NATIONAL CENTER FOR CONSTITUTIONAL STUDIES

Monetary Reform

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PART 3:

PROVIDING THE UNITED STATES WITH A SOUND MONEY SYSTEM

Contents:

Some Preliminary Questions and Answers

Q. How could Congress eliminate the Federal Reserve System?

A. Section 31 of the present Federal Reserve Act provides that "The right to amend, alter, or REPEAL this Act is hereby expressly reserved," (emphasis added). Originally, this provision was set forth in Section 30, but since 1978, when another section was added, it has been designated as Section 31.

Q. Would this require a Constitutional amendment or merely an act of Congress?

A. It would require only an act of Congress.

Q. Would it require a two-thirds majority or just a simple majority?

A. The Federal Reserve Act could be repealed by a simple majority in the House and the Senate.

Q. If the Federal Reserve Act was repealed, would the federal government have to buy back its stock?

A. Yes.

Q. How much would that cost?

A. Less than $3 billion.

Q. Would the United States then acquire all of the assets of the Federal Reserve System?

A. Yes. Section 7 says that if the Federal Reserve banks are dissolved or liquidated, the surplus after debts becomes the property of the United States.

Q. What are those assets and how much are they worth?

A. According to the March, 1982, Federal Reserve Bulletin, current assets amount to $168.5 billion. The gold listed in the assets is worth an additional $92 billion based on today's prices. This makes a total of $250 billion worth of assets which would be returned to the U.S. Government.

Q. If the Federal Reserve Act was repealed, who would be responsible for managing the money system?

A. The five trustees of the proposed National Monetary Fund. The Monetary Fund would be a branch of the U.S. Treasury.

Q. Would the trustees issue new money?

A. Yes. They would issue United States currency redeemable in gold or silver.

Q. Does this mean we would then be back on the gold standard?

A. Yes. Congress would designate the quantity of gold which each dollar bill would represent. Two grains would be a practical amount. Then each dollar bill would say: "This United States Note is redeemable, upon demand, with two grains of gold, or the same value in silver at the prevailing market price." This would make American currency "as good as gold."

Q. What if the price of gold went up?

A. The value of the American dollar would go right up with it.

Q. Would that make American currency our "legal tender?"

A. No. The Constitution limits legal tender to gold or silver. Gold coins would be issued by the government with each one representing a certain weight in gold. Silver coins would be issued for the purpose of providing small change.

Q. Then what is a dollar bill if it isn't 'legal tender?"

A. It is merely a United States promissory note. The government issues it with the promise that it will be redeemed in gold or silver which constitutes the "lawful" money of the United States.

Q. But I thought you said that the dollar bill would say it was worth approximately two grains of gold. Where does the silver come in?

A. The government would have the option of either paying in gold or paying the value of the gold IN SILVER at the prevailing market price. If gold was worth $350 an ounce and the market price for silver was $10 an ounce, then for 350 dollar bills you could receive either an ounce of gold or 35 ounces of silver. In other words, if the government chose to pay you in silver, it would be based on the market value of silver compared to gold at the time you came in to redeem your currency.

Q. Wouldn't all people want to immediately exchange their paper money for

gold or silver?

A. No. It is very inconvenient to carry around a lot of heavy metal money. If people are certain they can redeem their money in gold or Silver, they will elect to use paper money for nearly all transactions except those requiring small change.

Q. Does the United States have enough gold and silver to back up all the currency it would need if we changed over to a system based upon precious metal?

A. Yes. It must be kept in mind that only enough gold or silver is needed to give the nation enough currency for business transactions. Most transactions do not involve the actual exchange of currency, but rather occur by check, credit card, or electronic banking. Thus the money supply is always much, much larger than the currency supply. At the present time less than I percent of the money supply is in the form of currency in circulation.

Q. But what if all countries went on the gold standard? Would there still be enough gold to back the currency of each country?

A. Yes. Once the "unit of value" in each country is tied to the value of gold and there is enough gold to support the amount of currency in circulation, it is sufficient for its needs. There is enough gold for this purpose to serve the requirements of the entire world.

