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War and the Future of the Dollar

by Llewellyn H. Rockwell Jr.

The following is a transcript of a speech given at The Future of Freedom Foundation's June 2008 conference, "Restoring the Republic: Foreign Policy & Civil Liberties" held in Reston, Virginia.

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Lew Rockwell: Well, what an honor it is to be here with Bumper and with all of you and with the Future of Freedom Foundation. How well I remember right after 9/11, there was a very small band of Libertarians who stood up to the immediate announcement of a police state, and it was Bumper and the Future of Freedom Foundation, David Theroux and the Independent Institute also took the right side. Most were silent; some actually took the side of government and called on government to be strengthened. Libertarians, Bumper, you are a hero.

Let's talk about war and inflation. The U.S. central bank, called the Federal Reserve, was created in 1913. No one promoted this institution with a slogan that it would make wars more likely, and guarantee that nearly half a million Americans would die in battle in foreign lands, not to speak of many millions of foreigners. No one pointed out that this institution would permit

Americans to fund without taxes the destruction of so many cities abroad and the overthrow of governments at will. No one said that the central bank would make it possible for the U.S. to be at war, large-scale war, in one of every four years in the full century, and a small-scale war every single year. It was never pointed out that this institution would make it possible for the U.S. government to establish a global empire that would make Imperial Rome and Imperial Britain look benign by comparison. You can line up 100 professional war historians and political scientists and talk about the 20th century, and not one is likely to mention the role of the Fed in funding U.S. militarism, and yet it is true.

The Fed is the institution that has created the money to fund the wars. In this role, it has solved a major problem that the state has confronted in all of human history. A state without money or a state that must simply tax its citizens to raise money for its wars is necessarily limited in its imperial ambitions. Keep in mind that this is only a problem for the state; it is not a problem for the people. The inability of the state to fund its unlimited ambitions is worth more for the people than every kind of legal check and balance. It is more valuable than all the constitutions ever devised. The state, remember, has no wealth of its own, it is not a profitable enterprise. Everything it possesses it must take from society in a zero sum game.

This usually means taxes. The taxes annoy people. They have the potential to destabilize the state and to threaten its legitimacy. They inspire anger, revolt, and even revolution. Rather than risk that result, the state, before the dawn of the central banking era, was somewhat cautious in its global ambitions, simply because it was cautious in its need to steal directly and openly from the people in order to pay its bills. Now to be sure it does not require a central bank for a state to choose inflation over taxes as a means of funding itself; all it really requires is a monopoly and the production of money. Once acquired, the monopoly on money production leads to a systematic process of depreciating the currency for the coin clipping, or debasement, or the introduction of paper money, which can then be printed without limit. The central bank assists in this process in a critical sense. It cartelizes the banking system as the essential conduit through which new money is lent to the public and to the government itself. The banking system thereby becomes a primary funding agency for the state, and in exchange for its services, the banking system is guaranteed against insolvency and business failure as it profits from inflation.

If the goal of the state is the complete monopolization of money under an infinitely flexible paper money system, there is no better path for the state than the creation of a central bank. This is the greatest achievement for the victory of power over liberty. The connection between war and inflation then dates long before the creation of the Federal Reserve. In fact, it dates in our own country to the founding itself, and even before, in the colonial era, but the fate of the Continental currency during and after the Revolutionary War, when famously the slogan became, "Not worth a Continental," was a very bad omen for the future. The war had to be

fought, the money had to be raised, the currency was the victim, and the whole country paid a very serious price.

It was this experience that later led to the gold clause in the U.S. Constitution. Except for the Hamiltonians, the entire generation of political activists saw the unity of freedom in sound money and regarded paper money as the fuel of tyranny. Consider Thomas Payne: “Paper money is like dram-drinking. It relieves for a moment by deceitful sensation, but gradually diminishes the natural heat and leaves the body worse than it found it. Were not this the case, and could money be made of paper at pleasure, every sovereign in Europe would be as rich as he pleased....Paper money appears at first sight to be a great thing, a great saving, or rather that it costs nothing; but it is the dearest money there is. The ease with which it is emitted by an assembly at first, serves as a trap to catch people in at last. It operates as an anticipation of the next year’s taxes.”

