BANKNOTES NELSON NASH'S MONTHLY NEWSLETTER

May 2009

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Nelson Nash's live seminars for the next two months (The seminar sponsor or contact person is listed with phone and e-mail address in case you want to attend)

Friday-Saturday, May 1-2, Hillsboro, TX -
Nancy Jackson, 254-582-3565, 254-582-3037, nancy@bcbstexas.com

Tuesday-Wednesday, May 5-6, Nacogdoches, TX -
Ricky Heard, 936-564-1735, rickyh@cbhins.com

Tuesday-Wednesday, May 12-13, Little Rock, AR -
Becky Rice 501-221-7400, ricerw@rebeccarice.net

Friday-Saturday, May 15-16, Helena, AR -
Joe Hart, 417-343-6518, becomeyourownbank@gmail.com

Thursday-Friday, June 25-26, Salem, OR -
Tom McFie, 503-363-5433, 866-502-2777, Michele@Life-Benefits.com

Wednesday -Thursday, June 3-4, Santa Ana, CA -
Bert Salazar, or Robert Hinkle, 714-361-7401, bert.salazar@cambridgefp.com, Robert.Hinkel@cambridgefp.com,

Here is a listing of Nelson's newly added Book Recommendations

A Distant Mirror -- The Calamitous 14th Century
by Barbara Tuchman

Nelson's Favorite Quotes of the Month

"Television is very educational - whenever it is on, I go in another room and read a book."
- Groucho Marx

"We do not have, and never had, and could not have a 'voluntary' tax system."- Donald C. Alexander

As democracy is perfected, the office of president represents, more and more closely, the inner soul of the people. On some great and glorious day the plain folks of the land will reach their heart's desire at last and the White House will be adorned by a downright moron." -H.L. Mencken (July 26, 1920)

The following articles are Nelson's favorite finds from the last month's reading

Blowing Bubbles

by Doug French

This article is the introduction to Doug French's new book *Early Speculative Bubbles and Increases in the Supply of Money*.

As all the world economies writhe in financial pain from the cleansing of the largest bubble in financial history, the same question is being asked – how could this happen? Of course the usual answers are trotted out – human greed, animal spirits, criminal fraud, or capitalism itself. Modern financial history has been a series of booms and busts that seem to blend together making one almost indistinguishable from the next. The booms seduce even the most conservative into taking what in retrospect appear to be outlandish risks speculating on investment vehicles they know nothing about.

In response to the financial meltdown, central banks are slashing interest rates to nearly zero and growing their balance sheets exponentially. With no more room to lower rates, central bankers now speak of a "quantitative easing" policy which in plain English means "creating money out of nowhere." But no one is shocked or horrified by this government counterfeiting. All this, after the US central bank (the Federal Reserve) has already, at this writing, increased the M2 money supply by 11 times since August of 1971 when the US dollar's last faint ties to gold were severed.

While history clearly shows that it is this very government meddling in monetary affairs that leads to financial market booms and the inevitable busts that follow, mainstream economists either deny that financial bubbles can occur or that the "animal spirits" of market participants are to blame. Economists running central banks even claim that it is impossible to identify asset bubbles. Meanwhile, the Austrian school stands alone in pointing the finger at government intervention in monetary affairs as the culprit.

Austrian economists Ludwig von Mises and Friedrich A. Hayek's Austrian business-cycle theory provides the framework to explain speculative bubbles. The Austrian theory points out that it is government's increasing the supply of money that serves to lower interest rates below the natural rate or the rate that would be set by the collective time preferences of savers in the market. Entrepreneurs react to these lower interest rates by investing in "higher order" goods in the production chain, as opposed to consumer goods.

Despite these actions by government, consumer time preferences remain the same. There is no real increase in the demand for higher order goods and instead of capital flowing into what the unfettered market would dictate – it flows into malinvestment. The greater the monetary expansion, in terms of both time and enormity, the longer the boom will be sustained.

But eventually there must be a recession or depression to liquidate not only inefficient and unprofitable businesses, but malinvestments in speculation – whether it is stocks, bonds, real estate, art, or tulip bulbs.

This book was my master's thesis (with just a couple slight changes and additions) written under the direction of Murray Rothbard and examines three of the most famous boom and bust episodes in history. Government monetary intervention, although different in each case, engendered each: Tulipmania, the Mississippi Bubble, and the South Sea Bubble.

As the 17th century began, the Dutch were the driving force behind European commerce. Amsterdam was the center of this trade and it was in this vibrant economic atmosphere that tulipmania began in 1634 and climaxed in February 1637. At the height of tulipmania, single tulip bulbs were bid to extraordinary amounts with the Witte Croonen tulip bulb rising in price 26 times in a month's time. But when the market crashed: "[s]ubstantial merchants were reduced almost to beggary," wrote Charles Mackay, "and many a representative of a noble line saw the fortunes of his house ruined beyond redemption."

