

**CONVERTING**

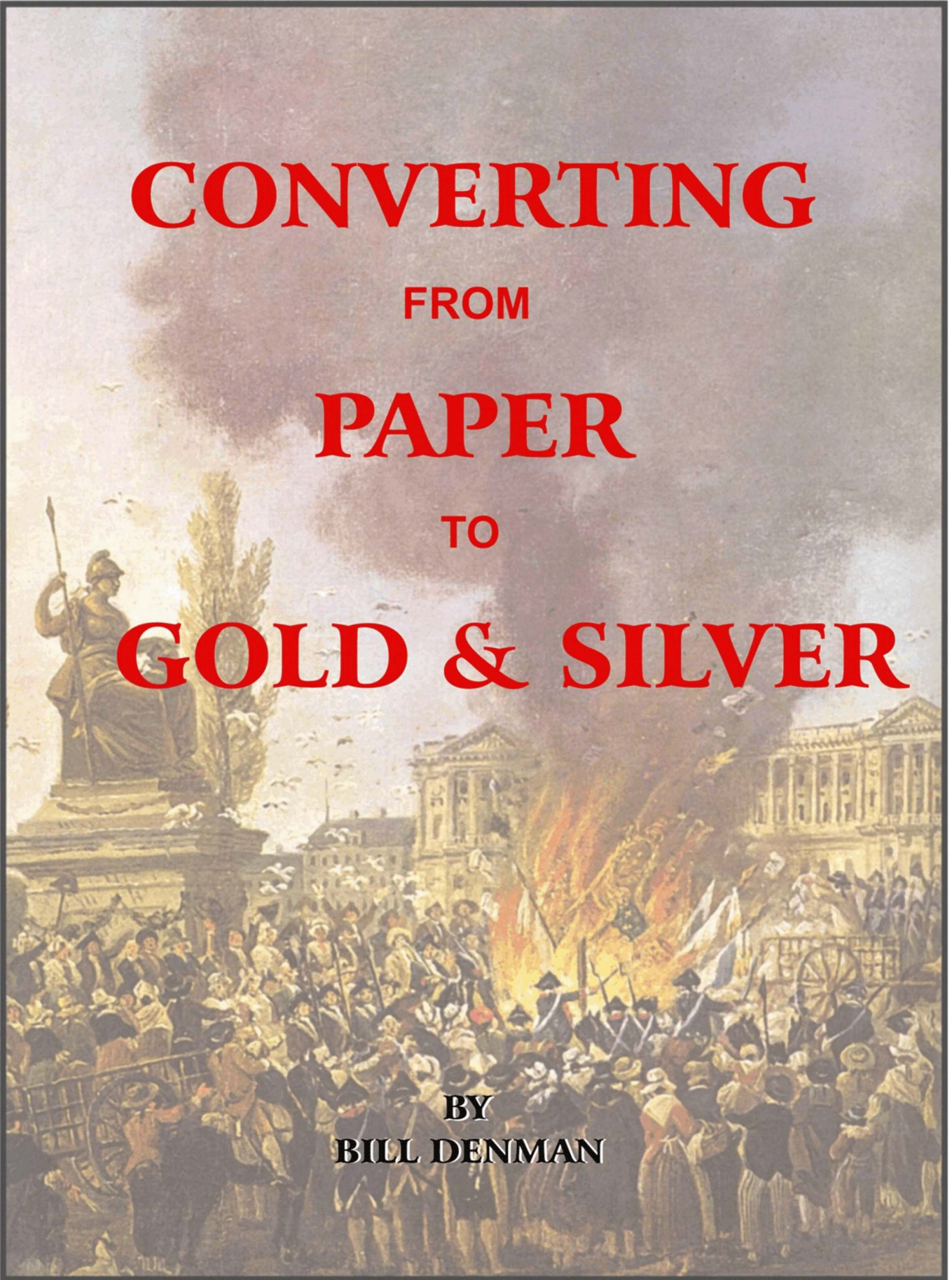
**FROM**

**PAPER**

**TO**

**GOLD & SILVER**

**BY  
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# INTRODUCTION

Our civilization is making the same tragic economic, political and moral mistakes that destroyed the previous twenty-one civilizations. The pathways of history are white with the bones of previous civilizations that tried to do what we are trying to do. There are fundamental principles that apply to every area of our lives and we can not violate them and survive as a civilization. It's fortunate that the Lord established these principles. Otherwise, mankind would create a hell on earth from which there would be no escape.

The previous twenty-one civilizations followed the same path: a slow and painful rise from barbarism to a highly developed society and then plummeting back to barbarism. We will see an example of this when we briefly review the Roman experiment. Immorality is the root cause of these cycles. Fraudulent money is a form of theft, which is immoral, and all previous civilizations have engaged in this. Using legal (or illegal) threats of violence against peaceful people is immoral and all previous civilizations have used them against each other. All previous civilizations have engaged in abortion and pre-marital sex, which are immoral. Etc., etc. Fundamentally, the events transpiring in our "modern" world are simply a rehash of antiquity using fancier toys. The fancier toys simply distract us from the rot that is occurring beneath the surface. If present trends continue, the fancy toys will begin disappearing until we find ourselves back striking flint-rock to start a fire.

I can hear it now, Negative!, Dooms-day sayer!, Apocalyptic prophet!, -- and all the other epithets used to silence anyone who tries to ring the warning bell when a civilization is heading the wrong direction. Socrates (470 - 399 B.C.), with his embarrassing questions, and Diogenes (320 B.C.), with his daytime lamp and attempt to remove false coin from circulation in Athens comes to mind; Cicero's attempt to uphold the Roman Republic and Epictetus (50 A.D.) in the Roman Empire.

*"When you have decided that a thing ought to be done, and are doing it, never shun being seen doing it, even though the multitude shall be likely to judge the matter amiss. For if you are not acting rightly, shun the act itself; if rightly, why fear misplaced censure?"*

from "The Golden Sayings of Epictetus"

The subject of this article is very limited in scope, if not in length. It is a response to questions from a friend concerning the monetary proposals of Presidential candidate Ron Paul. This article provides a brief analysis of the Federal Reserve Banking System, a procedure for converting from the present fiat money system to gold and silver as media of exchange, and a brief historical review of the consequences of past inflations. The historical review provides a clear indication of the fate that awaits us if we continue on the present path.

# SOCIALISTS' ADDICTION TO INFLATION

Addiction to inflation has effects on the economic body which are very similar to the disastrous effects of drug addiction on the physical body. Therefore, an analogy will be used to outline a procedure for withdrawing from inflation addiction.

A vitally important first step towards formulating a cure for our inflation addiction is a definition of terms. Unfortunately, socialists have very successfully confused our language by changing the meanings of words. This makes communication difficult and leads to false proposals for solving important problems, particularly in economics.

Today, practically everyone, including economists who should know better, use the word “inflation” to mean rising prices. If this were merely a semantic fluke with no harmful consequences, we could ignore it and move on to more important things. However, that is not the case. Giving the word “inflation” a false definition leads to false proposals for solving the problem of a depreciating currency and simply makes matters worse.

If people believe that inflation is rising prices which are beginning to seriously hurt them, a hue and cry will arise for the government to do something about it. Of course this demand from the public will be music to bureaucratic ears because their solution will be to impose comprehensive controls over the economy, which means less freedom for everyone. If we are not free to exchange the fruits of our labor on mutually agreeable terms, we are slaves. Comprehensive controls will necessitate expansion of the bureaucracy to administer them and increases in taxes to support the expanded bureaucracy. Prices will rise even higher because of the taxes, and shortages of products will be common. This deleterious process will continue until the whole system collapses (We will see a specific example of this when we review the inflation that destroyed the Roman Empire).

On the other hand, if we giving “inflation” its correct definition, “expansion of the money supply”, and recognizing that it causes prices to rise, leads to correct identification of the problem. Since rising prices hurt people, attention is drawn to the question “who is expanding the money supply?” When this question is answered, people’s attention will be directed to the source of the problem — government.

The whole purpose of giving the word “inflation” a false definition is to direct attention away from the source of the problem and allow the scam to continue. Defining “inflation” as rising prices confuses cause and effect relationships and leads to false actions purportedly directed at solving the problem. Inflation is the cause and rising prices are the effect. High prices can not be sustained unless there is enough money to support them — where does this “enough money” come from? Prices are at least 22 times higher today than they were in 1940. This means that there must be at least 22 times as much money in circulation; otherwise today’s prices could not be supported. Where did this additional money come from? Is it the result of demand for money to balance an increasing supply

of products? No, absolutely not! This additional money has been artificially created and force-fed into the economy, as we shall see later.

When we “inflate” a balloon, we inject air into it, thus increasing the volume and pressure, which increases the stress in the balloon. When we “inflate” the money supply, we inject newly created money into it, thus increasing the volume. The resulting pressure takes the form of price increases which induce stress in the economy. We will examine this process in detail when we discuss the Federal Reserve System (FED).

Throughout the remainder of this article the word “inflation” is used to mean “expansion of the money supply” — not rising prices. [The wrong definition is so ingrained in the minds of most people that I will periodically follow the word “inflation” with its correct definition to keep the thinking on track.]

The socialists’ dream of complete control over the economic affairs of people leads to a vast expansion of government. They know that the people would rebel against the taxes necessary to support such expansion, thus the taxes must be hidden. Inflation serves this purpose very well because very few people understand that the high prices caused by inflation is a form of taxation — thus the hidden tax.

## FED – FRAUDULENT MONEY CREATION SYSTEM

### DEFINING THE PROBLEM

The first step in solving any problem is to clearly define the problem, a step many people prefer to avoid because it delays “getting at the problem”. This hasty plunge into the problem usually confuses the issue and, in complicated issues such as this, defeats the purpose. In order to make the solution to the present issue intelligible, it is absolutely necessary to do a little foundation-laying before the solution can be understood. Some of the steps in the solution are fairly obvious, others would sound bizarre without first doing the spade work. If we want to figure a way out of the present economic mess, we must first understand how we got into it.

Using our drug addiction analogy: once the first shot is taken, it becomes very difficult to stop the injections. Furthermore, in order to get the same “high”, the dosage increases with each shot until the body (physical or economic) can no longer tolerate the high level of poison (fiat money). At this point the pain of withdrawal must be endured or the body dies and goes to hell — which is either a dark place or a dark age, depending on whether the body is physical or economic. Historical information about the consequences of past addictions to inflation are included to emphasize the absolute necessity of solving the “withdrawal problem”. After we analyze the painful withdrawal process, we will explore the trip to the dark ages in order to emphasize the importance of the choice that must be made — painful withdrawal or complete collapse. As we shall see, there is no other choice at this point in time.

Since government and the Federal Reserve System are the culprits in creating the present monetary crises, we will start with a brief description of FED operations.

