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A CASE STUDY INTO THE INTRODUCTION OF THE 'FEDERAL RESERVE ACT 1913' AND ITS LEGITIMISATION OF CRIME.

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Dedicated to the inspirational works of Jacque Fresco and Peter Joseph.

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Contents

Abstract

The purpose of this study is to distinguish the useful and harmful aspects of Fractional Reserve Act 1913 is. This study concludes by stating that the act is destructive in nature and needs to be readdressed.

This study analyses the Act, questioning its moral legitimacy and practicality. It analyses how the Act was created, who published it, why it was created and how useful it is for society. As a result of this research, the harms this Act has created are exposed. An investigation into the act's history is also conducted raising questions over the legitimacy of the Acts original creation. The authors and publishers of the Act are criticised for manipulating policy in order to achieve private agendas.

The Act's function is also detailed, showing clearly how the US government does not have control over their national debt. This study demonstrates in detail how private banks have dominant control over the national debt and money making process, not the US government.

It is concluded that the Act is predominantly harmful and needs to be amended. Finally, a number of solutions are presented, offering a possible solution to the Fractional Reserve Act 1913 problem. This model revises Jacque Fresco's Resource Based Economy theory and encourages further research.

***Introduction*.**

The Fractional Reserve Act 1913 was a policy written in America by a committee of banking executives and government officials in 1913 (Joseph, 2007). The committee's purpose was to legalise new acts to enable banks to create a stronger economy for the US state (Nichols & Gonczy, 1992). One element of the Act was to legalise a bank's ability to print fiat currency (Joseph, 2008; Nichols & Gonczy, 1992). This is the ability to print money out of thin air without any resource or 'gold standard' backing (Joseph 2007; Nichols and Gonczy, 1992). It is proposed that since the publication of the act there have been disastrous consequences ranging from institutionalising global racism (Reilly, 2010) to mass robbery and illegitimate wars (Joseph 2007). In short, it is argued that this Act has intensified the criminogenic capitalist system and legally legitimised it (Joseph, 2007, 2008; Fresco, 2008.). This study aims to investigate the moral and practical use of the act and the claims made against it. Specifically, this study aims to investigate the arguments that this Act is intentionally misleading, morally devious and criminogenic in nature as proposed by Peter Joseph (2007, 2008). From this, suggestions will be given as to how best amend such problems.

This case study will examine the actions and policies of the US government from 1910 to modern times. In this narrative, the actions taken by the American state to preserve their monetary system in 1913 will be critically scrutinised. Specifically, this narrative aims to investigate the claims made by Peter Joseph (2007, 2008) that the US government is responsible for encouraging and engaging in massively, morally criminal acts. This narrative will consist of two parts. The first part will scrutinise the development and installation of the fractional reserve banking method. A discussion will be held to distinguish whether the Acts operation is in favour of public or private interests. Specifically, the investigation will gravitate around the creation and publication of the Federal Reserve Act 1913 (FRA1913). This investigation will also include the subsequent amendments made to the act and explore the reasons why the act required change. Consequently, the first part of this narrative will also compare the acts intentions in with its application demonstrating its inadequacies. From this investigation, a deeper ethical argument will be presented, discussing the moral legitimacy of such an act. The second part of this narrative will be focused on American monetary policies and its external, non-domestic influences. Including whether or not the FRA1913 and its sister policies have had a causal influence on major global events such as war, international recession and the re-defining of human rights.

Succeeding this historical narrative, this research aims to investigate the claim that the fractional reserve banking system is criminogenic in function (Joseph, 2007). Specifically, this case study aims to explore the FRA1913 capacity for legitimising, institutionalising and normalising harmful and morally criminal state/corporate activities. Finally, as a result of this investigation recommendations for positive change will be presented.

Why America?

It should be noted that America is not the only country with a fractional reserve banking system. Therefore an explanation should be given to explain why America has been specifically selected for this study rather than any country using a fractional reserve system.

