

JERRY ROBINSON



BANKRUPTCY

★★★ OF OUR NATION ★★★

REVISED and EXPANDED

YOUR FINANCIAL SURVIVAL GUIDE

21 income streams, inflation-proof strategies, and more!

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Others are saying . . .

Jerry Robinson's conclusions about the state of the American Empire are spot on in *Bankruptcy of Our Nation*. Not only is Jerry a modern-day Copernicus when it comes to economic issues, but he has the moral fortitude to tell the truth in these challenging times — which you will never get from the mainstream media.

Barry James Dyke

President of Castle Asset Management, LLC of Hampton, NH
Best-selling author, *The Pirates of Manhattan I & II*

Mr. Robinson has written a good history of the development of modern money systems with valuable specific practical recommendations based on the trajectory of that history. This is understandable history and practical investment advice in one volume. It will provide a valuable guide and positive investment returns to those who follow his well thought out advice.

Bud Conrad, chief economist, Casey Research

Author of *Profiting from the World's Political Crisis*

In his book, *Bankruptcy of Our Nation*, Jerry Robinson does an excellent job of explaining the “Petrodollar” system, which is the 1971 agreement between OPEC and the United States that, in return for military protection by the U.S., Middle Eastern oil-producing countries would accept only U.S. dollars for their oil and invest their profits in U.S. bonds. The present unraveling of this agreement will have a profound impact on the destruction of the U.S. dollar as the world's reserve currency and that, in turn, will put the U.S. into bankruptcy. This book explains exactly how this will come about, but equally important is the comprehensive section on what you can do to protect yourself.

G. Edward Griffin, author, researcher, and filmmaker

Bankruptcy of Our Nation is a must read for anyone with any money in the stock market. Whether it's in a brokerage account, 401K, IRA, Roth, wherever it is . . . this is the one book that needs to be on your reading list! As a financial advisor for the past 17 years, I have come to trust Jerry Robinson's timely advice and mission to

educate the public about the hidden dangers in the U.S. and global economies.

Jerry, whom I have the honor and privilege of calling a friend, has put together a survival guide that will help steer you through what I believe will be a very tough road over the next several years. But in these hard times will come tremendous opportunity for those who are aware and ready to seize the moment. This is where Jerry delivers big time in *Bankruptcy of Our Nation!* He helps readers create an action plan to thrive in the days ahead. He covers ground that the mainstream media won't touch and when they do it will be far too late. Now is the time to start planning ahead for a tumultuous fallout from the reckless actions of the Fed. Don't waste another second, do yourself and your family a favor and read this book today.

Jay Peroni, CFP® Chief Investment Officer,
Faith-Based Investor, <http://www.faithbasedinvestor.com>
Author of *The Faith-Based Millionaire* and *The Faith-Based Investor*

A provocative and mind-opening analysis of what went wrong with our economy and a bold strategy for coping with the future.

John Perkins, *New York Times* best-selling author
Hoodwinked, Confessions of an Economic Hit Man, The Secret History of the American Empire, Shapeshifting, The World Is As You Dream It, Psychonavigation, The Stress-Free Habit Spirit of the Shuar

I just finished reading Jerry Robinson's excellent book *Bankruptcy of Our Nation*. Not only does he get the entire picture, he makes it all easy to understand!

Charles Goyette, *New York Times* best-selling author of
Red and Blue and Broke All Over and *The Dollar Meltdown*

Jerry Robinson puts forth a thorough yet digestible study on the economically unsustainable financial system Americans have been bound to and some sound methods and practices the individual can take to break the chains and truly be individual.

Gerald Celente
<http://trendsresearch.com>

Contents

<i>Introduction</i>	7
1. What Is Money . . . Really?	17
2. A Short History of Fiat Currencies.....	31
3. The Rise and Fall of the Golden Permission Slip	51
4. The Petrodollar System: Same Game with a New Name.....	65
5. Petrodollar Wars: Protecting Dollar Demand through the Barrel of a Gun	79
6. The History of the Federal Reserve (or How America Lost the Revolutionary War)	97
7. Modern Money Mechanics: What the Banksters Do Not Want You to Know	119
8. America: The Greatest Debtor Nation in World History.....	137
9. The Retirement Crisis	155
10. The Coming American Hyperinflation and Dollar Collapse	167
11. Maxed Out: The New American Slavery	191
12. Breaking Free from the Consumption Trap.....	205
<i>Strategies</i> — Financial Wisdom for Uncertain Times	217
13. An Introduction to the P.A.C.E. Investing Philosophy	219
14. 21 Income Streams You Can Create Now . . . and in Retirement	233
15. Eight Key Strategies to Protect Your Finances	261
Appendix A — The DSL Savings: A Strategy to Combat Inflation ...	283
Appendix B — The Five Levels of Financial Freedom.....	291
Appendix C — Frequently Asked Questions from Our Readers	295
Glossary	309

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Introduction

According to the laws of physics, an apple thrown upward into the air will be pulled downward by the invisible force of gravity. And while history does not necessarily subscribe to a set of predictable laws, it can teach us great lessons. These lessons can even be forceful at times. *It has been said that while history may never truly repeat, it does at least rhyme.* And unfortunately, in the case of the inevitable American economic decline, we have a wide array of historical precedents, which we will examine throughout this book.

The Excesses of Empire

The painful truth expressed in these pages is that the end of the American experiment will, more than likely, come sooner rather than later. America's ascendance into the heady realms of economic empire began in the post-World War II Bretton Woods era when it was the world's greatest creditor nation. Today, around 70 years later, America stands as the greatest debtor nation in world history. Decades of financial excess, coupled with an entitlement mentality, have left America financially bankrupt.

