

The Free Market

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The Real Secrets of the Temple

by Llewellyn H. Rockwell, Jr.

The Federal Reserve—the U.S. government's central bank—was schemed at a secret meeting in 1910 at J.P. Morgan's hunting club on Jekyll Island, Georgia.

The participants—who claimed, as they boarded a private railroad car in Hoboken, New Jersey to be going on a hunting trip—were: Senator Nelson W. Aldrich (R-RI), John D. Rockefeller's son-in-law; A. Piatt Andrew, Assistant Secretary of the Treasury in the Taft administration; Henry P. Davison, the "political partner" (i.e., lobbyist) for J.P. Morgan's banking house; Paul Warburg of Kuhn Loeb & Co., a German political partner brought to the U.S. specifically to help establish a central bank; and Frank A. Vanderlip of New York's National City Bank (today's Citibank).

Three years later the U.S. had a central bank, after a propaganda campaign using the Big Lie. Americans were told that major bankers—whom they heartily distrusted—were opposed to the Fed. In fact, the Fed was set up to cartelize the banking industry, doing for it what the ICC had done for big railroads and the FTC for other big businesses. Before 1913, market forces prevented any one bank or group of banks from expanding the money supply too egregiously. The Fed changed all that by enabling big banks to inflate together while protecting them from competition.

In its origins and its operations, the Federal Reserve is the most secretive of American political institutions. After his briefings before the first presidential debate with Ronald Reagan in 1984, Walter Mondale exclaimed to his campaign manager: "For the first time I understand the Federal Reserve!"

Like Mondale, a U.S. senator for many years and then vice president, we are told almost nothing about what the Fed does and why. All we hear—from political leaders, bankers, pundits, and kept economists—is that it ensures prosperity and prevents depressions, that its officials know exactly what they're doing, and that no one in his right mind could possibly question its existence.

Like virtually all of the official line, this is the reverse of the truth.

William Greider—one of America's best political reporters—set out to examine all of this in *Secrets of the Temple: How The Federal Reserve Runs the Country* (Simon and



Schuster, 1987). But the man who has exposed the charades of government in so many other areas does not do a similar job on the government's great inflation machine.

To his credit, Greider has changed the way journalists think about the Fed. Even his old paper, *The Washington Post*, no longer automatically defers to the central bank, where once it ran its pronouncements as fact. Also to his credit, Greider has angered financiers and bankers by telling the truth: that the Fed is the most powerful policy-making institution in America and maybe the world. (Those who profit from what Andrew Jackson used to call the Monster prefer to continue operating in the dark.)

Greider criticizes the Fed, but for all the wrong reasons. For example, he claims it isn't inflationary enough! And he calls for high, sustained inflation to create prosperity and justice. Inflation will resolve the eternal conflict between

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the rich and the poor, says Greider, in favor of the poor.

There is a seemingly eternal conflict, but it's between those who use the government to get rich, and the rest of us who are thereby made poorer.

In his chapter on the founding of the Fed, Greider mentions the idea of the Fed as cartel, but he never brings it up again. His own position is that the Fed came about through popular demand, stimulated by political movements for higher farm prices and an end to bank panics. In fact, these groups provided only a political opportunity and an ideological excuse for the Morgan-Rockefeller forces—in cahoots with the politicians—to seize control of the dollar by establishing the Fed.

Greider claims that deflation, not inflation, benefits bankers, and says that the Fed seeks to promote “the virtual elimination of dollar inflation.” But the central bank was established only to circumvent the strictures of the gold standard. That is, it was founded to inflate.

The constituents of Fed Chairman Alan Greenspan are commercial bankers and the government, not depositors or citizens, and the Fed's actions are primarily motivated by the interests of Washington and the big money-center banks.

Inflation benefits the Fed and its constituents as counterfeiting benefits a counterfeiter and his gang. The private counterfeiter, however, is a relatively minor criminal; the Fed does exactly what the counterfeiter does, but massively and on a world-wide scale. As in so many other areas, what is (rightly) condemned in the private sector is lauded in the public.