But the wisdom of this generation, under attack continually over American history, was finally thrown out entirely during the progressive era. It was believed that in an age of scientific public policy, the country needed a scientific monetary machinery that could be controlled by powerful elites. The dawn of the age of central banking in our country was also the dawn of the age of central planning, for there can be no government control over the nation’s commercial life without first controlling the money, and once the state has the money and the banking system, its ambitions can be realized. Before the creation of the Federal Reserve, the idea of American entry into the conflict that became a World War would have been inconceivable. In fact, it was a highly unpopular idea, and Woodrow Wilson himself campaigned on a platform that promised to keep us out of war.

But with a money monopoly, all things seemed possible. It was a mere four years after the founding of the Fed; after it was invented under the guise of scientific policy planning, the real agenda became obvious. The Fed would fund U.S. entry into World War I. It was not entry alone that was made possible; World War I was the first total war. It involved nearly the whole of the civilized world, and not only their governments, but also the civilian population, both as combatants and targets. It has been described as the war that ended civilization in the 19th century sense, by which we understand that term; that is to say, it was the war that ended liberty as we knew it. What made it possible was the Federal Reserve, and not only the U.S. central bank; it was also its European counterparts. This was a war funded under the guise of scientific monetary policy. Reflecting on the calamity of this war, Ludwig von Mises wrote in 1919 that “One can say without exaggeration that inflation is the indispensable means of militarism. Without it, the repercussions of war on welfare become obvious much more quickly and penetratingly. War weariness would set in much earlier.”

Of course, there's always a price to be paid for funding war through central banks. The postwar situation in America was a classic case. There was inflation, there were massive dislocations, there was recession, or what was then called depression, a direct result of capital dislocation that masked itself as an economic boom, but which was then followed by a bust. The Depression hit in 1920, but it is not a famous event in U.S. economic history. Why is that? Because the Federal Reserve had not yet acquired the means to manufacture an attempt to save the economy. Instead, neither the Fed, nor Congress, nor the President did much of anything about it, the wholly praiseworthy response. As a result, the Depression was brief and became a footnote to history.

The same would have happened in 1930, had Herbert Hoover not attempted to use the government as the means of resuscitation. Sadly, the easy recovery from 1920 tempted the central bank to get back into the business of inflation, but the eventual result was a stock market boom that led to a bust, then depression, and finally the destruction of the gold standard itself. And FDR found that even fascist-style economic planning and inflation could not restore prosperity, so he turned to the ancient method of looking for a war to enter.

Here is where the history of the United States and the Fed intersect with the tragic role of the German Central Bank. The German government also funded its great war through inflation, which by wars and money in circulation had risen fourfold. Yet, on international exchange, the German mark had not suffered as much as might have been expected. The German government looked at this with encouragement, and promptly attempted to manufacture a complete economic recovery through inflation. Incredibly, by 1923, the German mark had fallen to one trillionth of its 1914 gold value. The U.S. dollar was then equal to 4.2 trillion marks; it was an example of currency destruction that remains legendary in the history of the world, all made possible by a central bank that obliged the government and monetized the war debt. But did people blame the printing press? No. A popular explanation dealt with the Treaty of Versailles. It was the harsh peace imposed by the allies that had brought Germany to the brink of total destruction, or so it was believed.

Mises himself had written the full book that he hoped would explain that Germany owed its suffering to war and socialism, not Versailles as such. He urged the German people to look at the real causes and to establish free markets, lest, he felt, imperial dictatorship be the next stage in Germany's political development; but he was ignored, and the result, we all know, was Hitler. Turning to Russia, the untold truth about the Bolshevik Revolution is that Lenin's greatest propaganda tool involved the horrendous suffering of the Russian people during World War I. Men were drafted and killed at an unbelievable level. Lenin called this capitalist exploitation, based on his view that the war had resulted from capitalist motives. In fact, it was a foreshadowing of the world that socialism would bring about, a world in which all people and all property are treated as means to statist ends.

Now, what made the prolongation of the Russian role in World War I possible was an institution created in 1860 called the State Bank of the Russian Empire, that is, the Russian version of the Fed. The Russian war itself was funded through massive increases in the money supply, which led to massive price increases, shortages, and then totalitarian controls imposed during the war. I am not of the opinion, as the neocons are, that the Russian monarchy was an evil regime that needed to be overthrown, even if by communism, but the temptation that the money machine provided the regime proved too inviting. It turned a monarchy that might have otherwise been benign into a total war machine; a country that had long been integrated into the worldwide division of labor and was under the gold standard became a killing machine.

