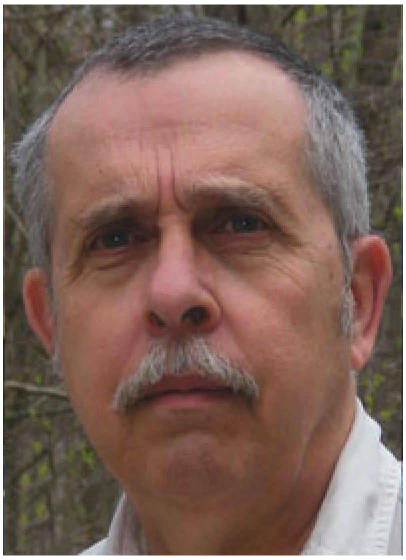
Mending Our Monetary Maladies



Edwin Vieira, Jr. is an attorney who has won three cases before the Supreme Court of the United States. He earned four degrees from Harvard University, including his doctorate. A popular speaker, he is also the author of the monumental two-volume survey of monetary history in our nation entitled Pieces of Eight. He resides in Virginia. The following interview was conducted by John F. McManus, publisher of The New American.

The New American: *Please summarize the economic condition of our country as you see it.*

Dr. Edwin Vieira: If we're talking about the solvency of the country — its financial status — I couldn't do better than to recommend an article by Boston University Professor Laurence Kotlikoff. He wrote "Is the United States Bankrupt?" in the 2006 *Bulletin of the Federal Reserve Bank of Saint Louis*. Professor Kotlikoff did a mathematical analysis of what he called the fiscal gap, which is the difference between anticipated revenues and anticipated expenditures of the federal government. He came to the conclusion at that time (2006) that the gap was $65.9 trillion, not counting various contingent liabilities of the government.

TNA: *You obviously have some confidence in this man's assessment or you wouldn't be citing it. So, what's he saying more recently?*

Vieira: It's important to recognize that Professor Kotlikoff is an established economist whose work appears in what many would call "the mainstream media." He's not someone who could be readily discounted as an extremist, a kook, or some other nasty name designed to discredit his opinion. A few months ago, in his blog, he revised those 2006 figures from information supplied by a variety of sources and he now claims that the fiscal gap — the shortfall between the government's revenues and expenditures — has reached over $200 trillion. So it's tripled in less than 5 years! It's gone from being politically impossible to deal with in 2006 to a much larger figure today. And, of course, Professor Kotlikoff is not the only economist or market analyst who is making extremely pessimistic predictions about this country's financial future.

TNA: *What is the cause of this increasingly frightening situation?*

Vieira: That's easy. It's the "funny money" system. And the Federal Reserve System alone isn't the root cause of the problem. It's the implementer of a bad system. The problem stems from a system that gives some people with political or economic power the ability to generate money out of nothing. This brings about a redistribution of the wealth via a form of hidden taxation that hardly anyone understands. It operates in the private sector through the banks, which are cartelized in the Federal Reserve System and allied through that system with the U.S. Treasury — in sum, a merger of bank and state.

A Congressman will support this system because he knows that the Federal Reserve will "monetize" public debt, and thereby enable the government to finance all sorts of transfer payments that are politically popular; and he doesn't want to lose the votes of the people who benefit from these programs. He can be fairly sure, too, that he won't lose the votes of the people who end up paying the hidden tax of inflation, because most people have no idea how the system actually works and adversely affects them. And a banker in the private sector and his clients will support the continuation of the system because they want to profit from it. The special interests that receive newly generated currency (whether in the public or the private sector) obtain the full value of that currency. But the newly generated currency then percolates into the economy, reducing the value of everyone else's currency. So some gain in the short term, and others lose in the long term, as real wealth is redistributed through the operation of the system. It's a form of very sophisticated social looting, made possible by the widespread ignorance of the public.