Greider calls inflation “a promising model for social equity.” “Many poor people” benefit since they don't have to bear the rising costs of medical care and housing with “Medicaid and public housing.” Similarly, the “elderly” are “partially protected” from inflation because Social Security is “indexed to the inflation rate.”

The government, politicians, bureaucrats, banks, government contractors, and other interests profit, since they get the new money first, and can spend it before prices go up, thereby transferring wealth to themselves from the people who get it last.

Average taxpayers are harmed in at least five ways: first, since they receive new Fed money last, they can spend it only after prices have gone up; second, they pay a hidden tax of currency debasement on their dollar-denominated savings; third, they pay a direct tax for the salaries and perks of the bureaucrats, politicians, and welfare recipients whose incomes are indexed to inflation; fourth, they suffer the consequences of inflation-caused recessions and depressions; and five, they lose some of their liberty, since inflation strengthens the government at the expense of individual freedom.

The poor, despite Greider, are harmed especially. The inflation-fueled growth of government creates more hungry and homeless by decreasing general prosperity and opportunity. Then, only the smart, well-educated, and healthy can get ahead. Those most in need of a charitable helping hand are instead kicked in the teeth by Washington, D.C.

Inflation also increases the costs to the poor of becoming independent from the dole. However, like so many negatives for the people, this is a benefit for the government. By enlarging the dependent class, inflation justifies even more “poverty” programs actually designed to benefit bureaucrats, social workers, Medicaid doctors, D.C. consultants, public housing builders, etc.: the whole welfare industry.

Inflation, by illegitimately transferring wealth to the government-connected, also helps cement present social stratifications in place. The bigger government is, the fewer Horatio Algers there are. People who get to the top through force and fraud prefer it that way.

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Inflation can help debtors (by stealing from savers)—one of its great advantages, according to Greider—but it mainly aids the greatest debtor of them all, big government, which is always and everywhere the enemy of the poor.

Then there is the business cycle, which even a little inflation will cause.

In the free market, interest rates are determined by consumer preferences for savings over consumption. In the days of a real U.S. gold standard, this meant that corporations could issue 30-year bonds paying 3%.

The Austrian theory of the business cycle, developed by Ludwig von Mises, shows that when the Fed artificially lowers interest rates by injecting credit into the banking system, it gives businessmen the same signal as if people decided to save more of their incomes. In response, companies invest in processes to produce goods for later purchase by consumers with their larger savings.

But when businessmen seek to market these goods, they find the demand isn't there. Consumers haven't saved enough, and the investments were what Mises called “malinvestments”—those unjustified by real economic conditions. The result is a bust.

Any amount of new Fed money and credit will lead to these malinvestments, despite the claim of Greider (and of Milton Friedman) that recessions only occur when the Fed steps on the brakes. The monetarist notion of increasing the money supply every year by 3-5% “to keep up with GNP” is damaging for this very reason. Only zero inflation will do.

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Abolish the SEC

by Graeme B. Littler

Official academics call the Securities and Exchange Commission (SEC) a savior of capitalism. In fact, it is an enemy of the free market.

The SEC was set up in 1934 by Franklin D. Roosevelt to regulate securities markets. There was almost no public opposition. Official opinion of all sorts agreed with the first New Dealer, Herbert Hoover, that falling stock prices were caused by "sinister, systematic bear raids..., vicious pools...pounding down" stock prices so traders could "profit from the losses of other people."

Similar sentiments prevail today among the politicians who advocate more power for the SEC. But rather than giving the SEC more money and power, Congress should abolish it. Here are just some of the reasons why.

ONE: The SEC Erects Barriers to Competition.

Thanks to the SEC, raising capital through the issuance of new stock is an extremely time-consuming, highly technical, and costly process. It requires a mountain of paperwork, the filing and refiling of documents, and very expensive CPAs and lawyers. Many small companies—which don't have the resources and knowledge to negotiate his bureaucratic maze—can't raise new money and grow. Large, established firms do just fine, however, and they like the lessened competition.

TWO: The SEC is Anti-Shareholder.

The SEC defends the interests of entrenched, old-line corporate management over the true owners of companies, the shareholders, by hampering corporate "raiders." Raiders seek to make a profit by buying out a firm's owners, firing top-heavy and inefficient management, and installing people who will make the company more profitable.

