FIAT CURRENCY: DESTROYER OF LABOR

Labor Leaders should issue a Mayday call

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Summary for the busy executive

Labor vitally depends on the state of industrial capital. Wage rates cannot increase except in consequence of an increase in the per capita quota of invested capital. Conversely, a decrease in that quota means capital decumulation that lowers wage rates, ultimately leading to unemployment.

The regime of fiat currency has destabilized the interest-rate structure with the result that bond speculators can siphon off capital from the balance sheet of productive enterprise surreptitiously. There are laws against computer-hacking. There are no laws against hackers entering the balance sheet of industrial enterprise surreptitiously, and making off with illicit gains through risk-free profits in bond speculation.

The resulting insufficiency hurts labor even more than it hurts capital. Owners of capital can protect themselves through exporting their remaining funds to low-wage countries. The trouble is that well-paid industrial jobs are exported along with capital, never to return. American labor is stuck with low-paid service jobs such as flipping hamburgers. The outlook is even bleaker. As interest rates keep falling, even hamburger-flipping may go the way of steel-making. Mass unemployment, directly attributable to fiat currency destabilizing the interest-rate structure, is a real threat.

Invisible arson

If a part of your industrial plant burns down, you have to report the capital loss in the balance sheet and charge the loss against future earnings. Intangible capital loss is caused by falling interest rates, because it reveals that past investment in physical capital has been made at too high a rate as shown by lower rates now available. There is no way getting around the fact that the cost of servicing debt, contracted earlier at a higher rate, is made more onerous by the falling interest-rate structure. The present value of outstanding debt rises, because capitalizing the same stream of payments at a lower rate of interest results in a higher capital value. Yet nobody is reporting a capital loss when falling interest rates decimate the value of industrial capital, and nobody makes provision for replenishing impaired capital by charging the loss to future earnings. Society lives in a fool's paradise thinking that it can eat into capital, no tightening belts is necessary, and the day of reckoning will never dawn.

Why is there no requirement to report capital losses due to falling interest rates, and why is the firm allowed to get away without putting aside a loss reserve to compensate for losses arising out of the falling of interest rate structure? Why is a loss caused by real fire treated differently from a loss caused by invisible fire? Could it be part of the “invisible arson” to cover up the footprint of the central bank’s counter-productive monetary policy, namely, open-market purchases of bonds?

To be sure, the introduction of out-and-out fiat money in 1971 was invisible arson, without flames and smoke, but all the greater devastation of the capital of productive enterprise. Mainstream economists have „forgotten” to investigate the untoward consequences of the regime of fiat money, especially the damage it has caused through the destabilization of interest rates.

It is incumbent upon labor leaders to demand that damage caused by capital losses be repaired whether they were caused by real fire or by the invisible arson of falling interest rates. In either case capital supporting laborers in production has been impaired and unless the loss is charged to future earnings, wage rates will be squeezed and ultimately the economy will succumb to unemployment. Owners of capital should not be allowed to bolt for greener pastures, leaving labor behind in the lurch.

Silent textbooks

Textbooks on accounting do not mention the need for setting aside loss reserves to repair capital in the wake of falling interest rates. Hundreds of codes that have been written since Luca Pacioli invented double-entry book-keeping are silent on this subject as well. Why? The answer to this question is found in the fact that a move in the rate of interest used to be akin to continental drift: it would take decades before changes were noticeable. There is an additional problem. The decline in interest rates, if it ever occurred, was necessarily limited under the gold standard. Savers would never let interest rates fall indefinitely. They would step in, sell the overpriced government bond and would not buy them back until the trend in interest rates were reversed.

