



## An Opportunity for Monetary Reform

Mike Ryan\*

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America is currently in the depths of the most severe financial crisis in seventy years. We have narrowly avoided a total collapse of our banking system that would have initiated a titanic world depression. While measures have been taken to stabilize the crisis, the underlying problems are systemic. To produce a real, lasting solution, the only option is to reform our entire banking system. Several steps should be central to that effort:

1. **Nationalize the Federal Reserve.** Congress should repeal The Federal Reserve Act of 1913 and put the Federal Reserve under the Treasury Department's control. All money should issue directly from the Federal government, backed by the "full faith and credit of the US." The Constitution provides this authority to Congress, although it may be necessary to extend the definition of "coin" to include more modern forms of money.

This idea is not as radical as it may sound. During the Great Depression, a similar proposal was presented to President Roosevelt by a group of University of Chicago economists. Its supporters included two intellectual luminaries of the 20<sup>th</sup> century, the economist Irving Fisher and the economist and Senator Paul Douglas (D-IL). Former Congressmen Wright Patman (D-TX) and Henry Gonzales (D-TX) each proposed such action when they were chairman of the House banking committee in the 1970s.

In this current credit crisis, the Federal Reserve has lowered interest rates almost to zero and has few other options available to provide liquidity to the system. The consensus now is that massive government spending is required to avert a collapse of the economy. That spending may be as high as \$1 trillion. Coupled with the \$700 billion bank bailout, the federal debt may soon have ballooned almost \$2 trillion in just six months. This does not factor the expense of ongoing wars in Iraq and Afghanistan and unfunded welfare liabilities.



Not spending is not an option. The depression of the thirties was extended because the government cut fiscal spending too early in the recovery. Japan was mired in a ten-year depression because they would not take the necessary measures to stimulate the economy. We need to spend. But we also need to steer clear of additional debt and the malignant interest burden it brings. The necessary solution is to give the government itself the power to issue money. Ask yourself this: If you were lending money to yourself why would you charge interest?

Critics have traditionally argued that government cannot be trusted with this authority because it will cause inflation by printing money beyond the capacity of the economy to absorb and utilize the increased money supply. Yet the current system requires inflation to support the interest carry, due to compounding interest on the national deficit. The private banking cartel has not demonstrated over the past ninety-five years that it is any more reliable or trustworthy than the elected representatives of the American people when it comes to managing monetary resources.

2. **Institute a 100% reserve solution.** Fractional reserve banking is inherently risky and periodic bank panics are inevitable, as there are never sufficient reserves to support the outstanding loans. This is fraud masquerading as legal practice.

In order to avoid a deflationary collapse, which would occur if banks were immediately asked to raise their reserves to 100%, the Federal Reserve would lend new money to the banks sufficient to raise their reserves to 100%. The government would earn interest on these loans. The result would be to transform the banks' current credit liabilities into real reserve assets. With proper management and oversight, there is no reason this solution should be either deflationary or inflationary. It would create a legitimate authority for bank loans and instill the faith and trust that is essential to a viable money system.

3. **Retire all outstanding federal debt.** The federal debt has made us a nation of indentured servants locked into an insurmountable debt. We will stumble along until we crumble under the weight of this impossible situation. Rather than passively accept this fate like some animal being led to slaughter, we must immediately begin to retire the outstanding debt purchased directly by the Treasury.

This is an option with which Ben Bernanke is very familiar. In 2002, during our last recession, the government-owned Bank of Japan printed Yen and purchased hundreds of billions of dollars that they used to purchase US debt. This provided the liquidity for much of the growth of the US



economy during the past several years. There is no reason to incur debt to foreign nations when we have the ability to provide the liquidity within our own means.

4. **Repeal the 16th Amendment.** The federal income tax was initiated in order to finance the government debt which was to be created as a consequence of the Federal Reserve Act of that same year, 1913. There is now much talk about raising or lowering taxes. When the prior steps are taken, however, the prime reason for the income tax (i.e., funding government debt) will be removed, and the entire federal income tax system can be abolished. While this may sound reckless, there are many sound economic ways for the government to meet its financial responsibilities without burdening the American worker with unnecessary taxation of income. Our government functioned without an income tax until 1913, and many states continue to do so today without state income tax. And the Federal government has more means to generate revenue than do the states.
5. **Regulate and control derivatives.** The outstanding “nominal” value of the derivative security market is over \$500 trillion, a mind-boggling number out of all proportion to any underlying valuation. This madness must be stopped. These securities must be immediately regulated, as are other securities, with full transparency.
6. **Implement interest-free state loans and create incentives for community currency initiatives and business-to-business currency.** States are facing severe deficits and responding by cutting services at precisely the time when we need to be fostering an environment of productivity. The Treasury can ease these shortfalls by providing interest-free loans to state governments. This will create a productive investment in the infrastructure we so desperately require for future growth.

Communities should also be encouraged, through education and financial incentives, to set up local currency systems to provide needed liquidity to local economies. There are hundreds of successful systems in place throughout the world that have proven their efficacy. When dollars are tight these sorts of local money can provide significant stimulation to economically challenged communities.

7. **Peg international currency to an accepted standard based upon a “basket” of diverse commodities.**

Until 1971 the US was on a gold standard, instituted by the Bretton Woods agreement of 1944. The rationale of this system was to create an



obligation for each country to adopt a monetary policy that maintained the exchange rate of its currency within a fixed value—plus or minus one percent—in terms of [gold](#) and the ability of the IMF to bridge temporary imbalances of payments. The system collapsed in 1971 when the US faced a run on its gold supply, forcing the elimination of the gold standard.

Since then currency values have floated in an open market. This has caused extreme distortions in pricing as speculators bet on valuations. A stable money policy requires a stable measure of value. While gold has provided this in the past, the physical limitations of gold and its vulnerability to political and economic manipulation limits its effectiveness. Instead a “basket” of diverse commodities could be used to peg the value of national currencies.

These are dramatic proposals. Yet our current system has put us in a position of imminent financial collapse. There is nothing more dramatic than total financial failure on a world level. Accepting the status quo is not an option. We owe it to ourselves and to future generations to create out of this crisis the beginnings of a more viable, sustainable 21<sup>st</sup> Century financial system.

*Mike Ryan, CFP®, is a financial advisor with Paragon Asset Management, Ltd., based in Wilmette, IL. This article is part of a larger essay, [Freedom and the Money Power](#), available on Paragon's web site.*

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