## THE FEDERAL RESERVE SYSTEM — DRUG PEDDLER

Of course the drug from this peddler is fraudulent money that gets the economy hooked on economic “highs” (economic booms) that typically “feel good” in the early stages. As time progresses, the “feel good” periods get shorter and the after affects become more unbearable. The economy is now entering a phase where there will be very little “good feelings” and a lot agonizing pain. Before we examine the fraudulent money issue in detail, let’s listen to a man who was in a position to know about drug (fiat money) peddlers (banks) and the methods of “hawking” their product (inflation).

*“The modern banking system manufactures money out of nothing. The process is perhaps the most astounding piece of sleight of hand that was ever invented. Banking was conceived in inequity and born in sin . Bankers own the earth. Take it away from them but leave them the power to create money, and with a flick of a pen, they will create enough money to buy it back again . Take this great power away from them and all great fortunes like mine will disappear, for then this would be a better and happier world to live in . But if you want to continue to be the slaves of bankers and pay the cost of your own slavery, then let bankers continue to create money and control credit.”*

Sir Josiah Stamp, president of the Bank of England and the second richest man in Britain in the 1920’s, speaking at the University of Texas in 1927.

For a clear understanding of the steps necessary for successful conversion from paper (numbers in books) to gold and silver, it is vitally important to understand how money is created by the Federal Reserve System. The material presented below will prove that the FED is simply the largest legalized counterfeiting operation in the history of the world and the American people are the victims of a gigantic fraud. It is not my intention to present all the details of the money creation system, but enough documented information is included to facilitate the understanding of the basic technique.

Since the reserve rate is the centerpiece of all other FED manipulations (discount rate, federal funds rate, Open Market Committee operations, the float), we will focus only on that part of the money creation system.

## THE FEDERAL RESERVE SYSTEM – DETAILS

The information provided herein comes from a book titled “The Federal Reserve System — Purposes and Functions” authored by the Board of Governors of the FED. A copy of the cover page is shown on the next page. On page 23 of this book (shown on page 6), a table is provided which gives a detailed description of the reserve rate technique of creating money, which will be analyzed in detail.

The United States is divided into 12 Federal Reserve Districts with a main reserve bank and several branch banks in each district. For example Idaho and Washington are in District 12 and the main reserve bank for that district is in San Francisco. Commercial

banks in Idaho deal with the FED branch bank in Portland and commercial banks in Washington deal with the FED branch in Seattle. These FED branch banks serve as the “banker’s bank” for local commercial banks and provide many “services” for them. One of these services is calculating the reserves which each commercial bank must have on deposit with its FED branch bank.

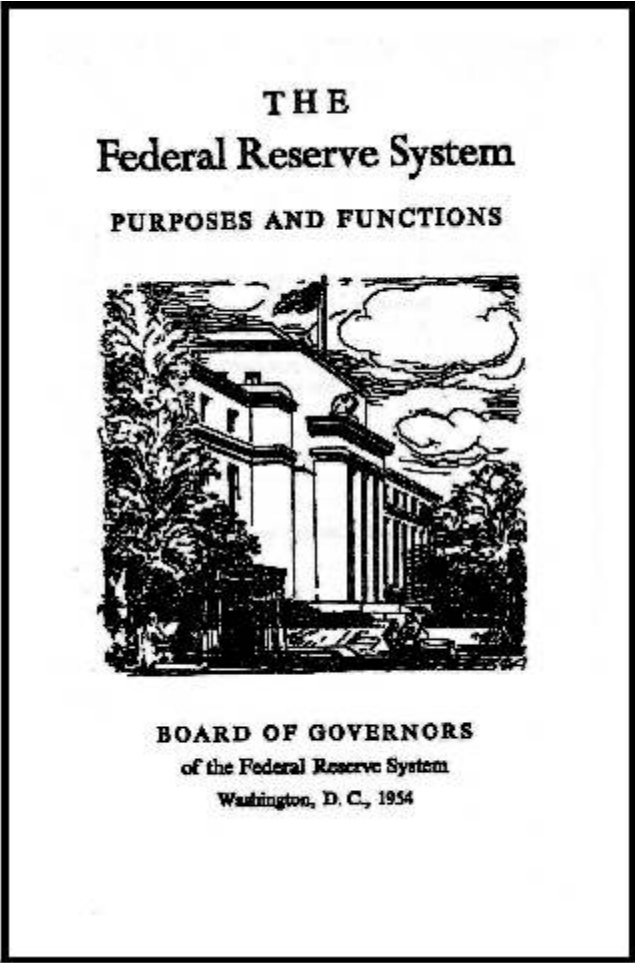
Before we begin our analysis, two misleading features of the table on the next page need to be clearly understood.

1. In the comments above the columns of numbers, the statement is made that “A member bank at which \$100 is deposited needs to hold \$20 in reserves at the Reserve Bank. The remaining \$80 can be lent.” This gives the impression that the local commercial bank deducts \$20 from the \$100 and deposits it with its reserve bank. This is utterly and absolutely false, as we shall see.

2. The Board of Governors has the authority to manipulate reserve rates between the limits specified in the Federal Reserve Act. The reserve rate in this example is 20% and up until the Monetary Control Act of 1980 this would be a possible rate, but was never used. Until 1980, the legal limit on checking account reserve rates ranged from 7% to 22%. The Board of Governors could set the rate anywhere within this range. On Aug. 31, 1959 it was 18%, the highest rate in history. During the same period the reserve rate on time deposits (savings accounts) ranged from 3% to 6% — it has been 3% for many years. The Monetary Control Act of 1980 changed the reserve rate on checking accounts to a range of 3% to 14% — the current rate is 10%. Thus today’s actual figures are much worse than those shown in the table on the next page. The Monetary Control Act of 1980 changed the reserve rate on time deposits (savings accounts) to a range of 0% to 9% — it is currently 3%.

Now let’s examine the table on the next page in detail.

In the column titled “*Transactions*”, on line “*Bank 1*”, under the second column heading “*Amount deposited in checking accounts*”, we see that \$100.00 is deposited. In the third column with the heading “*Amount lent*”, we see \$80.00. Since the reserve rate in this example is 20% of the \$100 deposit, the amount in column 4 under “*Amount set aside as*



reserves on deposit at Reserve Banks” is \$20 (20% of \$100). However, this column heading is misleading. (explained in the example below)

It’s important to keep in mind that we are talking about checking account money. People put money in checking accounts when they expect to spend it soon (usually by writing a check against it). If they intended to save it, they would have put it in a savings account (where the 3% reserve applies - more about that later). The following example will illustrate the money creation process shown in this table.

Let’s suppose spender “A” deposits \$100 in his checking account and the next day writes a \$100 check against his deposit to buy a lamp. If the bank had deducted \$80 from his account and loaned it to debtor “B”, as shown in column 3, “A’s” check would bounce when the store manager deposited it. Needless

to say, spender “A” would be on the bank like a wet blanket and close his account. Thus we see that the \$80 can not come from the \$100 deposit. Where does it come from? Due to FED regulations, the local commercial bank is authorized to simply create an additional \$80 based on the \$100 deposit. In other words, if debtor “B” wants to borrow \$80 after spender “A” makes his deposit, the bank is authorized to create the \$80 by lending it.

Next let’s move to the last column, the title of which is misleading. The column is labeled “Amount set aside as reserves on deposit at Reserve Banks”. This gives the impression that \$20 out of the \$100 deposit is “set aside” as reserves at a Federal Reserve Bank for the local commercial bank. Hmm, let’s see now, \$80 loaned to debtor “B” and another \$20 deposited in the FED Bank as reserves for the commercial bank —  $\$80 + \$20 = \$100$  and there is nothing left in spender “A’s” checking account to cover his \$100 check — simply can not happen; the statements at the top of the table are simply a deliberate attempt to

**FUNCTION OF BANK RESERVES**

diffused throughout the banking system. The process may be sketched as follows: A member bank at which \$100 is deposited needs to hold \$20 in reserves at the Reserve Bank. The remaining \$80 can be lent. This money may be paid out at once by the borrower to someone who deposits

**THE MULTIPLYING CAPACITY OF RESERVE MONEY  
IN BANK TRANSACTIONS<sup>1</sup>**

Transactions	Amount deposited in checking accounts	Amount lent	Amount set aside as reserves on deposit at Reserve Banks
Bank 1.....	\$100.00	\$ 80.00	\$ 20.00
2.....	80.00	64.00	16.00
3.....	64.00	51.20	12.80
4.....	51.20	40.96	10.24
5.....	40.96	32.77	8.19
6.....	32.77	26.22	6.55
7.....	26.22	20.98	5.24
8.....	20.98	16.78	4.20
9.....	16.78	13.42	3.36
10.....	13.42	10.74	2.68
11.....	10.74	8.59	2.15
12.....	8.59	6.87	1.72
13.....	6.87	5.50	1.37
14.....	5.50	4.40	1.10
15.....	4.40	3.52	.88
16.....	3.52	2.82	.70
17.....	2.82	2.26	.56
18.....	2.26	1.81	.45
19.....	1.81	1.45	.36
20.....	1.45	1.16	.29
Total for 20 banks..	\$494.29	\$395.45	\$ 98.84
Additional banks.....	5.71	<sup>2</sup> 4.55	<sup>1</sup> 1.16
Grand total, all banks	\$500.00	\$400.00	\$100.00

<sup>1</sup> Assuming an average member bank reserve requirement of 20 per cent of demand deposits.  
<sup>2</sup> Adjusted to offset rounding in preceding figures.

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mislead the reader.

The \$20 reserve can not be deducted from spender “A’s” checking account and neither can the \$80. The FED simply creates another \$20 by crediting the local commercial bank’s reserve account at the Federal Reserve Bank in the amount of \$20. Thus we see that the total amount of new money created by the local commercial bank (\$80 loan) plus that created by the FED (\$20 reserves) equals the original \$100 deposit ( $\$80 + \$20 = \$100$ ). At this point we see that the banking system has created a new \$100 equal to what was initially deposited in the checking account.

Now let’s return to the table on page 6. Notice that the \$80 created by the bank and loaned to debtor “B” has been deposited in “B’s” checking account, as shown in column two, line 2 under “*Transactions*”. Usually when someone borrows money from a bank, they must set up a checking account with the lending bank and the bank simply credits “B’s” checking account in the amount of the loan (\$80). The bank (and the FED) see this as a new \$80 deposit and the 20% reserve applies. Therefore in column three we see an additional \$64 (20% of \$80 is \$16 and  $\$80 - \$16 = \$64$ ) is loaned and the FED credits the commercial bank’s reserves with an additional \$16.00. Thus in columns 3 & 4, on the line identified as 2 under “*Transactions*”, we see that the banking system has created an additional \$80 (\$64 loan + \$16 reserves) but in this case the original \$80 (column 2, line 1) was created by “Transaction 1” and it is not backed by any products at the time of the loan. At this point, the banking system has created an additional \$180 based on the initial \$100 and no new products have been created as backing for this \$180. (We are assuming that spender “A” produced products in order to obtain the \$100, even though this may not be true).