A rapid decline of interest rates that was unthinkable previously has been made possible after the introduction of global fiat currency in 1971. Moreover, beforehand the decline could not continue indefinitely as gold withdrawals would sooner or later put an end to it. But this obstruction had been removed by the global regime of fiat currency. Bondholders and depositors could no longer withdraw gold. The lack of obstruction to stop the fall of interest rates means that businessmen, once lethargic, stay lethargic. They understood what the threat of interest rates falling further meant for them. No matter how low interest rates were, they would not look attractive as further fall would make their investment fail. This is the conundrum of the deflation in Japan, where interest rates still keep falling from very low levels. Mainstream economists say that it is a reflection of the high saving propensities of the Japanese people. This is, of course, nonsense. It is the reflection of the lethargy of the Japanese businessmen. They do not see the light at the end of the tunnel. They do not see the end to the decline of interest rates.

By 1971 accounting was politicized. It was not in the interest of the powers that be to alarm people about dangers threatening them by virtue of fiat currency. Book-keeping rules were relaxed accordingly. The transition from the gold standard to irredeemable currency was hailed as a positive development, all benefits and no setbacks. The greatest con-job in all history was to foist the fiat dollar on an unsuspecting world.

Anti-industrial revolution

Labor leaders should also demand an answer to the broader question: in whose interest does the U.S. government maintain a reactionary monetary regime, that of fiat currency with a one-hundred percent mortality rate, as proved by history? The introduction of this regime could be described, in the words of Ayn Rand’s *Atlas Shrugged*, as the “anti-industrial revolution,” the effect of which is the de-industrialization of America as shown by the disappearance of the apparel industry, shoe industry, steel industry, VCR and TV set manufacturing industry, with the auto industry not too far behind.

It is no use trying to explain the demise of these industries in America with „progress” in the international division of labor. It is no use trying to compare it to the demise of the horseshoe industry and candle-making in the 19th century. When horseshoe production was abandoned, no American jobs were exported. In the present instance steel jobs are exported and now steel has to be imported. Why? Because the “paper aristocracy” of America finds the export of paper (read: paper money) more profitable than the export of steel.

The government and politicians take credit for "job-creation". But the truth is that the jobs created are mostly make-believe jobs. What has been hailed as a heroic job-creation program appears, in the present light, a miserable effort at damage-control by the same government that has destroyed well-paid industrial jobs in the first place through the introduction of an unconstitutional and anti-labor monetary regime.

"Thou shalt not push this crown of thorns on the brow of labor"

This regime was originally promoted as a savior of labor. „Thou shalt not push down this crown of thorns on the brow of labor; thou shalt not crucify mankind on this cross of gold!" cried William Jennings Brian, condemning the gold standard, during his failed presidential election campaign in 1896. These words have reverberated until 1933 when F.D. Roosevelt hit the war-path to knock out gold money for once and all. He sabotaged the constitutional monetary regime of the United States by grabbing people's gold. It is important to understand why Roosevelt's monetary tinkering was anti-labor, in spite of it being promoted as a move to raise prices and to restore full employment.

By 1932 there were signs that the severe recession was over. During the presidential election campaign rumor-mongers spread the word that Roosevelt, once elected, was planning „to go off gold", following the 1931 example set by Britain. Roosevelt never issued a denial and, after elected, he made himself unavailable for direct questioning. Apparently he was relishing the prospect of a banking crisis that was developing in the wake of those rumors. He could grab much dictatorial power if the country lay prostrate financially on Inauguration Day, which is exactly what has happened. Was it all planned? Be that as it may, after inauguration he railroaded unconstitutional monetary legislation through a servile Congress, including the incredible measure of confiscating the gold of the people and writing up its value afterwards.

"Legal and moral chaos"

The 'profit' from the government's arbitrary measure of marking up the value of confiscated gold was taken right out of industrial capital. In 1935 Supreme Court justices McReynolds, Van Devanter, Sutherland, and Butler wrote their minority opinion criticizing the majority in the case *Nortz v. the United States,* re: reneging on the promise of gold certificates issued by the U.S. Treasury.