The SEC requires "raiders" to file public reports after they acquire 5% or more of a company's stock, in accordance with the Williams Act, which was devised by the SEC and corporate lobbyists. These filings are designed to tip off management about possible tender offers, thus giving them plenty of time to scheme a takeover defense to secure their jobs at shareholder expense.

THREE: The SEC Turns Innocent People into Criminals.

Last year's biggest scapegoat was the insider trader, who committed the "crime" of buying or selling stock on the basis of non-public information. But it is the SEC's own complicated and time-consuming takeover rules that make inside information valuable in the first place. Without the filing requirements, "raiders" would quietly acquire shares voluntarily in the market from people who want to sell. Without

SEC-mandated delays, there would be no "inside information" to capitalize on.

There is nothing wrong with using inside information. In fact, insider trading is economically beneficial in the sense that it causes security prices to adjust faster to critical new information. Insider trading is a victimless crime. There is no moral requirement to tell the owner of the property you're buying that you know how to make a profit out of it. No stockholder was ever forced to sell shares against his will.

FOUR: The SEC Protects the Brokerage Industry Cartel.

Since the SEC restricts entry into the brokerage industry, it is the enforcer of a highly profitable cartel. With brokerage houses as its constituents, it's not surprising to see the SEC campaigning against the recent efforts to repeal the Glass-Steagall Act, which restricts competition.

FIVE: The SEC Profits From Its Blunders.

As Ludwig von Mises observed, government regulation generates unforeseen problems, which excuses more regulation, which causes still more unforeseen problems. The SEC has a history of growing and profiting from crises. It has, for example, capitalized on the 1986 insider-trading scandal by getting a bigger budget and more staff, the dream of every D.C. bureaucrat. In fact, its budget is 62% higher today than in 1982. And today, it's busy using the Crash of 1987 to justify more regulation, especially of the competitors of Wall Street in the futures and options markets.

SIX: The SEC Favors Price Controls.

The SEC is pushing for the power to shut down the financial markets in times of "emergency." SEC chairman David Ruder also endorses the idea of daily trading limits on stocks, which would halt trading once a stock price hits its SEC-set maximum daily limit. It is very damaging—even in government-caused emergencies—to prevent willing sellers and buyers from making a trade.

SEVEN: The SEC Invades Privacy.

Acting on behalf of the SEC, the U.S. government pressured Switzerland, England, Japan, and others, to swap information on the stock market dealings of private citizens.

For all these reasons the SEC should be abolished and the laws backing it repealed. This would dramatically simplify selling new stock and thus be a boost for new businesses, competition, and the free market. And industry self-regulation and normal police agencies will protect against fraud.

The securities industry is not problem-free, of course, and never will be. But it will function better without the Big Problem, Washington, D.C., in charge of it. ■

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Government vs. Sound Money

Investor's Hotline (10616 Beaver Dam Road, Hunt Valley, MD 21030, \$99 a year) is a fascinating audio newsletter edited by F. Joseph Bradley. Each month it interviews four investment advisers on tape. The following is excerpted from the most recent issue.

Bradley: This month we have a refreshing change: Lew Rockwell, president and founder of the Ludwig von Mises Institute. Lew is an advocate of Austrian economics, the school of thought which espouses freeing markets, minimizing government, and establishing a gold standard as solutions to our economic problems.

Lew, why don't we start out with a brief explanation of the characteristics of money and how money started.

Rockwell: Money is something we tend to take for granted, yet it was the most important invention in the history of mankind, and it made possible the development of modern civilization. Before money, people had to deal through barter, a horrendously inefficient system. You still see it in New Guinea and other stone-age areas of the world. A barter system prevents the development of the division of labor and therefore civilization as we know it.

It's also important to keep in mind that money developed—as Carl Menger and Ludwig von Mises showed—in the market, as business people and consumers settled upon the most liquid commodity—the good that everybody would accept. Many different things have been tried as money. But inevitably the market has settled on gold, and as a subsidiary coinage, silver.

