As many astute economists have observed fiat money could well trigger either a serious devaluation of the U.S. dollar or even a collapse of our nation's currency. These looming threats have developed most significantly since the formation of the Federal Reserve System in 1914. The damage that various, ill-advised, fiat monetary policies have created for our nation over the last one hundred years have placed us squarely in a crisis mode. But the ripple effects are not just economic. They are political and cultural as well. Permit me to explain, beginning with the economic.

First, one must recognize that when famed monetarist economist Milton Friedman explained his precise use of the phrase "We are all Keynesians now" that he quickly added that "in another (sense), nobody is any longer a Keynesian" – presumably because of the evident failure of Keynesian economics in the long run. Furthermore, although Keynesian policies are essentially fiscal in nature, they tend to encourage a central bank to fall into the monetary trap of issuing fiat money.[1] And just what is fiat money?

It is money "created out of thin air" with nothing of value to back it up. Fiat currency is money fabricated without any underlying value such as a precious and scarce metal, yet it is - at present - the very basis of the nation's currency.[2] How did previous generations of Americans allow this to develop?

Traditionally, our leaders used the well-established practice of printing our money based on our holdings of gold. Nevertheless, as years passed our monetary decision-makers, especially those empowered to alter basic policies such as the Federal Reserve chairmen, have created a delicate and precarious monetary construct that has more in common with a house of cards than a

[1] Milton Freedman on Budget and Economy. (n.d.). Retrieved April 30, 2015, from http://www.ontheissues.org/celeb/Milton_Friedman_Budget_ _Economy.htm
[2] Definitions - The Daily Bell. (n.d.). Retrieved April 30, 2015, from http://www.thedailybell.com/definitions/params/id/803/

home built on bedrock. This shift from a gold standard to risky and highly questionable over reliance on fiat money, when combined with our overextended fiscal obligations of eighteen trillion dollars and growing, have placed our nation's economic health into jeopardy. In fact metaphorically speaking, some economists such as Peter Schiff argue that we need to be hospitalized for intensive care treatment both on the monetary and fiscal levels[3].

Originally, the Founding Fathers in our Constitution in Article 1, Section 8, Clause 5 authorized the Congress to "regulate the Value there of" our currency. This clearly means that it must be based on a store of value. Traditionally, the standard was based solely on holdings of gold. At times various groups have advocated a bi-metallic standard such as William Jennings Bryan in the presidential election campaign of 1896 with his call for a ratio of sixteen ounces of silver to one of gold. [4] Yet even while the nation appeared to commit permanently to the gold standard in 1914 with the formal creation of the Federal Reserve System, our nation's central bank reserved the right to change the rules of the monetary game away from a store of value into a fiat system. Sure enough, over the years the Fed as a unique private-public, semi-secretive organization has tampered with the constitutional dictum to maintain a store of value.

Now, let us fast forward to the Great Depression of the 1930s, an era marked by huge political considerations. For instance, President Roosevelt adopted a series of monetary and fiscal measures that embraced much of the advice of famed British economist James Maynard Keynes. The followers of Keynes are referred to as "Keynesians" and their basic message is this: at times a government may need to jump start a depressed economy by creating a demand for

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[3] Smith, M. (2012, July 11). Peter Schiff on Gold and Money. Retrieved April 30, 2015, from http://goldinvestingnews.com/26510/peter-schiff-gold-money-fiat-currency-price-outlook-central-banks-investing.html

[4] Harrison, E. (2009, November 4). The Creeping Power Grab by the Executive Branch and Federal Reserve. Retrieved April 30, 2015, from http://www.nakedcapitalism.com/2009/11/the-creeping-power-grab-by-the-executive-branch-and-federal-reserve.html

government-generated jobs and services. FDR introduced a wide variety of Keynesian programs such as the CCC, WPA, and the TVA. Some of those make-work programs enjoyed a measure of success, but others proved to be failures and quite wasteful. Yet, politically, they enjoyed a following. [5]

Furthermore, the fiscal downside of FDR's approach is that Keynesian-style government programs caused a large increase in the national debt. The political upside is that voters get shovel-ready jobs and the politicians ingratiate themselves to those voters who benefit from such programs. They are rewarded with future votes cast for their re-election.