America clearly represents a reluctant economic empire in decline. And like all empires that have gone before it, its days are numbered. The death of an empire can be quick and painless; however, that is rarely the case. Instead, empires tend to die slow, painful, and humiliating deaths, and their demise is usually accompanied by at least two

themes: an overextension of the empire's military and extreme economic overindulgence and depravity. America exhibits excesses in both of these categories.

Over the last few decades, several economic trends have pointed toward an eventual day of reckoning for the U.S. economy.

The Selling of America: Our nation's overconsumption, coupled with U.S. military adventurism since the Vietnam War era, has been largely financed by foreign creditors. With massive trade deficits and an exploding national debt, America is now in a highly vulnerable position as we move into an uncertain future. America's shameful lack of sound fiscal stewardship has created the largest national debt in human history: a colossal \$16 trillion . . . and it is growing by the billions every single day with interest. Foreign countries own more pieces of America than ever before. Not only do foreigners own a large amount of America's real wealth (real estate, corporations, etc.), they also hold vast amounts of our government bonds. The repercussions of this large foreign ownership of American interests will be discussed in upcoming chapters.

Low Personal Savings Rate: Since the 1930s, the savings rate for the average American household has stood at around 10 percent. (From 1943 to 1945, the average savings rate was well over 25 percent.) However, as our nation began consuming more than it produced, the personal savings rate dropped dramatically — even turning negative in 2005 for the first time in our history.¹ More recently, and in the wake of the 2008 credit crisis, consumers have boosted their savings with the average rate now at about 5 percent, still well below the saving rate of previous generations.²

An Overreliance Upon Credit: U.S. consumer debt has reached all-time highs. This year, more Americans will declare bankruptcy than will divorce, graduate from college, or get cancer; 43 percent of American households spend more than they earn every month. Clearly, this lack of fiscal discipline must eventually end. Today, the U.S. credit industry has trumped the manufacturing industry in total revenues. This as the consumer-crazed nation purchases everything in sight through the use of high-interest credit in an effort to feed the hungry credit beast that they have created.

The Outsourcing of American Jobs: Over the last several years the United States has outsourced the majority of its domestic manufacturing to foreign countries, like China and India. Americans have opted instead to specialize in consumption.

The Breakdown of Social Security and Medicare: The federal government's utter mismanagement of the money that has been entrusted to them through the Social Security and Medicare programs is an absolute disaster. Millions of hard-working Americans are rightly concerned that the money that they were promised by their government will not be there when they reach their golden years. In the upcoming chapters, I will confront this topic and even provide you with unique strategies for preparing for the potential breakdown of these government programs.

A Systematic Destruction of the U.S. Dollar: U.S. "prosperity" is denominated in a debt-based and debt-backed currency, the U.S. dollar. But this illusion of prosperity in America is hardly recognized or highlighted by the financial elite or the nation's media. Since 1913, the Federal Reserve's excessive printing of the nation's currency has led to a 95 percent decrease in the dollar's value. Thanks to the Federal Reserve's noxious mix of quantitative easing programs (money-printing) and extended periods of artificially low interest rates, the financial markets have been completely distorted. These negative monetary policies have systematically devalued the U.S. dollar. In the upcoming chapters, I will provide creative financial solutions for preparing your family and finances for the inevitable hyperinflation that will arise from the Fed's destructive monetary policies.

No Accountability Over the Federal Reserve Bank: Since it was established as America's central bank in 1913, the Federal Reserve has operated without any meaningful congressional oversight. At the height of the 2008 economic crisis, the Fed has admitted that 90 percent of its emergency loans were issued to *foreign* banks. As long as the Fed is allowed to conduct its operations in secret, America's economy will remain hostage to the elite foreign banking interests.

The Abolishment of the Gold Standard: In 1933, the U.S. dollar lost its national gold backing. And later, in 1971, President Richard M. Nixon closed the international gold window. Put simply, in 1971, the United States led the entire global economy into a 100 percent paper

money environment for the first time in world history. Today, thanks to our nation's paper currency system, it now takes one dollar to purchase what five cents could purchase in 1945.

America's Debt-Based Monetary System: After the gold standard was abolished, America's monetary system moved from being "gold-backed" to "debt-based." This book will explain America's current debt-based system in stark detail. You will learn how money itself is nothing more than debt. To understand this concept, we will examine the Federal Reserve System and the mind-blowing money creation process they employ.

U.S. Military Overextension: America's military-industrial complex has been growing uncontrollably since the day that President Eisenhower warned U.S. citizens of its lust for power. Our country's nation-building efforts have drained troop morale and drastically increased our debts. Presently, America has over 700 military bases in more than 120 nations — over half of the world's nations! The American obsession with maintaining global hegemonic power through military force is justified in the name of protecting the important causes of freedom, democracy, and justice worldwide. Or as former President William McKinley put it, "The American flag has not been planted in foreign soil to acquire more territory but for humanity's sake."³ However, acting as the ever-vigilant and omnipresent global policeman requires an annual budget of over \$550 billion.⁴

- That is five times larger than China's \$92 billion annual military budget⁵
- Nine times larger than Russia's \$63 billion⁶
- And 55 times larger than Iran's \$11 billion⁷

In fact, funding the American military machine costs almost as much as the rest of the world's military expenses — *combined*. And while these exorbitant costs spent to maintain militaristic dominance are typical of an empire, they are clearly unsustainable.

Wars Conducted without Constitutional Authority: The U.S. Constitution requires a declaration of war to be made by Congress prior to a military action. However, the last war that was officially declared by Congress was World War II. This dereliction of duty by our national leaders is shameful and it demonstrates the clear disregard

that both political parties have for our nation's own guiding principles and ideals.

Wars Conducted Without an Appeal to National Sacrifice: America's modern wars are fought without an appeal to national sacrifice. Instead, massive capital inflows from foreign creditors help fund America's military machine. Put simply, America could not afford its current lifestyle of overconsumption and conquest without the kindness (and money) of strangers.