What made this episode unique was that the government policy did not expand the supply of money through fractional reserve banking which is the modern tool. Actually, it was quite the opposite. The Dutch provided a sound money policy that called for money to be backed one hundred percent by specie, which attracted coin and bullion from throughout the world. Free coinage laws then generated more money from this increased supply of coin and bullion than what the market demanded. This acute increase in the supply of money fostered an atmosphere that was ripe for speculation and malinvestment, manifesting itself in the intense trading of tulips.

The Bank of Amsterdam, which was at the center of tulipmania, was an inspiration for one of history's most notorious currency cranks – John Law. Gifted in math, Law learned the banking business from his father in Scotland. But after his father died, the young Law had more interest in games of chance and women. During the day he would write pamphlets on money and trade while enjoying the social life at night.

Law made various proposals to governments around Europe for what we would call today a central bank and was turned down until 1716 when one of Law's partying friends, the Duke of Orléans, assumed control of the French government after Louis XIV died. The French government was on the verge of bankruptcy, and its citizens were fed up with their government's currency depreciation, recoinage schemes, and increased tax collections. The situation was ripe for Law's monetary magic.

Law sought to "lighten the burden of the King and the State in lowering the rate of interest" on France's war debts and to increase the supply of money to stimulate the French economy, with the opening of General Bank, owned 25 percent by Law and 75 percent by the King, and the formation of a series of companies that when ultimately merged together were known as the Mississippi Company. Two years into his system, the regent granted Law's request that the General Bank be made part of the state, becoming the Royal Bank, patterned after the Bank of England.

With the Royal Bank creating vast amounts of paper currency, Mississippi Company share prices took off which led Law to issue more shares, using the capital to refinance more of the government's debt. Ultimately, the scheme unraveled, despite Law demonetizing gold and silver so that only royal banknotes and Mississippi Company shares would circulate as money. An outraged French public ultimately forced the regent to place the once-revered Law under house arrest.

While John Law was struggling to keep his Mississippi bubble inflated, across the English Channel, a nearly bankrupt British government looked on with envy, believing that Law was working a financial miracle. It was anything but, however Sir John Blunt followed Law's example with his South Sea Company, which in exchange for being granted monopoly rights to trade with South America, agreed to refinance the government's debt.

As the price of South Sea Company shares rose, as in the case of Law's system, more shares were sold and more government debt refinanced. The company had no real assets, but that didn't matter as speculators bid the share price higher and higher, spawning the creation of dozens of other "bubble companies." The South Sea Company lobbied the British government to pass a Bubble Act that would shut down these new companies that were competing for investor capital. Ironically, it was the enforcement of that act that burst the bubble with South Sea Company shares falling nearly 90 percent in price. Beloved British statesman Sir Robert Walpole reorganized the technically bankrupt South Sea Company, and it remained in business for years.

Although these episodes occurred centuries ago, readers will find the events eerily similar to today's bubbles and busts: low interest rates, easy credit terms, widespread public participation, bankrupt governments, price inflation, frantic attempts by government to keep the booms going, and government bailouts of companies after the crash.

Although we don't know what the next asset bubble will be, we can only be certain that the incessant creation of fiat money by government central banks will serve to engender more speculative booms to lure investors into financial ruin.

This article first appeared on Mises.org.

April 7, 2009

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The Divide Between Society and State

Mises Daily by Frank Chodorov
Posted on 4/9/2009

Writing about Frank Chodorov, Murray Rothbard wrote, "Frank's final flowering was his last ideological testament, the brilliantly written The Rise and Fall of Society, published in 1959, at the age of 72." What follows is the introduction.

What history will think of our times is something that only history will tell. But it is a good guess that it will select collectivism as the identifying characteristic of the twentieth century.

For, even a quick survey of the developing pattern of thought during the past fifty years shows up the dominance of one central idea: that Society is a transcendent entity, something apart from and greater than the sum of its parts, possessing a suprahuman character and endowed with like capacities. It operates in a field of its own, ethically and philosophically, and is guided by stars unknown to mortals.

Hence, the individual, the unit of Society, cannot judge it by his own limitations nor apply to it standards by which he measures his own thinking and behavior. He is necessary to it, of course, but only as a replaceable part of a machine. It follows, therefore, that Society, which may concern itself paternalistically with individuals, is in no way dependent on them.

In one way or another, this idea has insinuated itself into almost every branch of thought and, as ideas have a way of doing, has become institutionalized. Perhaps the most glaring example is the modern orientation of the philosophy of education. Many of the professionals in this field frankly assert that the primary purpose of education is not to develop the individual's capacity for learning, as was held in the past, but to prepare him for a fruitful and "happy" place in Society; his inclinations must be turned away from himself, so that he can drop into the mores of his age group and beyond that into the social milieu in which he will live out his life. He is not an end in himself.