> **"These were contracts to return gold left on deposit; otherwise to pay its value in currency… We conclude that, if given effect, the enactments here challenged will bring about confiscation of property rights and repudiation of national obligations. Acquiescence in the decisions just announced is impossible; the circumstances demand a statement of our views. To let oneself slide down the easy slope offered by the course of events and to dull one's mind against the extent of danger… that is precisely to fail in one's responsibility.**
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> **"Just men regard repudiation and spoilation of citizens by their sovereign with abhorrence; but we are asked to affirm that the Constitution has granted power to accomplish both. No definite delegation of such power exists; and we cannot believe that the far-seeing framers, who labored with hope of establishing justice and securing the blessings of liberty, intended that the expected government should have authority to annihilate its own obligations and destroy the very rights which they were endeavoring to protect. Not only is there no permission for such actions; they are inhibited. And no plentitude of words can conform them to our charter.**
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> **"The federal government is one of delegated and limited powers which derive from the Constitution. It can exercise only the powers granted to it. Powers claimed must be denied unless granted… The fundamental problem now presented is whether recent statutes passed by Congress in respect of money and credits were designed to attain a legitimate end. Or whether, under the guise of pursuing a monetary policy, Congress really has inaugurated a plan primarily designed to destroy private obligations, repudiate national debts, and drive into the Treasury all gold within the country, in exchange for inconvertible promises to pay, of much less value.**

“Considering all the circumstances, we must conclude they show that the plan disclosed is of the latter description and its enforcement would deprive the parties before us of their rights under the Constitution. Consequently the Court should do what it can to afford adequate relief… The end or objective of the Joint Resolution [of June 5, 1933] was not “legitimate”. The real purpose was not ‘to assure uniform value to the coins and currencies of the United States’, but to destroy certain valuable contractual rights…

“It was not intended to give Congress the power under the law to repudiate the obligations in question… No such power was ever granted by the framers of the Constitution. It was not there then. It was not there yesterday. It is not there today. We are confronted with a condition in which the dollar may be reduced to 50 cents today, to 30 cents tomorrow, to 10 cents the next day, and to 1 cent the day after…

“Under the challenged statutes it is said that the United States has realized profits amounting to $2,800,000,000. But this assumes that gain may be generated by legislative fiat. To such counterfeit profits there would be no limit; with each new debasement of the dollar they would expand. Two billions might be ballooned indefinitely — to twenty, to thirty, or what you will.

“*Loss of reputation for honorable dealing will bring us unending humiliation. The impending legal and moral chaos is appalling.”*

Savior or saboteur?

Prophetic words! As a consequence of gold confiscation the recovery of 1932 aborted and the economy was plunged into the deepest depression ever. The value of government bonds shot up and interest rates started plunging. Industrial capital was decimated. The value of productive capital did not disappear without a trace. It was illicitly transferred to financial capital in the form of risk-free profits from bond speculation. It was arson that burnt down the industrial landscape, and made laborers fugitives on their home ground. Roosevelt was the invisible arsonist, as sentenced by the minority of dissenting justices on the Supreme Court of the United States in 1935. Today the saboteur is celebrated as the savior.

Roosevelt’s duplicity is unprecedented. In a Memo he stated: “Speculation, where [participants] could earn money without work, was the pipe dream… which led to growth of special interest that did not coincide with the interest of the nation as a whole. We cannot allow economic life to be controlled by a small group of men… tinctured by the fact that they can make huge profits, not from production but from lending money and marketing securities… we cannot tolerate this opportunistic, selfish attitude…”

Risk free bond speculation

It would be a mistake to believe that with the Great Depression behind us, the issue is settled. Far from it. An even greater scourge is upon us. The interest-rate structure is still acting as the wrecker’s ball on the economy. Falling interest rates still make it possible for speculators to derive risk-free profits or, in the words of the dissenting justices, ***‘counterfeit profits’.***

In fact, Roosevelt’s monetary legislation is ultimately responsible for making bond speculation risk free. Speculators take their clues from the open market purchases of bonds by the Federal Reserve (Fed). They know the Fed has to buy the bonds in the open market. All that bond speculators have to do is to forestall Fed action. They buy just before the Fed does, and sell just after. In this way they can consistently derive risk-free profits. Roosevelt created a situation which is a thousand times worse than what he has condemned. The “huge profits” to which Roosevelt referred to in his Memo were at least not risk-free. Roosevelt’s confiscation of people’s gold introduced an era of relentlessly rising bond prices, offering risk-free profits to bond speculators.