Q. What determines the value of gold?

A. The open market. Gold's value is determined by the amount available. Since the quantity of gold remains fairly stable because of its scarcity and the difficulty in mining it, the market value or purchasing power of gold remains approximately the same.

Q. The price of gold has been going up and down drastically during recent years. Doesn't this reflect the instability of gold?

A. No. It has been the value of our paper money which has been going up and down. In six months (July 1979 to January 1980) the price of an ounce of gold jumped from $300 to over $800. That is because U.S. paper money had lost its value in terms of gold and more of it was required to purchase an ounce of gold. In terms of purchasing power, gold has remained relatively stable.

Q. But how has gold remained stable in terms of "purchasing power?"

A. In 1933 a loaf of bread cost ten cents in gold. That same quantity of gold would buy a loaf of bread today. In 1933 a good automobile could be purchased for $900 in gold. Today the same amount of gold would pay for the same make of car-except it would be the latest model. In terms of gold, the price of both bread and cars has remained approximately the same during the past fifty years.

Q. Why wouldn't it be a good idea to fix the price of gold at $35 an ounce like it used to be?

A. Because the market value of gold varies from time to time, and U.S. currency then becomes the basis for speculation. For many years the United States Government kept the price of gold at a fixed level of $35 even though the market price had gradually risen 300 percent higher. As a result, Europeans gobbled up as many American dollars as possible and demanded payment in gold at $35 an ounce. This drained off more than 18,000 tons of U.S. gold which was then sold in foreign markets at a profit of somewhere around $400 billion. If the value of gold had been left to follow the trend of the market, there would have been no such drain.

Q. Isn't it uneconomical to have vast quantities of gold lying idle in vaults when it could be circulating among the people as working capital?

A. No, it is not lying idle in the vaults. It provides the backing or working capital for the entire monetary system. As economists have pointed out, gold is most useful when it is lying in vaults as the backing for the money system of the nation. Like weapons of war, gold deposits are most useful when they are in storage and provide security without having to be used.

Q. How can you be certain that the trustees of the proposed National Monetary Fund would not issue more currency than the amount of gold and silver available for its redemption?

A. The trustees would be subject to heavy penalties if they did not comply with the requirements of the law.

Q. How will they know how much money to provide for the U.S. economy?

A. The volume of money will be correlated with the gross national product. The trustees will be required to keep the money supply within 3 percent of the goods and services being exchanged by the American people (the GNP).

Q. Why is it necessary to index or correlate the money supply with the gross national product? I have heard economists say that if we went back on the gold standard there would be an automatic control of the money supply.

A. It must be remembered that there is always tremendous political pressure to increase the credit and money supply to heat up the economy. If there were no trustees to keep the money supply in close correlation with the supply of goods and services, there would be a great temptation to "create" new money by printing it up and buying new supplies of gold. The gold would be stored in the government vaults but the currency which was printed to buy it would be circulating among the people. This means the government could go on printing paper money and buying gold until there was a tremendous increase in the money supply and a skyrocketing rate of inflation. So you see, a gold standard does not provide an automatic control of the money supply. This is why we need to correlate it with the amount of goods and services which the money is used to buy. Indexing the money supply with the GNP would be an important safeguard under the new system.

Q. But what if the country becomes very productive and the amount of goods and services greatly increased?

A. Then the money supply must be allowed to grow accordingly.

Q. But what if the economy becomes very dynamic? Wouldn't it cause inflation during a time of prosperity?

A. No. It is a well-established fact that the rapid turnover of money in a dynamic economy does not cause inflation so long as the money supply remains the same.

Q. What has caused inflation in the past?

A. Suddenly adding to the money supply so that a lot more money starts chasing after the available goods and services. This causes prices to go up and therefore it takes more money to buy a particular product. We call this inflation.

Q. Who adds to the money supply in such large quantities that it causes inflation?

A. It usually occurs either by the government spending a lot more money than it is taking in (deficit spending) or the banks using their credit-creating power to make a lot of money out of nothing.

Q. How can we keep the government from spending more money than is coming in?

A. President Ronald Reagan recommended in a nationwide television broadcast during April, 1982, that we should adopt a Constitutional amendment making it necessary for the Congress to balance the budget each year. The only exception would be in time of war or a declared emergency.