Jurisprudence has come around to the same idea, holding more and more that human behavior is not a matter of personal responsibility as much as it is a reflection of the social forces working on the individual; the tendency is to lay on Society the blame for crimes committed by its members. This, too, is a tenet of sociology, the increasing popularity of which, and its elevation to a science, attest to the hold that collectivism has on our times.

The scientist is no longer honored as a bold adventurer into the unknown, in search of nature's principles, but has become a servant of Society, to which he owes his training and his keep. Heroes and heroic exploits are being demoted to accidental outcroppings of mass thought and movements. The superior person, the self-starting "captain of industry," the inherent genius — these are fictions; all are but robots made by Society. Economics is the study of how Society makes a living, under its own techniques and prescriptions, not how individuals, in pursuit of happiness, go about the making of a living. And philosophy, or what goes by that name, has made truth itself an attribute of Society.

Collectivism is more than an idea. In itself, an idea is nothing but a toy of speculation, a mental idol. Since, as the myth holds, the suprapersonal Society is replete with possibilities, the profitable thing to do is to put the myth to work, to energize its virtue. The instrument at hand is the State, throbbing with political energy and quite willing to expend it on this glorious adventure. Thus comes Statism, or the worship of political power.

Statism is not a modern religion. Even before Plato, political philosophy concerned itself with the nature, origin, and justification of the State. But, while the thinkers speculated on it, the general public accepted political authority as a fact to be lived with and let it go at that. It is only within recent times (except, perhaps, during periods when Church and State were one, thus endowing political coercion with divine sanction) that the mass of people have consciously or implicitly accepted the Hegelian dictum that "the State is the general substance, whereof individuals are but the accidents." It is this acceptance of the State as "substance," as a suprapersonal reality, and its investment with a competence no individual can lay claim to, that is the special characteristic of the twentieth century.

In times past, the disposition was to look upon the State as something one had to reckon with, but as a complete outsider. One got along with the State as best one could, feared or admired it, hoped to be taken in by it and to enjoy its perquisites, or held it at arm's length as an untouchable thing; one hardly thought of the State as the integral of Society. One had to support the State — there was no way of avoiding taxes — and one tolerated its interventions as interventions, not as the warp and woof of life. And the State itself was proud of its position apart from, and above, Society.

The present disposition is to liquidate any distinction between State and Society, conceptually or institutionally. The State is Society; the social order is indeed an appendage of the political establishment, depending on it for sustenance, health, education, communications, and all things coming under the head of "the pursuit of happiness."

In theory, taking college textbooks on economics and political science for authority, the integration is about as complete as words can make it. In the operation of human affairs, despite the fact that lip service is rendered the concept of inherent personal rights, the tendency to call upon the State for the solution of all the problems of life shows how far we have abandoned the doctrine of rights, with its correlative of self-reliance, and have accepted the State as the reality of Society. It is this actual integration, rather than the theory, that marks off the twentieth century from its predecessors.

One indication of how far the integration has gone is the disappearance of any discussion of the State qua State — a discussion that engaged the best minds of the eighteenth and nineteenth centuries. The inadequacies of a particular regime, or its personnel, are under constant attack, but there is no faultfinding with the institution itself. The State is all right, by common agreement, and it would work perfectly if the "right" people were at its helm.

It does not occur to most critics of the New Deal that all its deficiencies are inherent in any State, under anybody's guidance, or that when the political establishment garners enough power a demagogue will sprout. The idea that this power apparatus is indeed the enemy of Society, that the interests of these institutions are in opposition, is simply unthinkable. If it is brought up, it is dismissed as "old-fashioned," which it is; until the modern era, it was an axiom that the State bears constant watching, that pernicious proclivities are built into it.

A few illustrations of the temper of our times come to mind.

The oft-used statement that "we owe it to ourselves," in relation to the debts incurred in the name of the State, is indicative of the tendency to obliterate from our consciousness the line of demarcation between governed and governors. It is not only a stock phrase in economics textbooks but is tacitly accepted in financial circles as sound in principle. To modern bankers, a government bond is at least as sound as an obligation of a private citizen, since the bond is in fact an obligation of the citizen to pay taxes. No distinction is made between a debt backed by production or productive ability and a debt secured by political power; in the final analysis a government bond is a lien on production, so what's the difference? By such reasoning, the interests of the public, which are always centered in the production of goods, are equated with the predatory interests of the State.

In many economics textbooks, government borrowing from citizens, whether done openly or by pressure brought upon the banks to lend their depositors' savings, is explained as a transaction equivalent to the transfer of money from one pocket to another, of the same pants; the citizen lends to himself what he lends to the government. The rationale of this absurdity is that the effect on the nation's economy is the same whether the citizen spends his money or the government does it for him. He has simply given up his negligible right of choice. The fact that he has no desire for what the government spends his money on, that he would not of his own free will contribute to the buying of it, is blithely over looked. The "same pants" notion rests on the identification of the amorphous "national economy" with the well-being of the individual; he is thus merged into the mass and loses his personality.