The total new demand for products is now \$280 (initial \$100 deposit plus \$180 created by the banking system) for \$100 worth of products. Of course \$280 chasing after \$100 worth of products is what drives prices up. It will undoubtedly be objected that the reserves created by the FED for the local commercial bank are not chasing products. In order to see that they are, we would have to examine what happens when the local commercial bank borrows its reserves from the FED and pays the “Discount Rate” charged by the FED.

If you look at the bottom of column 4 you will see that the reserves created by the FED for the local commercial bank is equal to the amount of the initial \$100 deposit. The difference is that the initial \$100 deposit had products backing it up whereas this \$100 reserve has absolutely nothing backing it up. The commercial bank can borrow this newly created \$100 and start the money creation process all over again. Remember that spender “A” has already spent his \$100 and withdrawn that amount of products from the market.

At the bottom of column 3, we see that \$400 of NEW LOANS have been made by the bank in addition to the \$100 IN RESERVES which have been created by the FED ( $\$400 + \$100 = \$500$  of newly created money without anything to back it up at the time of creation.) Thus we have \$600 (the initial \$100 deposit plus the \$500 created by the banking system) chasing the original \$100 worth of products. \$600 chasing \$100 worth of products is what

drives prices up and the value of the dollar down.

The time element is very important in understanding the basic economics involved in this money creation system and is often overlooked. It's true that debtor "B" will have to produce enough products in the future to repay the loan but at the time of the loan, he withdraws \$80 worth of products from the market when none have been created to back it up. This is additional demand against an existing supply of products and drives prices up and the value of the money down. In other words, total demand has increased by \$500 but the supply has not — at the time of money creation.

A more complete analysis will show that debtor "B" will be in the process of creating products to back up the \$80 he borrowed while others are borrowing newly created money at later points in time. Thus, by the time the 50 transactions (see the ADDENDUM for this figure) necessary to create the \$500 are completed, people who borrow earlier in the cycle will be producing products to repay their loans. Thus, the quantity of products to back up the newly created money is increasing as the creation process proceeds. Even so, the overall situation is much worse than this analysis indicates because we have not considered parallel bank transactions based on the initial \$100 deposit or the bank float. Also, there are many cases where the initial \$100 deposit will not be backed by any products at all.

The reserve rate is presently 10%, not 20%, therefore banks can create \$1000 of new purchasing media for each \$100 deposit in a checking account (see the two websites below for more detail on reserve requirements) .

(<http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=17b50ff3093fcf7f997bd3b5504bdb26&rgn=div8&view=text&node=12:2.0.1.1.4.0.2.9&idno=12>)

(<://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr;sid=17b50ff3093fcf7f997bd3b5504bdb26;rgn=div5;view=text;node=12%3A2.0.1.1.4;idno=12;cc=ecfr#12:2.0.1.1.4.0.2.3>)

[Those who are mathematically inclined will recognize that the figures in the table on page 6 form a geometric progression and the amount created can be determined for any reserve rate by calculating the sum of the progression. The equation for doing this is provided in the ADDENDUM for those interested in exploring the effects of reserve rate changes.]

Reducing the reserve rate increases the amount of money that can be created from each deposit. Furthermore, reducing the reserve rate makes more money available to banks immediately. If the reserve rate is reduced from 10% to 9.5 %, this means that, at the time of reduction, the banks have a half percent more in reserves at the FED than necessary to meet reserve requirements. These excess reserves can be immediately withdrawn by the commercial bank and loaned into circulation. Nationwide this amounts to a lot of money.

Conversely, increasing the reserve rate reduces the amount of money created. If the FED wants to follow a tight money policy and create a recession, it can increase the reserve requirement and the banks will have to scramble to come up with the additional

money to deposit in their reserve account at the FED to meet the higher reserve requirement. This withdraws money from circulation and reduces economic activity — a recession begins. However, this technique is rarely used; discount rate (not explained herein) manipulations accomplish the same thing.

Between the time that Congress passed the Federal Reserve Act and President Wilson signed it, Congressman Lindberg warned the American people that the Federal Reserve would: (emphasis added)

*“... establish the most gigantic trust on earth. When the President signs the act, the invisible government by the money power ... will be legitimized. The new law will create inflation whenever the trusts want inflation. From now on, depressions will be scientifically created.”*

Congressman Charles Lindberg, Sr.

It was mentioned earlier that the reserve rate on savings accounts is 3%. Let's suppose saver “C” deposits \$100 in his savings account. The bank can lend \$97 of this \$100. This \$97 loan is placed in someone's checking account where the 10% reserve requirement applies. So 97% of the savings account deposits (time deposits in bankers jargon) are used for creating new money by the same process as checking account deposits — the only difference is that an initial checking account deposit (from a savings account loan) is slightly less — \$97 instead of \$100. With a 10% reserve rate on checking accounts, this means that the banks can only create \$970 of new money from a \$100 deposit in a savings account.

Now we can begin to understand what Josiah Stamp meant when he said:

*“The process is perhaps the most astounding piece of sleight of hand that was ever invented.”*

Understanding how this fraudulent money-creation system works can be very useful for personal financial planning. If you hear that the FED is reducing the reserve rate (or the discount rate, or FED funds rate) you automatically know that prices will rise and the value of the dollar will decline.

## STEALING REAL PROPERTY

To illustrate the basic economics of this fraudulent money-creation system, we will examine a hypothetical situation. Suppose Citizen “E” has a money printing press in his basement and can print as much as he wants. He prints twenty five \$1000 bills and buys a car with them. Is this \$25,000 a medium of exchange? Absolutely not! “E” did not create any product to “exchange” for the car; he simply used fraud to steal the car. But the \$25,000 is purchasing power — “E” bought a car with it and the car dealer will use it to buy other things. Thus the \$25,000 will circulate through the economy as purchasing media but there will always be a \$25,000 deficit in commodities and prices will rise! In other words, the counterfeiter steals not only from the car dealer, he steals from the entire community because of the depreciating purchasing power of everyone's money. Legalized

counterfeiting by the FED operates the same way and has exactly the same effect on a much larger scale.

*“He who steals from a citizen, ends his days in fetters and chains; but he who steals from the community ends them in purple and gold.”*

Marcus Porcius Cato The Elder (234 - 149 B.C.) Held several offices in the Roman Empire and was elected censor in 184 B.C. Acted as census taker, assessor, and inspector of morals and conduct.

The point is that the banks use fraud (legally counterfeited money) to obtain title to real property. People who borrow from the banks must provide collateral as backing for the loan — if the debtor defaults on the loan, the bank gets the property. The sub-prime mortgage debacle is a prime example of this. The FED simply created (counterfeited) the money used by Freddie Mac, Fannie Mae, FHA, banks, and other lending institutions, to grant loans to people who could not afford them. In spite of all the hullabaloo about banking problems, you can rest assured that the big banks will come out smelling like a rose — after all, the FED can create as much money as necessary to bail them out, like they did in the stock market crash of 1987. Bernanke is presently doing exactly that — he injected \$40 billion into the banking system in December, 2007; another \$60 billion in January, 2008 and has made it clear that he will create whatever funds necessary to avoid a depression. Remember, before taking office he said he would drop dollars out of helicopters to prevent deflation (falling prices is his usage of the term).

“Deflation” is another example of socialist corruption of the language. “Inflation” means expansion of the money supply, and conversely, “deflation” means a reduction in the money supply, not falling prices. Inflation is very easy to accomplish, simply turn on the printing presses. Deflation is very difficult to accomplish because once the money is created and put into circulation it is always in someone’s account and you can not simply rob their account. Contrary to popular opinion, stock market crashes do not cause deflation, the money simply goes into hiding but it is still available when market conditions entice it out of dresser drawers.

We need to examine one more issue concerning money creation before analyzing the subject of converting from paper to gold and silver — the federal debt. Now that we understand how the “reserve rate” scam works we are in a position to understand a statement by a former secretary of the U.S. treasury about the federal debt. (emphasis added)

STATEMENT BY  
TREASURY SECRETARY ROBERT B. ANDERSON  
REGARDING MONETARY INFLATION  
(April 4, 1959)

*“Now suppose I wanted to write checks of \$100 million starting tomorrow morning, but the Treasury was out of money. If I called up a bank and said, ‘Will you loan me \$100 million at 3.5 percent for six months if I send you over a note to that effect? The banker would probably say, ‘Yes I will’.*

*“Where would he get the \$100 million with which to credit the account of the United States Treasury? Would he take it from the account of someone else? No, certainly not. He would merely create that much money, subject to reserve requirements, by crediting our account in that sum and accepting the government’s note as an asset. When I had finished writing checks for \$100 million the operation would have added that sum to the money supply.*

*“Now certainly that approaches the same degree of monetization (creating money) as if I had called down to the Bureau of Engraving and Printing and said, ‘Please print me up \$100 million worth of greenbacks which I can pay out tomorrow.’”*

Thus we see that the FED gets a lien against future production of all Americans, who must pay back the debt — plus interest — and this debt is created by simply entering numbers in books. Furthermore, when government spends this newly created money, it enters the banking system, where the 10% reserve applies and it gets multiplied by a factor of ten. In other words, if the government borrows one billion dollars to finance road construction projects, the contractors and their employees deposit this money in their checking accounts and the banks expand it to ten billion dollars by the debt creation process described earlier (ever wonder where the money came from to buy \$500 Trillion of derivatives?).