Bradley: Let's go back to colonial times. There was inflation at that time and we had a paper currency. What experiences did they have and what can we learn from it?

Rockwell: Even though money was a market phenomenon, as in so many other areas, government took it over and debauched it through inflation. The first paper money inflation in America took place, as you note, during colonial times. The location was my home state, Massachusetts, which had problems even in those days. But the worst was the inflation of the Continental paper notes during the revolutionary war. Despite the Congress, we won that war, but there was tremendous currency depreciation.

Pelataiah Webster, probably the first American economist, pointed out the terrible effect this had on the patriots. The Tories, statist who advocated continued British control over America, would have nothing to do with the Continental paper notes because they associated them with the revolution. They would only accept gold and silver.

The Americans who wanted to support the war for independence mistakenly accepted this money and kept their savings in it. When, through the printing press, it fell to 1/1000 of its former value, people were wiped out, and that

generated popular pressure for monetary reform and the eventual constitutional gold standard.

Bradley: The gold that was in circulation was in the form of legal tender coins?

Rockwell: No, there were no legal tender coins. Legal tender, a law mandating the acceptance of government money, is only used when the government is trying to fool us. Nobody needs to be ordered to take gold. Even today, after so many years of being off the gold standard, we are happy to have a Krugerrand. Government uses legal tender to compel us to accept paper notes or debased coins at more than their market value.

Bradley: Does the Constitution imply that the money should be actual gold coins, that we should have a strict gold standard?

Rockwell: Yes it does. And after the Constitution was adopted, the Mint began producing the ten dollar gold eagle as the standard coin of the American monetary system. Everything else was predicated upon it: the double eagle, half eagle, quarter eagle, etc. The Founding Fathers believed they had established a specie standard.

Bradley: Didn't the private banking system come from that?

Rockwell: It certainly was in the spirit of the new American system. There was free banking all during the pre-Civil War period. It was not a perfect system, because the state governments intervened, but it was pretty good. It did help prevent centralized bank inflation, one of the dreams of the statists and one of the nightmares of the Jeffersonians.

Bradley: What do you think is the best solution? The Federal Reserve was obviously created not just so the Fed could print money and finance the government deficits, but it also had a practical purpose: to make one printer of the currency, so everybody would only be dealing in one currency.

Rockwell: Joe, if I may, I want to disagree with you. The Fed was specifically set up to inflate, to cartelize the banking industry, to enable the banks to profit—in cahoots with the government—at the expense of the rest of us. The government tells us otherwise. It makes generous use of propaganda and disinformation. But the only reason the Fed was set up was to allow the government and its associated bankers to benefit from inflation.

Bradley: The Federal Reserve destroys the money and the dollar continues to drop to new lows. What's the solution?

Rockwell: A dollar defined, once again, as a weight of gold. The dollar—like the pound, the mark, the lira, the franc, and other monetary units—was originally a weight of precious metal. Politicians don't like us to remember that, but it's the historical record.

We need to get rid of the Federal Reserve, which does more than cause inflation and higher prices. It brings on recessions and depressions. It's an evil, unconstitutional system that we should abolish. We also need free banking



Babbitt and Taxes: A Profile in Courage?

by Murray N. Rothbard

There is no question that the media darling of the early presidential election season was former governor Bruce Babbitt of Arizona. As time neared for the Iowa caucuses, pundits for virtually every organ of the Establishment media weighed in with *serioso* think-pieces about the glory and the wonder, the intelligence and especially the high courage of a great man who suffered the misfortune of looking like Ichabod Crane on television.

Gloomily, the pundits figured that the Iowa masses would lack the perception and the wisdom of being able to look beyond the TV surface and see the statesman lurking underneath. Fortunately perhaps for America, the pundits proved correct, and the number of voters for Bruce Babbitt barely exceeded the number of his ardent fans in the national media.

Of what does the great courage of Bruce Babbitt, as trumpeted by the media, consist? The answer is his intrepid valor in coming out, frankly and squarely, for higher taxes to slash the federal deficit. The similar gallantry of Mondale in 1984 is then recalled. Set aside the palpable fact that Mondale had a lot more to lose, in contrast to Bruce Babbitt, who began close to zero percent in any case. The interesting question to ask is: what kind of "courage" is this?