And as horrific and catastrophic as the war debt was for Russian morale, the inflation affected every single person and inspired massive unrest that led to the triumph of communism. At this juncture in history, we can see what central banking has brought to us. It was not an end to the business cycle. It was not merely more liquidity for the banking system. It was not an end to bank runs and bank panics, and it certainly wasn't scientific public policy. The world's major economies were being lorded over by money monopolies, and the front men had become some of the worse despots in the history of the world. Now they were preparing to fight each other with all the resources they had at their disposal. The resources they did not have at their disposal, they would pay for with their beloved machinery of central banking.

In war time, the printing presses ran overtime, and with a totalitarian level of rationing, price controls, and all around socialization of resources in the whole of the western world. The result of inflation was not merely rising prices, it was vast suffering and shortages in Britain, Russia, Germany, Italy, France, Austria-Hungary, America, and pretty much the entire planet. So we can see here the amazing irony of central banking at work. The institution that was promoted by economists working with bankers in the name of bringing rationality and science to bear on monetary matters had given birth to the most evil political trends in the history of the world: communism, socialism, fascism, nazism, and the despotism of economic planning in the capitalist west. The story of central banking is but one step removed from the story of atomic bombs and death camps.

There is a reason the state has been unrestrained since 1913, and that reason is the precise one that many people think of as a purely technical issue that is too complicated for mere mortals. Fast-forward to the war on Iraq, which has all the features of a conflict born of the power to print money. There was a time when the decision to go to war involved debates in the House of Commons, or the U.S. House of Representatives. And what was this debate about? It was about resources and the power to tax. But once the executive state was unhinged from the need to rely on tax dollars and did not have to worry about finding willing buyers for all its unbacked dead instruments, the political debate about war was silenced. In the entire runup to his war, George Bush just assumes as a matter of policy that it was his decision alone whether to

invade Iraq. The objections by Ron Paul and a few other members of Congress, and vast numbers of the American population, were reduced to little more than a white noise in the background.

Imagine if Bush had had to raise the money for the war through taxes; it never would have happened. But he didn't have to; he knew the money would be there. So despite a \$200 billion deficit, a \$9 trillion debt, \$5 trillion in outstanding debt instruments held by the public, a federal budget of \$3 trillion, and falling tax receipts in 2001, Bush contemplated a war that has cost, by the government's statistics, \$525 billion, or \$4,681 per household. Imagine if he had gone to the American people to request that. What would have happened? I think we know the answer to that question. And those, as I say, are the government figures; the actual cost of this war will be far higher, perhaps as much as \$20,000 per household.

Now, when liberals talk about these figures, they like to compare them with what the state might have done with these resources in terms of funding healthcare, public schools, head start centers, or food stamps. This is a mistake, because it demonstrates that the Left isn't really providing an alternative to the Right; it merely has a different set of priorities about how would we use the resources raised by the inflation machine. It's true that public schools are less costly in terms of lives and property than war, but the inflation-funded welfare state also has a corrosive effect on society.

The pipe dream, that the inflation monster can be used to promote good instead of evil, illustrates a certain naiveté about the nature of the state itself. If the state has the power, and is asked to choose between doing good and waging war, which will it choose? Certainly in the American context, the choice has always been for war. It is equally naïve of the Right to talk about restraining the government while wishing for wars around the world. So long as the state has unlimited access to the printing press, it can ignore the pleas of ideological groups concerning how the money will be raised. It is also very silly for the Right to believe that it can have its wars, its militarism, its nationalism, its belligerence without depending on the power of the Federal Reserve. This institution is the very mechanism by which the dreams of both fanatical Left and fanatical Right can come true.

The effect of the money machine goes well beyond funding undesirable government programs; the Fed creates financial bubbles that lead to economic dislocation. Think of the technology bubble of the late 1990s, or the housing bubble, or the boom that preceded the current bust. These are all the results of the monopolization of money. These days, the American consumer has been hit very hard with rising prices in oil, clothing, food, and much else. For the first time in decades, people are feeling this, and feeling it hard. And just as in every other inflation in world history, people are looking for the culprit and finding the wrong ones. They believe it is the oil companies who are gouging us, or that foreign oil producers are restricting supply, or that gas station owners are abusing a crisis to profit at our expense. I wouldn't entirely

rule out the possibility that price controls are around the corner. When Nixon imposed them in 1971 during his part of the war in Vietnam, neither he nor his advisors believed they would actually result in controlling inflation. Rather, the purpose was to redirect the target of public anger from the government and its central bank over to retailers to make them the scapegoats. In this sense, in the Hegelian [?]sense, price controls do work and make people believe that the government is trying to lower prices while the private sector is trying to raise them. This is the real political dynamic at work with price controls.

