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The Truth In Money Book

Who creates our U.S. money — and what controls its value? That question is rarely asked; if it is asked, there are few coherent answers and certainly no consensus.

Most people are vitally concerned with the daily urgency of acquiring and spending money, but seem oblivious to the fact that some force is constantly juggling the value of the money passing through our hands. Why does this obvious reality not produce national as well as private debates?

The control of money itself is far more determinative of our standard of living, what kind of a house we live in, whether we can afford to give our children a college education, and whether we can look forward to financial security in our senior years, than what kind of a job we have, how many hours and years we work, and whether we are thrifty or spendthrifty.

In our freedom-of-speech society which has long since spread out on the table of public discussion in the mass media even the most intimate details of private lives, the subject of how money is created and how its value is fixed is apparently the last taboo. Most books and articles on money are written in such esoteric language that only scholars can understand them.

The first modern book to explain simply and systematically how money is created in the United States and how our present method of money-creation causes inflation, bankruptcy, farm foreclosures, and unemployment is *The Truth in Money Book*. It is easy reading, free from banking and economics jargon, and generously illustrated with charts and diagrams. Complex banking and economics terms are thoroughly defined.

The format is Socratic. Two couples meet with a neighbor to hear the results of the authors' ten years of research into the American monetary system. On four evenings, the authors explain how money is created and extinguished; why prices continue to rise even in a recession; and how to construct a self-correcting, inflation-proof/depression-proof money system.

Authors Theodore Thoren and Richard Warner explain what they call a monumental error in our money system which is the root of huge Federal deficits, as well as unemployment and the impoverishment of middle-class families. This error is the fact that "almost all of our money is created as debt at interest. Money is borrowed into existence at interest, and so ultimately all this created money must be repaid to the agency that created it."

"However," they continue, "the agency creates only loan principal. The interest due on the principal is *not* created, although it is legally required to be paid. The bottom line is that it is mathematically impossible to repay money which is not created in the first place."

The authors are certainly correct that this fundamental fact about money is generally unknown to the public. Few people have read authoritative textbooks such as Professor Paul Samuelson's *Economics: An Introductory Analysis,* wherein that renowned economist wrote: "Few understand that all our money arises out of debt and IOU operations."

Unlike many other books on money, *The Truth in Money Book* doesn't leave the reader with a sense of hopelessness about our enormous problem of monetary instability. Using the technical skills of engineering, the authors show how a correct analysis of what is wrong makes it possible to halt the inflation-depression cycles and restore the dollar's purchasing power without disrupting our economy.

The authors of this 263-page paperback recommend what they call a Public Credit Money System, which would create inflation-proof dollars so the supply of money would equal the demand in the same way that the supply of postage stamps equals the demand for them.

The economist John Maynard Keynes once wrote: "The process [of inflation] engages all the hidden forces of economic law on the side of destruction, and does it in a manner that not one man in a million is able to diagnose." Thoren and Warner, who are career engineers, have the expertise to diagnose the problem.

The Truth in Money Book can encourage the public debate which must precede true monetary reform by opening the door for thousands, even millions, of Americans to understand our defective money system and what is needed to correct it. It can stimulate the interest of our citizens on an issue of fundamental importance to the future of the private enterprise system. (Truth in Money, P.O. Box 30, Chagrin Falls, OH 44022, $8.50)

Excerpts from *The Truth In Money Book* by Th

How It All Came About

"I don't know where my money goes!" Ed complained to me as he closed his wallet after paying for a tank of gas. He turned on the engine and we pulled out of the filling station. "The newspapers and television keep saying that inflation is under control but I'm not so sure that is a report from the real world! The money goes through our household budget so fast it's enough to make your head spin. And we're always short at the end of the month, and believe me we're not extravagant."

"Yes, rising prices are a terrible problem, especially now when so many people are out of work," I replied.