TNA: *How do you feel about Congress being asked to raise the ceiling on the national debt?*

Vieira: There are many in and out of Congress who insist that the debt ceiling must be raised because, if it isn't boosted, the government won't be able to pay its daily bills. Now, a "Ponzi scheme" is a financial "pyramid" operation in which new increments of income from new investors are necessary to pay off the old investors. If the new increments don't arrive on time and in sufficient amounts, the whole pyramid collapses. Constantly asking for increases in the debt ceiling in order to pay the federal government's bills by borrowing is really an admission that the federal government is, indeed, running a Ponzi scheme.

TNA: *How long will this thievery of the people's wealth continue?*

Vieira: The system can't succeed in the long run. And the long run seems to have arrived. If you look at the history of banking in the United States, you will realize that the sequence has been that, when one of these failures occurs at a particular level, the failure isn't honestly corrected. Instead, the institutional structure causing the failure gets moved to a higher level, and the private banks become more closely aligned and then integrated with the government. Prior to the Civil War, there were the First and Second Banks of the United States (which were actually private banks) and a large number of state banks. There was no true "central bank" as that term is understood today. All of these banks were running on the "fractional reserve" principle, creating money out of nothing; and, to a large degree, they all failed or proved defective. Along came the Civil War, and government leaders created the national currency system with national banks. This was the beginning of the merger of bank and state. These were the first banks tied into the national Treasury directly. They could issue new currency to the amount of 90 percent of the Treasury paper that they held. Essentially, this was direct monetization of government debt. But the national banking system did not have a "central bank." And it too failed spectacularly in 1907, when a massive financial panic broke out. So the politicians, the big bankers, and their economic theorists insisted that there was a need for "a lender of last resort" to prop up the banking system, and that this required moving the system to the next level, with the creation of a "central bank" closely connected with the U.S. Treasury. What they had in mind became the national banking cartel, the Federal Reserve System, in 1913. This system interlocked the banks with the Treasury.

TNA: *Why hasn't the Federal Reserve system collapsed?*

Vieira: It has. The first time was just after World War I; but that was a minor episode. The great crash occurred in 1932-1933. Then, squarely faced with the complete failure of their scheme, what did the money manipulators and politicians do? Just as before, they didn't correct the problem, but instead moved to a higher level for a solution, by canceling gold redemption of Federal Reserve Notes (the cartel's paper currency). In effect, they removed the last politically independent control mechanism in the system. Now that worked fairly well for a while, because the United States, even after the Great Depression, was in a good economic position following World War II. This country had a huge federally owned stock of gold at Fort Knox that had been accumulated when the government made it a crime for Americans to own gold and forced the people to turn in their gold. Additional amounts of gold had been paid to the United States by Great Britain and other countries for aid we had supplied during the war.

TNA: *What happened to all this gold stored at Fort Knox?*

Vieira: Although Americans could not own gold, foreigners could still exchange their Federal Reserve Notes for gold. During the 1960s, the inflationary policies of the federal government, especially the Johnson administration's attempt to finance both "the Great Society" and the fighting in Vietnam at the same time, led to a massive "gold outflow": namely, foreign central bankers cashing in Federal Reserve Notes for gold. Foreigners had realized that the Federal Reserve's currency was losing value because of inflation, so they wanted gold instead. But American citizens couldn't do what foreigners were able to do. Then, in 1971, President Nixon stopped all redemption for gold. That step, combined with President Johnson's having canceled redemption of paper currency for silver in 1968, meant that for the first time in our nation's history, the United States was on a truly unbacked fiat money standard.

TNA: *Could the situation we find our nation in today have been predicted in 1971?*

Vieira: Certainly! Historically, it has usually taken about a generation or two for a fiat currency system to go into crisis. That process has accelerated in the past decade or so with the derivative scams, credit default swaps, fraudulent mortgage bailouts, and other chicanery in the financial markets. Finally, large numbers of Americans, as well as foreigners, have come to realize that the Federal Reserve system cannot continue to operate as it has over the years. Of course, now it will be harder to correct the problem than it would have been in 1971.