The question is whether we will be taken in by these tactics. It is long past time for us to take note that the cause of the real trouble here is not the manufacturers, or even the war as such, but the agency that has been granted illegal right to counterfeit at will and lower the value of the currency, while fueling every manner of state esteem, whether welfare or warfare. We need to look at the Fed and say, "This is the enemy." Note that the Federal Reserve is not a political party; it is not a recognized interest group; it is not a famed lobby in Washington; it is not really even a sector of public opinion. It seems completely shielded off from vigorous public debate. If we truly believe in liberty and decry the Leviathan state, the situation cannot be tolerated. A state of the sincere Right, if you really want to limit the state, you will have to give up your dream of remaking the world at the point of a gun. Wars and limited government are impossible. Moreover, you must stop ignoring the role of monetary policy. It is a technical subject to be sure, but one that we must all look into and understand if we expect to restore something that resembles the American liberty of the founders. I say to the sincere Left, if you really want to stop war and stop the spying state, and put an end to the persecution of political dissidents and the Guantanamo camps for foreign peoples, and put a stop to the culture of nationalism and militarism, you must join us in turning attention to the role of monetary policy. The printing presses must be unplugged. <Applause>

Lew Rockwell: It is true. This will also hit programs that are beloved by the Left, such as socialized healthcare, federalized education programs; but so long as you expect the state to fund your dreams, you cannot expect the state will not also fund the dreams of people you hate.

Let me say a few words to Libertarians. A dream of a world with limited government under the rule of law, a world in which free enterprise reigns, and where the state has no power to interfere in our lives so long as we behave peacefully: it is completely absurd to believe that this can be achieved without fundamental monetary reform. And yet, before the most recent Ron Paul campaign, and aside from Murray Rothbard and his admirers, I don't recall that Libertarians themselves have cared much about this issue at all. In 1982, just after our founding, the Mises Institute held a large academic conference on the gold standard, and we held it in Washington, D.C. Even back then I recall the D.C. Libertarians ridiculed us for holding such a meeting to talk about the Fed and its replacement with sound money. They said this would make

the Mises Institute look ridiculous, that we would be tarred with the brush of gold bugs and crazies. We did it anyway, and all these years later, the book that came out of that conference remains a main source for understanding the role of money in the advance of despotism, as well as giving us a blueprint for the future.

Of course, the Austrian tradition fought paper money and central banking from the beginning. Carl Menger was an advocate of the gold standard. Eugen von Böhm-Bawerk actually established the gold standard as finance minister of the Habsburg monarchy. Mises's book on the topic from 1912 was the first to show the role of money in the business cycle, and he issued dire warnings about central banking. If Hayek worked powerfully against the abandonment of gold in the 1930s, Henry Hazlitt warned that the Bretton Woods system and the phony gold standard it established would result in exactly the conditions we are in. Murray Rothbard of course was a champion of sound money and the greatest enemy the Fed has ever had. But generally I've long detected a tendency in Libertarian circles to ignore this issue in part for precisely the reasons cited above: it is not respectable. I lay aside the fact that of course some of the big business interests that finance Libertarians benefit from the Fed as well. <Applause>

Lew Rockwell: D.C. Libertarians, not those outside the Beltway like Bumper, needless to say. Well, I will tell you why this issue is not considered respectable. It is the most important priority of the state to keep its money machine hidden behind a curtain. Anyone who dares to pull back that curtain is accused of every manner of intellectual crime. This is precisely the reason we must talk about it on every occasion. We must end the conspiracy of silence on this issue. I was intrigued at how Ron Paul, during his campaign, would constantly bring up the subject. Most politicians are out to play up to their audience, so they say things that people want to hear. I promise you that early in the campaign no one wanted to hear him talk about the Federal Reserve, but he did it anyway. He worked to educate his audiences about the need for monetary reform, and it worked. For the first time in my life, there was a large and very public movement in this country to take this topic seriously.