"You said it. I'm really fortunate. I have a good job and can support my family. More and more of my friends are getting laid off and for some of them their situations are really critical. One of my friends lost his little printing business recently and had to let his 14 employees go. It was a tragedy for all of them. He held on as long as he could to prevent the lay-offs but just couldn't make it. He tells me that the number of businesses going under is almost as many as in the 1930's. I just don't see how it is possible for this great country of ours to go through a depression like this. You would think we would have learned how to prevent these problems after the 1930 depression."

"Ed," I said, "have you ever considered . . ."

Ed broke in impatiently, "I read the newspapers but sometimes I think they are more confused than I am. I'm not lazy. I'm not greedy. I'm just trying to make a good, honest living. Why am I failing at it?"

I had never seen Ed in such a serious mood as he went on. "I'm beginning to think that there's something fishy in this country. If I were the only one having trouble I would reckon that there is something wrong with me. But millions of people all over the country are in the same boat. They've lost their jobs and are being turned out of their homes. They're confused and mad.

"And it's not as if the country doesn't need the things these unemployed people used to make. We all need shoes and cars and food. And yet shoe companies are closing, Detroit is in trouble, and so are the farmers. Where on earth is it going to end?"

Ed looked searchingly at me and I remembered that these were the same questions I had asked myself when I first became interested in studying our money problems. A short answer wouldn't satisfy him. He would want the whole story. I knew what it had taken me to discover the true but amazing reason for inflation. I didn't believe it at first. Would he?

Finally I said, "I know your feelings of frustration. I've been through that stage myself. Some years ago I decided to take the time to make a careful study of these money problems to find out the precise reason why all of us are having trouble making ends meet. If you and Martha would come over to our home some evening — bring a few friends if you wish — I'll explain in simple language, and with a number of charts, what some friends and I discovered. Our work uncovered the reason why the money system is causing so many hardworking people to fail."

Ed quickly accepted, and said, "I'd like to come if it will help me to understand this problem."

And so he and Martha and good friends Carl and Nancy did come over. And this is what I told them.

Understanding the Federal Reserve

"Do the Federal Reserve banks and the commercial banks create our money?" Martha asked.

"Yes they do," I replied. "The Federal Reserve System has assumed the power to create money. This is in spite of the fact that the Constitution states specifically that the authority to create money must rest with the sovereign government."

Article 1, Section 8, Clause 5 — The Congress shall have Power . . . To coin money [and] regulate the Value thereof . . .

"After the Federal Reserve Act of 1913 was passed, the Fed took on the authority to create money and lend it into circulation. In fact, the Fed lends the money to the government from which it took its money-creating authority in the first place!

"It is simply incredible that the government gets into debt to something it created itself. This private organization is using the government's Constitutional money-creating authority to create the money that the government borrows!"

My four friends looked stunned.

"Of course the Fed does *spend* some money into circulation," I continued, "a rather small amount which it creates when it writes checks against no funds to pay for such things as employee's salaries, real estate taxes, computer paper, and landscaping. This act is *spending money into circulation.*

"The Federal Reserve also creates money out of thin air and lends it. Here is an example. Because the Treasury never collects enough taxes to cover all the expenses of the Congress, the difference is made up by borrowing. Some money is borrowed from the public but the government also borrows from the Federal Reserve, which is a private bank.

"When the Treasury borrows from the Fed, the Fed simply makes bookkeeping entries to the government's account. This kind of transaction creates new money which is *lent into circulation.*

"And where does the government get the money to repay the Fed?" I asked.

"From the taxpayers!" Carl groaned.

My friends looked at me in silence. Finally Carl spoke up, "This is all new to me. Frankly until this evening I never thought about where money comes from. I don't remember ever studying about a Federal Reserve Bank when I was in high school.

"Our research team couldn't believe it at first either," I admitted. "But it is nevertheless a fact that ever since 1913 the Fed has been creating money to lend to the government and the taxpayers have been footing the bill which is growing at a staggering rate.

"The question no one ever seems to ask is where the Fed got its authority to create money. The answer is that it has assumed the money-creating authority which the Constitution says belongs to the Congress," I said.

