Chapter Eight

FIAT CURRENCY

Our currency, the U.S. dollar, the Federal Reserve Note, is a “fiat currency.” Fiat currency is paper money that cannot be redeemed for a commodity with intrinsic economic value such as gold or silver. Fiat money is any money declared by a government to be legal tender. The term derives from the Latin *fiat*, meaning "let it be done," as the money is established by government decree.

Nature of Fiat Currency

While productivity is all about doing more with less, fiat money allows governments to do more with nothing. Fiat currencies are a way for governments to spend what they don’t have (see chapter on National Debt); and while counterfeiting by individuals is a crime, passing government notes off as money is legal because the government makes the laws.

The issuance of fiat money by governments is, in truth, a white collar crime and as happens when white collar crimes are discovered, a highly visible paper trail leads directly back to the wrongdoers, in this case, the central bank, the Federal Reserve.

Throughout history money served as a medium of exchange and as a storehouse of value. But when gold and silver coins were replaced by paper currencies, money no longer was the same. Paper money, no longer having intrinsic value, now functions only as a medium of exchange, a function that degrades over time.

The value of paper money continually loses value because the constant printing of paper money constantly dilutes the value of previously printed money. The more paper money that is printed, the less paper money is worth. And today, money is being printed at a faster rate than at any time in history.

In fiat paper money systems, today's paper money will not only be worth less tomorrow but will be worth less still the day after that and so on, ad infinitum. This constant degradation of paper money is known as *inflation*; don’t let anyone tell you otherwise.

For the first time in history, all money, all currencies (with the possible exception of Muslim nations) are now fiat which means, *money no longer has intrinsic value*. This is not because intrinsic value was deemed unnecessary for a functioning currency. The real reason is far less reasonable and follows an insidious chain of events.

“The problem with fiat money is that it rewards the minority that can handle money, but fools the generation that has worked and saved money.”- Adam Smith

Why Money is Now Fiat

All money is now fiat because between 1949 and 1970 the US overspent its entire 21,775 ton hoard of gold and could no longer convert its currency to gold as agreed under the Bretton Woods Agreements in 1944.

How the Government came up with its hoard of gold is yet another case of the Government stealing from We the People. On April 5, 1933, President Franklin Delano Roosevelt signed Executive Order 6102, The Gold Confiscation Act which required U.S. citizens to deliver on or before May 1, 1933 all but a small amount of gold coin, gold bullion, and gold certificates owned by them *to the Federal Reserve* in exchange for $20.67 per troy ounce.

The price of gold from the Treasury for international transactions was thereafter raised to $35 an ounce ($1,131.25 as of January 17, 2010). The resulting profit that the government realized funded the Exchange Stabilization Fund established by the Gold Reserve Act in 1934. The fund began operations in April 1934, financed by $2 billion of the $2.8 billion paper profit the government realized from raising the price of gold. The ESF as originally designed was a creature of the Executive Branch and *not subject to legislative oversight* (see the chapter on Sovereignty & Separation of Power). It eventually served to develop the International Monetary Fund and the World Bank.

The Tangled Web

The following information which ties together the Exchange Stabilization Fund, the Federal Reserve, the International Monetary Fund and the Bretton Woods Agreements is from the U.S. Department of the Treasury and www.treasury.gov (forget the facts and look at the essence of the picture painted):

> The ESF began to conduct foreign exchange market intervention transactions in 1934 and 1935. Also, it entered into credit arrangements, starting in 1936. From 1936 to the present, the ESF has participated in over a hundred credit or loan arrangements with foreign governments or central banks. After World War II, the ESF conducted Treasury's monetary gold transactions and widened its participation in credit arrangements. Historically, U.S. intervention has been jointly financed by both the ESF and SOMA (*Federal Reserve System Open Market Account*) and the financing has been equally shared between the two accounts.
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> Section 7 of the Bretton Woods Agreements Act of 1945 made the ESF's operations permanent. This Act also directed the Secretary to pay $1.8 billion from the *ESF to the IMF* in partial payment of the initial U.S. quota subscription in the IMF, thereby reducing the ESF's appropriated capital to the level of $200 million. An amendment to the Bretton Woods Agreements Act (passed in 1962) provided that any currencies or gold purchased by the United States from the IMF may be transferred from the Treasury General Account to the ESF and administered as part of the ESF.