America's Borders Are Not Secure: As U.S. taxpayers are forced to spend hundreds of billions of dollars to protect national borders halfway around the world, our own borders remain porous and insecure. Our national priorities are clearly backward.

Excessive Foreign Aid Dollars Extracted from America's Middle Class: Every year, Washington takes money from the working poor and middle class in order to give it away to leaders of corrupt countries in the form of foreign aid. This practice enriches the ruling class at the expense of average working Americans.

The Coming Breakdown of the Petrodollar System: In this book, you will come face to face with the system that will lead to the collapse of the U.S. dollar. It is known as the petrodollar system. The shocking details of how this system works will be revealed in an upcoming chapter.

Dependence upon Foreign Oil Supplies: U.S. and global demand for energy resources are increasing at a rapid rate. Unfortunately, projected global energy production will not be able to keep pace with global demand. A growing depletion of cheap energy resources, coupled with a threatened petrodollar system, will more than likely force America into becoming militarily aggressive in future resource wars with other growing nations (i.e., China, India, etc.).

Lack of a Sound Energy Policy: No country can maintain its position in the global economy without developing a sustainable strategy for meeting its own energy needs. Sadly, instead of allowing the free markets to dictate our energy supplies, the federal government has intervened with massive subsidies, taxes, and burdensome regulations that create distortions in the market price of energy. Federal drilling restrictions serve as roadblocks to domestic energy exploration. Unless true leadership can emerge to give our nation a sound energy policy,

we face increasing danger to our economy in the months and years ahead.

As the hard facts above demonstrate, the American economy represents nothing more than a feeble house of cards completely vulnerable to the inevitable external forces that await every declining empire.

The Life Cycle of Democracies

Consider how the Scottish historian Alexander Tyler documented the typical life cycle of a democracy:

A democracy cannot exist as a permanent form of government. It can only exist until the voters discover that they can vote themselves money from the public treasure. From that moment on the majority always votes for the candidates promising the most money from the public treasury, with the result that a democracy always collapses over loose fiscal policy followed by a dictatorship.

Tyler continues with this amazing statement:

The average age of the world's great civilizations has been two hundred years. These nations have progressed through the following sequence: from bondage to spiritual faith, from spiritual faith to great courage, from courage to liberty, from liberty to abundance, from abundance to selfishness, from selfishness to complacency, from complacency to apathy, from apathy to dependency, from dependency back to bondage.⁸

Does this sequence sound familiar? In which stage of the life cycle do you believe America is currently?

In summary:

- The purchasing power of our U.S. dollar is declining in value.
- The U.S. government continues to print more money.
- We are engaged in an expensive and endless global war on terror.
- American jobs are being exported to foreign nations.
- Americans are spending too much and saving too little.

- We have requested little, if any, economic “sacrifice” on the part of our citizenry.
- Our trade deficit and budgetary deficits are at all-time highs.
- Our national debt is at an all-time high and growing exponentially.
- We are completely dependent upon foreign nations to fund our overconsumption through the sale of our debts.

As long as foreign countries continue to finance our way of life, perhaps we can extend this madness. But what happens if foreign countries begin to decrease their funding of our debts?

The truth is, the American public is living in massive monetary deception. The direction that the American economy is heading is extremely difficult to swallow. However, if our aim is truth, then we will willingly embrace the facts and take the necessary steps needed to shelter ourselves, our families, and our finances. While it may be hard to believe right now, the message of this book is one of great hope. Our hope is in knowing which direction the trends are taking us. It is in this knowledge that you will be able to protect and shelter whatever wealth you have already accumulated, and in addition profit from the greatest financial crisis that the world has ever witnessed. As you read the following chapters of this book, be of good cheer. Despite man’s best efforts, God is still in control. And with God, the end is only the beginning.

Warning: Spiritual Discernment Used in this Book

In the interest of full disclosure, I should tell you up front that I am a follower of Christ. However, allow me to quickly add that I have not reached the ranks of the “spiritually arrogant.” I view my faith as the most humbling aspect of my existence. And I can think of nothing that turns me off more than spiritual smugness and self-righteousness. The world would be a better place without the crusaders who become obsessed about the speck of dust in someone else’s eye while ignoring the enormous log in their own eye. So, expect no fiery pronouncements to be issued from my pen. I have made my share of mistakes and do not view my role to be as a judge of others and their shortcomings. The reason for my upfront candidness on this matter is because I believe that you, as the reader, have a right to know that your author’s worldview has been colored by his faith.

As a believer and follower of Jesus Christ, it is my earnest belief that hope is never completely lost, because God’s sovereign plan of the ages

will forever prevail — no matter how desperate things may appear on the surface. But if my brief time on this earth, and my understanding of history, have taught me anything, it is that only fools place their trust in man's ability to rule himself. In fact, if history is a guide to anything, it is a guide to the consistent knuckleheaded acts of mankind throughout the ages. From a spiritual perspective, I believe that mankind's current predicament stems from the fact that man was not designed nor was he ever meant to rule himself. According to an orthodox view of the Christian faith, human suffering is rooted in man's rejection of the omnipotent rule of his Creator. When given a choice, man opted for self-rule. This ancient act of rebellion, in the Garden of Eden, explains humanity's pain and suffering over the last 6,000 years. And if we choose to believe the Bible when it explains that mankind's rebellion will become worse with time, it would also explain why the 20th century has been noted as the "bloodiest century" on record.⁹ (Ironically, the 20th century has also been labeled the "American Century.")