Q. How can we prevent the banks from advancing credit to people with nothing to back it up-or, as you say, making money out of nothing-and thereby causing inflation?

A. This could be done by repealing the Federal Reserve Act and outlawing "reserve" or "fractional" banking.

Q. What is "reserve" or "fractional" banking?

A. It is allowing the banks to set up a certain quantity of money in their "reserve" and then issue as much as ten times more credit than the reserve contains.

Q. Can anybody else do that?

A. No. If ordinary people try to sell or loan something that doesn't exist, they will be sent to jail.

Q. Then how can the banks do it?

A. This was a power that was granted to them under the Federal Reserve Act. It was thought that by having this power the Federal Reserve System could stabilize the money system better.

Q. Why didn't it work?

A. Because, as Dr. Milton Friedman has pointed out, the Federal Reserve System used these powers to cause several major depressions and promoted a recent cycle of serious inflation. These operations worked to the advantage of certain major banking establishments but produced chaos in the economy. It was devastating to the millions of Americans who lost their jobs and their savings as a result.

Q. How would the trustees control the money supply under the new system?

A. In two ways: (1) by monitoring banks to insure they only loaned out money actually held by them in reserves; and (2) by regulating the amount of money which could be loaned by the proposed National Monetary Fund to banks, states, and municipalities.

Q. What would the proposed National Monetary Fund charge for such loans?

A. We have suggested 3 percent.

Q. Would this help cut down taxes?

A. Yes, very substantially.

Q. Would there be a ceiling on interest rates as there used to be?

A. Yes. The banks could not loan for more than 10 percent interest.

Q. What if there is a shortage of credit and people are willing to pay more? Wouldn't it be better to let interest rates follow the trend of the open market?

A. The present high interest rates are caused mostly by inflation. It has been pointed out by many economists that if we eliminated inflation the interest rates would probably go back to 6 or 7 percent. Most banks and loan associations require profits of only 2 to 3 percent over the cost of the money being loaned. If they can borrow money from the proposed National Monetary Fund at 3 percent and loan at 6 percent, that is a good margin of profit. It is only when there is serious inflation that the interest rates have to climb in order to protect the lender against losses due to inflation.

Q. Then why is a ceiling of 10 percent necessary?

A. Experience has shown that even when a monetary system is operating normally, it pays to establish a ceiling to prevent the exploitation of hardship cases. Until the latest spiral of inflation, nearly all states maintained ceilings or set usury laws at around 10 percent. Canada had a ceiling of 6 percent.

Q. Would there be an adequate supply of money or credit available to the country if the banks could not "create" money as they have in the past?

A. Yes. Not only could the banks borrow whatever money might be available through the proposed National Monetary Fund at 3 percent, but the banks and other investment houses would be receiving hundreds of billions of dollars for investment purposes from the new Social Security funds. All workers would divert Social Security payments away from the government and place them in privately owned individual retirement accounts (IRAs). This would make a larger amount of money available for investment purposes than there has been at any other time in history.

Q. This sounds as though the economy of the United States would produce the greatest period of prosperity ever known.

A. That is correct.

Q. Why haven't these monetary reform principles been immediately adopted

by the Reagan administration?

A. That is a good question. Let us proceed to examine what has been happening under the Reagan Administration and what can be done to implement a sound monetary system.

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When Ronald Reagan was elected President in 1980, there was an implied mandate that he do something about the nation's monetary ills. He promised to fulfill this mandate. He entered the White House determined to somehow solve the plague of double-digit inflation, the crushing burden of public debt, the harassment of confiscatory taxation, high interest rates, erroded savings, leaping prices, crippling strikes, and increasing bankruptcies. There were also the equally serious problems of vice, crime, divorce, and violence. Many of these are closely related in one way or another with the nation's sick money system.

It was obvious from the beginning that the solution to the nation's problems would require tremendously bold and vigorous policies, which the President immediately launched. However, cutting taxes, reducing the federal budget, and several other essential programs ran into strong opposition in the House of Representatives. But he surprised them and won.