Moreover, FDR perpetrated monetary mischief as soon as he assumed office that had clear political motivation. He declared a four day "bank holiday" in March of 1933 and later passed a Gold Reserve Act in 1934 which suspended the gold standard temporarily. Part of his program included confiscating the gold holdings of wealthier Americans, paying them a flat rate of $20.67 and then re-issuing the value of gold at a rate of $35. Thus, the common man with no gold won and the wealthier Americans with gold lost. There were a lot more voters among the common men. [6]

As Milton Friedman and other economists, be they monetarists or Austrian School researchers, have pointed out, increased gold holdings at the start of the Depression should have meant increased money supply in the effort to inject needed capital into the free market. [7] Instead, there was a monetary contraction by both Hoover and FDR. Both men had Federal Reserve Chairmen who were guilty of not applying sound and essential monetary discipline and policy. By retracting the money supply all three Fed Chairmen under Hoover and FDR

[5] New Deal. (n.d.). Retrieved April 30, 2015, from http://en.wikipedia.org/wiki/New_Deal
[6] A Bank Holiday. (n.d.). Retrieved April 30, 2015, from http://www.ushistory.org/us/49a.asp
[7] Milton Freedman on Budget and Economy. (n.d.). Retrieved April 30, 2015, from http://www.ontheissues.org/celeb/Milton_Friedman_Budget_ _Economy.htm

aggravated the monetary condition of the nation's money supply. It was a time that we had more gold on hand and the banking system needed to make more money available for businesses to build, invest and to hire.

The next major monetary event intimately tied to monetary pitfalls was the August, 1971 announcement by President Nixon under the Federal Reserve chairmanship of Arthur Burns that the U.S. would no longer give a nation gold in exchange for U.S. dollars. [8] In fairness to Richard Nixon, it must be said that he inherited a difficult situation. The nation had run up a huge debt, due mainly to the expense of fighting the War in Vietnam and multiple social programs passed as part of President Lyndon Johnson's Great Society, and inflationary pressure was increasing.

Furthermore, President Nixon had inherited an international monetary system that was based on the Bretton Woods Agreements after World War II. Initially, the system worked well, but as competitive economies developed in Asia and Europe, rebounding from the destruction of World War II, the portion of America's output compared to total world output decreased, which in turn decreased the call for U.S. dollars. Thus, it was more enticing to many nations such as France and Spain to convert their dollars to gold. And they did so. Nixon had little choice but to close the gold exchange window. [9]

Many economists have highlighted the extended period from President Nixon to President Obama as one that illustrates the Triffin Dilemma which is often described as an inevitable process that culminates in a day of reckoning when a nation that has led the world in the capacity of the global reserve as currency gradually loses its supremacy and begins to suffer

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[8] Definitions - The Daily Bell. (n.d.). Retrieved April 30, 2015, from http://www.thedailybell.com/definitions/params/id/803/

[9] Ghizoni, S. (2013, November 22). Nixon Ends Convertibility of U.S. Dollars to Gold and Announces Wage/Price Controls. Retrieved April 30, 2015, from http://www.federalreservehistory.org/Events/DetailView/33

serious current account deficits with trading partners. In turn holding the U.S. dollar loses its desirability and it status as the globe's reserve currency is gradually lost. [10]

On a cultural level the ideas and values emphasized by the fiat system have also altered to some degree the morals and principles society has come to uphold based on this system. People naturally seek the comforts of wealth which has a positive effect in a competitive society, guided by the "invisible hand" of Adam Smith. This standard becomes abused, however, with the system of fiat money. People come to believe that monetary manipulations make wealth more available to everyone and this eliminates the need for dedicated work. This changes an independent culture into one which is dependent on taxpayer payments for welfare benefits and government jobs with low levels of productivity.[11] According to James Madison the fiat system destroyed social values, particularly, "the necessary confidence between man and man, on necessary confidence in public councils, on the industry and morals of the people and on the character of the Republican government."[12] Former Congressman Ron Paul even goes on to claim that "When the government can replicate monetary unit at will without regard to cost … it's morally identical to the counterfeiter who illegally prints currency. Both ways, it's fraud." A system based on such morally questionable methods deviates from the cultural values of the nation.[13]

In conclusion while fiat money has impacted culture rather negatively, the system has likewise been the target of personal, political advantage and misguided economic calculation. Ludwig von Mises, a renowned Austrian school economist, explains that fiat money alters the

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[10] Canavan, G. (2014, January 31). The Triffin Dilemma. Retrieved April 30, 2015, from http://dailyreckoning.com/the-triffin-dilemma/
[11] Brassil, R. (2015, April 28). [Personal interview].
[12] Paul, R. (2003, September 5). Paper Money and Tyranny – LewRockwell.com. Retrieved April 30, 2015, from https://www.lewrockwell.com/1970/01/ron-paul/paper-money-and-tyranny/
[13] Paul, R. (2003, September 5). Paper Money and Tyranny – LewRockwell.com. Retrieved April 30, 2015, from https://www.lewrockwell.com/1970/01/ron-paul/paper-money-and-tyranny/

purity of supply and demand with constant regulation of in-pour and out-pour of money in circulation by the government.[14] However, if the economy is to thrive, the free market must be driven by calculated risk-taking, intelligent economic strategies, open competition, efficiency, and private enterprise, not government regulation. Are we all Keynesian now? Not by a long shot. That system has failed. Time to hit the reset button.

[14] Brassil, R. (2015, April 28). [Personal interview].