurance Corporation holds just half of 1% of all the deposits it ensures, but what people are counting on is that the Fed, as the lender of last resort, would step in and print whatever money would be necessary to prevent a massive bank run.

By the mid 1930s control of the Fed by the New York bankers was drawing to a close. The Morgan era ended when president Roosevelt, who was no friend of the Morgans, appointed Marriner Eccles as its governor. Eccles, a republican from Utah, moved the activities of the Open Market Committee to Washington.

President Roosevelt was on hand for the dedication of a new three and a half million dollar building to house the Fed.

F.D. Roosevelt: I dedicate this building today, to progress. To progress toward the ideal of an America in which every worker will be able to provide his family at all times with an ever rising standard of American comfort.

Voiceover: 1933 also marked the beginning of the end for the gold standard, there was no end to Roosevelt's appetite for spending on such New Deal programs such as the gigantic 13 billion dollar Tennessee Valley Authority which flooded vast areas of productive farmland to provide government subsidized electricity, the Works Progress Administration which spent 11 billion dollars on make-work jobs and pork-barrel public works. But the US currency was tied to gold which limited the amount of money the Fed could print to pay for these costly projects, so the Government scrapped the gold standard for American citizens in 1933 and then Roosevelt confiscated the people's gold.

As in World War I, the warring parties in the second World War abandoned the gold standard to finance the war with central bank generated inflation. After the war there was an attempt to use the prestige of the gold standard to establish a global inflationary system. The world's financial leaders met at Bretton Woods in New Hampshire under the direction of the famous economist John Maynard Keynes. Their idea was to set up a new international monetary system that would have both gold and inflation.

Joseph Salerno: Under this system the US Dollar would be redeemable in gold but only for foreign official institutions, central banks and foreign governments, at the rate of 35 dollars per ounce. All other currencies would have fixed exchange rates with the US dollar and they would be redeemable in US dollars.

Voiceover: The New York Times editorialist Henry Hazlitt was one of the first to realize that this semi-gold standard would not succeed.

Ron Paul: Even from the very beginning it was doomed to failure and this very outstanding journalist at that time, Henry Hazlitt, predicted it wouldn't work because he says the temptation will always be that the government would print more money because they would accept these dollars and they won't demand the gold and won't hold the government in check and he was absolutely right.

Voiceover: During the 1960s the US government was trying to meet the cost of massive social welfare programs at home and the Vietnam war abroad. By printing more money, President Lyndon Johnson believed the US government could accomplish its goals without raising taxes, which may have caused the taxpayers revolt. In other words: he could have both guns and butter.

Lyndon Johnson: We will make sure that every dollar is spent with the thrift and with the common sense which recognizes how hard the taxpayer worked in order to earn it.

Voiceover: But the more money US printed, the more it eroded tha value of the dollar: nervous foreigners began redeeming their dollars in gold as they were entitled to do under the Bretton Woods agreement. After paying out billions in gold, the US was left with 36 billion dollars worth of outstanding debt to foreign creditors and gold reserves worth just 18 billion dollars. Rather than stop the inflation, in 1971 president Richard Nixon refused to redeem any more dollars.

Richard Nixon: I have directed Secretary Connally to suspend temporarily the convertibility of the dollar into gold or other reserve assets, except in amounts and conditions determined to be in the interest of monetary stability and in the best interests of the United States.

Voiceover: It was the death now for the Bretton Woods semi-gold standard and a triumph for the Federal Reserve. The dollar would no longer have even the illusion of a fixed value against other currencies: it would float against them causing even more dislocation in foreign trade and massive uncertainties for businessmen. Worse, the final check on dollar creation disappeared, creating endless possibilities for inflation. It's running at more than 300% since 1971 thanks to the Fed's power to create money out of thin air and to insure deposits. No US federal budget has been balanced since it abandoned the gold standard.

Joseph Salerno: I don't think that that's something that enhances the efficiency of our economy. I believe that the best money is a market-determined money such as we have under the gold standard. In order to get back to a market-determined money the Fed has to be abolished.

Voiceover: Ther is not now, nor has there ever been, any direct control over the Fed by the President or Congress. The meetings of the Federal Reserve board are held in secret and nobody nows exactly what goes on. If you watch the business report every night, commentators are constantly speculating about what the Fed might do:

News speakers: All eyes were on Washington today as the Federal Reserve met to decide the future direction of interest rates.
Most economists expect the Fed will leave monetary policy unchanged.