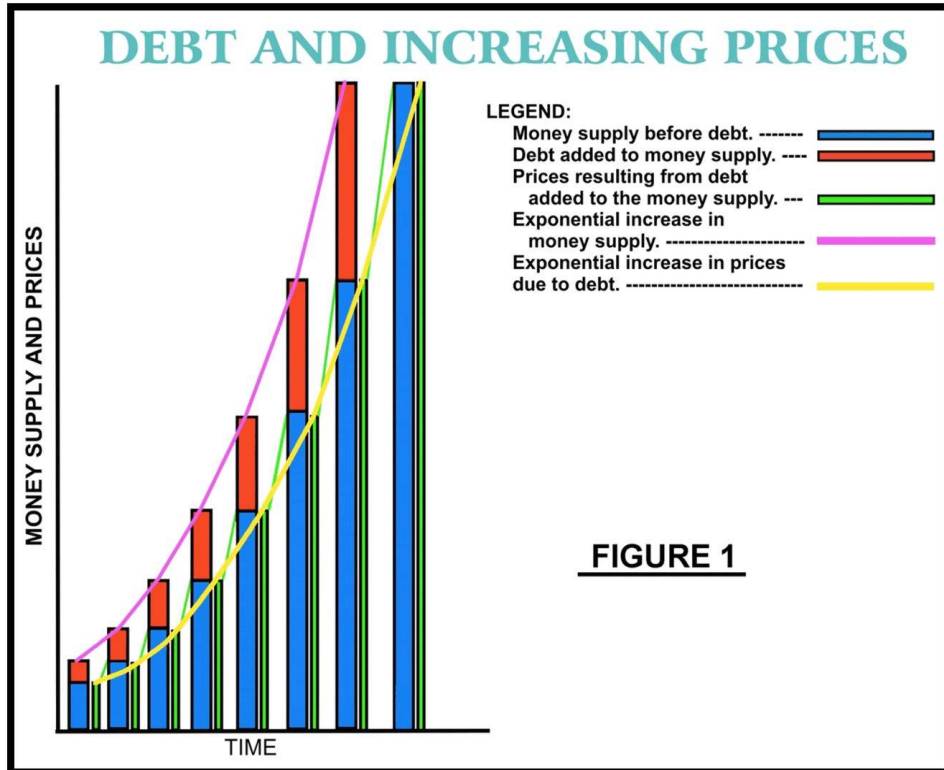
Now it should be obvious why we have so much debt and why the banks have liens against so much real estate. A lot of this newly created money has been kept in foreign hands because of the trade deficit. If all that money had stayed in circulation in the U.S. the dollar’s value would already be very low, if not worthless. This money is starting to come home now and depreciation of the value of the dollar (another way of saying rising prices) will accelerate.

## INFLATION – A SELF-DESTRUCTIVE POLICY

Inflation is a self-defeating policy because each injection of new money causes prices to rise. Then in order to get the same economic stimulus with a new shot in the arm, a larger amount of money must be injected because of the higher prices caused by the previous injection. This causes prices to rise further and a larger amount is needed for the next injection — etc., etc., until prices are rising so fast that enormous amounts of money must be created. Figure 1 on the next page illustrates the process.

Debt is purchasing power, even though we don’t usually think of it as physical dollar bills. People and governments borrow money because they want to spend more than they have produced or collected in taxes. This spending adds to the money supply the same as if the government had simply turned on the printing presses — and the effects are the same. Notice that there is a time lag between money creation and the beginning of rising prices. According to FED authorities, this is usually some-where between six and nine months, depending on the type of creation—government debt or direct injection into the banking system by the FED.

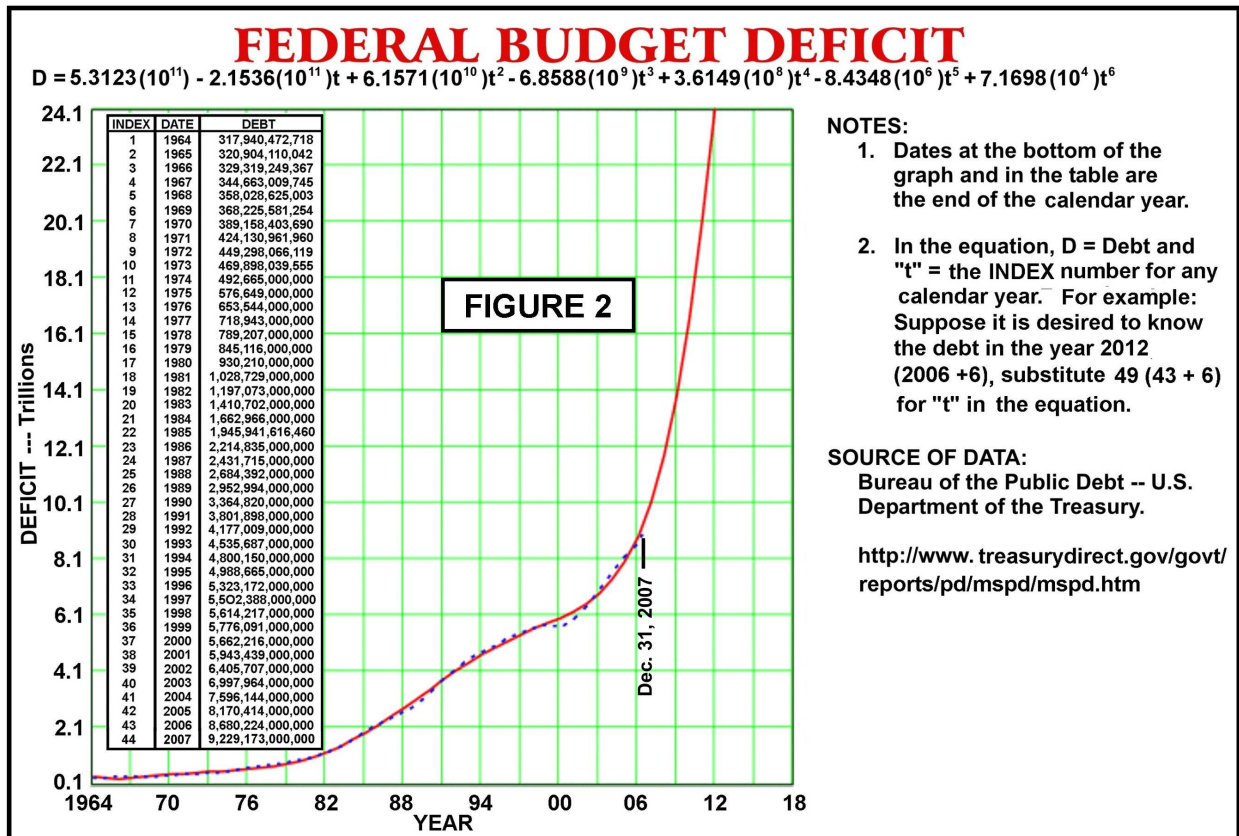
Figure 2, below, shows two curves; one is blue dashed and the other is red. The blue dashed curve is plotted from federal government debt data through December 31, 2007 (the source is referenced in the figure). This data is shown in the column on the left side of the figure. The red curve is plotted from the equation shown at the top of the figure.



**FIGURE 1**

However, this equation was developed from data that ended December 31, 2006.

As can be seen in Figure 2, government debt is following the red curve very closely



(within plus or minus 3%), with the exception of the bulge at 2001 when the economy was going into a recession. It's important to note that this curve is predictive for future government budget debt but DOES NOT represent the total national debt. However, it is indicative of money supply expansion because of FED banking system operations. When the government borrows money, as explained by Secretary of Treasury Anderson on pages 10-11, the government begins writing checks against the account created by the FED. When these checks (or money resulting from them) begin circulating in the economy, they are deposited in people's checking accounts, where the 10% reserve factor applies. This means that the government's debt is expanded by a factor of ten when its checks are deposited in local commercial banks. First the FED creates the money (numbers in books) it loans to the government. Next the government writes checks against its account and the banks get to expand the original money creation by a factor of ten (or more).

Of course this expansion of the money supply is based on loans (debt) to private individuals and businesses and thus banks obtain liens against an enormous amount of real property. The trade deficit with foreign countries is also a major factor attributable to FED operations but will not be analyzed here. Isn't this a really ingenious scam for robbing the people?

The material presented above, especially Figure 2, can be used as an indicator of things to come — major increases in the money supply and consequent higher prices. Notice that Figure 1 explains why Figure 2 MUST happen as long as the FED is left in operation and the present socialist mentality dominates Congress and the public in general.

Human nature exacerbates the monetary destruction process because people finally recognize that inflation is a deliberate policy that will continue indefinitely. Therefore manufacturers and merchants anticipate the rising prices and increase their prices beforehand to protect their investments from the inflation (expansion of the money supply). This same self-preservation psychology spreads throughout the society and brings inflation to an abrupt catastrophic end. This was explained by Ludwig von Mises in his book "The Theory of Money and Credit":

*"This ignorance of the public is the indispensable basis of the inflationary policy. Inflation works as long as the housewife thinks: 'I need a new frying pan badly. But prices are too high to-day; I shall wait until they drop again.' It comes to an abrupt end when people discover that the inflation will continue, that it causes the rise in prices, and that therefore prices will skyrocket infinitely. The critical stage begins when the housewife thinks: 'I don't need a new frying pan to-day; I may need one in a year or two. But I'll buy it today because it will be much more expensive later.' Then the catastrophic end of the inflation is close. In its last stage the housewife thinks: 'I don't need another table; I shall never need one. But it's wiser to buy a table than keep these scraps of paper that the government calls money, one minute longer.'"*

Thus prices begin to rise faster than the money supply and this can not be sustained,

hyperinflation develops — the whole system collapses, the money ceases to be purchasing media and the country returns to the barter system (more about this later). This is exactly what happened to Rome, France, Germany and many other countries that have inflated their currencies. It is exactly what is happening in Zimbabwe today. Are we next?

The information presented above is definitely not the whole picture about money manipulations. It is much worse than indicated here, which can be documented from sources within the FED.

## CONVERTING TO GOLD AND SILVER

### WHY GOLD?

All governments that attempt to dictatorially manage the private affairs (education, health care, property use, retirement, etc., etc.) of its citizens hate a monetary system based on gold. Financing the programs necessary to implement their utopian ideals (actually a grab for power and wealth) in a gold monetary system would result in such high taxes that the citizens would rebel and thus obstruct the plans of the dictocrats. Thus, when government wants to expand its operations beyond proper functions, it must first remove the obstacle that gold imposes. To accomplish this, the people must be deceived. Twenty-four hundred years ago in Greece, the deception was accomplished by alloying cheap and plentiful silver with the gold obol:

*“The second problem of trade is to find a reliable medium of exchange. ... Some cities mint coins of electrum – a compound of silver and gold – and rival one another in getting as little gold as possible into the mixture.”*

from “The Life of Greece” by historian Will Durant

In Rome they alloyed copper with the silver denarius until it was simply a copper coin washed in a silver-like solution, which lost 99% of its value. The French (1789 - 1796) and Germans (1923) simply turned on the printing presses and utterly destroyed the value of their currency. We are using numbers in books to expand the money supply and the end result will be the same as the Roman, French and German – return to a barter system. The same basic economic principles apply, regardless of the type of scam used to deceive the people. However, return to a barter system will be particularly excruciating for our civilization because the division of labor system has been carried to a much higher level than in any previous civilization. This means we are less self-sufficient and therefore more vulnerable to economic collapse.

Gold can not be counterfeited. It requires considerable effort, machinery and investment to get the ore out of the ground and convert it into a useable commodity. A good medium of exchange must be scarce so that it’s value will remain stable. Gold meets this requirement. Thus, gold instills confidence in the long term value of money and thereby encourages saving, which is the foundation for industrial progress. Commodities that are plentiful (like paper and ink) do not make a good medium of exchange because

their quantity, relative to other commodities, is subject to large fluctuations. People lose confidence in money when its purchasing power rapidly diminishes because they instinctively know that it robs them of past production. This loss of confidence destroys the incentive to save. Since saving is the foundation for industrial progress, fluctuations in the purchasing power of money destroy the industrial base.