Just the other day, monetary economist Joseph Salerno was called by CSPAN, which wanted to interview him on television about the need to restore gold as the basis of the dollar. As I watched this excellent interview, I was struck by what a great triumph it is for liberty that this topic is again becoming part of the national debate. In the 19th century, this was a topic on everybody's minds. It can be again today, provided we do not skew the truth in the formation of our message. It might be said that advocating privatization is politically unrealistic and therefore a waste of time. What's more, we might say that by continuing to harp on this issue, we only marginalize ourselves, proving that we are on the fringe. I submit there is no better way to assure that an issue will always be off the table than to stop talking about it.

Far from being an arcane and anachronistic issue, the gold standard and the issues it raises get right to the heart of the current debate concerning the future of war and the world economy. Why do the government and its partisans hate the gold standard? It removes the discretionary power of the Fed by placing severe limits on the ability of the central bank to inflate the money supply. Without that discretionary power, the government has far fewer tools of central planning at its disposal. Government can regulate, which is a function of the police power. It can tax, which involves taking peoples' property, and it can spend, which means redistributing other peoples' property, but its activities in the financial area are radically curbed.

Think of your local and state governments: they tax and spend; they manipulate and intervene. As with all governments from the beginning of time, they retard social progress and generally muck up things as much as possible. What they do not do, however, is wage massive global wars, run huge deficits, accumulate trillions in debt, reduce the value of money, bail out foreign governments, provide endless credits to failing enterprises, administer hugely expensive and destructive social insurance schemes, or bring about immense swings in business activity. State and local governments are awful, and they must be relentlessly checked, but they are not anything like the threat of the federal government; neither are they as arrogant and convinced of their own infallibility and indispensability. They lack that aura of invincibility that the central government enjoys. It is the central bank, and only the central bank, that works as the government's money machine, and this makes all the difference.

Now it is not impossible that a central bank can exist alongside a gold standard, a lender of last resort that avoids the temptation to destroy that which restrains it the same way it's possible for someone with an insatiable appetite for wine to sit at a banquet table of delicious vintages and not take a sip. Let's just say that the existence of a central bank produces an occasion of sin for the government. That is why under the best gold standard there would be no central bank; gold coins would circulate as freely as their substitutes, and rules against fraud and theft will prohibit banks from pyramiding credit on top of demand deposits. So long as we are construing the perfect system, all coinage would be private; banks would be treated as businesses, no special privileges, no promises of bailouts, no subsidized insurance, and no connection to government at any level.

This is the free market system of monetary management, which means turning over the institution of money entirely to the market economy. As with any institution in a free society, it is not opposed from above or dictated by a group of experts, but is the de facto result that comes about in a society that consistently respects private property rights, encourages enterprise, and promotes peace. It comes down to this: If you hate war, oppose the Fed; if you hate violations of your civil liberties, oppose the Fed; if you want to restrain despotism, restrain the Fed; if you want to secure freedom for yourself and your descendants, abolish the Fed. <Applause>

Lew Rockwell: Now can I have questions if anybody has one.

Q: Do you know what became of the gentleman who late last year tried to start the alternate gold barter system, and he was arrested, all of his gold was taken? He was from Florida.

Lew Rockwell: You know, I am sorry to say that I don't. This is the man who had the Liberty dollar and had the Ron Paul dollar, and I think it was not a coincidence that just as Ron's campaign got going, the government decided to arrest this guy and made a big publicity thing that he was issuing Ron Paul dollars in competition with the Fed. So it is my understanding that his property has not been returned; that he himself has not been jailed. So it's bad but not quite as bad as it might be, but I'm sorry, I don't know any more than that.

Q: I just want to say the man's name is Bernard von Nuthouse.

Lew Rockwell: Yes, Bernard von Nuthouse, yes.

Q: Lew, great speech. Gene Carlo, Portland, Maine. Can you explain the role of the, I don't what the scientific government term is, but most people I guess know it as the Presidential Plunge Team. What's their role? Are they like the, using a baseball analogy, is it like the Fed is the starting pitcher, and they have that bullpen?

Lew Rockwell: Well, it's very interesting. That's a secret cabal composed of senior officials of the Treasury and of the Federal Reserve and related staffers in the White House that meets in secret. And because it's in secret we can't know exactly what they do, and the unofficial name for it is the Plunge Protection Team. And certainly I would say [there is] plenty of circumstantial evidence that they finagle with the market, and then they deal in futures and options and direct buying of stocks and selling of gold and so forth in order to manipulate the financial markets. And of course it's entirely unconstitutional, illegitimate, like, I guess, every single other thing in Washington. Very dangerous outfit, the people who are on it, and have been on it in the past.