Although the first fractional reserve banking system was developed and employed in England in 1700AD (The Money Masters, 1996: 28-30:00min), the US is currently the dominant global economic force (International Monetary Fund, 2010: 117). As a result, all other fractional reserve banking systems across the world are influenced by the current US system (Choa, 2008: 1, Berwick, 2011: 1). To demonstrate how influential the US central banking is, need not look further than countries around the world that use the US dollar as a source of backing for their own central bank (Edwards 2001: 1, 6, 17). This practice has become so standardised it has even been formulated, resulting in the coined term for the procedure; 'Dollarization' (Savastano, 1996). This means that the countries that have been subject to Dollarization, now have their currencies buying-power directly dictated by how strong the US dollar is. In short, the US currency defines how valuable the currency is of other Dollarizes countries. Some examples of these Dollarized states include the Bahamas, Barbados, Hong Kong, Lebanon, Saudi Arabia (Choa, 2008: 1) as well as Ecuador, Federated States of Micronesia, Palau and Panama (Edwards 2001: 1, 6, 17). Therefore, this research can be used in part to explain some of the financial shortcomings of other states due to this expansive Dollarization concept. Specifically, the research will be used to explain the failures in those counties which have adopted a US model of the fractional reserve banking system or those which are reliant upon such a system.

Due to the US being the strongest economy force in the current world, wide spectrums of economically driven markets are open to investigation (Fresco, Meadow and Joseph, 2009: 1-77). This is helpful as the harm created by the banking system such as reckless amoral pursuit of profit and premeditated criminal salesmanship (Tombs & Whyte, 2002, 2009; Sutherland 1940: 3-6), are easier and clearer to see when there is a large variety of sources available. By comparing and contrasting these diverse sources, common elements arise and a consistent pattern of events is able to form. This will allow for a more comprehensive understanding of this harmful phenomenon. Due to this abundance of information, the American fractional reserve system is chosen above all others for this investigation.

Moreover, this study finds America to be a convenient subject as the US has a single founding policy which encompasses all the required principles for a country to create fiat currency. It also possesses the core elements necessary for installing a fractional reserve banking system, (Joseph, 2007, 2008; Nichols and Gonczy, 1992). This will allow examination of the system to be more comprehensive by analysing a single piece of legislation rather than a series of intertwined, inter-reliant pieces of legislation which would be more likely to cause convolution. In short, the American policy is favourable due its comprehensiveness and encompassing nature.

Chapter 1: A Theoretical Discussion.

To begin this study into the Federal Reserve Act 1913 (FRA), a focused theoretical lens should first be established. This idea of creating a metaphorical 'lens' is adopted from Owen (2007). It was demonstrated by Owen, using this analogy, that a deeper, clearer more supported discussion was able to be communicated to the reader. Hence, an element of importance is placed on establishing this theoretical lens. This chapter will be a key component in this study for engaging with the FRA1913 in a critical, academic manner. Further still, the theoretical issues that are raised in this section will not only define the theoretical stance of this study but also its scope and goals. In short, what is discussed in this section will define and under-pin all arguments that are later made in this study.

A Marxist critique will be utilised in this study. This is in acknowledgement of Chambliss's (1971: 3) identification that "the shape and character of the legal system in complex societies can be understood as deriving from the conflicts inherent in the structure of these societies, which are stratified economically and politically". It would seem appropriate therefore, that the FRA1913 should engage with a Marxist critique as it is in essence, an economic-criminological analysis. In turn, a critical understanding will be gained through a form of backward engineering, by comparing the act's effects against its intentions. As Marxism is able to associate economic relationships to 'criminal' activity, it becomes appropriate to adopt such a critique when analysing a piece of economic legislation. Accepting that economic conditions in-part, define criminal activity, a deeper understanding of the effects of the act on society can be mapped out. Therefore an investigation will be conducted into what the act is claiming to do in comparison to what it actually causes in reality; displaying the character of the legal system as possibly conflictual, problematic and ultimately in need of change (Chambliss, 1971; Joseph, 2007, 2008, 2011).

This adaptation of Marx will allow for an emphasis to be placed on the benefits of a socialist method of governing. Specifically, this Marxian element of this study's analytical lens will allow for a moral discussion over legislation and the moral rights of society. Therefore the effects of the FRA1913 will be compared to what Socialism and the US constitution defined as morally legitimate (Jordan 1999). This study promotes the concept therefore that government bodies should act in the interests of its people over private organisations. In engaging a left-wing socialist critique with a right-realist piece of legislation such as the FRA1913, it is thought that a rich, diverse, enlightening spectrum of criticism will emerge. This will show how the FRA1913 legislation may be legal but also morally criminal regarding society's vested interests (Baken 2004, Moore, 2010, Joseph, 2007, 2008, 2011).