It used to be thought that heroism and "courage" meant being willing to go out into the lists, candidly and unafraid, to battle the mighty and despotic powers-that-be. Can we really call it "courage" when a Mondale or a Babbitt frankly calls upon the eager State apparatus to *increase* still further its already outrageous and parasitic plunder of the hard-earned money of honest and productive American citizens? Whooping it up for higher taxes is the moral equivalent of some Ugandan theoretician of a few years ago publicly urging Idi Amin to pile on his looting and his despotism still further, or of a Mafia *consigliere* advising the *capo* to add an extra ten percent to the "protection fee" imposed on neighborhood stores. We can think of many names for this sort of activity, but "courage" is surely not one of them.

It might be objected that, after all, a politician who urges higher taxes is not only imposing suffering on *other* people; he himself as a taxpayer will also have to bear the same deprivations as other citizens. Isn't there, then, a kind of nobility, even if misguided, in his plea for "belt-tightening" common sacrifice?

To meet this question, we must realize a vital truth that has long remained discreetly veiled to the tax-burdened

citizenry. And that is: contrary to carefully instilled myth, politicians and bureaucrats *pay no taxes*. Take for example, a politician who receives a salary of, say, \$80,000; assume he duly files his income tax return, and pays \$20,000. We must realize that he does not in reality pay \$20,000 in taxes; instead, he is simply a *net tax-receiver* of \$60,000. The notion that he pays taxes is simply an accounting fiction, designed to bamboozle the citizenry into believing that he and the rest of us are on the same moral and financial footing before the law. He pays nothing; he simply is extracting \$60,000 per annum from our pockets. The only virtue of United Nations' employees is that they are frankly and openly exempt from all taxes levied by any nation-state—which simply makes their position the same as other national bureaucrats, except uncamouflaged and unadorned.

The same principle, too, applies to sales or property or any other tax. Bureaucrats and politicians do not pay them; they are simply subtracted from the net transfer to themselves from the body of taxpayers.

Cut anywhere and everywhere; only wholesale flailing away with a meat axe could possibly do justice to the task.

Unfortunately in current American politics, we are trapped between purveyors of false choices: the "courageous" who call for higher taxes, and the supply-siders who say that there's nothing really wrong with deficits, and that we should learn to relax and enjoy them. It seems to be forgotten that there is another, tried and true, and perhaps

far more "courageous," way of slashing the deficits: *cutting government spending*.

It would seem embarrassingly trivial to mention it, except somehow this alternative has gotten lost down the Orwellian memory hole. "But *where* would you cut?" asks the cunning critic, hoping to get us all bogged down in the numbing minutiae of whether \$50,000 should be cut from a grant to some New Jersey *avant-garde* theater group.

The proper answer is: anywhere and everywhere; only wholesale flailing away with a meat axe could possibly do justice to the task. An immediate fifty percent across-the-board slash in literally everything; abolishing every other government agency at random; a line-by-line reduction of the budget to some previous President's—the further back in time the better; all these will do nicely for openers. The important thing is to adopt the spirit, the mind-set; and a balanced budget will be the least of the wondrous results to follow. ■

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Rothbard's *What Has Government Done to Our Money?*

Reviewed by Jeffrey A. Tucker

Something dreadful has happened to our money. The dollar doesn't buy what it used to—domestically or internationally. But who is to blame?

The Federal Reserve publishes a color comic book entitled "The Story of Inflation," which says we should fault unions, businessmen, consumers, and Arabs. The government can fix the problem, says the Fed, with price controls, higher taxes, and Keynesian monetary policy. (If you thought that only East bloc governments engage in lying propaganda, write the Federal Reserve Board, Constitution Avenue and 20th Street, Washington, D.C. 20551, for your free copy.)

Even leaving aside the Fed, there is no end to the excuses the experts offer for the mysterious disappearance of the once powerful dollar.

But Professor Rothbard's *What Has Government Done to Our Money?* brushes all the prevarications aside. With no mushy qualifiers, lame excuses, or hedges, he brands government as always and everywhere the enemy of sound money.