Murray Rothbard always used to make the point that we're never supposed to look at what happens, the antecedents of government officials or what happens to them after they leave, considered conspiracy theory, to see who was with what banking house and then goes back to which banking house afterwards, but it's a useful device. So these guys, of course, are all connected on Wall Street and the big investment banks, and serve its purpose, and it's a very bad operation. They have a lot of faith in it, they think that they can actually prevent a stock market crash. They can't actually prevent that, but they can certainly do a lot of damage like everything else the government does, and it's good that there is interest in it. And in one of the debates, I

remember that Ron Paul asked the entirely oblivious Mr. McCain about the planned production, he knew nothing about it and at that time said that he really didn't know anything about economics. Of course he since denied that he ever said that and says no, he's really an expert on economics, so, therefore he can be trusted to run the world. Yes, sir?

Q: Thank you very much for the speech. My name is Chris Snead, from Nashville, Tennessee. My question revolves around really what seems to be, a lot of the speakers have hit on, a lot of the problem is a lack of education. What's being done in Libertarian circles to address this issue in the public schools? How is it that I could graduate high school, most people graduate high school, without even knowing how to balance a checkbook, not even a basic accounting class. What could you say to that?

Lew Rockwell: Well, a couple of points. First of all, I think that the public schools exist to bring that about. That's the purpose of the public schools. <Applause>

Lew Rockwell: They don't want to actually dumb down people, although that is the result. They want to suppress critical thinking and they want to suppress independent thinking, and they've been successful with that. So I think, although there are some great teachers in public schools who do a wonderful job-- I think of Charles Burris, for example, in Arizona, and there are many others in other parts of the country-- they're a tiny embattled minority, and I guess that we have to do it outside the government. The government schools end up like an echo chamber.

The great Albert Jay Nock was once asked, in effect, what can a man do to save mankind? And he said, well, the only thing you can do for mankind is present it with one improved unit. And I'm not quite that restrictive as Mr. Nock, but still, educating ourselves is actually the first. And certainly Leonard Reid talked about that. We have to become beacons ourselves, we have to educate ourselves: read, read, read, read, read, and read all the books the government doesn't want you to read, and read the websites the government doesn't want you to read, come to conferences the government doesn't want you to come to, and, you know, that's actually the first step. But I think it's only when we change the climate of opinion will we be successful in ever having any political change.

I don't think that has to be the-- this is always Ron Paul; you notice he always uses his campaigns as a bully pulpit to educate. He doesn't actually engage in the normal dealings of Washington and the House of Representatives, where if you vote for my bill I'll vote for your bill, and I'll agree to this spending if you agree to this spending; he doesn't actually engage in regular politics at all. It's an educational mission for him. But I think, first of all, become educated yourself and then people will come to you, and it's unfortunately not possible-- we all wish we had a 12-step plan to bring this about. You can't just take somebody by the lapels and shake them

and say, "Let me explain this to you." We can think back to the New Testament where Our Lord was sending out the disciples for the first time to various cities to teach the gospel, and He said, "People have ears to hear, teach them.... If they don't have ears to hear, shake the dust off your feet and move on to the next town." So I think we just have to concentrate on the people who actually want to know and who want to hear, and the others who don't want to hear and don't want to know, you have to leave that to somebody else. Yes, sir?

Q: I want to kind of talk about the historical context in American history that might have a lot of parallels to what is going on right now, and that would have been the central banking crisis back in 1835 with Andrew Jackson, when he dissolved the central bank, the national bank as it was called, and created this series of pet banks with the species circular, which then resulted pretty much directly in the panic or depression of 1837. I was wondering, how do we go about getting rid of the Federal Reserve without going through that tremendous deflationary crisis that took place after the dissolution of that national bank in the 1830s, and the chaos that resulted from that?

Lew Rockwell: I'd do what Murray Rothbard says in his book, *The Mystery of Banking*, that we're just bringing back into print. He has a long discussion of this; we can look at how it happened under the Grant administration after the Civil War, the country back on the gold standard. Nothing wrong with deflation, by the way; deflation is a normal way of the market. When the money supply is not being artificially increased and the tremendous increase in goods and services of capitalism provides money, becomes more valuable over time, there's a deflation. We saw this, in fact, in most of American history except for wars until the establishment of the Fed, so that's normal. But to avoid a crisis, Murray says that you have to just price the dollar/gold ratio properly, and he talks about how one would do that. But my own views-- we can settle those questions after we've changed the climate of opinion on the Fed itself and the need for-- but these are all great questions for scholars, and Joe Salerno's written about it, and many others, too. I'd recommend Rothbard; also, his little book, *The Case against the Fed*, which talks about some of these manifests and going back on the gold standard too, or going forward to a gold standard. Yes, sir?