Of a piece with this kind of thinking is a companion phrase, "We are the government." Its use and acceptance is most illustrative of the hold collectivism has taken on the American mind in this century, to the exclusion of the basic American tradition. When the Union was founded, the overriding fear of Americans was that the new government might become a threat to their freedom, and the framers of the Constitution were hard put to allay this fear. Now it is held that freedom is a gift from government in return for subservience. The reversal has been accomplished by a neat trick in semantics.

The word "democracy" is the key to this trick. When one looks for a definition of this word, one finds that it is not a form of government but rather the rule by "social attitudes." But what is a "social attitude"? Putting aside the wordy explanations of this slippery concept, it turns out to be in practice good old majoritarianism; what 51 per cent of the people deem right is right, and the minority is perforce wrong. It is the General Will fiction under a new name. There is no place in this concept for the doctrine of inherent rights; the only right left to the minority, particularly the minority of one, is conformity with the dominant "social attitude."

If "we are the government," then it follows that the man who finds himself in jail must blame himself for putting himself there, and the man who takes all the tax deductions the law allows is really cheating himself. While this may seem to be a farfetched reductio ad absurdum, the fact is that many an armed-services conscript consoles himself with that kind of logic. This country was largely populated by escapees from conscription — called "czarism" a generation or two ago and held to be the lowest form of involuntary servitude.

Now it has come to pass that a conscript army is in fact a "democratic" army, composed of men who have made adjustment with the "social attitude" of the times. So does the run-of-the-mill draftee console himself when compelled to interrupt his dream of a career. Acceptance of compulsory military service has reached the point of unconscious resignation of personality. The individual, as individual, simply does not exist; he is of the mass.

This is the fulfillment of statism. It is a state of mind that does not recognize any ego but that of the collective. For analogy, one must go to the pagan practice of human sacrifice: when the gods called for it, when the medicine man so insisted, as a condition for prospering the clan, it was incumbent on the individual to throw himself into the sacrificial fire. In point of fact, statism is a form of paganism, for it is worship of an idol, something made by man. Its base is pure dogma. Like all dogmas this one is subject to interpretations and rationales, each with its coterie of devotees. But, whether one calls oneself a Communist, Socialist, New Dealer, or just plain "democrat," one begins with the premise that the individual is of consequence only as a servant of the mass idol. Its will be done.

It is an odd circumstance of history that the questing spirit is never obliterated or completely submerged. Social and political pressures may compel the intellectually curious to put on an appearance of conformity — since one must live in one's environment — but actual conformity is impossible for a mind of that kind. It must ask "why," even of itself. And sometimes it is hardy enough to suggest an inadequacy in the prevailing pattern of thought and to speak out against it.

Even in this twentieth century there are those who hold, perhaps only in the privacy of their personality, that collectivism is erroneous and mischievous and will come to no good end. There are nonconformists who reject the Hegelian notion that "the State incarnates the Divine Idea on earth."

There are some who firmly maintain that only man is made in the image of God, that the State is a false idol. They are in the minority, to be sure, as they have been throughout history; they are the "remnant" to whom Isaiah is instructed to carry the message. Perhaps these will find this inquiry into the economics of Society, Government, and the State of some interest; it was written for them.

Chodorov was an advocate of the free market, individualism, and peace. He began as a supporter of Henry George and edited the Georgist paper The Freeman before founding his own journal which became the influential Human Events. He later founded another version of The Freeman for the Foundation for Economic Education and lectured at the Freedom School in Colorado. See his article archives. Comment on the blog.

This article is excerpted from The Rise and Fall of Society.

The Rush Towards Socialism – and How To Stop It

by Thomas J. DiLorenzo

It only took the Obama administration a couple of weeks to prove that the national leadership of the Democratic Party is guided by totalitarian-minded socialists who seek to create an omnipotent government. The U.S. government is now controlled by people who have been dreaming of living out their utopian socialist fantasies ever since the fantasies were brought to their attention in college decades ago by their Mao/Castro/Che Guevara poster-hanging, capitalism-hating, communistic professors.

The administration's main agenda is an explosion of federal spending and debt so large and outrageous that America will soon exceed Sweden in the proportion of the economy that is controlled by government – if it hasn't already. That's just for starters. They also want to sharply increase taxes on the most productive and hardest-working people in society; increase the capital gains tax to deter private investment; expand the welfare state; spend trillions on pure, pork barrel spending in a massive vote-buying spree; set all corporate compensation levels by governmental fiat; tax away the wealth of unpopular business people (only starting with those AIG executives); regulate and control all risk taking by private entrepreneurs; enforce a civilian draft to create a modern-day, American version of the Hitler Youth (See Rahm Emanuel's creepy, Stalinist-sounding book entitled The Plan); nationalize entire industries, starting with the capital markets (they understand that there can be no capitalism without private capital markets); and double, triple, and quadruple the number of "regulators" who already regulate all aspects of human life in America.