Gold is honest money, whereas manipulated paper, or numbers in books, is fraudulent. If we want true prosperity, progress, limited government and a bright future, returning to gold and silver as the medium of exchange is absolutely necessary.

In 1966, former FED Chairman, Alan Greenspan, wrote an article titled “Gold and Economic Freedom” which was included in Ayn Rand’s book “Capitalism: The Unknown Ideal”. In that article, Greenspan said: (emphasis added)

*“Gold, having both artistic and functional uses and being relatively scarce, has always been considered a luxury good. It is durable, homogeneous, divisible, and, therefore, has significant advantages over all other media of exchange.*

*“Thus a logical extension of the creation of a medium of exchange, is the development of a banking system and credit instruments (bank notes and deposits) which act as a substitute for, but are convertible into, gold.*

*“But the opposition to the gold standard in any form – from a growing number of welfare-state advocates – was prompted by a much subtler insight: the realization that the gold standard is incompatible with chronic deficit spending (the hallmark of the welfare state).*

*“In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case of gold.*

*“The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.”*

Unfortunately, Greenspan jumped on the socialists’ bandwagon and violated the very principles that he explained so clearly in his article.

Now let’s review the process necessary for converting from paper to gold and silver.

## CONVERTING FROM PAPER TO GOLD AND SILVER

The federal mint can produce gold and silver coins, as stipulated in the Coinage Act of 1792. These can circulate in competition with federal reserve notes, but this will not work if the FED is left in operation. The FED would simply create enough money to buy the specie (gold and silver coins), remove it from circulation, and continue their inflationary policies. Therefore the first step must be to ABOLISH THE FED! Then the specie coins can circulate against a fixed quantity of paper money which would gradually

be withdrawn from circulation, as described below.

Where would the government get the bullion to mint the coins? The FED stole (with the cooperation of Roosevelt) the people's gold in 1933. People were required to turn in their gold and accept fraudulent FED notes in exchange. Some of this gold now resides in the FED's underground vault in New York City and is included in the central bank's (FED) report to the International Monetary Fund as part of the central bank's (FED) reserves. The figures are published on the World Gold Council website:

([http://www.gold.org/value/stats/statistics/gold\\_reserve/index.html](http://www.gold.org/value/stats/statistics/gold_reserve/index.html))

The amount listed is 8,133.5 metric tonnes (as of December, 2007).

Yes, there is still some gold in Fort Knox (according to the Mint audit) but there are unanswered questions about the quantity. The audit report of the U.S. Mint for 2006 lists the gold stock as 248,046,116 fine troy ounces (FTO), but this does not belong to the U.S. government. See note 6 on page 42 at

(<http://www.ustreas.gov/inspector-general/audit-reports/2007/oig07022.pdf>)

In the U.S. Government Accountability Office (gao) FY2005 Financial Report, under Footnote 2 on page 84, we find the following statement:

*“Gold totaling \$10.9 billion for the years ending September 30, 2005, and 2004, was pledged as collateral for gold certificates issued and authorized to the FRBs by the Secretary of the Treasury.”* (FRBs is the Federal Reserve Board)

(<http://www.gao.gov/financial/fy2005/05frusg.pdf>)

Furthermore, this transfer of gold was at a “statutory price of \$42.2222 per fine troy ounce (what a steal). This is also found in Footnote 2 of this financial report. Thus we see that all the U.S. gold in Fort Knox is owned by the FED.

The government should confiscate the gold stolen by the FED, have it (and the silver stock) minted into coins and use it to fund government operations. This would inject coins into the market and they would circulate in competition with a static volume of FED notes. This, in conjunction with Ron Paul's program of reducing the size of government, would reduce taxes dramatically. Ron Paul's proposal to eliminate the income tax and the IRS provides excellent support for this program. There is also an unreported amount of gold and silver already in the hands of U.S. citizens who understand where the fiat money system is taking us. If we eliminate the engine of inflation (FED), our industry can become competitive again and we will again have a trade surplus. This means that foreigners will give us gold for products and additional gold will flow into the country.

## CONSTITUTIONAL MONEY

There's a lot of confusion about the unconstitutionality of government involvement in any kind of banking system and why we should have a free market banking system based on gold and silver. To clear up these misunderstandings, let's review the Constitution

regarding money, the Coinage Act of 1792, and some comments made by the man assigned the task of establishing a system of weights, measures, and coinage – Thomas Jefferson.

Article 1, Section 8 (of the U.S. Constitution) - Powers of Congress

*“The Congress shall have Power....  
To coin Money, regulate the Value thereof, and of foreign Coin,  
and fix the Standard of Weights and Measures;”*

Coining money is simply a metal stamping process and regulating the value thereof is determining the weight and fineness of the coin and stamping that information on the face of the coin. In other words, this section of the Constitution simply authorizes Congress to establish the standards for the size, weight and fineness of coins. That is why it is included in the section on “Weights and Measures;”

Since Thomas Jefferson was assigned the task of establishing the standards of weights and measures for the U.S., including those for coins, I will quote from his report to the House of Representatives on July 13, 1790, titled “Plan for Establishing Uniformity in the Coinage, Weights, and Measures of the United States”: (emphasis added, parenthetic words are Jefferson’s) (“Congress” is the Continental Congress)

*“Sir: – In obedience to the order of the House of Representatives of January 15<sup>th</sup>, I have now the honor to enclose you a report on the subject of measures, weights, and coins. ...*

*Congress, in 1786, established the money unit at 375.64 troy grains of pure silver. It is proposed to enlarge this by about the third of a grain in weight, or a mill in value; that is to say, to establish it at 376 (or more exactly, 375.989343) instead of 375.64 grains; because it will be shown that this, as a unit of coin, will link in system with the units of length, surface, capacity, and weight, whenever it shall be thought proper to extend the decimal ratio through all these branches. ... This, with the twelfth of alloy already established, will make the dollar or unit, of the weight of an ounce, or of a cubic inch of rain water, exactly.”*

Furthermore, Article 1, Section 10, says:

*“No State shall ... make any Thing but gold and silver Coin a Tender in Payment of Debts;”*

The Colonial experience with issuing depreciating paper money had convinced the Founding Fathers that government’s involvement in monetary affairs should be limited to collecting taxes and spending them. Therefore we see that our paper money system is unconstitutional. Congress is authorized only to establish the “money unit” (dollar) as a silver coin of specified weight, size and fineness which is consistent with its role of setting standards for weights and measures to prevent fraud. To reinforce this view we only need to review Section 14 of the Coinage Act of 1792 which is still in effect today:

*“Section 14. And be it further enacted, That it shall be lawful for any person or persons to bring to the mint gold and silver bullion, in order to their being*

*coined; and that the bullion so brought shall be there assayed and coined as speedily as may be after the receipt thereof, and that free of expense to the person or persons by whom the same shall have been brought. And as soon as the said bullion shall have been coined, the person or persons by whom the same shall have been delivered, shall upon demand receive in lieu thereof coins of the same species of bullion which shall have been so delivered, weight for weight, of the pure gold or pure silver therein contained: Provided nevertheless, That it shall be at the mutual option of the party or parties bringing such bullion, and of the director of the said mint, to make an immediate exchange of coins for standard bullion, with a deduction of one half per cent from the weight of the pure gold, or pure silver contained in said bullion, as an indemnification to the mint for the time which will necessarily be required for coining the said bullion, and for the advance which shall have been so made in coins.”*

In other words, “any person or persons” can take gold or silver bullion to the mint and have it stamped (coined) into a standard coin as specified in the weights and standards for coins. The coins are then returned to the individual who furnished the bullion. The purpose of this is to prevent theft by fraud. Unscrupulous people might alloy other metals with gold and silver and pass them off as pure gold and silver — this is exactly what the ancient Greek and Roman governments did. The government stamp as to the weight and fineness of the coin prevents fraud and gives it credibility that people will accept. The Constitution only authorizes Congress to provide a “coinage” service for private owners of gold and silver. There’s a lot of confusion about this.

Notice that this system does not authorize the government to buy gold and silver bullion, make coins and put them into circulation. The people who bring the bullion to the mint spend the coins into circulation because the coins are trusted and accepted as a medium of exchange. Thus there is no need for government to become involved in any kind of banking system or issue money in any other way, furthermore, the Constitution does not authorize it.

Thus we see that Thomas Jefferson was absolutely right, Hamilton’s First U.S. Bank was unconstitutional — so was the Second U.S. Bank and Jackson was right in vetoing it.

Banks are not needed to get the money into circulation. However, honest free market banks do provide a vitally important service for society, so the comments in this article should not be interpreted as anti-bank — merely anti-fraudulent bank. The only role that government should play is to keep the money system honest but not involve itself in any way other than providing the service specified in the Coinage Act of 1792. Certainly government can hold in their vaults the specie received in payment of taxes but this must be used to defray the cost of government. In other words, it will be re-circulated into the economy by government spending.

Silver is another medium of exchange which is more plentiful than gold and there is even more of it in the hands of U.S. citizens. Silver and gold together (specie) will provide

all the medium of exchange we need to keep the economy running and support the recovery. Since paper and specie will be circulating together in the economy, how will we get rid of the paper?

## ELIMINATING FRNs

When people pay their taxes, a required percentage (let's assume 25%) of the payment will in be Federal Reserve Notes (FRNs). When these FRNs are received by the Treasury Department, they will simply be destroyed, they will not be re-circulated in the economy by government spending. Of course this is an over-simplification because most of the purchasing media is simply numbers in bank accounts, not physical paper dollars. In 1958, 85% of transactions were



conducted with numbers on checks written against bank accounts — only 15% in cash. With the credit card mania of today, it is doubtful that more than 5% of transactions are conducted with physical paper dollars. This does not fundamentally change the basic fiat money reduction operation. An example will illustrate the principle:

Suppose taxpayer “G” owes \$1800 in taxes. Let’s assume “G” has deposited gold and silver in a saving account at his bank for safe keeping and to draw interest. He also has a checking account that is not backed by gold or silver. “G” must pay 75% (\$1350) of his tax bill in gold or silver and 25% (\$450) in FRNs or their equivalent – numbers in books. Since the price of gold is currently hovering around close to \$900 per ounce (\$904.50 on Feb. 4) we will use that figure to keep things simple. Assuming that silver is \$18.00 per ounce (\$17.28 on Feb. 01), “G” can pay the \$1350 with one and one-half ounces of gold, one ounce of gold plus 25 ounces of silver, or any other combination of gold and silver amounting to \$1350. This does not mean he has to ship physical specie to the U.S. Treasury. He simply writes a check against his specie deposit at the bank and sends it along with a check for \$450 against his checking account to the Treasury department. When the Treasury department receives “G’s” checks, it submits them to the bank for payment. It is not necessary to ship the specie to the Treasury, the bank simply transfers (on paper) the specie from “G’s” account to the Treasury’s. However, the bank must be prohibited from lending the government’s gold and silver because the government may issue gold and silver certificates against its deposit. Furthermore, allowing the bank to use the government’s gold and silver would give it an unfair advantage over other banks. When the Treasury wants to spend the \$1350 of specie, it has two options: write a check against its bank deposit, or issue gold or silver certificates in the amount of \$1350 and keep the gold or silver in storage. In either case, the check or certificates will probably circulate in the economy without any physical transfer of specie because everyone understands that \$1350 of specie is available if the physical metal is desired. The Treasury will also have the \$450

transferred to its account and promptly write it off the books. Thus the amount of fiat purchasing medium in the economy is reduced by \$450.