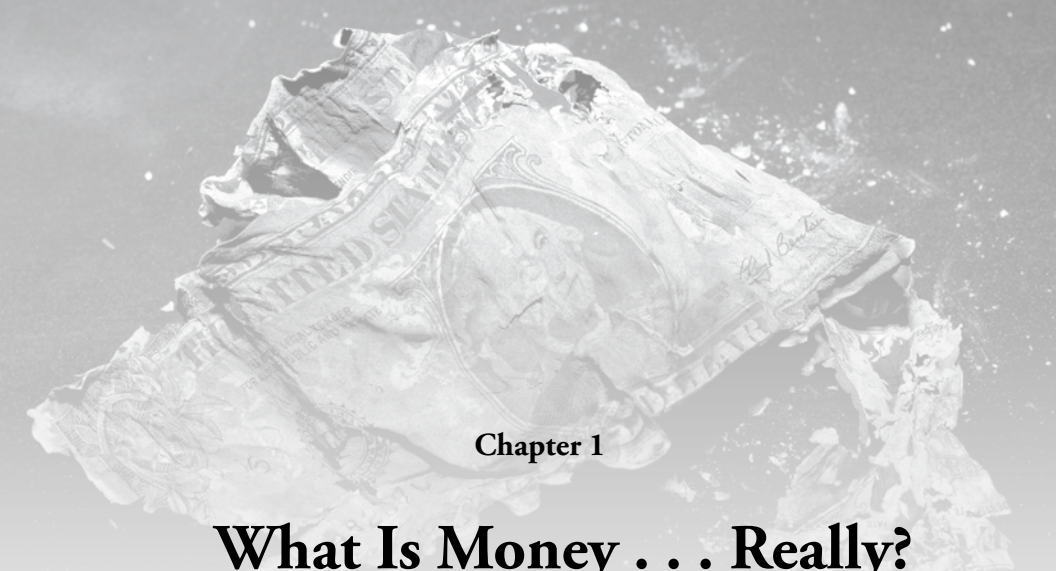
In many ways, America represents the culmination of all that man has ever aspired to: life, liberty, and the pursuit of happiness. And yet despite the amazing personal freedoms, rights, and liberties that the "American experiment" graced upon the Western hemisphere, man's inability to lead himself has continually bubbled to the surface. Unable to personally rid himself of his true sin nature, man has attempted in vain to cloak his inherent deficiencies at self-rule. As a result, America is following the same path as every economic empire before it. And lest we confuse ourselves, American Christians must quickly grasp this point: America is not the light of the world. The sun shone before America was here, and it will continue to shine long after our nation's self-inflicted demise. So let us not proceed in shock or surprise at the complex political and economic webs that have been woven in America. Despite what the Western-centric thinker may suggest, the ancient writings of the Bible are clear. They confirm that the biblical prophecies concerning the "last days" are Israel-centric and Middle Eastern-centric. They are anything but America-centric. In other words, I believe that the Bible clearly suggests that the global political and economic spotlight will be firmly transferred to this volatile region in the coming years.¹⁰

Put simply, America's fall is historically identifiable, though unfortunate. And it is all but certain.

Endnotes

1. Laura Smitherman, "Personal Savings Rate Dips to Zero for First Time Since Great Depression," *The Baltimore Sun*, January 31, 2006.
2. For the most up-to-date personal U.S. savings rate, see the report on Personal Income and Outlays from the Bureau of Economic Analysis, <http://www.bea.gov/national/index.htm#personal>.

3. From a 1900 campaign poster for the Republican party, July 12, 1900.
4. Paul Eckert, "Analysis: Pinched U.S. Seen Holding onto Big Pacific Presence," Reuters, <http://www.reuters.com/article/2011/08/12/us-usa-defense-asia-idUSTRE77BOK020110812>, August 12, 2011.
5. Ibid.
6. Ibid.
7. "Russia confirms 2011 defense spending hike," UPI, http://www.upi.com/Business_News/Security-Industry/2010/11/10/Russia-confirms-2011-defense-spending-hike/UPI-91241289393180/, November 10, 2010.
8. David L. Wood, *Why Worry About the Gradual Loss of Our Liberties?* (Oakland, OR: Elderberry Press, 2003), p. 36.
9. Numerous biblical references point to the increase of wickedness as mankind nears what the Apostle Paul called "the last days" (2 Timothy 3:1–5). See also Matthew 24:12. For documentation on the 20th century being termed the "bloodiest century," see Niall Ferguson's book, *The War of the World: Twentieth-Century Conflict and the Descent of the West* (New York: Penguin Press, 2006).
10. The writings of the biblical prophets Daniel, Ezekiel, Zechariah, and the Apostle John, envision a time when the Middle East, and Israel, in particular, play the dominant role in the fulfillment of biblical prophecy. See Daniel 2 and 7, Ezekiel 38 and 39, Zechariah 12, and the Book of Revelation. See also the Olivet discourse, which provides an overview of the "last days" as delivered by Jesus Christ himself in Matthew 24, Mark 13, and Luke 21.



Chapter 1

What Is Money . . . Really?

Permit me to issue and control the money of a nation, and I care not who makes its laws.¹

— Mayer Anselm Rothschild of the Rothschild banking family

All the perplexities, confusion, and distress in America arise, not from defects in their Constitution or Confederation, not from want of honor or virtue, so much as from the downright ignorance of the nature of coin, credit, and circulation.²

— John Adams

OVERVIEW: Money has taken many different forms throughout history: shells, feathers, salt, gold, silver, and paper currency. This chapter lays the groundwork for understanding the current crisis confronting the U.S. dollar by examining the underlying concepts of money. What exactly is money? How is it measured? What gives it value? In addition to answering these questions, this chapter will also explain the three types of money that have been used throughout history: commodity money, receipt money, and fiat money.