Nevertheless, this series of victories was the signal for a salvo of opposition from every bastion of strength his enemies could command. Every available editorial page, every available radio and TV program, every statistic of unemployment or reverses in the economy, were marshaled together to dismantle public support for the Reagan reform.

Reaganomics Runs into a Brick Wall-
Federal Reserve Policies

However, it is unlikely that any of this opposition would have discredited the President or threatened his party's support in the 1982 elections, if he had not been severely undercut by Federal Reserve policies. During the summer of 1981 President Reagan had virtually pleaded with the Federal Reserve to hold the money supply at a steady level and let production catch up to it as the best means of reducing inflation. But the Federal Reserve Board was on another relentless drive to slash the money supply regardless of the consequences. The number of bankruptcies skyrocketed and interest rates went so high they shattered the housing market, blunted automobile production, stunted industrial growth, and bottomed out prices for agriculture.

This was the perfect orchestration for Reagan's enemies as they set the stage to win congressional seats in 1982 and recapture the White House in 1984.

Both Democrats and Republicans who have supported the President's initial thrust know that he has to do something forceful and immediate about the sick money system as well as the Federal Reserve System. Otherwise, they will destroy him.

This present study was especially prepared to provide a fundamental background for the problem which now faces the President. Can he come up with a solution?

He most definitely can, provided he avoids the pitfalls of the past.

What Are the Characteristics of a Sound Money System?

Here are some of the most important characteristics of a sound and honest money system which the Founders had in mind when they wrote the Constitution:

1. Money should be recognized as nothing more than a unit of value designed to facilitate the exchange of goods and services. The right to create such a symbol therefore belongs to those who create the goods and services, meaning the people themselves. It is an inherent and unalienable right which they alone can delegate. In the Constitution the right to create the people's money was delegated to Congress.
2. Once the right to create money is delegated to the people's representatives-the Congress-it is completely unlawful for the Congress to give that right to a group of private bankers or "money managers."
3. It is the responsibility of the Congress to create a healthy dollar or unit of value which will maintain the same relative value from generation to generation.
4. It is also the responsibility of the Congress to set up appropriate machinery to monitor the money supply so that it will remain in balance with the amount of goods and services being produced by the people. As productivity increases, the money supply should be increased, but only to the same extent. Congress has never provided the machinery needed to fix and maintain the value of money by regulating the supply in relation to goods and services.
5. Machinery should also be provided so that no powerful group of private money manipulators could suddenly drain off large portions of the money supply so as to cause a depression, or suddenly add to the money supply and thereby create skyrocketing inflation. Either of these developments violates the responsibility of Congress to "fix" and maintain the "value" of the dollar as provided in the Constitution.
6. It was also the intention of the Founders that the issue of the dollar be locked into a designated amount of gold or silver. Throughout the history of modern man, precious metal has always been the "money of last resort." Of course, people will ordinarily prefer to use paper money because it is so much more convenient to handle, but as Jefferson and others pointed out, it should be redeemable in gold or silver. And experience has taught us that U.S. notes should be redeemable in gold and silver at the prevailing market price rather than some arbitrary price fixed by statute. A statutory price allows speculators to play havoc with our currency.
7. To safeguard the value of money against the manipulation of speculators, it is essential that the nation have such a large supply of precious metal in storage that no group of private speculators, either at home or, abroad, can get a corner on the market and seriously alter the stability of the paper money which has been issued.
8. When a certain unit of value (the dollar) has been declared the official legal tender, no bank or individual should be allowed to make loans except in terms of monetary assets which are in actual possession or readily available. Fractional banking or loaning on "credit" backed by merely a fraction of the loan is inherently fraudulent and should be outlawed.

