The threat to the dollar and how It's affecting Florida

By Christopher Bonura and Alex Newman
The Liberty Sentinel
December 2007

The value of the U.S. dollar fell below Canada's last month for the first time since 1976.

Some economists will try to put a silver lining on this ominous cloud, saying it will help even out America's woeful trade deficit. While that may be true, other economists say
that these indicators could spell hard times ahead.

As the dollar loses value, your money will buy fewer meals, less many owners of the more than 30,000 properties that were foreclosed on in Florida just this October.

According to RealtyTrac, the number of foreclosures in Florida was up 165 percent from last October.

"Florida consumers seem to understand the gravity of the fallout from the housing crisis and resulting credit crunch," said Chris McCarty, the director of the University of Florida's Survey Research Center at the Bureau of Economic and Business Research

"The growing pessimism about U.S. economic conditions seems to be among all income levels," he said in the UF news release about a new study showing a decline in consumer confidence among Floridians during November.

McCarty also noted that sales this Christmas season are expected to be weak compared to last year's, and that the housing market decline probably won't bottom out until at least 2008.

The blame for the deteriorating state of the economy is usually aimed at the Fed's policies, but some economists argue that efforts to reform the Fed are missing the big picture: the basis of the nation's monetary structure - fiat money.

Here is how part of the system works: The Fed creates money and gets it in circulation by loaning it out and demanding repayment with interest. Commercial banks and the federal government then borrow the newly created

The Fed only printed the principal, not the interest, so the people and the government are forced into debt. Eventually they borrow more money with interest to pay back the interest from before.

A 1984 report by Ronald Reagan's Grace Commission stated that: "100% of what is collected is absorbed solely by interest on the Federal Debt ... All individual income-tax revenues are gone before one nickel is spent on the services tax-payers expect from government." Since 1984, the situation has only gotten worse.

"The Federal Reserve creates inflation when it issues US dollars backed by government debt," said Bernard Von NotHaus, the founder of the National Organization for the Repeal of the Federal Reserve Act and Internal Revenue Code.

"Since 1913, when the Federal Reserve was created by Congress, your money has lost 96% of its purchasing power due to inflation.

Before federal agents raided his organization inNovember, Von NotHaus minted and sold gold and silver "Liberty Dollars" as an alternative to trading in Federal Reserve notes.

The idea spread like wild-fire and created what an article in the Washington Post called an "underground economy."

Even Gainesville had a network of people trading in Liberty Dollars with over 25 businesses accepting the private currency and many locals trading it amongst themselves, said a former Liberty Dollar associate based in Gainesville who asked not to be named in light of the recent actions taken by the federal government.

"If we ever want our savings to be secure, we have to get rid of the Federal Reserve and return to Constitutional money," he said. "The amazing success of the Liberty Dollar in such a short time is evidence that people are tired of inflation and want to use sound money backed by something other than a government gun."

Throughout most of America's history the dollar was based on gold and occasionally silver. The government could not make money out of thin air because it could not make gold out of thin air, so it could only spend what it had. Prodded by the bankers and always looking to spend more money, U.S. politicians, along with many European countries, came upon the idea of fiat money.

The idea of a strong central bank, one of the 10 planks of the Communist Manifesto, finally succeeded in 1913 with the Federal Reserve Act. That same year Creates inflation When it Americans were burdened with a issues US dollars backed second plank from Marx's work, a progressive tax on income.

While this system has allowed the governments of the Twentieth Century to run massive welfare and warfare states, it has not been so beneficial to the average worker. Savings decrease in value. Wages and salaries are among the last area of the economy to "adjust for inflation," leading to even more hardships for the poor and middle class.

The laws of supply and demand show that a greater supply of something lowers its value. The market for money follows the same rules, so when the Fed floods the economy with dollars, all existing dollars lose value. To make matters worse, economists can now only speculate about how much money actually exists - the Fed recently stopped publishing M3 figures as a supposed "cost-cutting" measure.

FIAT MONEY IN HISTORY

America is not the first nation to experiment with the Damocles' Sword of fiat currency. Ancient Roman Emperors were always in the mood to conquer a foreign people, but found that this enterprise could be quite expensive.

Until they realized that the coinage could be debased, they would coat copper with silver and call it a silver coin. Eventually, they did not even have to coat the coins. They were the emperors, after all.

We know from an Edict on Prices from 300 AD that it took about 833 denarii (the standard Roman coin) to buy one gold coin. Inflation had already eaten away at the value of the currency, but it only got worse. By 350 AD it took 4,600,000 denarii to buy one gold coin, and by the end of the century 45,000,000.

The Romans came to their senses - they switched to gold coins and stopped debasing them. The damage to the ancient world's economy was already done, however.

Paper money, invented by the Chinese, made the job of government counterfeiters even easier. The Ming Dynasty of Medieval China flooded the economy with their valueless money. It led to the collapse of the dynasty and less than a hundred years later, the adoption of silver coins.

The most famous example of a fiat currency going awry is the German Mark of post-World War I Germany. Forced to pay a huge war indemnity, the Weimar Republic attempted to make up for its lack of money by printing it. Hyperinflation eventually destroyed the currency's value and ruined the German economy.

Between 1921 and 1923, the Mark plunged in value. At the height of the crisis, inflation reached over 3 million percent and prices were doubling every two days. Stories abound of people using currency notes for kindling and of having to wheel barrels of money to the corner store, only to have their wheelbarrows stolen.

For a long time the Fed has managed to prevent a collapse of the economy if one overlooks that one little mistake: The Great Depression.

Former Fed Chairman Alan Greenspan wrote an essay decades ago pointing out the absurdities of fiat currency and the importance of using gold as money called "Gold and Economic Freedom." Though he has been accused of compromising his principles by serving as chairman of the Federal Reserve, Greenspan is generally seen as an economic mastermind who kept the U.S. economy afloat.

Current chair Ben Bernanke, on the other hand, does not inspire the same confidence.

Nominated by a man famous for nominating inexperienced sycophants to high office, it is not surprising that one fiscal strategy he posited was dropping money out of helicopters.

It is little wonder that under this new leadership, America's fiat currency has been performing even worse.

One of the biggest obstacles to fixing these problems is that the issue doesn't garner much attention anymore. Senator Mel Martinez told The Liberty Sentinel that he didn't want to address the issue when he was asked for his position. Many people seem to have forgotten that there is even an alternative to paper money!

INSERTS:
...the number of foreclosures in Florida was up 165 percent from last October.

"The Federal Reserve creates inflation when it issues US dollars backed by government debt."

Alan Greenspan, an economist who knew the importance of sound money, was criticized for betraying his principles and serving as Fed chairman.

(PHOTO CAPTION) The national debt has climbed to alarming levels since Reserve was created in 1913
Source: U.S. Treasury, Bureau of the Public Debt

(PHOTO CAPTION) The Federal Reserve Note (US dollar) has lost 96% of its purchasing power since 1913
Source: U.S. Dept. of Labor, Bureau of Labor