At the recent G-20 meeting Obama even signed off on the creation of an international regulatory "authority" that could set compensation policies in American corporations. On top of this, there is a never-ending drumbeat of anti-capitalist propaganda coming from the administration and its worshipful mouthpieces in the "mainstream media."

What can be done? How can this rush toward totalitarian socialism be stopped? Will the Republicans find another old, angry geezer to appeal to the angry white male vote? How about another mumbling and incompetent Bush family heir? Will there be another Reagan who will talk libertarian while governing more like a European Social Democrat? Will they trot out another old "war hero" who will plunge us into war with Iran, North Korea, China, or whomever, to divert our attention away from the economic mess government has placed us in? These are the likely alternatives if we cling to the fantasy that "throwing the bums out" at election time leads to something other than another group of slightly different bums.

The fact is that the American people have been servants or slaves to their government for generations. It wasn't always that way. When the Adams administration enforced the Sedition Act that made criticism of the federal government illegal, Jefferson and Madison responded with the Virginia and Kentucky Resolves of 1798 that clearly stated that the people did not intend to allow the enforcement of this unconstitutional law within those two states. Section One of Jefferson's Kentucky Resolve stated, for example, that "the several States composing the United States of America, are not united on the principles of unlimited submission to their General Government . . ." Other states supported Jefferson and Madison in their defense of free speech.

When President Thomas Jefferson imposed a national trade embargo and consummated the Louisiana Purchase, New Englanders, led by George Washington's Secretary of State, Timothy Pickering, loudly threatened to secede. They decided against it (for practical economic and political reasons) at the Hartford Secession Convention of 1814, but their actions sent a clear message to national politicians.

Outraged by the embargo, the Massachusetts legislature used the language of Jefferson's own Kentucky Resolve to proclaim that the embargo "was not legally binding on the citizens of the state" while denouncing the federal law as "unjust, oppressive, and unconstitutional" and reminding President Jefferson that "this state maintains its sovereignty and independence . .

." All the New England states, plus Delaware, did the exact same thing and nullified the embargo.

When Alexander Hamilton's Bank of the United States, a precursor to the Fed, created 72 percent inflation in the first five years of its existence and corrupted politics with its politicized spending policies, citizens all over the country assisted President Andrew Jackson in eventually destroying the institution. The heroic Ohio legislature slapped a $50,000/year tax on each branch of the BUS, attempting to drive it out of business. "The states have an equal right to interpret the Constitution for themselves," announced the Ohio legislature, and it decided that the BUS was not constitutional. Kentucky, Tennessee, Connecticut, South Carolina, New York, and New Hampshire followed suit.

When the War of 1812 broke out the New England states effectively seceded from the union by refusing to participate. A proclamation by the Connecticut legislature was representative of the opinions of New Englanders: "[I]t must not be forgotten that the state of Connecticut is a FREE SOVEREIGN and INDEPENDENT State; that the United States are a confederated and not a consolidated Republic," and that it was refusing to support the war.

When the 1828 "Tariff of Abominations" created an average tariff rate of 45%, applying mostly to Northern manufactured goods, South Carolinians clearly understood that this was a pure act of political plunder at their expense. They convened a political convention to utilize the Jeffersonian idea of nullification and refused to collect the tariff. They even got the South Carolina legislature to allocate $160,000 for the purchase of firearms with which to fend off any would-be federal tax collectors. The result was that they forced the federal government to lower the tariff rate.

During the 1850s the "middle states" of New York, Pennsylvania, Delaware, Maryland, and New Jersey developed a very active secession movement that sought to either join a Southern confederacy, form a middle-states confederacy, or support Southern secession. (See The Secession Movement in the Middle States by William C. Wright). Their overriding desire was to separate themselves from the imperious New England Yankees.

When the Southern states seceded in 1860–61, Abraham Lincoln pledged his everlasting support for Southern slavery in his first inaugural address, an address in which he endorsed a constitutional amendment (the "Corwin Amendment") that would have forbidden the federal government from ever interfering with slavery. In the same speech he promised a military invasion and "bloodshed" in any Southern state that ceased paying his beloved tariff on imports which, at the time, accounted for more than 90% of federal tax revenue. The average tariff rate and had just been doubled by the Republican-controlled Congress.