Q: Thank you very much for your talk. I'm Eric Young from Chesapeake Beach. Actually I prefer platinum over gold, but anyway, one step back—

Lew Rockwell: The Russian Empire actually minted platinum coins. They never actually circulated, but I think that was the first time that that happened, but sorry, go ahead.

Q: Dr. Friedman, Milton Friedman, I've read quite a bit of his things, and actually I was involved in how they established a balanced government approach as far back as the 1970s, but

reading Dr. Friedman, he wanted to control money and talk about monetary restraint. I'd like to take a step back along with him and consider the idea that maybe some kind of overall control of the size of a government-- again through a constitutional amendment in addition to a balanced budget. Dr. Friedman talked about pluses and minuses of say 20 percent, so I came up with the idea of the 20/10, which would be a 20 percent limit cap, if you like, as the size of the government, 10 percent being entitlements and direct payments, and the others being actually appropriated and so on. And in that way you really control the intrusiveness of the government in the overall economy in perhaps a more general way. I appreciate the need for monetary restraint, and I think you're right there, but this also gets at the fiscal restraint. I guess other speakers are going to talk about the trade balance, but for the fiscal balance, what do you think about that?

Lew Rockwell: Well, I'm all for anything that restrains the government. They don't pay too much attention to the Constitution as it is, so whether they pay attention to another amendment, I don't know. I mean, they ignore everything; they seem to ignore everything, except the sort of things like a Senator shall serve six terms, six years, right? They never have the Senator serve seven years or five years or whatever, but it seems to me that's all they pay attention to. Milton Friedman was a great man, a great economist, and very, very free market in virtually every single way. A reason that he got the Nobel Prize, was a favorite of the Reagan administration, the Bush administration, got the Medal of Freedom, as you know, all the rest of these government encomiums, [?] is because he was for the Fed. And he always wanted to point attention away from the central bank to other things, and he was an advocate of the Federal Reserve and that was his baby, that whole Chicago school is that way. So I think while we can certainly learn from Milton Friedman in a whole host of areas-- his little book, *Capitalism and Freedom*, is one of the great books ever written. I especially love his stuff about the free market and medical care and of licensure and of a system that, for example, would put a nurse in jail for seeing a patient without going through a doctor. So he's just terrific, a terrific Libertarian. But I think on money, Mises and Rothbard are the better guys there.

Q: Could you comment on the work being done by David Horowitz and his Center for the Study of Popular Culture, both in the universities and now he has a program in the high schools with regard to educating?

Lew Rockwell: Well, David Horowitz is a very interesting man. Before 9/11 he seemed to be a sane man, and was actually interested in teaching economics and so forth. He entirely, of course, flipped out, and today he impresses me as some kind of commissar, calling for people to be jailed and calling for endless wars in the Middle East and calling on everyone to be dedicated to his particular parochial agenda in foreign affairs. And he's against all civil liberties, he's sort of a Michael Savage type for nuking all Arabs and slitting the throat of every Muslim and so forth. I

think he's a terrible man, and his Islamofascism, of course another made-up word; whatever is wrong with Islamic fundamentalists, they're not fascists, I mean, that's a separate political ideology. I suppose they would have called them Islamonazis if they thought they could get away with it, but Islamofascists was about as far as the neocons thought they could go. But he spreads this hatred of Muslims and fever for perpetual war in colleges, and for any attacks he has a program that's ostensibly to silence and get rid of left wing professors on campuses. But if you notice the way he defines a left wing professor, it's somebody who disagrees with perpetual war in the Middle East-- that's a leftist. So I should just mention that Horowitz has attacked me and Justin Raimondo and many others, so I have a personal dog in this fight too. But he's just-- I don't want to say one of the worst neocons; he's a typical neocon, and his organization is terrible, he's terrible, and he represents everything that we have to entirely reject if we have any hope of having a decent society. Norman?