However, it should be stressed that only these select parts of Marx, concerning that of economic structures and class crime alongside that of moral legitimacy will be used in this study. This is highlighted in order to clarify that this study does not desire the abolition of capitalism. To rephrase this point, this study does not hold a positivist agenda which Marx clearly makes in his work as he explains that "...Capitalism and Judaism share their fate. They will triumph together, and they shall perish together" (Bauman, 1989: 48). In this sense, it can be argued that this study adopts a realist perspective as it condemns the leadership of a few select individuals to be morally criminal and it does not aim to eradicate an establishment. This studies aim is to make an academic contribution but to primarily provide a practical answer on the basis of legislative reform.

Furthering this idea, Mill's (1998) work on the 'power elite' and Foucault's (1995) work on power relationships will also be integrated into this studies analytical lens. This will allow for a broader understanding of crimes of the powerful to be revealed, displaying which organisation and individual roles are associatively involved. At the same time this will display the relationship of power between the two elements. This mapping will therefore allow for the amoral interests of such institutions to be revealed and understood. Without such an examination, such types of institutional crime would be harder to identify, such as institutional racism (Phillips & Bowling, 2003: 269-290; Macpherson 1999). This mapping of power and relationships regarding institutions is important to this study because it can allow for an explanation to arise with regards to the oddities of the FRA that expand further than the Act's direct effects. It could be detected using this knowledge that there may have been individuals during the creation of the act that may have had a hidden vested interest within the act, for example.

Expanding this Marxist integration, the theoretical idea that 'harm matters more than crime' (Dorling et al, 2008) will also be adopted. In doing so, a broader definition of criminality can be established; showing that it is not just capitalist law that should be questioned but the universal concept of law defining what is criminal (Dorling et al, 2008, Baken 2004, Moore, 2010, Joseph, 2007, 2008, 2011). To clarify this idea, it should be made apparent that although an action may be legal, it may also be ultimately extremely harmful. One only needs to look at the holocaust to see how legality provides an inadequate definition of crime and criminal behaviour (Bauman, 1989: 1-56, Arendt :

1964 294-295 Taylor, Walton & Young 1973: 19). By identifying this, it can also be recognised that 'white-collar' crime can be entirely legal and yet massively harmful (Sutherland, 1985) and vice versa (Taylor, Walton & Young 1973).

By establishing that legality does not encompass or define crime, a wider, more diverse chain of thought can be established. This study will not adopt the ideas of Durkhiem (1973), who suggests that society defines morality. In contrast to this, it is more relevant to believe that morality is something preternatural (Bauman, 1989: 169-198). In turn, this combination of understanding regarding morality and what it is to be criminal allows for an even wider understanding to be installed into this study. It is no longer limited to the understanding of the law but the wider, humanist understanding which is inherently more encompassing (Taylor, Walton & Young 1973). This point can be supported further with the Davis's (1997: 131-32) quote; 'it is almost impossible to think of a crime that has not been committed in the name of human reason... humanism remains on many occasions the only available alternative to bigotry and persecution. The freedom to speak and write, to organize and campaign in defence of individual or collective interests, to protest and disobey: all these can only be articulated in humanist terms'.

However, when considering the perspective of the humanist approach, that proposes individuals are essentially 'good' (O'Hara: 1989), and Bauman who believes that morals are 'preternatural' (1989: 24, 188), paradoxes arise. How can an individual be good and immoral at the same time? At first glance it would appear that these two theories are not capable of collaboration, however this is untrue. This study recognises that Bauman's explanation of holocaust is able to resolve this seemingly conflictual paradox. Bauman explains that the two theories, his own and the humanistic approach, work harmoniously. It is agreed that both theories see humans in general as naturally morally good. However, Bauman explains that the sociological and physical environment of these morally sound individuals is capable of persuading these individuals to engage in morally heinous acts (1989: 188). This theory does not adopt the classical Durkheimian approach that believes all criminal acts are socially constructed, but argues that morality is naturally imbedded in individuals (Bauman 1989, Taylor, Walton & Young 1973). It is this external factor that allows for instinctual morals to be overwritten due to factors such as moral distancing which is inevitable with the advancements of modernity (Bauman 1989). In short, the morally criminal behaviours of most individuals are the result of existential factors overwhelming intrinsic natural values. In conclusion therefore, this study will adopt a Bauman critique on morality as this theory seems to be the most encompassing and explanatory for understanding criminal behaviour. Within this adaptation of the Bauman critique, a critical humanistic-Marxist approach is adopted that understands the roles of an environment on an individual's behaviour.