The Southern states, along with most people in the North, still held the Jeffersonian belief that governments derive their just powers from the consent of the governed, and when that consent is withdrawn the citizens have a duty to abolish the existing government and form a new one. Jefferson never wrote in the Declaration of Independence that the citizens have a duty to abolish the government and form a new one "as long as the other states all agree that you may do so." If the right of secession depends on someone else's permission, then one does not have a right of secession. That was a fantasy invented by Lincoln, which he used to "justify" waging total war on his own country, murdering some 350,000 American citizens, including some 50,000 civilians. From that time on, government in America was no longer "for the people, by the people, of the people," as Chief Justice John Marshal once said in a phrase that was later plagiarized by Lincoln. From that time on the purpose of government has been for those who run it to plunder those who do not. Nullification and secession were no longer tools with which the citizens could control their own government.

The final nails in the coffin of government by consent were pounded in during the year 1913 with the advent of the federal income tax, the creation of the Fed, and the Seventeenth Amendment calling for the direct election of U.S. senators. The income tax and the Fed gave the federal government the ability to do whatever it wanted to do regardless of the Constitution – even to wage "undeclared" wars. These vast "riches" were used to make millions of Americans totally subservient to the state lest they lose their tiny government subsidies, and to bribe or threaten state governments to do whatever our masters in Washington, D.C. decree, lest they lose their cherished federal highway grants. The ability of the citizens to oppose the federal Leviathan by organizing political communities at the state and local levels was finally destroyed and the centralized, monopolistic bureaucracy that rules America and much of the rest of the world today was created.

The direct election of U.S. senators, as opposed to the original system of having them appointed by state legislature, ended popular control of the federal government. Today, candidates for the senate go to New York, California, China, or wherever the big money is that can be raised as "campaign contributions" to finance their political careers. The interests of such "contributors" are not necessarily congruent with those of the folks back home.

If American citizens are to resist the rush to Obammunism they must first give up on the fantasy that the Republican Party is anything but another cabal of crooks, conmen and clowns, just like the Democratic Party. The only realistic route to freedom, including a restoration of genuine free enterprise, is through the devolution of power away from Washington, D.C. via peaceful secession and nullification, the original American ideals.

Thomas Jefferson understood that democracy could never work in a country as large as the U.S., let alone one with more than 300 million people. In a January 29, 1804 letter to Dr. Joseph Priestly he wrote: "Whether we remain one confederacy, or form into Atlantic and Mississippi confederacies, I believe not very important to the happiness of either part. Those of the western confederacy will be as much our children & descendants as those of the eastern." On the topic of secession, Jefferson continued: "[D]id I now foresee a separation at some future day, yet I should feel the duty & the desire to promote the western interests as zealously as the eastern, doing all the good for both portions of our future family which should fall within my power." When the New England Federalists were threatening secession, Jefferson wrote to his friend John C. Breckinridge on August 12, 1803 that if New England seceded and created a second confederacy, "God bless them both if it be for their good, but separate them, if it is better."

Unlike Lincoln, Jefferson did not believe in threatening "bloodshed" in the case of a "separation" or secession. He understood that such behavior would be a moral abomination and an unimaginable act of barbarianism. A civilized society does not wage total war on "our children," as Jefferson described the future citizens of a new state formed by an act of secession. Yet it is Lincoln, not Jefferson, who is portrayed by American court historians as a kindly, benevolent, and charitable angel.

The Constitution long ago ceased placing any meaningful limits on governmental power. This social contract between the American people and their government was destroyed long ago by Hamiltonian nationalists. Americans now live under a series of dictators (called "presidents") who all believe that they are essentially dictators of the world, capable of ordering the bombing of any place on earth without anyone's approval. (Within weeks, Obama dipped his hands in blood by ordering a few bombs to be dropped in Pakistan).

As of this writing, several dozen states have reportedly issued resolutions in support of the Jeffersonian principle of nullification. These will all be completely meaningless unless the American public has the fortitude to actually enforce the resolutions and begin ignoring any and all federal government actions that they interpret as unconstitutional and illegitimate. In addition, citizens of every state should learn about the Second Vermont Republic which, for several years now, has been laying the groundwork for Vermont to secede and once again become an free and independent republic, just as all the states thought of themselves as being prior to 1865.

April 14, 2009

Thomas J. DiLorenzo [send him mail] is professor of economics at Loyola College in Maryland and the author of *The Real Lincoln; Lincoln Unmasked: What You're Not Supposed To Know about Dishonest Abe and How Capitalism Saved America*. His latest book is *Hamilton's Curse: How Jefferson's Archenemy Betrayed the American Revolution – And What It Means for America Today*.

The Feds' 'Hair of the Dog'

Date 24/04/2009

The Right Side | By Bill Bonner

"How do you feel now," asked a reporter for a local investment magazine. "I mean, you're a contrarian... and you were right about so much... .?"

"Not exactly," we explained. "Yes, we saw the problem coming. And we expected the government would do all the wrong things - which it has. But we never imagined that they'd do so many stupid things all at once."