The Inherent Deficiencies of the Federal Reserve System

No one should have difficulty in immediately recognizing why the present American money system has produced such a sick dollar. From our earliest history the Congress has never fulfilled its responsibility to issue our money Constitutionally and "fix the value thereof." The creation of the Federal Reserve System was the most serious mistake of all. During its operation for nearly three-quarters of a century, here is what it has done to the American people:

1. Allowed a group of private central bankers to issue the people's money and make fabulous profits by manipulating the economy to the advantage of their own special interests.
2. Manipulated the dollar until it has lost 90 percent of its buying power since 1913.
3. Practiced fractional banking on the people, wherein it was able to use a small "reserve" to loan out many more times as much money on its "credit" so as to artificially expand the money supply and bloat the economy. At regular intervals it has withdrawn this make-believe money supply or credit so as to contract the economy and provide an excuse to foreclose on farms, homes, factories, and savings accounts. By this means the fractional bankers have been able to replace their make-believe wealth or "credit" with tangible wealth which would later be sold at a substantial profit.
4. It is now known that the money managers behind the Federal Reserve System lobbied legislation through Congress which forced the American people off the gold standard in 1934 and off the silver standard by 1964. They further succeeded in having the people's gold confiscated in quantities which would now be worth several hundred billions of dollars.
5. Studies show that the stock of the Federal Reserve System is known to have been controlled to a large extent by the private bankers who operate the central banks of Europe, and they have continually manipulated the American economy and its Federal Reserve System to their own selfish advantage. By alternately using war and depressions, they have drained off so many billions of dollars from the American people that it is now difficult to comprehend the extent of it. Although a few members of Congress have tried to expose these frequent manipulations, the intricacies of the Federal Reserve System have been so complex that most Congressmen have failed to realize what was actually happening.
6. Most importantly, the managers behind the Federal Reserve System have accumulated such fabulous quantities of wealth that they have been able to buy up the major news media and make such extensive grants to the foundations and universities that it has been virtually impossible for alarmed Congressmen and economists to project their warning through the educational and communications systems of the nation. This has kept the public in almost total ignorance of what has been taking place. It has also prevented the mobilization of the political forces needed to recapture the monetary system from this gigantic establishment of monopolized power which has a vested interest of hundreds of billions in the Federal Reserve System.

How Can Americans Liberate Themselves, and Set Up a Constitutional Money System?

It has been known for many years that there is an escape from the present dilemma if a sufficient number of Congressmen can be induced to consider the source of the problem and the requirements for a solution.

The key to solving the problem is Section 31 of the Federal Reserve Act, which provides that the government can repeal the Act, thereby abolishing the Federal Reserve System.

Section 7 would then come into operation. It says: "Should a Federal Reserve Bank be dissolved or go into liquidation; any surplus remaining after payment of all debts, dividend requirements,... and the par value of the stock, SHALL BE PAID TO, AND BECOME THE PROPERTY OF THE UNITED STATES...... (Emphasis added.)

The stock of the Federal Reserve Banks would cost the government less than three billion dollars, whereas the assets of the Federal Reserve System are now nearly $200 billion. Most of these assets are in U.S. government bonds. There is also another $100 billion being held in "reserve" for the member banks, and practically all of these assets are in U.S. government bonds.

Furthermore, the Federal Reserve System has obtained these billions in bonds without paying anything for them, and therefore they can be taken back as part of the assets of the system without any obligation to compensate the stockholders for them. In order to understand how the Federal Reserve has been "buying" U.S. bonds without paying anything for them, it is only necessary to follow the procedure in one of its purchases-for example:

Let us say the Federal Reserve applies to the U.S. Treasury for $500 million worth of bonds. The Treasury promptly prints up the bonds (government IOUs), which require the American taxpayers to eventually redeem them at their face value plus a regular payment in interest. Now comes the surprise. The Federal Reserve puts the bonds in its "reserve" fund and immediately treats these bonds as an asset. It then writes out a check to the government based on the credit created by these bonds! In other words, nothing of value is surrendered to the Treasury for these bonds. It is simply a question of writing a check on the "credit" which the bonds themselves created.

When the member banks buy U.S. bonds, they follow the same procedure.

How to Wipe Out a Substantial Part of the Federal Debt

The important point to recognize is that if the United States bought back the stock of the Federal Reserve System, the government would also be entitled to all of the assets and "reserves" of the system, including these bonds for which the Federal Reserve and its member banks paid nothing. These bonds could then be immediately canceled since the government would own them. They would not have to be redeemed, nor would any further interest be due on them. It would be similar to a man who buys a company and finds that the assets include his own notes or IOUs. Through his purchase of the company he gets back these IOUs and can tear them up because he owes them to himself.