Voiceover: It is born a whole industry of Fed watchers who try to second-guess the Fed.

Lew Rockwell: Federal Reserve has been sorrounded by secrecy over since its planning, its installation and its operations to the present day and the reason is because they can't tell the truth; if they told the truth there would be a revolution, there would be a bunch of Americans that are ready to go and toss them out of the building.

Voiceover: A recent attempt to open the Fed to public scrutiny came in 1993. The head of the House Banking Committee, Rep. Henry Gonzales from Texas, called for an independent audit of the Fed's operations; he wanted the proceedings of the Open Market Commettee videotaped, with detailed minutes released within a week instead of vague summaries issued several weeks later. Gonzales also proposed the President chooses the twelve heads of the Fed's Regional Banks instead of powerful bankers. Predictably, Fed's chairman Alan Greenspan resisted the changes; what was surprising was President Bill Clinton's position. He declared the reform would "run the risk of undermining market confidence in the Fed".

After the Mexican government inflated and devalued the peso in 1995, the Mexican economy went into a tailspin. Alan Greenspan lobbied Congress and the Clinton Administration for a 52 billion dollar bail out, as it turned out the Fed's member banks held as much as 26 billion dollars in Mexican debt. With no choice in the matter, American taxpayers and savers paid the bill.

Ron Paul: The congressmen themselves, for my experience there, are pretty naive and they don't understand, but the few they have to like the chairman of the Banking Commettee, is aware of this and goes along with it and they continue to perpetuate this myth that the Federal Reserve brings about stability and they do good things for economic growth even though they are the culprits; they are the ones who caused all the problems, they are the ones who caused the recession and unemployment and the downsizing of big businesses and all the ill facts that we have to witness, but their PR job is excellent because they have convinced most congressmen that they are very necessary to maintain stability and economic growth and all these wonderful things they claim credit for.

Voiceover: It is clear that the United States cannot rely on Alan Greenspan or any other Fed chairman to fight the cronic inflation that has wrecked our savings, distorted our economy, redestributed income and wealth and brought us devastating booms and busts. Despite the estabilished view Greenspan, the Fed and big commercial bankers are not the inflation fighters they pretend to be; the Fed and its allied banks are not part of the solution to inflation in the business cycle: they are the problem itself.

To limit cronic inflation and boom-bust business cycles the currency must be baked 100% by gold; that would remove the Fed's ability to print money which amounts to no more than legalized counterfeiting. Instead there would be a monetray system where gold serves to anchor the dollar rather than the fiat reserves created by the Fed.

Lew Rockwell: If we were to establish a real gold standard, the average American family would benefit tremendously: first of all there would be more jobs, better jobs, more secure jobs, more business opportunities, no more business cycle, no more recessions and depressions, people savings would be secure, you would not have to worry if you put away money for your old age that its value would be stolen by the Central Bank and by the central Government as they are today.

Voiceover: Under a 100% gold standard there would be no place for fractional reserve

banking. For checking accounts and other demand deposits the banks would keep reserves on hand to meet depositor's claims; banks would receive a fee from their customers for keeping their gold. In loan banking, investors would hand over their money for a fixed period of time to earn interest. Once the gold standard is in place, individual bank depositors would always have access to their money and investors would be kept informed to their balance sheet and, at a national level, a tight rein would be kept up on government spending.

Ron Paul: You have a relatively priced stability, you have a stable purchasing power for the money, you eliminate the business cycle, you have reasonable interest rate rather than gyrating interest rates and you get rid of the political manipulation of interest rates and the political manipulation of the money supply and this then preserves wealth and builds wealth and allows for economic growth.

Voiceover: It is as simple as this: sound money means economic prosperity and limited government; unsound money means inflation, recessions and depressions and big governemnt. What sort of system do we want for our families? Don't we want prosperity and security that we can hand on the future generations? Transition to a gold standard will not be easy, but as Murray Rothbard put it: "The alternative is much worse."

"Since 1980, the Fed has enjoyed the absolute power to do literally anything it wants: to buy only US government securities but any asset whatever, to buy as many assets and to inflate credit as much as it pleases. There are no restraints on the Federal Reserve. The Fed is master of all it controls."

For more information on the Federal Reserve, write to Ludwig von Mises Institute, Auburn, Alabama 36849-5301 or call area code (334) 844-2500. Also available from the Mises Institute is '*The case against the Fed*', an insightful examination of the Federal Reserve operations, by Murray N. Rothbard.

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