Expanding the Marxist-zemological idea that individuals in power should be questioned, this text will adopt the works of Stan Cohen (1996: 1-21, 2001) as well as Tombs and Pearce (1993) to gain a more specific understanding of 'crimes of the powerful', (Sutherland, 1985). By adopting these understandings of how criminal behaviour can work in the higher circles, a more informed, coherent and enlightening critique can form when analysing the events surrounding the FRA1913. Such scholars are especially useful in this study as the application of their work reveals trends within criminal activity that traditional criminology, which typically focuses on the working class, struggles to explain (Matza, 1990; Young et al, 1973). This acknowledgement of Sutherlands, Cohens, Tombs and Pearce's work on institutional, corporate and 'white collar' crime will allow for an understanding to be gained about the hidden harms within bureaucracy. Harms that would have gone unnoticed, overlooked or simply misunderstood. Ardent's 1964 work on bureaucracy and how it has an ability to create great moral failings will also be used to some extent here. Specifically, Ardent's work will be used to stress the importance of why seemingly harmless legislations should receive intense scrutiny in order to prevent these great moral failing.

To finalise this concept of being able to refer to foreign bureaucratic material, the work of Nichols and Gonczy (1992) will be employed due to their expansive, area specific knowledge of the practical applications of the FRA1913. This crucial application of new understandings will allow for a deeper rationale of the FRA1913 events to be achieved, showing how and why individuals and institutions benefit from otherwise alien bureaucratic interactions. By combining all of these scholars in a fusion of broader understandings concerning the nature of corporate and white-collar crime as well as the topic-intensive understandings of Nichols and Gonczy, a more insightful, layered investigation will be achieved. In conclusion, it can be confidently stated that the lens this study adopts will be able to communicate the complicated monetary jargon of the FRA1913 into a more coherent way than the FRA1913 is able to by itself. Further still, with the contribution of many critical minds, it is thought that previously undisclosed criminal activities concerning the act will be exposed.

Using this new knowledge, alongside that of the external, political awareness provided by adopting the Mills approach, it becomes possible to highlight how there may be hidden vested interests in the legislation. Through gaining this understanding, a discussion regarding whether the FRA1913 has been used as a 'hegemonic' tool can be explored, drawing parallels to the work of Morton (2007). In conclusion to this point, the metaphorical lens of this study is now able to identify relationships and power between the institutions which have interests in the continuance of the FRA1913 with academic conviction. This lens is therefore able to connect the interests and political position of the institutions and by extensions its figure head members or 'controlling minds' (Cohen: 2001). As a result, a more fruitful explanation of any criminal activity regarding the FRA1913 will be exposed.

By adopting all of these major theorists, a type of analytical lens is created, allowing for the rest of this investigation into the events of the Federal Reserve Act 1913 to unfold. In conclusion, this study will be dominated by a critical humanist approach with a Marxist critique alongside an adaptation of the Bauman morality model. Sutherland and Tombs et al will act as a knowledge library for identifying trends and causality in crimes of the powerful. Nichols and Gonczy will be used to intensely scrutinise the workings of the act as their work is specifically focused on the act. The final element in this analytical lens is the broader awareness of institutional actors and their interests as provided by Mills and Foucault. Through this lens, an understanding of the history, application and ramifications of the FRA1913 can be derived, demonstrating its legitimatisation of crime that would have previously gone undetected. This lens will be encapsulated in a strong scientific approach, basing its legitimacy within the schools of the social and political science's and within that of the economic law. Although elements of philosophy are mentioned in the construction of this lens, it is thought that its application will be appropriately applied. For example, it can be seen that philosophy is an appropriate school for exploring the moral and judicial paradigms of this study. This study aims to not only make a contribution academically but also to be used as a practical influence for shaping future legislation regarding the monetary system. Specifically, the US fractional reserve banking system.

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Chapter 2: Context

Although this study has mentioned many times the idea of a 'fractional reserve banking system' (FRBS), there has been very little explanation for what the terms actually means. It is crucial that this term is to be understood in order to make sense of arguments later made in this study. Therefore, a description of the FRBS will be presented below. It could be argued here, that this chapter focuses predominantly on economic and not criminological concerns. This criticism is acknowledged. However, it should be highlighted that this study, as mentioned in the previous chapter, adopts the critical criminological approach described by Young et al (1973). It is with this in mind, that the adoption and integration of other previously unrelated topics surrounding criminology is justified. As mentioned earlier, the goal of this study is to introduce new, original knowledge into the criminological academic community.