Money originated, as Carl Menger showed, through rational individuals acting to solve the frustrating limitations of the barter economy. Engaging only in direct exchange—trading eggs for fish—is a hindrance to economic growth. But when people settled on gold as the medium of exchange, it became the lifeblood of the economy, that is, money. With money, individuals can engage in *indirect* exchange, and the barter economy can grow into a complex exchange network characterized by the division of labor and a wide array of goods and services available for consumption.

Neither social contract nor government edict is necessary or even sufficient for the development of money. A dictator can't invent money or successfully impose it on society. Only through free-market exchange can individuals discover what is the most marketable commodity.

But the story doesn't end there. From time immemorial, governments have nationalized money, monopolized it, and debased it to wage war and repress its citizens.

Today, many people believe the U.S. government should monopolize the dollar to stabilize the price level, to provide for the needs of trade, to keep the money stock growing with the population, to establish certain exchange ratios, or whatever.

That's only a sampling of the dozens of myths surrounding money, and in this pithy study, Rothbard shows why they are all false. With regard to money, anything good that the government does, the market can do better.

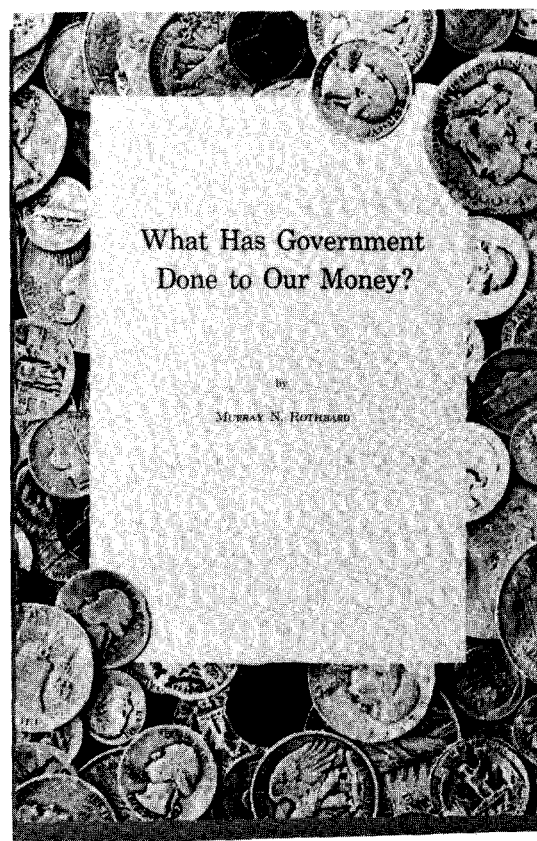
Rothbard makes devastating observations about inflation, the price level, hoarding, coinage, legal tender, central banking, bimetallism, and more. But the real strength of this

lucid book is its unfailing insistence on pointing the finger at the monetary offenders: the government and its hirelings. That's what makes his account of U.S. monetary history—from the gold standard of 1815 to the fiat dollar of the eighties—so informative. It is no accident that the growth of the U.S. government is inversely related to exchange-value of the dollar. The government waxes while the dollar and liberty wane.

These days, free enterprise is back in vogue. Even politicians agree that private property and competition are important. Rothbard says: why not extend the logic of free markets to money? It too should be organized under the freedom principle, which means abolishing the Fed and its fiat money and, as Rothbard urges, replacing them with a real gold standard.

It may sound like a pipedream today, but freedom from the government is never easy. Thanks to Professor Rothbard, we have a tightly written case—accessible to the non-economist—for a wall of separation between the government and our money. ■

Mr. Tucker is managing editor of the *Free Market*, a graduate student in economics at George Mason University, and coordinator of the Institute's Fertig Student Center.



What Has Government Done to Our Money? is available for \$5.00, which includes postage and handling. Just check the box on the enclosed form and include your check, adding—if you can—a contribution to the Institute's work against government money manipulation.

and private coinage of dollars. But the necessary first step is defining the dollar as a weight of gold.

Bradley: Didn't some Federal Reserve Notes in the early days say they were exchangeable for gold?