Incidentally, this is almost identical to the way banking developed in the beginning. The original bankers were goldsmiths who kept their gold in vaults for safe keeping. Other owners of gold deposited it in the goldsmith's vault for safe keeping and the goldsmith issued a warehouse receipt. Then the goldsmith noticed that very few people were demanding physical gold and the warehouse receipts were circulating as the medium of exchange. Sooo ... the goldsmith began issuing more warehouse receipts than he had gold backing for – and modern banking was born. Josiah Stamp was correct — *“Banking was conceived in inequity and born in sin”* -- but it doesn't have to continue that way.

Over a period of time, all the fiat money would be withdrawn from circulation. It's important to keep in mind that during this transition, FRNs and specie will circulate side by side in the economy and the remaining FRNs will still retain their legal tender status. But specie can be used for transactions by mutual agreement between buyer and seller. However, payment of taxes in specie or FRNs will not be optional. A specified percentage of taxes must be paid in specie and the rest in FRNs. This will force people to accept at least some specie and FRNs in their trade agreements.

As noted above, specie will be returned to the market (perhaps in the form of gold or silver certificates) when government purchases the necessities for its operations and the FRNs will be destroyed. In other words, government will be restricted to using only specie for its transactions and this means that its suppliers must accept specie. The suppliers are free to deal with other participants in the market with either specie or FRN's, and like everyone else, will have to pay a percentage of their taxes in FRNs.

It will be objected that this is an infringement of free trade, which is absolutely correct. But this infringement will end with the withdrawal of fraudulent money (FRNs). It's the price we must pay for allowing this gross fraud to continue for 94 years. Since we allowed government to create this problem, our overall taxes will undoubtedly be higher during the transition to compensate for the elimination of FRNs which will not be available to support government. Even so, they will be much lower than today because of elimination of bureaucracies, as proposed by Ron Paul. Furthermore, the indirect tax of inflation will be eliminated entirely.

The American people should have removed from office the President and members of Congress who voted for the disastrous Federal Reserve Act — but they didn't. As a matter of fact, they re-elected, to a second term, the President who signed that heinous Act. The American people have been voting for socialism on a large scale ever since the beginning of the twentieth century — now we must pay the price or perish.

It should be clearly understood that the foregoing monetary actions have generally been expressed in physical money to keep things simple, but there is nothing wrong with using gold and silver certificates (as we did between 1789 and 1913) as long as they are 100% backed by specie. There is also nothing wrong with using copper pennies, nickels,

dimes, quarters and half dollars provided they are backed 100% by specie. As a matter of fact, the nickels, dimes, quarters, and half dollars, could be silver coins as they were in the past, as shown in the adjacent figure.



[The explanation of how products would be exchanged using a dual money system (paper and specie) is given in the section titled “OPTIONS AVAILABLE FOR RECEIVING PAYMENT AND MAKING PAYMENTS”, page 22.]

As long as full convertibility is maintained, there will be no possibility of legalized counterfeiting and no artificial inflation (expansion of the money supply). Thus the government should reduce taxes and spend its hoard of precious metals into circulation to support its operations. This, combined with abolishing the FED, will have several beneficial effects on the economy. First, it will put the people’s gold (confiscated for the FED by Roosevelt in 1933) back into circulation. Second, the reduction in taxes will leave more money in people’s hands to purchase gold and silver in the open market. Third, abolishing the FED will stop the incessant rise in the cost of mining and thereby encourage gold and silver mines to increase production. Competition will keep prices relatively stable. Fourth, the dis-hoarding of the government’s stockpile will tend to keep prices of the precious metals from rising during the conversion period and thus further enhance people’s ability to purchase them. Fifth, people should be encouraged to buy gold and silver bullion and take it to the mint to have it converted into a certified coin, as provided by the Coinage Act of 1792 quoted above (page 17). Once it is in the form of a coin, the owners can simply spend it into circulation. What will most likely happen is that people who are already in the metal selling business will take bullion to the mint and have it coined and then sell the coins to anyone wishing to purchase them, thus eliminating the need for people to travel to a U.S. Mint — competition will keep coin prices close to bullion prices. Those who engage in this business and accept paper money for the coins can use part of it to pay their taxes (this part will be destroyed) and the rest can still circulate with specie coins.

Notice the use of the phrase “artificial inflation” above. In a free market banking system based on gold and silver, there will be some very minor fluctuations in the ratio of specie to other commodities. This will result in a slow and very minor variation in prices. Between 1879 and 1900, while we were on the gold standard, wages doubled and prices rose one-half percent. In a free market economy, there will always be an interaction between mine production and the production of other commodities. This is self regulating

and can never result in inflation (expansion of the money supply due to increased mining activity) of any major consequence — certainly nothing that even begins to approach that which we are experiencing with paper money.

## GOLD STANDARD?

Up to this point I have not said anything about a “gold standard” except the one that was in effect between 1879 and 1913. Such a “standard” would bring government into the money exchange system and it has no authority for such activity. Establishing fixed ratios between gold and other commodities in the market place is a form of price control, which is not a proper function of government. Therefore, I’m absolutely opposed to a “gold standard” but equally in favor of gold as a medium of exchange. Establishing standards for the size, weight and fineness of coins is not a “gold standard” since it does not establish an exchange ratio between gold and other commodities. It simply protects from fraud like standards for scale weights (pounds), length of measurement (inches) , volume of liquid (gallon), etc.

Gold and silver have the unique characteristic of being both a medium of exchange and also having purchasing power. On the other hand, fiat money has purchasing power (so does illegal counterfeit money) but is not a medium of exchange because there are no products to back up the money at the time of creation and thus no “exchange” takes place – only expanded demand.

## FRANCE’S CONVERSION FROM PAPER TO GOLD

Converting from paper money to gold and silver is not something new. Between 1789 and 1796, the French government turned on the printing presses and printed so much paper money that it became worthless. On February 18, 1796, at 9 o’clock in the morning, the printing presses, plates, and paper used to make assignats were taken to the Place Vendôme and, before a huge crowd of Parisians, were broken and burned. The adjacent picture is of a painting of the event.

When Napoleon came to power in 1799, French fiscal affairs were appalling. The government was bankrupt; an immense debt was unpaid. The further collection of taxes seemed impossible; the assessments were in hopeless confusion. War was going on in the East, on the Rhine, and in Italy,



and civil war in La Vendee. All the armies had long been unpaid, and the largest loan that could for the moment be obtained was for a sum hardly meeting the expenses of the government for a single day. At the first cabinet council Bonaparte was asked what he intended to do. He replied, *“I will pay cash or pay nothing.”*

*“When the first great European coalition was formed against the Empire, Napoleon was hard pressed financially, and it was proposed to resort to paper money; but he wrote his minister, ‘While I live, I will never resort to irredeemable paper.’ When Waterloo came, with the invasion of the Allies, with war on her own soil, with a change of dynasty, and with heavy expenses for war and indemnities, France, on a specie basis, experienced no severe financial distress.”*

from Fiat Money Inflation in France by Andrew Dickson White, founder of Cornell University

Even though school textbooks don't mention this, the French Revolution was caused by government tinkering with the money. As a result, 40,000 people literally lost their heads to the guillotine. Eight percent were nobles, six percent clergy, fourteen percent middle class and seventy two percent were peasants. Notice who suffered the most.

#### HOW WOULD GOVERNMENT OBLIGATIONS SUCH AS T-BILLS BE PAID FOR?

T-bills owned by the FED should simply be repudiated since they were purchased with counterfeit money. T-bills owned by private investors and foreigners would be redeemed in gold and/or silver. Part of the gold confiscated from the FED could be used for this purpose. The combination of confiscated gold and taxes, which will be paid in gold and silver, would be used to fund all government expenses and obligations.

#### OPTIONS AVAILABLE FOR RECEIVING PAYMENT AND MAKING PAYMENTS

During the conversion period, both specie (gold and silver) and paper money will circulate in the economy but the paper will gradually be withdrawn and destroyed by the government, as described previously. This can not be accomplished if the FED is still operating. Expansion of the money supply must come to an immediate end if a gradual conversion from paper to specie is to be accomplished. After the conversion is complete, gold and silver will be the only media for exchanging products and paying taxes. The scare tactics used by socialist economists concerning the ratio of gold to paper money is pure hogwash. It really doesn't matter how much gold and silver is available compared to the amount of paper money. If a farmer works an hour to produce 30 pounds of potatoes and sells them for \$18, he can buy 3 pounds of sirloin steak. In other words, he worked one hour to obtain 3 pounds of steak. If he sells his potatoes for one ounce of silver (it's getting close to \$18 per ounce) and uses it to buy 3 pounds of sirloin steak, he still works one hour for 3 pounds of steak.

However we CAN NOT conclude from the potatoes and steak example above that inflation (expansion of the money supply) doesn't matter because wages increase with prices and everything evens out. This is a favorite theme song of socialist economists and

it is utterly false. In an inflationary economy expansion of the money supply must occur before higher prices can be supported and higher prices must occur before higher wages can be supported. Average prices today are at least 22 times higher than they were in 1940, therefore the money supply had to increase by at least a factor of 22, otherwise there wouldn't be enough money to support the higher prices. Actually, it's been expanded much more than 22 times, but until now much of it has been hiding in foreign hands because of the trade deficit.

From this we see that the producers are robbed of some of their production by rising prices because of the time lag between higher prices and higher wages. The time element in this process is ignored by socialist economists. A farmer raised 1000 pounds of potatoes in 1940 and decided to save 100 pounds for consumption during retirement. Potatoes do not keep well, so the farmer accepted \$2 for his 100 pounds of potatoes in 1940, thinking he would buy them back during his old age retirement. Today, his \$2 will buy approximately 4 pounds of potatoes; inflation has robbed him of 96% of his 1940 savings. Putting it more fundamentally, he has been robbed of 96% of the energy he expended producing the 100 pounds of potatoes. This stolen energy has been used to expand the government bureaucracy.