There is an old joke about money that goes something like this: “Money may not buy happiness, it sure does buy everything else.” Benjamin Franklin referred to man’s obsession with money this way: “He that is of the opinion money will do everything may well be

suspected of doing everything for money.”³ Regardless of our own view of money, one thing is certain: *Money is a necessity for life in this world.*

Before attempting to answer the essential question of what money really is, let us first consider how the American culture, and our own upbringing, has affected our view of money. From my own research, I have discovered that an individual's view of money is determined by at least three fundamental factors.

Economic System. The first and perhaps most influential factor that affects a person's view or conception of money is the economic system into which the person is born. For example, a person born and raised in the United States is introduced to a capitalistic economic system from birth. The virtues espoused under capitalism include the right to private property, the division of labor, and individual rights.

In contrast, those who are born in China are taught to view money through the lens of a communistic economic system. Under communism, individuals have fewer rights and the government plays a much greater role in every aspect of life.⁴

Family Financial Philosophy. The second factor that shapes a person's view of money is the financial philosophy espoused by his family. Whether they realize it or not, parents are teaching their children by their words, and more importantly by their actions, about what is important in life. For example, a mother who spends excessive amounts of money teaches a different set of financial values to her children than a mother who is an avid saver or astute investor. The spendthrift mother is silently teaching her children that overconsumption is a desirable and perhaps even a virtuous act. Meanwhile, the mother who gains joy from saving and investing is teaching her children that preserving and growing money is far more important than spending it.

To use another example, a father who exemplifies a strong work ethic to his children is teaching them that money is best earned through hard labor. In contrast, a father who runs his own successful business is silently teaching his children that money is best earned through a combination of personal hard work and by employing the efforts of others.

Finally, some families treat the topic of money as taboo and rarely discuss it around their children. Inevitably, these families are teaching their children that silence about financial matters is preferable to openly discussing the topic.

Spiritual Values. The third factor that ultimately determines a person's view on money is rooted in their religious and moral understanding of life itself. For example, it is common for a person who has had a strict religious upbringing to view money as inherently evil.

To illustrate this point, allow me to tell you about a Christian woman I once counseled named "Margaret." Like many Christians, Margaret was taught from a young age that that money was unspiritual and dirty. Once, during a conversation with her, I asked her why she considered money to be evil. Apparently, this question was appalling to Margaret. She quickly retorted, "You are a minister! Don't you read your Bible? The Bible clearly states that money is the root of all evil."

Margaret was feisty, to say the least. I decided to respond with a question of my own. (I'll admit that I am a bit Socratic in my discussions on Christianity. By Socratic, I mean that when someone asks me a question, I will often reply with a question of my own. This is a method that Jesus used quite extensively. And if it was good enough for Him, it is good enough for me.)

I politely replied, "Well, I feel rather embarrassed. I was not aware that the Bible said such a thing. Here, Margaret, here's a Bible. Would you please show me where it says this so I can help others understand this, too?"

"I do not know. But *it is* in there," she replied with a tone of disgust.

Knowing exactly the verse that she was taking out of context, I quickly turned my Bible to 1 Timothy 6:10 and read it aloud: "For the love of money is a root of all kinds of evil, for which some have strayed from the faith in their greediness, and pierced themselves through with many sorrows."

With her face aglow with a deep pride, she quickly chimed in, "That's it. That's the verse that I was talking about. Haven't you ever read that before?"

My Socratic tendencies would not allow me to give her a straight answer yet. It was too important for her to clearly see the folly of her logic. I responded, "Margaret, if this is true, do you realize how this changes everything that I have ever known and taught about money? In fact, I am thinking of another verse right now that I feel we should read, too. Can I read it to you?"

With a smug assurance, Margaret nodded.

I continued, “Well, if money is evil, then we better pay extremely close attention to this next verse. It is found in 1 Thessalonians 5:22. It says, ‘Abstain from every form of evil.’ Margaret, if this is true, and if money really *is* evil, then this means that you and I need to get rid of all of our money as quickly as possible!”

Margaret laughed nervously and asked what I meant.

With a more compassionate tone, I re-read 1 Timothy 6:10 to her and said, “Margaret, the Bible never says that *money* is evil. What this verse is saying is that *the love of money* is the root of all evil. If money itself was evil, then we would both be in violation of God’s Word simply by possessing it. Do you understand why this is an important difference?”

Margaret took the Bible and read the verse again, as if for the first time. Then, the moment that I had been hoping for occurred as she gently said: “My father always told me that money was evil and those who had lots of money were not godly. But this verse does not say that, does it?” As she asked this question, her tone became much more accepting and friendly.

“That’s right, Margaret. The Bible is extremely balanced in its view on money. In fact, the Bible never says that money is good or evil. You see, money is just an object. It is we humans who take money and perform good or evil works with it,” I said with even more compassion.

Due to Margaret’s religiously dogmatic views on money, she had spent her entire life downplaying its importance in her life. She even avoided the topic out of perhaps an irrational fear that it was displeasing to God. This is just one example of how a person’s view of money can be shaped and influenced by their spiritual values. I believe money to be completely amoral. Money is not capable of being moral or immoral. It is merely an object. Instead, money can be used for good purposes or for bad purposes. Those who are searching for the morality of money do well to consider the intentions of its possessor, not the money itself.

To summarize, everyone’s view of money has been shaped by a combination of the three factors stated above. Why is understanding this important? Because our particular view of money greatly influences our financial decisions. Often, the influences upon our own view of money become so powerful that they can create false ideas and ultimately destructive mindsets, as in the case of Margaret.

The fact that you are holding this book is proof that you have a desire to improve your own understanding of money. It is also likely that you are deeply concerned about America's uncertain economy and how you can protect your family and yourself. If so, then this book is exactly what you have been looking for.