"Did the Federal Reserve Act change the Constitution?" Nancy asked.

"No, it didn't," I replied. "According to the Constitution, money-creating authority still belongs to the Congress. To change this, there would have to be an amendment that would remove Article 1, Section 8, Clause 5."

"I don't like the sound of anything that removes things from the Constitution!" Martha said. "The authors of the Constitution didn't act on whim. They must have had a very good reason for writing this provision the way they did."

The Core of the Problem

"Do you have any questions on anything we have talked about during our first two sessions?" I began and then waited for several moments. No one responded. Then I continued, "Did you have time to review the summary of the key facts, especially fact number 18?"

18. A debt-dominant money system is unstable because:
   a) most money is created as loans and therefore debt;
   b) only the principal is placed into circulation as the money supply (M1) when bank loans are made;
   c) so there is not enough money to pay bank interest (usury) without reducing the money supply and making total debt unpayable because any payment of usury withdraws money from circulation;
   d) this withdrawal of money sets up a shortage which triggers demand for additional borrowing just to preserve the money supply;
   e) The additional borrowing expands the debt exponentially thereby expanding the interest burden exponentially.

"I haven't memorized the points yet," Carl said, "but I've been studying them. I find it hard work, especially when I come to a point that's difficult to believe, like 18-a:

Most money is created as loans and therefore debt.

"This point really is hard for me to grasp. I guess it's because all my life I have considered money as something *to use to pay debts*, or to buy groceries, but now all of a sudden I see that in our present system money *itself is a debt*. Understanding this forces me to make a radical change in my thinking which I don't find very easy!

"Every time I look at a dollar bill these days I see those words at the top: 'Federal Reserve Note'. I can hardly believe that somebody had to borrow a dollar at usury to bring that dollar into existence — first as a bookkeeping entry and then as a printed bill."

"And the same is true of bank credit money," I added.

"Someone had to borrow at usury to bring that money into existence. And the money goes out of existence as the usury and the principal are progressively paid back to the bank. These amounts are huge: several billions of dollars each *day* going out of existence. This loss of money from the nation's economy is felt in cash-flow shortages which result in more and more loan applications to the banks — the only place where money is being created to replenish the supply.

Abraham Lincoln and Honest Money

"Let's look once again at what the Constitution says about money."

Article 1, Section 8, Clause 5:

The Congress shall have Power . . . To coin Money [and] regulate the Value thereof . . .

"The dictionary tells us that 'to coin' means 'to make; to create'."

"But the Fed creates money, not the Congress!" Ed interjected.

"That's true. At the moment the Federal Reserve system has assumed the authority for creating our money. The Fed *lends* it into circulation as an interest-bearing debt. This is mathematically impossible to repay.

"We have learned that usury is the fundamental cause of inflation. Inflation is *not* caused by labor unions, shopkeepers, creditcard spendthrifts, businessmen, politicians, bureaucrats or bankers. The fundamental cause of inflation is the debt-dominant money system.

"What is urgently needed is a source of *debt-free money*."

"Where can we get this debt-free money, and fast?" Ed asked.

"Let's see what one of the greatest thinkers in this whole area of monetary integrity had to say about the rightful source of debt-free money."

The Government should create, issue, and circulate all the currency and credit needed to satisfy the spending power of the Government and the buying power of consumers.

The privilege of creating and issuing money is not only the supreme prerogative of Government, but it is the Government's greatest creative opportunity.

By the adoption of these principles, the long-felt want for a uniform medium will be satisfied. The taxpayers will be saved immense sums of interest. The financing of all public enterprises, and the conduct of the Treasury will become matters of practical administration. Money will cease to be master and become the servant of humanity.

ABRAHAM LINCOLN

Meeting the People's Need For Money

"The urgent need in the United States today is for a debt-free monetary issue. *This is possible!* The Federal Reserve Act left the government's money creating power intact."