The point of the foregoing analysis is that the quantity of specie available doesn't matter, except during the transition period when prices are trying to adjust to the new money supply and the ratio of specie to paper must be considered during the conversion. If we buy 30 pounds of potatoes and the store owner will accept either \$18 in paper or a one ounce silver coin, it really doesn't matter because we worked one hour to get the \$18 or the one ounce silver coin; either way, we spend one hour's labor for 30 pounds of potatoes. However, as the conversion period progresses, it will become increasingly difficult to obtain paper money because it is continuously being destroyed by the government and the ratio between paper and gold will change.

In the example given above, I have simply elaborated on the principle described in the chapter of Professor Ludwig von Mises' "Theory of Money and Credit" titled "The Exchange-Ratio Between Money Of Different Kinds" as follows:

*"For the exchange-ratio between two or more kinds of money, whether they are employed side by side in the same country (the Parallel Standard) or constitute what is popularly called foreign money and domestic money, it is the exchange-ratio between individual economic goods and the individual kinds of money that is decisive. The different kinds of money are exchanged in a ratio corresponding to the exchange-ratios existing between each of them and the other economic goods. If 1 kg. of gold is exchanged for m kg. of a particular sort of commodity, and 1 kg. of silver for 1/15.5 kg. of the same sort of commodity, then the exchange-ratio between gold and silver will be established at 1:15.5."*

By the time all paper money has been destroyed, prices will have adjusted to the new money supply, which is specie that can not be manipulated. As the paper money

destruction continues, the quantity in circulation will decrease and it's entirely possible that due to this scarcity the purchasing power of one dollar will approach that of a one ounce silver coin. We should remember that we used to have a one ounce silver dollar. From an economics viewpoint this would not be a problem, but from a practicality viewpoint it would be better not to carry the excess baggage of a dual medium of exchange beyond that which is necessary for the conversion process. The French made the conversion under much worse circumstances than we are in — there is no reason why we can't do the same.

## CONSEQUENCES

*“... inflationism is a self-defeating policy which must inevitably lead to an economic cataclysm.”*

from “The Theory of Money and Credit” by Ludwig von Mises

**B**ecause the American people have allowed the system of legal thievery (the FED) to continue for 94 years, economic conditions have deteriorated to the point that a major reduction in the standard of living is inevitable. There are only two choices — depression or hyperinflation; there is no other alternative. Of the two options, depression is much preferred over hyperinflation for reasons explained below. Ron Paul's economic and political agenda is the correct solution to our problems. However, implementing his agenda will necessarily cause a depression much worse than the one in 1929 because the economic distortions caused by 94 years of fraud exceeds those of any previous period of U.S. history. The only alternative is to continue present policies until hyperinflation utterly destroys the economy and brings about another dark age similar to that which followed the fall of the Roman Empire. I'm well aware that these are dire predictions that nobody wants to hear but they can be proven by economic analysis. A brief summary is given below to illustrate the basic principle and the choice which must be made.

### DEPRESSION

An inflationary economy is exactly like a drug addict; it becomes dependent upon ever-increasing injections of fraudulent money (see Fig. 1 on page 11). Notice how the federal debt keeps getting bigger each year. We have now reached the point where even a minor reduction in the rate of inflation (increase in the money supply) generates withdrawal symptoms, i.e. a recession. Abolishing the FED is absolutely necessary to prevent a return to another dark age, but this will not simply reduce the inflation rate — it will eliminate it entirely.

The enormous debt that has been fraudulently generated by the FED will come tumbling down like a house of cards and there will be major bankruptcies, loss of homes, spiraling unemployment and soup lines. If the American people again turn to government, as they did with Roosevelt after 1929, that will be the end of freedom in the world for a long time.

Government is the cause of this problem and it can not solve it. It's convenient to lay the blame on the FED, but we must be honest with ourselves and admit that Congress has legalized it. This is, of course, a reflection on "we the people" who have kept electing these Congressmen for the last 94 years.

All government can ever do is take from producers (by force) and give to non-producers. This simply discourages production and makes matters worse – that is why we had WW II to get us out of the 1929 depression and provide an excuse for rampant increases in inflation, which have never ceased. The only solution to this problem is to get government off our backs and return to productivity and self-responsibility, but it will take some time to rebuild what has been lost. Choosing Ron Paul is choosing depression and this is absolutely necessary. Unfortunately, the vast majority of Americans have no understanding of the economic issues involved. President John Adams warned us:

*"All the perplexities, confusion, and distress in America arise, not from defects in the Constitution or confederation, not from want of honor or virtue, so much as from downright ignorance of the nature of coin, credit and circulation."*

When the depression comes, people will blame Ron Paul for the adjustments that are absolutely necessary (though very unpleasant – like castor oil) in order to save the nation from a worse fate. People must make an informed choice, fully aware of the consequences, and be willing to accept the dose of unpleasant medicine (depression) in order to cure the disease — addiction to fraudulent money. That choice is Ron Paul. Next, let's examine the alternative.

## THE DARK AGES RETURN

Surely I'm exaggerating. Such a catastrophe could never happen in our modern age — could it? It not only can but basic economics dictates that it will if we continue in the naive belief that there are no fundamental economic principles to which we must adhere. The Romans didn't think it could happen to them either. Cicero tried to warn them about the direction they were headed but they didn't want to hear it. Here is a response that Cicero received from a businessman:

*"We do not meddle in politics. Rome is prosperous and at peace. We have our villas in Cabri, our racing vessels, our houses, our servants, our pretty mistresses, and our comfort and treasures. We implore you, Cicero, do not disturb us with your lamentations of disaster. Rome is on the march to the mighty society, for all Romans."*

from History Repeats Itself by Millard F. Caldwell, Justice of the Supreme Court of Florida.

They were indeed on the march — right into the dark ages.

# HYPERINFLATION FRANCE, GERMANY AND ROME

The necessity for issuing ever larger sums of money to keep the economy out of a depression was described on page 11. If continued long enough, the inevitable result is the three steps to monetary destruction described by Ludwig von Mises on Page 13. The end result is a return to a barter system. The hyperinflations in France, Germany and Rome are examples of this.

## FRANCE

Inflation was a major cause of the French Revolution and between September 17, 1793 and July 28, 1794: (parenthetic words added)

*“The economy was itself a battlefield. ... Fear of famine ran through Paris and the towns. In Paris, Senlis, Amiens, Rouen the populace came near to overthrowing the government in protest against the shortage of food. ... The Mayor, Jean-Galium Pace, and the city procurator, Pierre Chouette, went with their delegation to the Convention and voiced their demand for a revolutionary army to tour France with a portable guillotine, arrest every Girondin (a political group that advocated a corrupted form of republicanism), and compel every peasant to surrender his hoarded produce or be executed on the spot.”*

from “The Age of Napoleon” by historian Will Durant

*“All that saved thousands of laborers in France from starvation was that they were drafted off into the army and sent to be killed on foreign battlefields.”*

from “Fiat Money Inflation in France” by Andrew Dixon White, founder of Cornell University

## GERMANY

The German inflation of 1923 followed a similar pattern.

*“... in November (1923) an astronomical 397 quintillion 833 quadrillion (marks) erupted (from the printing press), bringing the total outstanding to over 400,338,326,000,000,000 (more than 400 quintillion 338 quadrillion). ... In the closing months of 1923, Germany had reverted to a medieval economy. At that time the few sellers who were willing to assume the risk of receiving payment in marks demanded 224 billion for a one-pound rye bread (slightly more than one-fourth of a mark in 1913), 80 billion marks for an egg (less than one-twelfth of a mark in pre-war days), 3 trillion marks for a pound of butter, and 2 trillion, 500 billion marks for a pound of beef. A newspaper was priced at 200 billion marks and a pair of shoes at 32 trillion. ... And as the mark was going through its death throes, farmers hid their produce from plundering bands that stole cattle, sheep, goats, horses, and even dogs – anything that could be eaten. In the cities provision-stocked warehouses were ransacked and the empty ones were set*

*afire by the embittered unemployed (now increased to 28 percent of the work force) who had been thrown out of work because small plants and lesser business establishments could no longer function in the monetary chaos.”*

from “The Penniless Billionaires” by Max Shaprio, analyst, and later a partner in charge of research for Wall Street securities firms.

## ROME

The most frightening example is that of Rome, because we are following exactly the same path. Augustus (Gaius Octavius) (Sept. 23, 63 B.C. - Aug. 19, 14 A.D.) announced “the great plan” (New Deal) shortly before he was installed as emperor and overhauled every aspect of Roman life. His great reconstruction project – a forerunner of Franklin Roosevelt’s W.P.A. of the 1930s and the world’s first example of a massive government make-work program to reduce unemployment – got under way with fanfare and high hope. Trajan (53-117 A.D.) (Roosevelt), in addition to continuing the vast building programs of his predecessor, Nerva (Hoover), and enlarging social welfare, developed two government agencies: one was for “rural credits for farmers in difficulties” (a forerunner of our Bank for Co-operatives); the other was “for aid to indigent and widowed mothers” (a precursor to our Aid to Dependent Children program). Of course all these government programs cost money above that which could be raised by taxes, just as it does today. Therefore, the government expanded the money supply (coinage) by alloying copper with the silver denarius, which originally contained 95% silver.

By the time Diocletian came to power in 284 A.D., the silver content in the denarius had been reduced to 0 — it was simply a copper coin “washed” during minting in a light, silver-like solution, which gave it a silvery finish. Because of this inflation (expansion of the money supply), the price of wheat, the life-sustaining food of that time, had increased 150,000% (not a misprint – one hundred and fifty thousand percent) in 45 years. Diocletian introduced *folles* – sealed bags containing copper coins of uniform size. The number of pounds of copper was designated on each bag, the largest weighing over 300 pounds and having a value (in relation to gold or silver) of about \$4.00 (1980 dollars).