There are only two examples from modern history of depressions such as this - the '30s in America and the '90s in Japan. Both times, the governments did stupid things. But this time, the US government has outdone them all. They've committed $13 trillion to programs that make no sense theoretically... and have never worked when they've been tried.

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If you'll recall, the dog that bit the world economy was rabid with debt. The feds are trying the old 'hair of the dog' technique. But they've rounded up every mangy cur and stray bitch in the country. And now they're adding debt to the world economy at a much faster rate than ever in history.

Of course, as feral economists, we love it. We never thought we'd see such a thing. Gone are the mealy-mouthed reservations of cautious economists. Gone are the hesitant... hedged... half-way measures. They're pulling out on the stops... It's the pedal to the metal... It's hell for leather...

What a bold experiment! What a brave undertaking! What a crackpot thing to do!

They must think the planet is under attack from aliens. It's as if the survival of the human race were at stake. Nearly the entire output of the largest economy on the planet for an entire year - debt, not savings - is being spent to... to ... .to... ..well... to do what?

To try to stop the speculators from getting what they deserve!

But wait... it gets even madder... Of course, if you put food out in the alley, it's bound to attract rats.

Not surprising then, that the government's bailout cash is giving rise to an astonishing number of new fraud and money laundering accusations.

The complex nature of the bailout program makes it "inherently vulnerable to fraud, waste and abuse, including significant issues relating to conflicts of interest facing fund managers, collusion between participants, and vulnerabilities to money laundering," says an internal government report.

"You don't need an entirely corrupt institution to pull one of these schemes off," said an expert. "You only need a few corrupt managers whose compensation may be tied to the performance of these assets in order to effectively pull off a collusion or a kickback scheme."

But don't worry. The feds are on the case. They're said to be investigating. Just the way they did with Bernie Madoff. And who knows? Maybe the crooks will tell their families... and maybe the sons and daughters will turn them in, just like they did with Bernie.

There are always a few rotten apples in every barrel. But from here at the Daily Reckoning's South American headquarters in Buenos Aires they all look brown to us. Even Business Week magazine opines that the whole bailout program is nothing more than a scheme to pick the pockets of the nation's retirees in order to give the money to rich bankers.

"Monday afternoon, Goldman Sachs (GS) reported much larger than expected first-quarter profits on the heels of the strong earnings Wells Fargo (WFC) reported last week.

"No one should be surprised. The Federal Reserve has provided the banks with lots of cheap funds through various emergency lending facilities and quantitative easing.

"The Fed has permitted the banks and financial houses to park vast sums of unmarketable paper on its books-securities made nearly worthless by the misjudgment and avarice of bankers. In return, the Fed has provided these paragons of finance with fresh, cheap funds to lend at healthy rates on credit cards, auto loans, and even mortgages.

"While the Fed cuts the banks slack, the bankers are busy turning the screws on their debtors by raising credit card rates and fees, and harassing distressed borrowers with all the zeal the Roman army displayed sacking Palestine.

"It takes good banking skills to borrow at 3%, lend at 5%, and make a profit."

It takes much less business acumen to borrow at 2%, lend at 5%, and make a profit-which is exactly what has happened. The extra fees are just gravy.

Increasing the spread for banks is akin to subsidizing parts purchases for car companies. The folks at GM (GM) would look like wizards if the Fed had been similarly generous to them.

"This all comes at a cost to someone-America's elderly.

"Many retirees depend on interest from certificates of deposit. Those rates are down dramatically and as CDs expire, retirees are compelled to reinvest their savings at lower rates and live on less income. They can take comfort that their sacrifices are helping pay off Wall Street's losses from the lavish bonuses that were paid bankers-for example, the $70.3 million Goldman doled out to CEO Lloyd Blankfein in 2007."

We don't envy the feds... So many pockets to pick... so little time.

The Link Between Obama and John Law

Mises Daily by Doug French | Posted on 4/29/2009

Obama's 100th day is upon us and the new president is ramping up an expansion of government that will place him alongside some of the most notorious dictators in history. CNN's senior political analyst Bill Schneider may believe Obama's personal qualities make him "the superpresident," but first and foremost, Obama with his $3.5 trillion budget sees himself as the new FDR, armed with a new New Deal.

But the New Deal wasn't new when FDR did it. The charismatic Roosevelt was more than 200 years behind John Law's Mississippi Bubble, described as "the first New Deal of the capitalist order," by John T. Flynn in his amazing book Men of Wealth.

In a chapter devoted to the money magician, Flynn cleverly calls Law the "evangelist of abundance." And conditions in France could not have been riper for Law's fiscal chicanery in 1715. France was completely ruined by Louis XIV, a ruler whom history has been much too kind to, according to Flynn. He ravaged the country he ruled, while being a "shallow, egotistical, pretentious coxcomb."

Louis spent vast millions on his palaces and engaged poets and writers to write of his virtues, long before the days of CNN. As Flynn explains, industry had not come to France, thus the king stole his wealth from small farmers and city-dwelling artisans through oppressive taxation.