In order to understand the true impact of the global financial crisis, and how you can prepare yourself and even profit from it, we will now confront several foundational questions that deserve to be answered. These questions include:

- What is money?
- How is money measured?
- What gives money its value?
- And finally, if money can be printed to prevent a financial crisis, why not just print more?

In this chapter, I will answer each of these important questions. My goal, however, is not to bore you with tedious details and lots of financial jargon. Instead, my desire is to inspire you over the next few chapters by helping you gain a basic understanding of the current monetary and banking systems and why this knowledge is vital to your financial security. While these questions may seem completely irrelevant to you right now, I hope to demonstrate in the chapters ahead how understanding the answers will empower you with the financial knowledge you will need to profit in the uncertain days ahead. Believe it or not, your ability to protect yourself and your family financially is greatly connected to your understanding of the four basic questions above. I believe that the answers will surprise you.

Now that I have your attention, let us proceed.

So . . . What Is Money?

That is a great question — what exactly is money?

If asked to give a definition of money to someone, how would you define it?

If you answered that money is the paycheck that you receive at the end of every week from your employer, you would be only partially correct. Economists have grappled with this question and have come up with three basic answers. The three definitions of money are as follows:

- Money is . . . a *medium of exchange*
- Money is . . . a *store of value*
- Money is . . . a *unit of account*

Let's briefly define each of these.

Money is a . . . Medium of Exchange

One way to define money is to say that it is something universally accepted as payment for goods and services or for the repayment of debts. In America, for example, a U.S. dollar is recognized by everyone as money. Therefore, it is acceptable as payment for any and all goods and services within the nation's borders. U.S. businesses who sell a good or a service do not accept U.S. dollars because they like the way the dollar looks or how they smell. That would be ridiculous! Instead, the reason that a merchant is willing to accept payment in U.S. dollars is because they know that the dollar is an acceptable means of payment for their needs. Put simply, they will accept dollars for payment *because they know they can immediately turn around and use those same dollars to purchase something for themselves*. However, if you walked into a store and attempted to pay with a handful of bananas instead of dollars, then you would be out of luck. Why? It is nothing personal against bananas. It is only because bananas are not currently a recognizable and universal means of payment for goods and services. So for something to be considered money, it must serve as a *medium of exchange*.

Money Is a . . . Store of Value

Economists also define money as a *store of value*. By this, they mean that money must be able to be stored away and used later. For example, if the U.S. dollar was perishable, or had an expiration date, then it could not serve as an effective store of value. This can be applied to our earlier example of bananas. Within a week or less, a banana can rot. Bananas would not make a very stable form of money as they would lose their value very quickly. Money should be nonperishable and must hold its value for future needs and wants over time.

Money is a . . . Unit of Account

Finally, money must be a *unit of account*. What does that mean? It means that the prices within an economy should be expressed in

a universally accepted monetary unit. For example, without a single universally accepted form of money, how could storeowners price their items? The prices of goods and services would be very difficult to determine without a unit of account. What if you wanted to pay for your goods with your bananas and another customer wanted to pay with pineapples? How could the store owner possibly know how to price his goods under such a complex system? Today's economic environment has become far too complex and interdependent to rely upon such an antiquated system of barter. People no longer have to produce everything they consume. Instead, they can simply trade money for the goods or services that they do not, or cannot, produce. Our modern economy requires a cohesive and universal monetary system that can serve as a unit of account.

The Brief Evolution of Money

The history and evolution of money is a story that spans thousands of years. And while money and trade have become more sophisticated over time, we have evidence that several early civilizations had forms of advanced monetary systems. One of the first civilizations to develop a system of trade with a form of money was ancient Sumer. The Sumerians were highly advanced in many areas, including their system of economy and trade.

From the days of ancient Sumer to our present day, money and trade have taken many different forms. The most primitive type, and earliest form, of money is *commodity money*. Commodity money is a unique form of money that serves a dual purpose. It can be used for trade or it can be consumed by the owner. Early civilizations, for example, used common items as commodity money, including spearheads, shells, feathers, and salt. In ancient times, for example, salt could be used for trading purposes. But the owner always had the option of consuming the salt himself. Salt could also be used for antiseptic purposes and for preserving food, among other uses. This is unlike our current paper money system that serves only one purpose, that is, trade. Paper money has no other use if it is not backed by a commodity. Because commodity money has a dual purpose, it is said to have an *intrinsic value*.

Over time, the portability and durability of money became important to merchants and traders as societies became more interconnected.

As the old saying goes, “Necessity is the mother of invention.” This need for more versatility in financial transactions led to the rise of gold and silver as money. Unlike crops, gold and silver were scarce, durable, and non-perishable. In addition, gold and silver were far superior to livestock in that they 1) were much easier to transport, 2) required little maintenance costs, and 3) had the unique capability of being divided for exact payment. Soon, gold and silver were made into the form of coins with their values stamped on them. This simple but revolutionary act made financial transactions more convenient and represented man’s first real attempts at coined currency.

It did not take long, however, for those in search of dishonest gain to exploit the gold and silver monetary system. How? Those who wanted to cheat the system did so *by placing gold or silver plating over cheaper metal discs* to imitate the appearance of solid gold and silver coins. Local governments would often step into the “money-making business” to prevent such counterfeiting efforts. Despite these efforts, counterfeiting remained a constant challenge to most forms of money. This is true even to this day.

The superior aspects of gold and silver meant that they soon became the money of choice for many people. But as people began to accumulate large sums of gold or silver coins in their homes, concerns over keeping them safe from theft or loss became a major concern. This demand for safety led to the creation of one of the earliest forms of modern banking, known as *goldsmith banking*.