This procedure would wipe out approximately $200 billion worth of bonds belonging to the Federal Reserve System and another $100 billion worth of bonds in the "reserves" of the member banks.

There is another huge supply of U.S. bonds in the trust funds of various federal agencies. These trust funds were originally set up to maintain a ready supply of emergency cash, but over the years these trust funds have been spent and replaced with U.S. bonds or IOUs. All of these bonds belong to the United States and should therefore be canceled, since they belong to the government and should be considered redeemed with no further interest due. This would account for another $100 billion or more which could be wiped off of the federal debt, thereby bringing the total to approximately $400 billion in canceled U.S. bonds, which would substantially reduce the federal debt. It would also cut the government's annual interest payments in half.

All other outstanding U.S. bonds should also be redeemed and canceled out as rapidly as the economy will permit. The United States would then be completely out of debt, and by adopting the Founding Fathers' monetary formula the nation could stay out of debt forever.

Legislative Steps Needed to Stabilize the U.S. Monetary System

Just as soon as the government has paid the debts, met the dividend requirements, and repaid the stockholders of the Federal Reserve System, the Congress could proceed to take the steps which economists have been working out in progressive detail since the days of Thomas Jefferson. The basic requirements for the new monetary system should be carefully codified in an amendment to the Constitution. This legislation could be set up quickly by an act of Congress. Eventually, it would need to provide for the following:

1. Freezing the money supply at its present level to prevent any further deterioration by inflation.
2. Setting up the necessary monitoring machinery to keep the supply of money within 3 percent of the gross national product (goods and services), using the price index to provide a month-by-month correction so as to keep the ratio between the money supply and the GNP as exact as possible.

   The only exception to the 3 percent restriction would be in time of war or an extreme emergency declared by Congress. The law should require that the excess money supply pumped into the monetary system to meet the needs of the emergency must be drained off through taxes or other means within five years so as to bring prices and the supply of money back into their original ratio. Only by this means will the savings of the people retain their buying power or "value" from generation to generation.

3. Appointing the trustees in charge of the proposed Federal Monetary System to permanent positions until they reach the age of seventy. Their compensation should be substantial and not subject to being diminished during their term of service. The law should also provide for severe punitive action, in addition to impeachment, for any dereliction of duty on the part of these trustees or their supervisory officers.
4. Issuing new United States notes to replace the Federal Reserve notes which would be redeemable, at the option of the government, in either gold or silver. Congress would designate the gold and silver reserves required for domestic currency as well as for transactions in foreign exchange.
5. Abolishing the Open Market Committee of the Federal Reserve System.
6. Forbidding all fractional banking by banks, loan associations, and individuals.
7. Allowing commercial banks and the public bodies of the individual states to borrow funds from the proposed United States Monetary System at 3 percent interest, these funds being allocated to each state according to its population, unless Congress should deem otherwise. In the absence of a war or emergency, no such loans would be available unless they could be made within the ratio of balance required between the money supply and the GNP.
8. Forbidding commercial banks and loan associations to loan any funds at interest in excess of 10 percent. Loans could be made only to the extent of funds borrowed from the monetary system, its tangible assets, or the savings

of its customers. Each bank would be required to maintain a dollar-for-dollar balance on all demand deposits (checkbook accounts) and would charge for services rendered in handling checks, notes, or trusts for its customers. The present Federal Reserve branches would be taken over by the proposed Federal Monetary System and would provide clearinghouse services as at present.

9. Borrowing by the government would be forbidden. The right to create additional money for the people would be achieved by printing United States notes, without interest, and, except in time of war, would be subject to the limits of keeping the money supply in balance with the GNP. Issuing the people's money without paying interest and without borrowing would finally fulfill the formula of the Founders.
10. Incorporating all commercial banks as entities of the individual states or territorial possessions. There would be no federal banks or national banks. Nevertheless, the proposed Federal Monetary System would have supervisory responsibilities over all banks and loan associations to verify their liquidity and promptly detect any fractional banking practices or other violations.