TNA: *Do you see something other than the U.S. dollar being used as the world's reserve currency?*

Vieira: Yes. If the Iranians and the Indians are talking about using gold as the medium of payment for sales of oil, and the Chinese and the Russians are making noises about instituting trade arrangements in which they use their own currencies in preference to Federal Reserve currency, a major change in international monetary arrangements may be coming about soon. And who can blame them? They're looking at a basically fraudulent and corrupt system on its last legs, and they don't want to be under the pyramid when it collapses.

TNA: *What then should be done about this? What can Americans do?*

Vieira: First of all, you can't correct the situation at the congressional level alone. People who say that the Federal Reserve should be abolished have to realize that this can't be done overnight. All the prices in this country for goods, services, long-term contracts, and so on are denominated in dollars. That means, as the courts will say, that they have to be paid in dollars — which in practice means Federal Reserve Notes. But if the Federal Reserve's currency no longer exists, or is losing all of its purchasing power through hyperinflation, there will be chaos in the marketplace. A replacement for the Federal Reserve System must be created and put into general use before the system itself is abolished or self-destructs. But there is no consensus in Congress about what to do. There is, however, a dangerous alternative that the international financial powers want to enact.

TNA: *What might the internationalists want?*

Vieira: Internationalists here and abroad want to proceed to the next level just as has been done in the past. They want to replace the Federal Reserve System with a similar system that is supranational: that is, covering all or at least most major countries. The Federal Reserve has always been tied to one single country, and even with its political independence, it still tends to respond to the needs of the country where it is based. At the end of World War II, John Maynard Keynes wanted to have the International Monetary Fund issue its own currency called the "bancor." That would have set up a worldwide central-banking scheme. But Keynes hailed from England, which had been brought to the verge of bankruptcy by the war, and he didn't have enough political clout to push his plan through to adoption. Because of America's strong position, the Federal Reserve, even though it was a creature of one country, was "the only game in town." So the Bretton Woods agreement established the dollar as the quasi-world currency and the Federal Reserve as the quasi-world central bank. But that the Federal Reserve was still tied to a single country remained a problem for the world's internationalists, because the Federal Reserve would tend to respond more quickly to U.S. needs than to those of any other nation, and was always subject to control by Congress.

TNA: *What then should be done here in the United States?*

Vieira: First of all, we have the problem of not having a stable currency, and it's certainly not a constitutional currency. Worse, we can't count on Congress to produce a sound, constitutional currency. Theoretically, a stable currency could arise spontaneously among average Americans, because, even though Federal Reserve Notes are "legal tender," people are not required to use them in private transactions. Anyone can transact business with what are called "gold clause contracts" (see Title 31, United States Code, Section 5118(d)(2)). This type of contract was outlawed in 1933, but became legal again as of 1978 when the money manipulators and politicians were fairly sure that very few Americans had any understanding of this alternative, or would take advantage of it, even though the people were again allowed to own gold as of 1973-1974. But there are problems with this alternative, such as the need for the person you're doing business with to have as good an understanding of these kinds of contracts as you do. And then the businessmen would have to turn to their accountants and lawyers to figure out their tax liabilities and other regulatory questions. Thus, it would probably take many years for Americans on their own to understand how to use gold clause contracts as an alternative to Federal Reserve Notes.

TNA: *Is there no other way to prepare for the collapse of the dollar?*

Vieira: Yes, by using the intermediate level of constitutional authority in the state governments. These governments have two major incentives to take action in this field. One incentive is to act as true governments themselves, instead of always deferring to the government in Washington. I like to call this the "Tenth Amendment argument." The second is to fulfill their responsibilities to protect the people of their states against the financial collapse and resulting chaos that are on the horizon. This is the "Police Power argument." Once these incentives are recognized — as they should be — a state could then adopt gold, or silver, or better yet gold and silver, as its alternative currency. Any state could proceed in this manner as long as it didn't violate the two constitutional prohibitions in Article I, Section 10: namely, it can't coin money and it can't emit bills of credit (the term the Founders used for paper currency).