Under the *goldsmith banking system*, which became popular in 17th-century England, a person would simply deposit his gold with his local goldsmith. Much like modern banking, the goldsmith would provide the depositor with a paper receipt stating the amount of gold on deposit. If the person wanted to redeem his gold, he simply returned his paper receipt to the goldsmith. (In exchange for this convenience of keeping the gold in a safe place, the town’s goldsmith would charge a small monthly maintenance fee.) Because these paper receipts were viewed as “good as gold” they became extremely valuable. As communities grew and trade activity increased, these paper receipts began to be accepted as payment for simple financial transactions.

Eventually, traders and merchants in need of capital began seeking out loans from the goldsmiths. Most goldsmiths embraced the new

income opportunity and were willing lenders. Despite the novelty of this financial system, the lending process was fairly simple. The goldsmith created and issued a paper receipt to the borrower which gave the appearance that the borrower had gold in the goldsmith's vaults. But in reality, no new gold reserves were backing this loaned paper receipt. The goldsmith knew that the only way this scheme would be discovered was if many of his depositors were to demand all of their gold at the same time. Because the goldsmith considered this highly unlikely, he could continue to profit from his newfound lending power with little fear of a default risk. (This idea of lending money not currently on deposit has become a highly profitable venture for bankers. It is known as *fractional-reserve banking* and is discussed at length in chapter 7, "Modern Money Mechanics: What the Banksters Do Not Want You to Know.")

As the Industrial Revolution began, the demand for loans grew dramatically. The large profit potential through this new sleight-of-hand lending process led to a rise in competition. Small regional banks began issuing their own forms of paper currency, similar to the paper receipts created by goldsmiths, in order to compete. As nations grew in population and in commercial activity, the various forms of issued currency became overwhelming, often stifling the flow of commerce. When nations faced such pressures, the largest banks would seek a monopoly on national lending by recommending a unified paper currency system to the governing authorities. These new paper currency systems were often backed by some form of commodity, usually gold or silver. Of course, implementing and regulating a national paper currency system was a monumental task requiring vigilant oversight. Western governments, in particular, often capitulated to the banking interests by permitting the creation of one national *central bank*. The central bank's role often included issuing the national currency of choice (almost exclusively paper money), regulating the money supply, and controlling interest rates. In addition, the central bank would often be responsible for monitoring the nation's banking activity, and serving as the lender of last resort, due to its unique capability of creating the national currency.

Despite the sophistication of the new central banking arrangement, discrepancies between the government's fiscal policies and the central

bank's monetary policies often led to economic upheaval. The result of these conflicting policies, coupled with the unpredictable economic growth patterns of an emerging nation, often led to financial imbalances. These imbalances proved extremely difficult for central banks. Maintaining a commodity backing for every piece of paper money in circulation soon became a laborious process and served to limit the growth potential of the economy. After all, if the government required the nation's money supply to be restricted to the available amount of a particular commodity, such as gold, then economic growth would suffer.

The initial solution to these early liquidity crises required a strong trade policy and often a mighty military. Governments knew that to maintain the growth of their gold-backed currencies required a growing supply of gold. For example, 16th-century England had few, if any, gold mines. And yet the British Empire boasted one of the world's largest gold reserves. How was that possible? Through conquest. While trade restrictions, such as banning gold exports and export subsidies, were also common in this age of *mercantilism*, clever trade policies were rarely enough for the largest of nations. Military conquest of other nations in search of gold was virtually required to maintain a growing empire. Colonization efforts, often implemented under the auspices of Christian missionary activity, served at least two purposes: 1) to provide a fresh source of gold for the colonizing nation and 2) to create a new market for export purposes.

Empires, however, are notorious for having voracious spending appetites. Despite multiple conquests, the monetary constraints would soon become severe enough to force a new solution. The temptation for spendthrift governments was obvious: cut the commodity backing of currency and turn on the printing presses. (History is replete with warnings for those nations who dared to remove the commodity backing from their currency. For a history of national economies that have been severely damaged or completely destroyed through the overproduction of paper money, see chapter 3.)

Throughout history, all governments have come to the same conclusion: remove the commodity backing from its own national currency, thereby creating more flexibility. When a nation detaches its paper currency system from any and all commodity backing, its currency is

then considered by economists to be a *fiat currency*. When a currency is issued by fiat, it is backed only by government guarantees, not a commodity. Fiat money has no intrinsic value. Its value is derived strictly by government law, and unlike the first two types of money (commodity and receipt) there is no natural limit to the quantity of fiat money that can be produced. The benefits of such a system to a government should be obvious. Without the economic constraints imposed by gold, the money creation process available to governments with fiat currencies is virtually unlimited.

How Is Money Measured?

Regardless of the type of money a nation uses, one important quality that it must possess is an ability to be measured. This is especially true in the case of fiat currency. In response to our modern fiat dollar system, U.S. economists have devised four categories to measure the nation's money supply. These four measurements are known simply as M0, M1, M2, and M3.

M0 Money Supply: This measurement includes all coin and paper currency in circulation, as well as accounts at the central bank that can be exchanged for physical currency. This is the narrowest measure of the U.S. money supply and only measures the amount of liquid money in the hands of the public and certain deposits with the Federal Reserve.

M1 Money Supply: This measurement includes everything in M0 as well as currency held in demand deposits (such as checking accounts and NOW accounts) and traveler's checks (which can be liquidated into physical currency.)

M2 Money Supply: This category includes everything in M1, plus all of the currency held in saving accounts, money market accounts, and certificates of deposit with balances of \$100,000 or less.

M3 Money Supply: As the broadest measure of the U.S. money supply, this category combines all of M2 (which includes M1) plus all currency held in certificates of deposit with balances over \$100,000, institutional money market funds, short-term repurchase agreements, and eurodollars (U.S. dollars held in foreign bank accounts).

What Gives Fiat Money Its Value?

If you have a U.S. dollar bill nearby, pick it up. Examine it closely. Notice its many symbols and its colors.