Tremendous Advantages of a Constitutional Monetary System

Because the Founders' original formula for monetary reform has never been made fully operational, a brief period of adjusting and fine tuning would be necessary to bring it up to top efficiency. However, once it began operating at speed, it would no doubt achieve everything which the European bankers feared it might. Here is what it could accomplish within a short time:

1. Put the authority to issue the people's money back in the hands of Congress, as required by the Constitution.
2. Allow money to be created as needed without borrowing or paying interest for it.
3. Get the United States completely out of debt.
4. Keep the money supply in balance with the productive quantity of goods and services so that the buying power or "value" of the U.S. dollar would remain approximately the same from generation to generation.
5. Stabilize the dollar; take the major risk out of putting savings in the bank, making industrial investments, and buying a home; modernize America's industry; stimulate investment in research and technology; stabilize the stock market; and provide a realistic security for those retiring on a fixed income.
6. Prevent inflation. The money supply could not increase above 3 percent and the monitors would have the power to pull it back even from this minor amount of dislocation.
7. Prevent depressions. Since the money supply would not be allowed to drop below 3 percent of the GNP at any time, the trustees would closely monitor the price index, and if it revealed any tendency toward a slump, a new supply of money and credit could be immediately released to make up the difference.
8. Reduce federal taxes tremendously. The 3 percent interest paid to the proposed Federal Monetary Fund for loans to commercial banks, public institutions, and loan associations would go directly into the United States Treasury.
9. Eliminate practically all bankruptcies among financial institutions. State-incorporated commercial banks and loan agencies would no longer be subject to the boom-and-bust cycle. Nor would they be subject to the whims of the New York and European money trusts which have forced tens of

thousands of American banks and loan associations out of existence during the past two hundred years.

10. Permit commercial banks and loan associations to borrow money from the proposed Federal Monetary System at 3 percent and loan it out competitively to the public at a higher interest rate provided it did not exceed 10 percent. They would charge a reasonable fee for servicing checkbook accounts and maintain a dollar-for-dollar balance for all demand (checkbook) deposits so there would never need to be a "run on the bank" to recover these deposits. Savings, or time deposits, would also be the basis for loans at interest rates not exceeding 10 percent and the proposed Federal Monetary System would monitor the accounts to make certain that every loan had been realistically underwritten by substantial collateral. The banks and loan associations would therefore operate like any other business and make their profits from services rendered rather than gambling on fractional reserves and being required to participate in boom-and-bust economics which have destroyed the credibility of thousands of banks and forced them out of existence.
11. Help stabilize overall prices through the stabilization of the money supply. No longer would the farmer find himself paying rapidly inflated prices for equipment, fertilizer, and fuel while his crop prices remained stagnant. No longer would manufacturers find themselves being forced to pay highly inflated prices for raw materials and labor, thereby pricing themselves out of the world market.
12. Greatly reduce the likelihood of strikes and tempestuous labor disputes, for reasons similar to those listed above.
13. Greatly accelerate the velocity of business. However, studies show that the rapid turnover of money does not need to result in an inflationary cycle as many had supposed. It does produce a remarkable increase in goods and services, but as this occurred the monitors of the proposed Federal Monetary System would simply create additional money to keep the monetary supply in balance with the rising GNP.
14. Rapidly force every nation in the world to adopt a similar monetary system. This system would proliferate prosperity all over the world and would help to eliminate abject poverty, one of the most pernicious causes of war.

Suggested Text for Needed Legislation Which Could Be Later Codified into an Amendment to the Constitution

Congress could immediately implement the suggestions set forth in this proposal by passing enabling legislation which could be later codifed into an amendment to the United States Constitution. Such legislations might be structured as follows:

"Upon the passage of this act, the President of the United States shall immediately exercise the option set forth in Section 31 of the Federal Reserve Act, as amended, to repeal the Federal Reserve Act. The United States shall claim all assets belonging to the Federal Reserve System, after payment of all debts and dividend requirements, according to Section 7 of the Federal Reserve Act, as amended.