In 12 B.C., Maecenas (counselor to the Emperor), recommended that the Empire establish a central bank that would lend money to other government agencies (today’s Federal Grant program), channel funds into building programs and other public projects, and lend funds to regional government banks (the 12 Federal Reserve District Banks) set up in each province (District). What were the consequences of this debauchery of the currency? (words in [brackets] added)

*“To support the bureaucracy, the court, the army, the building program, and the dole, taxation rose to unprecedented peaks of ubiquitous continuity. As the state had not yet discovered the plan of public borrowing to conceal its wastefulness and postpone its reckoning, the cost of each year’s operations had to be met from each year’s revenue. To avoid returns in depreciating currencies, Diocletian directed that, where possible, taxes should be collected in kind: taxpayers were*

*required to transport their tax quotas to governmental warehouses, and a laborious organization was built up to get the goods thence to their final destination. ... Since every taxpayer sought to evade taxes, the state organized a special force of revenue police [we call them the IRS] to examine every man's property and income; torture was used upon wives, children, and slaves to make them reveal the hidden wealth or earnings of the household; and severe penalties were enacted for evasion. Towards the end of the third century, and still more in the fourth, flight from taxes became almost epidemic in the Empire. The well to do concealed their riches, local aristocrats had themselves reclassified as humiliores [the more lowly] to escape election to municipal office, artisans deserted their trades, peasant proprietors left their overtaxed holdings to become hired men, many villages and towns (e.g., Tiberias in Palestine) were abandoned because of high assessments; at last in the fourth century, thousands of citizens fled over the border to seek refuge among the barbarians. ... Diocletian resorted to measures that in effect established serfdom in fields, factories, and guilds. ... the government ruled that a tenant must remain on his land till his arrears of debt or tithes should be paid. ... he could not leave it without consent of the owner; and when it was sold, he and his household were sold with it."*

from "Caesar and Christ" (a history of Rome), by historian Will Durant

This should make chills run up and down the spines of today's debtors.

The following quote is an eye witness account by Lactantius, a teacher of rhetoric appointed by Diocletian:

*"... the receivers of taxes began to be more in number than the payers, so that by reason of consumption of husbandmen's goods and by the excess of land taxes, the farms were left waste until the lands turned into forest ... many presidents and sundry companies of officials lay heavy on every territory, and indeed almost on every city; there were many receivers besides, and secretaries and deputies of the prefect. All these very seldom had civil cases before them, only condemnations and continual confiscations and requisitions ... of every kind of property. ... when by various evil deeds he (Diocletian) caused a prodigious scarcity, he essayed by law to fix the prices of goods in the market. Then much blood was shed for trifling in faulty wares, and through fear nothing appeared in the market so that the scarcity was made much worse. Till after the law had ruined multitudes, it was of sheer necessity abolished."*

from "Legacy of Freedom" by George Charles Roche III,  
former president of Hillsdale College.

From here Rome sank into the Dark Ages, which lasted 700 years (400-1100 A.D.)

Undoubtedly some bright soul will point to France and Germany as examples of hyperinflation that did not result in a dark age. This viewpoint overlooks the vast difference between those two hyperinflations and that of Rome. Hyperinflation in both

France and Germany were confined within their own borders. Trade with surrounding nations made recovery possible during a period of approximately 10 years. In other words, the financial debacle was not world-wide, as the Roman was — and ours will be. The Roman empire encompassed a large part of what we would call the industrialized world of that time. Roman currency was used throughout the empire, as the dollar is today. When Rome fell, so did the rest of the empire. When we fall, so will the rest of the world. All industrialized nations today use the Federal Reserve type of money manipulation. As a matter of fact, so does the International Monetary Fund with its “Special Drawing Rights” (SDRs). If the world experiences an economic collapse, who will bail out the U.S.?

## ANOTHER DARK AGE

Let's briefly examine the events leading to another dark age. This analysis is based on fundamental economic principles and the Roman example is simply evidence of these principles in operation.

### WHEN MONEY FAILS

The U.S. has carried the division of labor to a higher level than any previous civilization. This makes us very vulnerable to monetary failure. If the dollar ceases to be a purchasing medium, a return to a barter system will be necessary (we are assuming that, like our Roman role model, there is no return to gold or silver as a medium of exchange). This will create enormous problems, as it did for Rome. Can the employee at an electricity generating plant continue working at the plant when he needs to be home raising food for consumption and exchange purposes because no-one will accept his worthless money in exchange for necessities? Obviously not; he is not going to starve to death while producing electricity for other people. A nation-wide loss of electricity for an extended period of time will automatically shut down a lot of industry and business. What about the employee at the local city water works? Can he keep the water flowing while he starves to death – or will he be home raising food? The same analysis can be carried through all the other “services”, public and private. Doctors, Engineers, scientist, lawyers, grocery store clerks, oil refinery employees, etc., etc., will have to produce their own food or starve to death. In 1900 almost 40% of the U.S. population lived on farms; approximately 3% do today. When there is no electricity or oil, gasoline and grease to keep farm equipment running and get the produce to market, how will 3% of the population feed the other 97% and why would they want to when the money they receive is worthless??? Where will government employees, the army, the police get the food and equipment they need to keep performing their functions? Can't happen here? Why not? From a fundamental economics viewpoint, what are we doing that's different than the Romans, French and Germans? Nothing! Absolutely nothing!

It boils down to simply this: when people stop producing for anyone except themselves because there is no acceptable medium of exchange, the exchange process ends and so do

the bonds that keep a society together (this is what happened in Rome, France and Germany). When there is no law and order and people are starving to death, society degenerates back to barbarism and a dark age ensues. A reliable medium of exchange is the life-blood of every highly developed society and when this is destroyed, so is the society. I'm not exaggerating, this is exactly what happened to our role model — Rome!

## CONCLUDING REMARKS

**T**he American people are faced with a choice: Ron Paul and depression, OR, any other candidate and another dark age.

### DEPRESSION - 1929 CONDITIONS

The depression is a much more palatable choice, given the fact that a CHOICE MUST BE MADE. I was a young boy during the 1930s when the depression was in full swing and I can tell you from experience that it is not pleasant, but people survive. In a 1929 type depression, people who own their homes and are free of debt do not lose their possessions. Prices fall to a level that the majority can afford and production at a reduced level continues. This provides a basis for recovery. Furthermore, during the depression people tended to be more charitable towards each other. I could give lots of examples of how people helped each other during the depression.

Another thing that happens during a 1929 type depression is that banks lose control of the money supply (I'm reporting from experience). In the early 30's a lot of banks closed their doors because they could not collect the loans they had made and there were runs on the banks. I was raised in a small farming community and the local bank went belly-up. My father had savings in that bank and lost it all. He never patronized that bank (or any other) thereafter. He kept his money (cash) in a dresser drawer that could be locked. In other words he hoarded his money because he didn't trust the banks and I'm sure millions of others were doing the same thing. He was paid in cash for the work he did; there was very little check writing. Thus the banks lost control of the money.

*“Those who create and issue money and credit direct the policies of government and hold in the hollow of their hands the destiny of the people.”*

Rt. Hon. Reginald McKenna Midland Bank of England, Secretary of the Exchequer, 1920.

In other words, money control is people control. The one-world cabal is very close to achieving their goal and they won't let a little thing like a 1929 type depression upset their apple cart unless we elect Ron Paul who will eliminate their main source of control – the FED. If the FED remains in operation, rest assured that the depression described above will not happen; we will continue down the hyperinflation road until another dark age returns. During the hyperinflation, economic conditions will become much worse than they were during the 1929 depression: personal bankruptcies will proliferate, unemployment will be high and many will lose their homes. However, there will be major differences between

the coming hyperinflation and the 1929 depression. For reasons explained above very few banks will close their doors, prices WILL NOT FALL as they did after the 1929 debacle, scarcity of commodities will become commonplace as they did in Rome, France and Germany. After the 1929 crash commodities did not become scarce. Government blamed the depression on over-production and encouraged farmers to destroy their pigs and paid farmers to set aside farmland in a non-producing “land bank” — this was just hype to draw attention away from the real cause of the depression; manipulation of the money supply during the “roaring twenties”. After the 1929 crash, people lost faith in banks and the “free market economy” (which actually didn’t exist even then) but they did not lose faith in their money — actually it became more valuable during the depression because of the fall in prices and people hoarded it. During the coming economic debacle, people will lose faith in the money and will try to avoid it. They will again turn to government for solutions, which it can not possibly provide, and in the process will lose all their freedom. This is not speculation, READ ROMAN HISTORY from an economics viewpoint instead of viewing it as just an interesting story.

## HYPERINFLATION AND TAXES

When prices rise, government and its employees have to pay the higher prices. Therefore taxes rise along with prices and taxpayers are caught in a vise between high taxes and high prices. Eventually people will be forced to make a choice between food and their homes because they won’t be able to afford both. Even if they own their homes, they will not be able to pay the taxes and still have enough left for food — the homes will go. Thus practically everyone will lose their property and become slaves to the robber barons who have destroyed the currency. Hyperinflation is more destructive than a dozen atomic bombs. A dozen atomic bombs might destroy a dozen cities but hyperinflation destroys an entire civilization.

The only escape from the ultimate collapse will be a return to gold and silver, but this will become progressively more difficult as the inflation continues. The price of gold and silver will rise along with other commodities and the difference between income and the cost of living will become so small (possibly negative) that there won’t be enough left to buy gold or silver. Those who manage to save gold or silver will have trouble keeping the government from confiscating it and won’t be able to use it if they escape. It will become illegal to own gold or silver and through fear of being caught, very few, if any, will risk trying to use it in exchange for other commodities. As we saw above, government (Diocletian) used torture to make people tell where the hidden wealth was ---- after all, the government also wants to survive.

Depression tends to unite people and increase their compassion for each other; hyperinflation has exactly the opposite effect. The struggle for survival during, or after, the collapse of money pits person against person in a contest for scarce commodities.

## SOLVING THE PROBLEM

Americans were the first in the history of the world to win a revolutionary war and then proceed to establish a limited government based on freedom and self-responsibility. This was accomplished with approximately 3% of the population actively participating in the battles and 15% when support from churches, merchants and individuals is considered. Today, with approximately 20% of the population we can do what no previous civilization has done: stop the inflation before it develops into hyperinflation and return to gold and silver as our medium of exchange. The hour is late, but it can still be done.

LETS DO IT!

ELECT RON PAUL

# ADDENDUM

## RESERVE CALCULATIONS

$$S := a \cdot \frac{(1 - r^n)}{1 - r}$$

where S is the sum, a equals the initial amount deposited (\$100 in this case), r equals one minus the reserve requirement expressed as a decimal (1 - 0.2 = 0.8 in this example), and n equals the number of terms in the progression, which is the number of deposits that must be made to generate the maximum amount of newly created money.

In the table above, we would have the following definitions of terms in the equation:

$$a = 100$$

The reserve rate is 20% and when expressed as a decimal it is 0.2. Therefore:

$$r = 1 - 0.2 = 0.8$$

If we let n = 50 (Transactions) then:

$$S = \$499.99 \text{ (pretty close to } \$500)$$

In the table on page 6, the Board of Governors of the FED only carried their example to 20 transactions (n = 20) and the resulting sum was \$494.29 — they made up the difference by alluding to deposits in “Additional Banks” in order to keep the example simple. This brings up another point: it is not necessary that all these transactions take place in the same bank. The businessman who sold spender “A” the lamp may deposit his check in a different bank than the one that “A’s” check is written against. This does not make any difference in the final outcome since all banks are operating under the same “central bank” rules and regulations.