



POSITION PAPER

FIAT MONEY AND DEFICIT SPENDING

Most Americans are unaware of the current plight of the US dollar, whose value has declined substantially as compared to the Euro in the last four years. America has also become the largest debtor in history, owing somewhere between \$70 and \$100 Trillion dollars, mostly to foreign governments who are holding US Dollars, Treasury notes and bonds. In addition, most Americans are unaware that the Federal Reserve Bank is not a government agency, but rather a privately controlled central bank that has been given the power by congress to create “Fiat Money” out of thin air at the request of the government.

“Fiat Money” is a term used to describe money that a government declares to be legal tender, despite the fact that it has no intrinsic value and is not backed by gold, silver or any other valuable reserves. Not one nation’s currency in the world is fully backed by gold or silver any longer, since the US dollar became the world’s reserve currency. This decision was the result of the Bretton Woods Conference of July 1944 after which the US dollar took the place of gold as the medium of international exchange. Since this agreement, the various nations' central banks, which create money for their countries, must have their currency backed by the US dollar. In short, these central banks must hold US dollars and Treasury instruments. This arrangement seems to have worked fairly well for the world-wide economy and will most likely continue to work as long as the dollar holds its value. Foreign central banks will continue to hold these US dollars only up to certain point. If, for some reason, the value of the US dollar was to decline drastically, the central banks of foreign counties would be forced to sell their dollars and buy the next strongest currencies, which in turn would cause a further decline in the dollar.

What then is the US Dollar currently backed by? The U.S. Dollar is now backed by Trillions of dollars in IOU’s, as well as international faith in the strength of the overall US economy. As unfettered American deficit spending continues to grow, our monetary policy appears to look more like a giant international “Ponzi Scheme” than a sound monetary policy. Named after one of America’s greatest swindlers, Charles Ponzi, a “Ponzi Scheme” is a financial ruse that, for a time, generates apparently great returns from an investment that in fact produces nothing. As the Scheme continues to grow, it can appear successful and those individuals who get in and out before the scheme collapses, can become fabulously wealthy. Of course, some real growth of the American and world economies have been triggered by the current monetary system since debt-financed

spending has allowed for the increased purchases of commodities and services on readily available credit. As our overall debt continues to grow dramatically (even with falling interest rates), the size of this debt will slowly increase the financial burden on the real economy, which will ultimately cause the whole scheme to unravel sometime in the future, somewhat like a “Ponzi Scheme” eventually does.

The greatest threat facing America today is the disastrous fiscal policies of our own government, marked by shameless deficit spending and Federal Reserve currency devaluation. Congress insists on spending more than it can tax or borrow, and the Fed keeps printing “Fiat Money” to make up the difference. This is a one-two punch that threatens to impoverish Americans by further destroying the value of our dollars.

Both political parties seem to want the Federal Reserve to print more money to support the needs of their special interests groups. The current administration, members of congress and candidates for the presidency and other federal offices, from both parties, are throwing out numbers like \$70 Billion or \$150 Billion for new programs to solve specific problems, as if we really had the money. Politicians, that receive contributions and other support from special interest groups, may love a system that generates more and more money for their special interest projects, but it is the American taxpayers who are stuck with the bill. Congress must consider making significant changes in our monetary system if we hope to preserve a system of sound growth and wealth preservation. Uncontrolled printing of “Fiat Money” managed by the Federal Reserve System cannot accomplish this. In fact, it does the opposite. The current system may be a money maker for international bankers, but not for the American people.

Huge budget deficits are a symptom of the larger problem of runaway spending. A Balanced Budget Amendment is not the answer either. A Balanced Budget Amendment would simply focus on the budget deficit, rather than the larger problem of runaway federal spending. I will support legislation that will give the American Taxpayers a financial Bill of Rights that focuses on the larger problem of spending. Congress should be required to limit federal spending increases to the inflation rate plus an adjustment for population growth. Our government now spends more than \$20,000 per household because the federal budget process provides no enforceable cap on spending and congress can simply print more “Fiat Money” to pay the bills. It’s a lot like counterfeiting. Lawmakers can simply add up every spending request and spend that amount. If they don’t have the money, they simply print more to make up the difference.

A strong “American Taxpayers Bill of Rights” would force Congress and the President to do what taxpaying American families are already required to do: set priorities and live within their real income.

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