"The President shall appoint, with the advice and consent of two-thirds of the House and Senate, five trustees, including a chairman, to govern the Federal Monetary Fund. These trustees shall serve until they reach the age of seventy and shall be compensated in the same amount and subject to the same safeguards as the justices of the Supreme Court.

"Except in time of war or other emergency declared by Congress, the five trustees shall be required, under penalties prescribed by Congress, to maintain the money supply within 3 percent of the gross national product based on a monthly calculation. Should war or other emergency require a more extensive increase in the money supply, the five trustees shall be allowed five years after the emergency has passed to absorb the excess funds by taxes or other means prescribed by Congress.

"The five trustees are authorized to issue currency or gold or silver coins or to withdraw the same from circulation in order to maintain the required balance between the money supply and the gross national product. All coins shall be issued in terms of their weight rather than a prescribed dollar value or fraction thereof.

"The five trustees are authorized to loan funds at 3 percent interest to state-incorporated banks or loan associations or to grant loans for specific projects to the states, counties, or communities of the United States or its territorial possessions. Loans shall be allocated to states and territories on the basis of population unless Congress shall provide otherwise.

"There shall be no federal banks or national banks.

"Borrowing by the United States government shall be forbidden.

"All state-incorporated banks or other lending agencies may make loans based on savings, fixed assets, or money procured from the Federal Monetary Fund, but no loans shall be made at interest rates in excess of 10 percent.

"The five trustees shall be required, under penalties prescribed by Congress, to prevent any bank, loan association, or other lending agency from engaging in fractional or reserve banking practices.

"The five trustees shall be required to see that all banks or other lending agencies have in their possession a dollar-for-dollar backing for all demand-payment accounts (checkbook accounts). Although a bank or loan association may charge a fee for the servicing of demand-payment accounts, these funds may not be loaned or treated as a fixed asset on which loans are made.

"For a reasonable fee, the Federal Monetary Fund will maintain clearinghouse services for all bank or loan associations handling demand-payment accounts. It shall also monitor all banks and loan associations to verify their liquidity and promptly detect any fractionalized banking or other violations of monetary regulations.

"The United States Treasury shall be the national depository for the storage and distribution of all government funds."

Monetary Reform Is a Practical Solution to Current Fiscal Problems

A careful review of these provisions will demonstrate the realistic possibility of an early solution to the many fiscal problems presently plaguing the nation. For two hundred years Americans have been wandering away from a Constitutional monetary policy and have repeatedly paid the penalty for a variety of experiments in fiscal futility. These experiments have seriously eroded the dollar, subjected the people to exploitation and abuse, and continually threatened the stability of local banking establishments.

The suggested Monetary Reform Amendment would set up a Federal Monetary System to replace the Federal Reserve System. It would adapt the Founders' original intent to modern circumstances so as to regulate the supply of money, and hence the "value of money" in terms of goods and services (GNP). This would stabilize the dollar, protect savings and fixed incomes, eliminate fractional banking, restore a gold and silver base for American money, prevent depressions, make strikes largely unnecessary, stabilize both banking and business, and give the American people sound, honest money as the Founding Fathers originally intended.

President Reagan on the Razor's Edge

At this very moment the course of the American economy is hanging on the brink of a momentous decision. The outcome will become the watershed for the rest of the twentieth century. The question is simply this: "Does President Reagan have the power and courage to abolish the Federal Reserve?"

If he does not, his mission is ended. His political demise is assured. But if he does, he could pass into history with a record of phenomenal achievement.

This decision is really a choice between the misery and decay of a deteriorating socialist America or the brilliant promise of a free and prosperous Constitutional America.

Whether or not the Federal Reserve continues to remain at the helm of America's economic ship of state is the crucial question. Hans F. Sennhoiz, one of America's foremost economists, put the crisis we are now facing in its proper focus when he said:

The simple truth is that WITHOUT the Federal Reserve System there can be no continuing march towards socialism, and WITH IT there can be no free economy. That is why the adherents of liberty and capitalism cannot rest until the Federal Reserve System has been abolished. (Sennhoiz, American Opinion, April, 19,58; quoted ir Kenan, Federal Reserve Bank, p. 251; emphasis added.)

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