The worst part of the arson is that it is self-perpetuating. The fall in interest rates is open-ended. No matter how low they go, the threat that interest rates may go even lower acts as a deterrent to businessmen to take out the loan. Every attempt at recovery is nipped in the bud. By contrast under a gold standard a fall in interest rates is self-limiting. It is resisted by the savers who will progressively withdraw gold as rates fall. For this reason under a gold standard there is no bond speculation. Bond prices and interest rates are stable.

Gold, the protector of the people

We must understand that gold is the only competitor that government bonds have. Savers, if not satisfied with the rate of interest offered by the government on its bonds, can hold on to the gold coin of the realm. Once gold is confiscated, the safest place to park one's savings is the government bond. People are at the mercy of the government (and adventurers in government). Gold is the protector of the people against financial dictatorship.

Similarly, if the rate of interest is pushed too far down by the banks, savers can register their protest by putting their savings into gold with the resulting squeeze on bank reserves. *Paper currency is no substitute for gold coins in this regard*. If dissatisfied savers had withdrawn their money from the bank and parked their savings in paper money, they would have been jumping from the frying pan into the fire: exchanging a low rate for zero rate. They would have acted contrary to purpose. The only effective way to protest low interest rates is to sell the overpriced bond and keep the proceeds in gold coins until interest rates rise. At that time savers could buy back their bonds at a lower price. Therein we find the rationale for gold. This is what gold coins are for: to give savers clout so that they may not be at the mercy of the banks and the government.

Grabbing the gold coin of the savers is highway robbery. What the Roosevelt administration did to them was even worse. It made people helpless in the face of the banks' design to plunge them into permanent debt slavery. As Roosevelt forcibly removed the gold coin, there was an additional effect: destabilizing the rate of interest. Freed from competition, the price of government bonds soared and interest rates plunged. As explained above, plunging interest rates eroded capital values across the board. The weakening capital structure meant that firms lost pricing power. Prices fell together with interest rates. Falling prices caused interest rates to fall more. A vicious circle was set in motion. The effect was cumulative. The devastation of their capital by falling interest rates bankrupted firms, exacerbated by the domino-effect. Financially healthy firms were knocked down by the fall of the financially weak. The Great Depression hit the nation and the world.

The World in the Grip of a Mistake

Keynes was ready with an explanation: the Great Depression was caused by the "contractionist bias" of the gold standard. Government propagandists took over from him and wore down upright monetary economists who made a case for maintaining the constitutional monetary standard. Through bribe, blackmail, and attrition upright monetary economists were eliminated from the scene. If allowed to write 'without fear and favor', they would have alerted the world that permanently falling interest rates not only plunge the economy into deep depression, but also kill any recovery attempt in the bud. No matter how low interest rates are, the prospect of a further fall will prevent businessmen to take the loans. That is why a permanently falling interest rate structure must be avoided at all hazards. Under the regime of fiat currency there is no guarantee that the fall will hit bottom, precisely because of the presence of risk-free bond speculation. By contrast under a gold standard rising bond prices invite profit-taking. Bondholders will sell, and stay invested in the gold coin of the realm. They will not buy back the bonds until interest rates come back to acceptable levels. The 'black hole of zero interest' is cordoned off. The gold coin in the hands of the people is a *sine qua non* of a durable monetary system. Without it both runaway inflations and deflations are possible.