Rockwell: Yes, and the government still defines its dollar as being a little more than $\frac{1}{42}$ of an ounce of gold. Given the U.S. government's monetary policy, that's crazy, but so are a lot of other things it does.

Bradley: You've mentioned an ideal system. Will we ever have anything close?

Rockwell: We've already taken one step: the minting of Ron Paul's Gold Eagle coins. They've gotten the American people more familiar with gold coins and the idea of holding them. That alone has brought us a long ways.

Bradley: Isn't the more likely scenario one in which the government takes on even greater powers, especially since the average citizen doesn't really understand all this?

Rockwell: Certainly that is what the government is going to try to do. And in some cases, as in the 1930s, what you describe is exactly what took place. In other times in our history, it's been the reverse. We've had genuine reforms.

As to the average citizen, I've been involved in professional political polling on this subject: when Ron Paul ran for the U.S. Senate in Texas and when Lew Lehrman ran for governor of New York. In the latter case the polling was done by Dick Wirthlin, Reagan's pollster. In both states we asked some detailed questions about the gold standard. You'd be amazed at how sophisticated the average American is on this subject, and how many support the idea of a gold standard.

Bradley: There is talk right now by Secretary of the Treasury Baker about some type of gold backing to the currency.

Rockwell: Yes, and it's both wonderful and terrible. It's wonderful because he's proving the point that there is a tremendous reservoir of trust and faith in the gold standard among the American people. That's even more true in Europe, Asia, and Latin America. People trust gold and they don't trust politicians. Baker is taking advantage of this.

The terrible thing is that he's deceiving people. He's talking about a bundle of commodities—a secret bundle, by the way—that the Federal Reserve and other central banks would use in setting policy. One of the commodities would be gold, but no one would know what the others were, what the percentages were, or how the central banks would use this bundle as a guide. There would be no restriction on them, just this secret bundle.

Baker and the supply-side movement have been advocating this kind of phony gold standard to try to fool the people into thinking there was a restriction on the money supply when in fact there wasn't. I think it's possible that we will see some kind of phony international gold standard established to keep the game going. But because there won't be a real gold standard, the central banks will use gold to

cover their further debauching of the dollar, the pound, the franc, etc.

Bradley: Don't you think that this would have a negative effect on the price of gold in the short run?

Rockwell: Sure. In fact, I'm convinced that central bank manipulation has kept the price of gold low since the crash. But it can't work forever.

Bradley: I know you're more economist than investment analyst, but, from your perspective, if a person puts all of his money into gold and the Fed is able to stave off a major collapse for another ten years, a knowledgeable, prudent person might actually be the loser.

Rockwell: I believe that your core savings, which you don't touch unless your spouse is ill or it's time to send your kids to college, ought to be in gold. It ought to be bullion coins or highly liquid, semi-numismatic U.S. coins purchased on a regular basis without worrying about trying to beat the market. A quiet, regular accumulation of assets in a form that can't be debauched by the government. It ought to be physically held, 100% owned, not stored by anybody else, with no leverage. And it helps to understand Austrian economics.

Knowing something about real economics, about what the government does to the economy, can only help. It doesn't guarantee profits. But it does mean an ability to analyze the effects of government intervention in a more clear-eyed fashion than is possible for the average investor.

Bradley: Thanks, Lew. As you have pointed out elsewhere, the only long-term solution to our problems is education. That's why I urge *Investor's Hotline* subscribers to support the Ludwig von Mises Institute in its work for the free market. ■

Upcoming Institute Events

Every Thursday: Austrian Economics Colloquium at Auburn University, Auburn, Alabama

April 14-15, 1988: 'Taxation: An Austrian View' conference in Washington, D.C.