Folks, notice that the Bretton Woods Agreement Act actually says what we *must* do and what we *can* do within our own house and with our money. Who is running this country anyway? Our stolen gold led to all of the above and now the tail is wagging the dog.

The International Monetary Fund

In 1941, the director of the Division of Monetary Research, Harry Dexter White, prepared the plans for the International Monetary Fund and the World Bank at the direction of Secretary of the U.S. Treasury Secretary Henry Morgenthau.

The International Monetary Fund was actually advanced in July 1944 during the United Nations Monetary and Financial Conference. The representatives of 45 governments met in the Mount Washington Hotel in the area of Bretton Woods, New Hampshire. The IMF was formally organized on December 27, 1945, when the first 29 countries signed its Articles of Agreement.

From www.imf.org:

> The records relating to the Bretton Woods Conference in the IMF Archives are mainly files of former staff members of the U.S. Treasury or Federal Reserve Board who, as members of the U.S. Delegation at the Bretton Woods Conference or as members of the Conference Secretariat, participated in the drafting of the Bretton Woods Agreement and the establishment of the International Monetary Fund. Evident in the Bretton Woods materials is the work, planning, and influence of British economist John Maynard Keynes, U. S. Secretary of the Treasury Henry Morgenthau, and Harry Dexter White, Deputy Secretary of the U.S. Treasury and Assistant Director of its Monetary Research Division who also served as Executive Secretary of the American Delegation to the Conference. The records cover the period from immediately prior to the Atlantic City Conference in June 1944 and run through the Savannah Conference held in March 1946. The collection also documents the efforts in both the United Kingdom and the United States to ratify the Bretton Woods Agreements in the two countries' legislatures.

The IMF and World Bank were planned in 1941 but it wasn’t until 1944 when their creation was sanctioned by The Bretton Woods Agreements. The conference itself was controlled by the United States and England (collusion?).

Special Drawing Rights

Special Drawing Rights (SDR’s), according to investopedia.com are an international type of monetary reserve currency, created by the International Monetary Fund (IMF) in 1969, which operates as a supplement to the existing reserves of member countries. They were created in response to concerns about the limitations of gold and dollars as the sole means of settling international accounts. SDR’s are designed to augment international liquidity by supplementing the standard reserve currencies.

You can think of SDR’s as an artificial currency used by the IMF and defined as a "basket of national currencies". The IMF uses SDR’s for internal accounting purposes. SDR’s are allocated by the IMF to its member countries and are backed by the full faith and credit of the member countries' governments.

Folks, this sounds a lot like the baskets of mortgages that led to the 2007 financial meltdown. It also kind of reminds me of the derivatives game, another element of the meltdown. The difference is that this is global and represents just one aspect of the tangled web created behind the scenes by the banking cartel.

The Special Drawing Rights Act of 1968, 22 U.S.C. § 286o, likewise provided that any Special Drawing Rights (SDR's) allocated by the International Monetary Fund or otherwise acquired by the United States are resources of the ESF. In accordance with the Act, SDR's can be "monetized" (i.e., converted into dollars) by having the Secretary of the Treasury issue Special Drawing Rights Certificates (SDRC's) to the Federal Reserve System. The amount of SDRC's are limited to the dollar value of the ESF's SDR holdings. The dollar proceeds of such monetization are assets of the ESF, and the SDRC's are a counterpart liability of the ESF. Treasury has a written understanding with the Fed that the SDRC's will be redeemed when ESF dollar holdings *appear to be* in excess of foreseeable requirements. Treasury does not pay interest on SDRC's.

The Tangled Web Redux

Folks, look back at the history of all this. It is split between the chapters on The Shadow, the Federal Reserve Banking System, The 16th Amendment, etc. In fact, every chapter of Part 2 of this Manifesto contains a piece of it. The web is so tangled that everything played a part. And since the Great Depression, it has all been done with our stolen money. The whole thing is so darned complex because its' intent is to obscure what has really been happening. And the legal system and the courts are equally guilty. To put it simply, the banking cartel maneuvered to get the country by the short hairs and we funded our own undoing. Hark back to the first chapter on Back to Basics and the need to view things from the lofty perspective in order to simplify them.