Those who managed to amass wealth in France did so by knowing "how to tap this stream of public money on its way to the government." There were no entrepreneurial fortunes being made, only parasitic ones.

While the typical French family lived as paupers, going barefoot and sleeping on straw, there were vast fortunes made by those granted government monopolies. Louis died in the fall of 1715 with his country hopelessly bankrupt. The treasury was empty and the army unpaid. It was proposed that the nation formally declare bankruptcy.

"France had come to the end of the road, as America did in 1933," Flynn writes, "save that she was impoverished in substance as well as in the collapse of her economic mechanisms."

But the regent did not want the public humiliation of bankruptcy, so "instead, he sought to accomplish the same end by a less frank device," and John Law's monetary theories finally had a taker.

When news reached John Law, who had been gambling his way across Europe, he quickly packed his bags and headed for Paris. Law, like Obama and FDR, was charming and eloquent. "He was handsome, tall, well-made, and full of dexterity and grace," writes Adolphe Thiers in The Mississippi Bubble: A Memoir of John Law. In addition to his physical attributes, Law "was a facile talker and a superb salesman," according to Flynn.

And just like Obama's and FDR's "deals," Law's prescription for what ailed France required no sacrifice. Instead, Law's plan called "for a pleasant journey along the glory road to riches."

Like all modern Keynesians, Law saw the economic problem as being one of not enough money. While on the lam from the law for killing Beau Wilson in a duel over Elizabeth Villiers's affections, Law spent time in Amsterdam and studied the workings of the Bank of Amsterdam. The world-famous bank had attracted debauched coinage from all over Europe since its founding in 1609. In the beginning, the bank held 100 percent reserves with the bank weighing and assaying coinage from around Europe and giving the depositor credit for an honest value in guilders.

But what sparked the imagination of Law was the Bank of Amsterdam's violating its charter by surreptitiously making the East India Company a loan from its vast pool of deposits. As Flynn points out, the foundation of modern finance and fractionalized banking was born. "Law perceived with clarity that this bank, in its secret violation of its charter, had actually invented a method of creating money."

And create money Law did. Although he started small with his privately owned Banque Générale, within a year all royal revenues were to be paid in the Banque's notes and these notes were to be cashed on sight at government offices, making these offices essentially branches of Law's bank.

After devaluing the livre, the French government became, as described by Flynn, "drastic in the extreme." Any person making a profit from state contracts or out-of-state offices during the preceding 27 years was to make an honest accounting with rewards offered to informants. "Wealth became a crime," Flynn explains. "People of wealth were in a panic," hiding their money and attempting to flee.

Two years into Law's system, the livre was devalued again, by 40 percent. Despite the devaluations, Law's reputation continued to rise and by the end of 1718, the state took over Law's bank, which became the Banque Royale. A nomadic gambler just three years before, Law suddenly had immense power, controlling the monopoly on coining money, the collection of tax revenues, as well as tobacco and salt revenues. His Mississippi Company (Compagnie du Mississippi) would buy up the debt of the French government, a proposal Flynn compares to Roosevelt's plan to extinguish America's debt by having the Social Security Board purchase it.

Law inflated the money supply through the Banque Royale, he created jobs through public-works projects; he attempted to release the hoarded savings back into business with the promotion of Mississippi Company shares; he exploited France's colonial empire, relieved the debt-ridden government of its debts, and was making money for himself and his patrons. Law even renounced his Protestant faith and was accepted into the Catholic Church after he made generous gifts to the St. Roch parish.

Law's system unraveled a mere four years after it began. People fled Law's paper for the safety of gold and silver, despite Law's attempts to demonetize and confiscate specie. Ultimately, Law's system would only serve to forestall France's bankruptcy, not solve it. Law himself would die near poverty a decade later.

"As a New Dealer [Law] was not greatly different in one respect from the apostles of the mercantilist schools — the Colberts, the Roosevelts, the Daladiers, the Hitlers and Mussolinis, and, indeed, the Pericles — who sought to create income and work by state-fostered public works and who labored to check the flow of gold away from their borders," writes Flynn who goes on to point out that Law's use of a bank to create money out of nowhere to pay for government programs was imitated by Roosevelt, Hitler, and Mussolini.

"Law is the precursor of the inflationist redeemers," Flynn explains. "Like all the inflationist salvations, his career was short."

We can now throw Obama in with the other inflationist New Dealers, and with a compliant Treasury and Federal Reserve and their expanding monetary tools at the ready, he can do more damage than even John Law. We can only hope that his career will be short and that the Fed's days are numbered.

Douglas French is president of the Mises Institute and author of Early Speculative Bubbles & Increases in the Money Supply. See his tribute to Murray Rothbard. Send him mail. See his article archives. Comment on the blog.