The world has been in the grip of a colossal mistake, the belief that the gold standard was the cause of deflation and that gold is the enemy of labor. The economic damage caused by this mistake has been enormous. But it has also served as camouflage for the real culprit: the regime of fiat currency. The amount of taxpayer money wasted on the altar of Moloch defies counting. There is no way to calculate the cost of all the counter-productive and self-defeating government measures inflicted on the nation and on the world. The damage caused by the consequences of destabilizing foreign exchange and interest rates is incalculable. The chief loser was labor. In order to see this clearly we must look at their effect on the marginal productivity of labor.

Marginal productivity

Each worker has his or her productivity measured by the annualized percentage of value added to the product as it is passing through the production process. If we rank all workers in the labor force according to increasing productivity, we find that those at the low end of the spectrum may be left idle. For example, some pensioners still wanting to earn wages may be too old to qualify. Similarly, people with physical or mental handicap could be judged unfit for industrial employment.

At the same time it should be pointed out that many handicapped people can still find industrial employment, provided that they are productive enough. However, it is not heartlessness to observe that the responsibility to provide meaningful occupation for handicapped people without means of self-support, in order to help them to become useful members of their community, rests with charity rather than industry. For example, charitable foundations could be established that created public parks and employed wardens, or to train handicapped people to become self-supporting as street vendors, etc. At any rate there is a *marginal worker* in the labor force who is still employed but others with a lower productivity are not because the opportunity cost of employing them is too high.

The productivity of the marginal worker is called the *rate of marginal productivity of labor* (for short, marginal productivity of labor). The person playing the role of the marginal worker may of course change, even change frequently and with it changes the rate of marginal productivity of labor. Contrary to popular misconception, an increase in the marginal productivity of labor is not a blessing. It means that that some productive workers have been reclassified as submarginal and lost their jobs. This happens routinely whenever industrial capital is eroded, plants and equipment are taken out of production as a result of insufficient capital maintenance and inadequate depreciation quotas.

Obstruction to capital accumulation

The opposite case is that of falling marginal productivity of labor. Generally it is a welcome development as it is beneficial to society. It has the effect of making submarginal labor productive. We could describe it as equipping laborers with optimal tools so that their contribution to the social product is maximized. It is important to understand that to make the beneficial decline in the rate of marginal productivity possible, further accumulation of capital is necessary. Hitherto submarginal workers can then find employment, thanks to more or better tools made available to help them become more productive. As a byproduct, more physically or mentally handicapped people, along with many others, could find meaningful industrial employment as unskilled or semi-skilled laborers.

As long as no obstacles are erected in the way of capital accumulation, there will be no unemployment. The presence of unemployment in society necessarily implies that obstructions to capital accumulation exist, as not all workers eager to earn wages are given the tools needed to make their work productive. In a free labor market there is a tendency to make the marginal worker and the least productive worker to be one and the same person.

Capital accumulation pilloried

In the real world there are many obstacles in the way of capital accumulation, which prevent the least productive workers from finding employment. The reason for this unfortunate state of affairs is mainly ignorance and envy. Capital accumulation is pilloried as proof of the uncontrolled “acquisitiveness of the capitalists”. It is hardly ever looked at from the point of view of its beneficial effects on labor.

Virtually all these obstacles have been created by a misguided effort to help the indigenous through the wrong means, with the result of leaving them worse off than they would be without the “help”. Taxing enterprise and industry to raise revenues in order to fund direct payments to the able-bodied unemployed is the worst offender. This also includes the so-called “unemployment insurance” whereby the industrious is being taxed to subsidize the indolent. In so far as it is an obstruction to capital accumulation, unemployment insurance has the effect of increasing unemployment. In the absence of these schemes capital would be accumulated and suitable tools would be put in the hands of the unemployed. Similar arguments can be made to condemn a host of misguided labor laws and payroll taxes, including compulsory health insurance schemes. However, this is not the problem we want to discuss presently. It must be left as a topic for another occasion. Here we want to discuss the

Devastation caused by falling interest rates

Why do falling interest rates make the marginal productivity of capital rise? As we have seen above, falling interest rates reveal that the capital in place has been financed at too high a rate of interest, in view of lower rates now available. The present value of debt rises. Firms with no debt are not exempt either. Falling interest rates decimate the value of all industrial capital already in place, in view of the lower cost of installing new capital.