"But Congress needs to act, doesn't it?" Carl asked. "It will take some doing first to get people to understand what is wrong and then get our Congressmen to understand and *do* something."

"That's true," I said. "Educating ourselves, our friends and our Congressmen about debt-free money is the first step in solving the problem."

"Frankly, I can't see that it would be all *that* difficult to set up a debt-free money system run by the Treasury," Nancy said. "I keep thinking about the similarity between the money system and the postal system. The Post Office issues and cancels stamps. That seems to be the same as the monetary authority issuing and extinguishing money. Surely the Treasury could issue money in amounts equal to the needs of the people."

"Of course it could!" Martha said. "Is there inflation at the Post Office, followed by deflation? No! The supply of stamps is governed by what people need, not by what some 'expert' thinks is good for them. Can you imagine a Board of Governors of the Post Office meeting secretly to decide how many stamps the country is allowed to have each week?

"If we can get our stamps issued to meet our needs, we ought to be able to organize the money system to be responsive to people's needs in the same way."

"A properly balanced money system doesn't do away with borrowing or debt. *But it does do away with the impossible demands of an all-debt money system.* By this I mean that a channel is provided for money to flow into the economy which can be used by the people to pay the interest on their debts. This money is debt-free money and when it is extinguished it does not cause a critical money shortage which leads to inflation."

Honest Money: The Foundation of Free Enterprise

"Then the question is really: what is there about meeting people's needs and aspirations that can cause inflation?" I asked.

My friends pondered this.

"The answer is that there is absolutely nothing about meeting people's needs and aspirations that causes inflation. *The cause of inflation isn't prosperity but the lack of debt-free money in our monetary system.* This is the cause which the Public Credit Money System eliminates. In the Public Credit Money System there is no cause for inflation no matter how many business transactions take place every day!

"It is a tragedy that cycles of prosperity and depression are thought and taught to be natural phenomena which are inescapable. The fact is that they are directly attributable to the policy manipulations of the amount of money and credit in the monetary system.

"Prosperity doesn't cause inflation any more than a windmill causes the wind to blow. . . .

"I'm convinced that the debt-money system is doomed to failure," Martha said. "That is really clear. And I am also convinced that the Public Credit Money System holds out the promise of stable money and a sound foundation for true free enterprise. . . .

"The present system, with its mathematical impossibilities, seems to produce irrational behaviour by the government. This tends to discredit public officials and, tragically, casts doubt upon the democratic process.

"The challenge is to educate people as quickly as possible. Success in meeting this challenge rests with each individual and what he or she is willing and able to do to 'spread the word'. The need is for 'Monetary Minute Men and Women'.

"Given the urgency of present conditions, the goodwill of the people, and correct information, the task of getting the Public Credit Money Bill passed through Congress is no more impossible than sending men to the moon.

"Do you have any more questions?" I asked. No one replied.

"I don't have any more just now," Carl said, "but I would like to see if I can list for myself the benefits of the Public Credit Money System."

"Fine," I said, "you start and I'll fill in any gaps."

And here is the list we put together that evening.

Benefits of the Public Credit Money System

1. Money becomes permanently available at reasonable interest rates.
2. Business activity and employment surge forward.
3. Inflation is halted protecting wages, savings, retired persons and those on fixed incomes.
4. Bankruptcies are no longer necessary to balance successes.
5. Private debt is made payable for all time.
6. Prices diminish along with debt and stabilize when debt becomes payable.
7. Cycles of boom and bust are eliminated. . . .

About the authors . . .

Theodore Thoren and Richard Warner are highly qualified senior engineers with their combined careers in solving difficult technical problems spanning over 55 years. Their independent research into the money problem drew them together in a study of the mathematics of the money system. This project took ten years to complete. Their sole motive in conducting this research was to discover *why* our money system is chronically unstable. Their work formed the technical foundation for *The Truth In Money Book*.

***The Truth In Money Book* is available from Truth In Money, Inc., P. O. Box 30, Chagrin Falls, Ohio 44022; $8.50 postpaid.**

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