Now ask yourself: What exactly is it that gives the U.S. dollar its value? And why are so many people willing to exchange their valuable

goods and services, or work long hours at jobs they may or may not enjoy, for these small pieces of green paper?

Answer: *Faith in the scarcity of the dollar.*

Allow me to elaborate on this answer.

Since fiat currencies are not physically backed up by a particular commodity such as gold, they have no *intrinsic value*. (By intrinsic value, I am referring to the actual value of the physical piece of paper itself.) Using this definition, fiat currencies are technically worthless. Governments and central banks are fully aware of this and some even understand the inherent danger of fiat monetary systems. To overcome the potential hurdles faced by an intrinsically worthless currency, the U.S. government required acceptance of the U.S. dollar in nearly all domestic financial transactions through the passage of legal tender laws. Due to this legal binding, Americans willingly accept the fiat U.S. dollar because they *believe* it has value. It is true that the dollar has value, but this value is not of an intrinsic nature. Instead, the dollar's "value" is derived from a carefully managed perception by the nation's monetary authorities. This belief, *or faith*, in the dollar's value, despite having no real intrinsic value, is a common trait shared by all fiat currencies. Interestingly, if the public were ever to lose faith in the value of the currency, the entire house of cards would fall.

Through the use of constitutional contortion, the United States has created a national demand for a fiat currency. Maintaining the illusion of

Understanding Intrinsic Value

Many different commodities have been used as money throughout history. Take silver, for example. In addition to being used as money for centuries, the shiny metal also has many industrial uses such as photography, dentistry, jewelry, mirrors, optics, and medicine. With so many varied uses, it is no wonder that silver was widely adopted as money throughout history. Silver, and other similar types of commodity money, has intrinsic value. That is, it has value outside of its role as money.

Compare this to the U.S. dollar. How many uses does a dollar have? Paper money is different from commodity money in that it has no intrinsic value, although some have argued that in enough quantities, the dollar bill could be used as firewood, thereby giving it some intrinsic value. In fact, that is exactly what happened to paper money in Germany during the 1920s! You can read more about that monetary nightmare in chapter 3.

the dollar's value requires that the monetary authorities avoid a reckless increase of the U.S. money supply. Historically speaking, such increases have had disastrous effects upon the purchasing power of the underlying currency. Avoiding a dollar collapse requires a perpetual faith among the American public in the Fed's willingness and ability to keep the currency in a limited supply.

Conclusion

Today, all global currencies are issued by fiat and are controlled by an arrangement between governments and their central banks. For the first time in history, no currency on the planet is backed up by a physical commodity. And why have individuals been willing to accept these fiat paper currencies in exchange for goods produced and services rendered? Ironically, the answer is rooted in the public's faith and trust in their respective government. The reason that the American public, or any society for that matter, is willing to accept a fiat currency in exchange for goods produced and services rendered is due to the belief that the government will maintain the currency's value by keeping it in limited supply.

At this point, some readers may wonder why governments should strive to keep their fiat currency in limited supply. After all, couldn't we eradicate global poverty by printing excessive amounts of currency and giving it to the world's poorest citizens? *If it were only that easy!*

While some readers may understand why this is impossible, it is nevertheless a very important question because we have several examples of economically ignorant leaders throughout recent history who have attempted this very thing. Other leaders have attempted to grow their economies out of tough situations by printing excessive amounts of currency.

What happens when a government decides to unleash the printing presses and overproduce its fiat currency? Does everyone suddenly become wildly rich due to all of the newly printed currency? Does printing fiat currency solve problems or just create more problems? In our next chapter I will answer these questions with a historical examination of fiat currencies. Sadly, fiat currencies, like the U.S. dollar, have led *every* nation that has abused them to the brink of economic disaster.

Quick Summary

- ✓ Our own personal view of money is shaped and influenced by three factors: 1) the economic system we are born into, 2) our family's financial philosophy, and 3) our instilled spiritual and moral values.
- ✓ Money is morally neutral. It can be used for positive or negative reasons. Financial morality is found in the intentions of the user, not in the money itself.
- ✓ Three forms of money have been used throughout history: 1) commodity money, 2) receipt money, 3) fiat money
- ✓ Commodity money took the form of exchangeable commodities often with intrinsic value such as salt, livestock, and crops.
- ✓ Along with the advance of civilizations came the need for a form of money that was relatively scarce, portable, easily divisible, and durable.
- ✓ Precious metals, such as gold and silver, fit all of these requirements, making them the obvious choice.
- ✓ Over time, goldsmith banking allowed individuals a safe place to store their gold in exchange for a paper receipt that was considered as "good as gold."
- ✓ These paper receipts, or receipt money, were extremely popular due to their ease of use.
- ✓ The governing authorities eventually saw a need to monopolize the money creation process in order to ensure economic stability.
- ✓ This government intervention led to the rise of central banks and fiat monetary systems that have ultimately proven to be disastrous, as we shall see in upcoming chapters.
- ✓ Fiat money has no intrinsic value. Instead, its value is derived from legal tender laws and a public perception that the monetary authorities will keep it in a limited supply.
- ✓ Today, every currency on the planet is considered to be fiat.

Endnotes

1. Dallas D. Johnson, *Consume! The Monetary Radical's Defense of Capitalism* (New York: Dynamic American Press, 1940), p. 89.
2. Charles Francis Adams, *The Works of John Adams, Second President of the United States* (New York: Little, Brown & Co., 1853), p. 447.
3. Nathan G. Goodman, editor, *A Benjamin Franklin Reader* (New York: Thomas Y. Crowell Co., 1945), p. 288.
4. More in-depth explanations of the various types of political and economic systems can be found outside of this book. My purpose here is simply to point out that a person's view on money is often directly tied to how his government teaches him to view money.