TNA: *How would this state program work?*

Vieira: A state can officially adopt from the marketplace some currency that's already there, such as gold and silver coinage produced by the United States, or by foreign governments, or even by private mints. The Constitution says that no state shall “make any Thing but gold and silver Coin a Tender in Payment of Debts.” So, as far as the law is concerned, a state can certainly allow for the use of gold or silver coin of any kind for its own financial transactions, and for the transactions of its citizens. What I have been suggesting is that the states actually do so, by officially adopting an alternative currency of gold and silver.

TNA: *Has this alternative been considered in any state?*

Vieira: A while back, a few legislators introduced an alternative-currency bill in New Hampshire. But it didn’t go anywhere, because most legislators didn’t understand what was being proposed and why it was necessary. Similar attempts failed for the same reason in Montana, Indiana, and Colorado. More recently, there has been interest shown in Utah, South Carolina, Georgia, Virginia, Tennessee, Montana, and perhaps a few other states. But awareness about monetary matters is still pretty rudimentary among state legislators.

TNA: *You’re not giving up, so what’s your plan now?*

Vieira: The first step that needs to be taken is to have state legislatures set up some sort of advisory committees or commissions to hold hearings, take testimony, and bring in evidence about the instability of our nation’s present banking and monetary system, and then to propose remedies at the state level. Legislators and the general public need to be made aware that this country’s monetary and banking systems are in deep and irremediable trouble, and that therefore there is a need for the states to provide some kind of insurance against complete economic chaos. An alternative currency, set up before the collapse occurs, is required.

TNA: *If nothing is done, is a monetary collapse, or hyperinflation, inevitable?*

Vieira: Yes. Hyperinflation, probably accompanied by a massive depression, may be just around the corner. And when it arrives, no one will use the currency they’ve been accustomed to using. It will effectively disappear. Without an alternative currency, determining the proper prices of goods and transactions will become extremely difficult. There will be barter, of course; but eventually some new form of economically sound currency will have to be introduced. Discussing this problem and how to solve it will be the goal of each state commission or committee that I hope will be established.

TNA: *What ultimately would you expect the states to do?*

Vieira: They have two practical alternatives. They can adopt actual gold and silver coinage as their alternative currency. This would work, but it is admittedly cumbersome for people to deal with coins for everyday transactions. The other alternative would be the adoption of what is called “electronic gold or silver.” A person, or a business, would have the amount of his or its stock of gold or silver reliably certified and noted electronically in a state depository. Any transaction could then be accomplished by electronically transferring ownership of the appropriate amount of its gold or silver — for instance, with a debit card. The gold or silver stock of the person or the firm would be reduced and the individual or firm at the other end of the transaction would see his or its stock increased.

TNA: *How would a businessman adapt to this alternative?*

Vieira: Business owners would have to set alternative prices for goods or services. For instance, a grocer would begin to sell a loaf of bread for $2.20 in Federal Reserve currency or so many grains of silver. The state should facilitate the process so that businessmen would be able to start using the new system right away. For instance, the state could supply the software necessary to generate the alternative prices. Those who availed themselves of the alternative currency could be given a discount on state taxation, or other economic incentives. Thus, in a short period of time after the state enacted the statute, any citizen who wanted to do so could walk away from the Federal Reserve's currency and transact his financial affairs in the alternative currency. The only exceptions would be in dealing with someone outside the state or with the federal government, as to which transactions Federal Reserve Notes would still be used — until, of course, the Federal Reserve System itself collapsed.

TNA: *How long would it take to establish this "two-tiered" system?*

Vieira: All of this could be accomplished in approximately 60 to 90 days after the necessary statutes were enacted. After all, most businesses operate on an "electronic" basis already. They would simply need to be tied into the state depository to use the alternative currency and set prices in it. Then the new prices would be on the shelves, the state depository would be in operation, and if people wanted to stop using Federal Reserve currency they could do so.