April 24, 1988: Austrian Monetary Seminar I at the Fertig Center, Fairfax, Virginia

May 22, 1988: Austrian Monetary Seminar II at the Fertig Center, Fairfax, Virginia

May 23-31, 1988: "The First Austrian Economics Conference for Investors" in Vienna, Austria

June 25-July 1, 1988: "Advanced Instructional Conference in Austrian Economics" at Stanford University, Stanford, California

August 13-19, 1988: "Introductory Instructional Conference in Austrian Economics" at Dartmouth College, Hanover, New Hampshire

October 1988: "Marxism vs. Austrian Economics: Yesterday and Today" conference in New York City

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By the way, despite Friedman, there is nothing wrong with the Fed's stopping the flow of money and credit to end the boom, as happened in 1929. The wrong was the inflation that took place during the 1920s, and the Hoover-Roosevelt policies that prevented a recovery for over a decade. The original culprit, of course, was the existence of an institution able to cause all this trouble.

Greider hates deflation, but it is the natural, healthy condition of the market. With the money supply relatively stable under a gold standard and the production of goods and services increasing, the dollar buys more. Prices gently fall (imagine the VCR situation extended to the whole market) and real wages increase. That's what happened to our country in the 19th century, and it brought about the greatest economic growth in history.

Greider, good journalist that he is, does provide compelling accounts of the Fed's Continental Illinois and Mexican debt bailouts, and new evidence that "Arthur Burns...deliberately manipulated monetary policy...to help re-elect his old friend Richard Nixon." He quotes Fed Governors admitting that they consciously pursued a monetarist policy from 1979-1982 (something Friedman would like us to forget), shows how "Volcker stared down U.S. Senators and presidential advisers" during the recessions of the early 80s, and tells how the officers of Volcker's old employer, Rockefeller's Chase Manhattan Bank, persuaded him to loosen the money supply.

Greider criticizes the quantity theory of money as a "simple answer to bewildering complexities," and cites money supply statistics from the 1970s and 1980s that use M-1 as a base. But the "money supply" in these years can hardly be summarized by M-1 because of financial deregulation (and the Fed's propensity to keep changing its statistical bases to hide its activities). A much more accurate monetary statistic is the True Money Supply (TMS) constructed at the request of the Mises Institute by Murray Rothbard and Joseph Salerno on Austrian economic principles.

Greider does have one point, however: most economists do oversimplify the quantity theory of money. An increase in the money supply raises relative prices, but what mainstream economists call the "price level" is a fiction. As relative prices increase, different sectors of the economy are affected in different ways. Prices have risen, but far more important, the price structure has changed.

Greider rebukes Congressional Democrats for voting for

the deregulation of interest rates in the Monetary Control Act of 1980. This aspect of the bill merely recognized something the market had already accomplished through money market funds. But he glosses over, or does not mention, other important provisions, which: centralized even more power in the Fed, removed all collateral from U.S. notes, enabled the Fed to reduce bank reserve requirements to zero, empowered the President to declare bank holidays, and allowed the Fed to monetize foreign debt (including nearly worthless Third World debt held by the money-center banks). Only Ron Paul, then a Congressman from Texas, understood what the bill really meant, and waged a courageous and single-handed fight against it.

The Secrets of the Temple serves an important purpose by shining a bright light on an institution for too long hidden in obfuscation and propaganda. But the real secrets of the temple are that: the Federal Reserve is an unconstitutional and illegitimate enterprise; it serves a narrow elite of bankers, government officials, and connected businessmen; it ensures prosperity for these insiders at the expense of the rest of us; it causes economic disasters; its officials are arrogant bumblerers; and great statesmen and economists—from Andrew Jackson to Ron Paul, from Ludwig von Mises to Murray N. Rothbard—have wanted it or similar operations wiped from the face of the earth.

A central bank is incompatible with a free society. For the sake of our economy and our liberty, and of simple justice, we should abolish the Monster, and sow salt in the earth where it stood. In its place we need a real gold standard and non-fraudulent free banking, as Ludwig von Mises outlined, and as the Founding Fathers intended. ■

Mr. Rockwell is founder and president of the Ludwig von Mises Institute.

Quote of the Month

"What many people today call inflation or deflation is no longer the...increase or decrease in the supply of money, but its inexorable consequences, the general tendency toward a rise or a fall in commodity prices and wage rates. This innovation is by no means harmless. It plays an important role in fomenting the popular tendencies toward inflationism."

— Ludwig von Mises
Human Action, p. 423