

Richard Russell's Thoughts on the Fed & Inflation

RICHARD RUSSELL OFFERS HIS THOUGHTS ON THE FEDERAL RESERVE SYSTEM AND MONETARY INFLATION AND HOW THIS SYSTEM WILL EVENTUALLY DESTROY US.

Richard Russell on the Fed and Inflation

Richard Russell has been editing his Dow Theory Letters since 1958 and brings great wisdom to the investment world. Here are his thoughts on the Fed and inflation from his March 27, 2007 Remarks, which come with a subscription to Russell's Dow Theory Letters, \$250 a year.

Russell deals primarily with the stock market, but he became a gold bull in 2000, the timing of which illustrates Russell's insight into the precious metals markets. He was also a gold bull in 1970s. For more about Russell's Dow Theory Letters, visit www.dowtheoryletters.com.

March 27, 2007 -- I still can't get over the whole Federal Reserve racket. Consider the following -- let's take a situation where the US government needs money. The US doesn't just issue United States Notes, which, of course, it could. These Notes would be dollars backed by the full faith and credit of the United States. No, the US doesn't issue dollars straight out of the US Treasury.

This is what the US does -- it issues Treasury bonds. The US then sells these bonds to the Fed. The Fed buys the bonds. Wait, how does the Fed pay for the bonds? The Fed simply creates money "out of thin air" (book-keeping entry) with which it buys the bonds. The money that the Fed creates from nowhere then goes to the US. The Fed holds the US bonds, and the unbelievable irony is that the US then pays interest on the very bonds that the US itself issued. The mind boggles.

The damnable result is that the Fed effectively controls the US money supply. The Fed is just an agency of the US, it's not even a branch of the US government. The Fed is not mentioned in the Constitution of the United States. No Constitutional amendment was ever created or voted on to accept the Fed. The Constitutionality of the Federal Reserve has never come before the Supreme Court. The Fed is a private bank that keeps the US forever in debt -- or I should say in increasing debt along with ever rising interest payments.

How did the Fed get away with this outrage? A tiny secretive groups of bankers sneaked through a bill in 1913 at a time when many in Congress were absent. Those who were there and voted for the bill didn't realize (as so often happens) what they were voting for (shades of the shameful 2002 vote to hand over to President Bush the power to decide on war with Iraq).

The Fed is an engine of inflation. It inflates a little or it inflates a lot. The Fed was conceived to inflate, with the idea that the Fed would never allow the US to sink into recession or depression. The thesis was that the Fed would render the US money supply "elastic," meaning that the Fed could expand the US money supply at will.

I might add that if the US issued its own money (which it certainly could do), the government could pay for all the items that the US spends money on. This would literally eliminate that need for a federal income tax. But with the Federal Reserve in control, we US citizens, you and I, are robbed of the fruits of our labor in two cruel ways. One way is via perpetual taxation. The other way is via perpetual inflation.

The only alternative the US citizen possesses is to own gold. Gold is wealth that the system cannot destroy, since gold is tangible, intrinsic money. Of course, the government and the central banks would dearly love to eliminate gold from the monetary system. If the government could, it would completely dominate and never have to compete with its nemesis -- real money or gold, which is earned by men's sweat and enterprise.

Since fiat money is essentially an incredible fraud, the system must eventually destroy itself. It's not a matter of whether, it's simply a matter of when and how.

In the meantime, you and I have to operate in today's world. That means we work for Federal Reserve Notes (dollars). We buy our food with dollars, we buy our homes with dollars, we enact all our transactions with dollars. But we hold gold because we know that ultimately, the dollar is doomed.

Wait, I don't mean that the dollar will necessarily be extinct in our lifetimes. No, the dollar will die a slow, probably a very slow death. It will be death by inflation. In other words, the dollar will, over the years, lose an increasing amount of its purchasing power.

Another irony is this -- essentially, holding gold is a rich man's escape. The reason is that gold doesn't pay interest, and it doesn't pay dividends. The rich man can hold a large amount of gold, and it doesn't affect his life style. The poor man, the middle class man, can't afford to hold a significant portion of his assets in gold. No, the average American remains at

the mercy of his government and the Fed. He's doomed to see his savings (assuming he has any savings) taxed away or inflated away.

They asked Willie Sutton, the famous bank robber, "Willie, why did you rob banks?" Willie answered, "Because that's where the money is." By the same token, you might ask any one of the Fed's governors, "Governor, why do you work at the Fed?" And the answer might well be as follows (assuming that he decided to be honest), "I work at the Fed because the Fed creates and controls the money."

Alan Greenspan was once a fervent believer in gold as the basis for money. In fact, the following two paragraphs are from Greenspan's famous essay on gold ("Gold and Economic Freedom") written in 1966 --

"In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case of gold. If everyone decided, for example, to convert all his bank deposits to silver or copper or any other good, and thereafter declined to accept checks as payment for goods, bank deposits would lose their purchasing power and government-created bank credit would be worthless as a claim on goods. The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.

"This is the shabby secret of the welfare statist's tirades against gold. Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statist's antagonism toward the gold standard." [quoted on page 58 in America's Financial Reckoning Day].

So you might ask, "What happened? Thinking the way he did, how could Greenspan have ever accepted the job of being head of the Federal Reserve?"

My answer -- the love of power and fame. In his guts, Greenspan obviously knows full well the meaning of gold. He just sort of ignored it for the eighteen years that he was head of the Fed. After all, the Federal Reserve system was the only system we had. Greenspan simply operated within the system.