TNA: *You've long been an advocate of reconstituting the state militia. Where does a state's militia enter into the process you describe?*

Vieira: A properly constituted militia deals with all aspects of what we call "homeland security." One very important aspect of homeland security is economic security. Nothing can be maintained if the economy is in a shambles. If people are out of work and starving, everything else goes to pot. A sound economy can't be maintained without a sound currency. The federal government isn't providing a sound currency; and Americans can't get it from some other source such as the euro, because the euro is no more sound than the Federal Reserve's currency. So we have to create some new sound currency ourselves.

TNA: *Why does the militia have to be involved?*

Vieira: I can't think of any way to get people in large numbers to adopt this system quickly enough other than to have them realize that they are part of the state's militia, and that this program of adopting an alternative currency is part of their militia duty, which includes maintaining stability in the face of economic chaos. That shouldn't be so difficult. After all, belonging to the militia is the ultimate duty of citizenship. The Second Amendment in the Constitution begins: "A well-regulated Militia being necessary to the security of a free State." Read that carefully and you'll see it says that having a militia is imperative if you're going to have "the security of a free State." In fact, the formation of militia for the purpose of protecting the homeland is the highest obligation of the state. And, of course, having a sound economy, and a sound currency for that economy, is absolutely necessary to maintain "security."

TNA: *Wouldn't federal authorities try to stop this?*

Vieira: Not if they followed the Constitution. Of course, there will probably be some rogue officials who want to discourage the development of alternative currency at the state level. They couldn't interfere directly with state legislators or other state officials who had adopted an alternative currency for their states' use. But they could harass, say, individual business owners who announced the use of the two-tier pricing structure for their businesses, and put pressure on them to cease what their doing. They would want to scare all business owners into believing that, somehow or other, federal authority would be employed against them. If, however, the alternative currency plan were being implemented through the state militia, the business owners could tell the rogue agents to take up the matter with the commander of the militia — that is, the Governor of the state. Then the potential conflict would become one between the state and the rogue agents. And, a state could have the matter settled right away, by a lawsuit brought in the original jurisdiction of the Supreme Court.

TNA: *Why wouldn't the federal authorities target state officials for setting up such a system?*

Vieira: Legally, they can't. The Supreme Court has already ruled on this subject. In *Lane County v. Oregon* (1869) and *Hagar v. Reclamation District No. 118* (1884), the court ruled that the states may adopt whatever currency they desire for the purpose of performing their sovereign governmental functions — including gold and silver coin — and may refuse to employ a currency that isn't redeemable in gold and silver coin, even if Congress has designated such currency a "legal tender." As the Constitution tells us, the militia are "the Militia of the several States," so they are part of the states' sovereign governmental functions. Adopting an alternative currency to be used through the militia for the purpose of maintaining the state's economic security is thus protected by these decisions. So there is nothing "radical" in this proposal. It is exactly what the Constitution requires (and certainly allows), and what the Supreme Court has already approved.

TNA: *Is the plan you propose the key to the entire problem of over-reaching and out-of-control government?*

Vieira: It certainly is central to the solution. The high ground in the overall economic and political power structure has always proven to be control over money. In a self-governing republic, that control needs to be in the hands of the people themselves, not in the hands of bankers and politicians. Establishing an alternative currency under the control of the states' militias will shift control over money directly and permanently to the people.

TNA: *What you describe is uncomplicated and quite simple.*

Vieira: Overall, I have suggested only one change, a change in the currency, because that is the immediate and pressing problem facing this country. Once that change is accomplished in the right way, though, many other changes would probably follow in rapid succession. Success on this issue will surely pave the way for success on many others, including states' rights, balanced budgets, federal regulatory abuses, sheriffs' authority, and so on.

Photo: Edwin Vieira