Q: In a followup to the gentleman's earlier question about how we can take a first step towards getting rid of the Fed and returning to a sane monetary system, what about just repealing the legal tender laws so that we can use gold, silver, platinum, cigarettes, whatever we choose to do our contracts in without having to accept Federal Reserve notes? And by the way, the case upholding the constitutionality of legal tender laws was cited in his confirmation hearing by Robert Bork as an example of a case in which the Supreme Court was clearly wrong, that the laws clearly were unconstitutional. But Bork of course then dismissed it as an example of an unconstitutional law that he thought the court should just continue to uphold because it's too engrained in our system-- that we're stuck with this awful money and we have to use this awful currency now.

Lew Rockwell: Yeah, he also said, I remember, the Tenth Amendment was irrelevant to today. No, and this is something Ron Paul has done heroic work on and with Norm Singleton's help, who was his legislative director, to repeal the legal tender laws to allow private coinages. We used to have private coinage of gold coins until it was outlawed by the federal government; this is back the 19th century. I'll tell you the story, it's something you won't really be surprised about. But the private minters, feeling they had to compete with the government, they had to make sure that people would accept their coins, put slightly more gold in their coins than the Federal Government did. Therefore they were competing with the government's coins, and the government responded as it does in all of these situations, it made it illegal. Just as in the same sense, about the same time, the Post Office was being outcompeted by the Pony Express, so they made the Pony Express illegal. So that's government, right, always the gun to the head. Yes sir?

Q: Mr. Rockwell, one of the main points that you made reminded me of something, if I may mention and ask you to make a comment about: how national debt is used to manipulate or consolidate docile oligarchies abroad. General J.F.C. Fuller, the great strategic mind and a

military historian, has a chapter on the Battle of Blenheim and the War of Spanish Succession, in which he talks about that as the first war that was based on the principles of the bank of England and the manipulation of national debt to mortgage the future. He has profound insights in that chapter, especially if he deals with a battle with strategic implications. From my own experience much later-- not understanding what you do, I know far less about economics than John McCain-- I saw, though, how the manipulation of national debt, say in Mexico, when they couldn't meet certain things, when you renegotiate the national debt with them, you could give a patronage system to their oligarchs and they would give you crude oil from the south and things like this. So it was also a way of regime change or consolidating regime that was favorable to you. I would ask you if you would mention, in addition, whether the Fed, how this concept of the manipulation of national debt, not just here but elsewhere, is also an instrument of power, one of the arcane imperii.

Lew Rockwell: You know, you remind me of when I had the honor to work for Ron Paul, that he was doing a lot of work on a bill called the Monetary Control Act of 1980. As you could guess from any government bill, and there's always the opposite of what the title might suggest, and this was a bill-- he was the only one in Congress to talk about this, to predict exactly what was going to happen from the passage of this act. And this was the first bill that would allow the Federal Reserve to monetize anything. Up until that time, they had been restricted, they could only monetize federal notes and bonds and bills. They couldn't do other things. After this bill was passed-- and I hope some day, Norm, that all of Ron's work on that, maybe that would make a great book-- I mean, that was really extraordinary statements and extraordinarily predictive statements. And so it was first used, to my knowledge anyway, when under Clinton all the Mexican banks were bailed out, and of course it was actually American banks that were holding the Mexican government in bank debt. So this gentleman is exactly right, this is a way that oligarchs are rewarded in foreign countries, put on the U.S. payroll.

And I think it was Noam Chomsky who described the American empire as the only empire in world history, with the exception of the Athenian empire, that pretended not to be an empire, and Athens was the same-- they just had allies. However, when the allies didn't do what they were told to do, which included depositing their money in the temple in Athens and sending troops whenever they were required, so well, then, of course they were crushed. So this is the way the U.S. does it, so that the CIA and other, you know, they recruit leaders in countries. Early on, Manuel Noriega was recruited by the CIA as a military cadet, and so I'm sure they like to have photographs of these people and also they pay them. This is the way of empire. When Reagan, I remember in the Reagan Administration, one of the many evil acts of the Reagan Administration was to make it illegal to say who was a CIA agent in a foreign country, or who was on the CIA payroll. And this had happened right after somebody had revealed how much King Hussein of Jordan was getting every year from the CIA, many, many, many millions of dollars into his

private bank accounts, and that's what they made illegal. But this is the way the empire works, so yes, through debt questions, banking questions, as Dr. Hinks said, obviously assassinations and many, many other tools. But the financial tool in terms of regime change or keeping the regimes the U.S. likes in power is immensely powerful. Any other questions? So we'll adjourn for lunch.