As the rate of marginal productivity of capital rises, plant and equipment are idled. Their labor complement is idled, too. This is tantamount to an increase in rate of marginal productivity of labor. The conclusion is that falling interest rates make the marginal productivity of both capital and labor rise, with the unemployment of capital and labor as the obvious results.

The Great Depression was not caused by “vanishing consumer demand”. It was caused by a fatal weakening of the capital structure of industry, which can be traced back to the confiscation of the gold coin of the realm by Roosevelt. The capital from the balance sheet of productive enterprise did not disappear without a trace. It was siphoned off by financial enterprise: it showed up as the illicit capital gains of the bond speculators.

Exactly the same process can be observed today. Bond prices have been increasing since the early 1980’s, rewarding bond speculators with obscene profits. These profits did not come out of nowhere. They were siphoned off the balance sheets of productive enterprise. As measured by the yield of 30-year Treasury bonds, interest rates fell from 16 to 4 percent. Many observers say that the fall is over and we are in for a steep rise, in view of the falling international value of the dollar. However, there is reason to be cautious with jumping to conclusions. It is possible for the value of the dollar to fall while the value of dollar bonds rises. The fall in the rate of interest as measured by the yield of T-bonds may well continue, following the example of Japan. Worse still, the rate of decline may accelerate. This would mean more precipitous destruction of capital, more bankruptcies, more deflation, even a fully blown depression is not impossible.

The finest hour of American labor

This presidential election year presents a unique opportunity for American labor leaders. If they rallied to the plank of Dr. Ron Paul, advocating Constitutional money and the rehabilitation of the gold standard, they would make history. It would be the finest hour of American labor to put an end to this reactionary, unconstitutional, anti-labor experimentation with the regime of fiat money. History is littered with the debris of fiat currencies. All of them were hailed in their time as the wave of future. To no avail: they have all found their resting place in the garbage heap of history. But not before they have inflicted enormous economic pain, especially on working people. The present experiment is no exception.

The government of the United States has apparently abandoned its traditional role of protecting labor. Its insane experiment with fiat currency has a higher priority than the welfare of labor. The government has abdicated its Constitutional responsibility to retain a system of checks and balances. In delegating unlimited power to the Fed, it undermined the ideal of limited government. Remember, the power to create money out of nothing is unlimited power. The government ignores the economic dangers that go with the experiment of fiat currency. The Fed has a bag of tricks to combat deflation and depression, but they are all counter-productive: they make the economic malady worse, not better. In particular, the Fed seems to be blissfully unaware of the extreme danger lurking behind a falling interest-rate structure: the danger of depression as the capital of productive industry is being plundered by scavengers, speculating risk free on the further rise in the price of government bonds. Every dollar of profit made by bond speculators comes out of capital values supporting industrial labor.

Academia and financial journalism have embraced a servile attitude of Fed worshipping. “Don’t bite the hand that feeds you.” The public is completely unprepared for the coming depression caused by the collision between the falling interest-rate structure and industrial capital, and its effect on the economy in general, and labor in particular.

Labor leaders should issue a Mayday call: the boat of industrial capital is sinking, captain and crew bailing out. America is being de-industrialized through the corrosive fiat money regime, and is in danger of disappearing as an economic and financial world power. Labor leaders should support the only presidential candidate, Ron Paul, who understands the problem and has the right plan to deal with it. The de-industrialization of America must stop at once. This means a return to the regime of stable interest rates and constitutional money.

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