Back to the Point

What gold remains in U.S. custody today remains only because in 1971 the US refused to transfer the remaining gold owed to others as its obligations were far greater than its capacity to settle. This is known as the "Nixon Shock" as the U.S. unilaterally terminated the Bretton Woods Agreements.

The "Nixon Shock" is a term used to describe the actions taken by former U.S. President Richard Nixon that eventually led to the collapse of the Bretton Woods system. The policies imposed and the actions taken by President Nixon included imposing a 90-day wage and price freeze in America, a 10% import surcharge and, most notably, closing the gold window, effectively making the U.S. dollar inconvertible to gold and establishing a fiat currency.

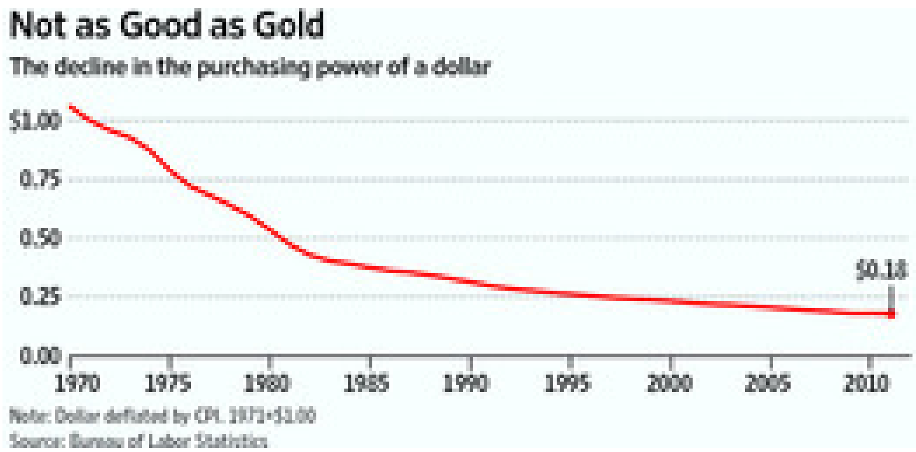
As a direct result of the economic policies imposed by the United States at the time, the gold standard was all but abandoned and the world's major currencies began to float. For the first time in history, no currency was backed by either gold or silver including the international reserve currency, the U.S. dollar. The destructive consequences of that act remained contained for 35 years. They are no longer.

Simply put, the "Nixon Shock" was the result of excessive U.S. military spending and corporate overseas expansion. Throughout history, the downfall of most paper money economies can be directly tied to wars and the military and the U.S. is no exception. More later on President Dwight David Eisenhower's warning about the "Military-Industrial Complex."

In Conclusion

Since 1913 when the Federal Reserve first issued its debt based paper money in the U.S., the U.S. paper dollar has lost 97 % of its value. Folks, that's a loss of 97 % over 97 years. Perhaps in three more years, 100 years after the creation of the Federal Reserve, the U.S. dollar will have lost 100 % of its value and be literally worthless. The game is over when paper money loses its value.

No fiat money system has stood the test of time. All attempts to substitute paper money for gold and silver have ended in the total destruction and debasement of the currency and it will not be different this time either. You can already smell the demise of the almighty buck. The dollar, one of the historically strongest of currencies has now lost nearly 100% of its purchasing power. Consider the following graph since gold was replaced with paper.



The bottom line is that our currency must be grounded (i.e. given real value). It must be grounded using gold and silver and perhaps other precious or rare earth metals. Consideration ought to be given to creating some form of hybridized system of valuation that includes some form of economic measure, perhaps a new metric measuring the growth of the reformed economy, perhaps applying some metric based on the creativity of the American People as it applies to the reformed economy. Book II, Part 3 describes the economic transformation.

However the currency is grounded, real, positive, tangible growth will ensue. And, real, positive, tangible growth equals JOBS and a less volatile economy over time.

The next chapter is all about the favorite son of the International Banking Cartel. Learn all about their favorite son in the next chapter, Chapter 9 - Federal Reserve Banking System.