In the second half of this chapter a criminological outlook will be presented, making use of the theoretical lens mentioned in the previous chapter. It is in this second half that a critical criminological analysis will be provided.

What is a fractional reserve banking system?

In order to accurately communicate the function of fractional reserve banking system (FRBS) it is best to start at the heart of the banking system and expand outwards. As this study is concerned with the US, all examples made in this study will illustrate the realities of the US fractional reserve bank. Therefore and firstly, it is necessary to ask 'what is the dollar?'.

Prior to 1933, a dollar was representative of 'x' amount of gold in the government vault (Joseph 2008, Amadeo, 2008: 1). This is what gave the dollar its value or 'buying power' (Joseph 2008). This system worked well because it acted as a stabiliser for maintaining mean value of the dollar (Joseph 2008, Amadeo, 2008: 1). Although inflation and deflation were not eradicated they were regulated in a generally consistent fashion. This regularity was later coined as the inelasticity effect (Schlichter, 2011). Later in that same year, 1933, the gold standard was removed. This resulted in the dollar no longer being proportionally valued against the US gold reserves (Joseph, 2008). It was now valued by how much money was in circulation (Joseph 2008, Schlichter 2011, Nichols &Gonczy 1992). This literally meant that the dollar was worth nothing beyond the resource of which it consisted (Joseph 2008). The reason why this currency was able to exist was due to peoples' faith in its value and the power of its current circulation (Joseph 2008, Schlichter 2011). Whereas previously, an individual could enter a US bank and demand to redeem their paper money for gold; after 1933 this was no longer the case (Joseph 2008). The US dollar was stamped with the words "This note is legal tender.." removing the previous message of "Redeemable in gold on demand at the United States treasury" (Joseph 2008, Champeau 2005).

Although the significance of this change is not immediately apparent, when it is considered as part of the larger operation of the banking system, its relevance becomes clearer. Therefore, it is important to note here that the banks from 1933 no longer use gold to regulate the US money supply but instead rely on the money that is already in circulation.

This next major question is "what is the purpose of a government bank?". From 1913 onwards, the US central bank was privatised. This meant that the Federal Bank of America, the US central bank, became "..just about as federal as federal express!" (Joespeh 2008: 11:30min). The US government no longer had legislative authority over its central bank (Joespeh 2008). The US central bank was now effectively its own private corporation (Joespeh, 2007, 2008). It could write its own policies and lend money at interest to its government with little to no regulation from the state (Joespeh, 2007, 2008, Nichols &Gonczy 1992).

Coupling these two concepts it should be recognised that the modern US money system has no gold standard for its currency and that the US Federal Reserve (also known as the US central bank) is a privatised corporation. This means that the US Federal Reserve does not share the same interests as the US government. Instead, as a corporation the US Federal Reserve seeks private profits, not national state benefits. Furthermore, it should be recognised that the Federal Reserve has been deregulated to the point where they can literally create their own cashable money. Considering that any given country is reliant on regulating and carefully controlling their money supply it becomes a matter of curiosity as to why the US state has passed this power down to a private corporation. Understanding this, the question must be asked, how is the economy able to function under such policies and what are its effects?

It should be made clear that the US government and the current US central bank are two different organisations. They do not share the same interests or agenda (Joespeh, 2007, 2008). Therefore, when an event arises that demands a high financial price, such as war or a natural disaster, the US government will need to request a loan (Joespeh, 2008). It requests this money from the US Federal Reserve Bank (Joespeh, 2008, Nichols &Gonczy 1992). The Federal Reserve loans 'n' amount of money to its government plus interest (i) (Joespeh, 2008, Nichols &Gonczy 1992, Khan 2008). This immediately puts the US government into debt as they now owe the bank '$n + i$' (Joespeh, 2008, Nichols &Gonczy 1992, Khan 2008). Again, it should be noted that this money has no gold backing. Therefore, the US government can never pay back the i as it literally does not exist (Joespeh, 2008, Nichols &Gonczy 1992, Schlichter 2011). This means that the US government will always be in debt to the Federal Reserve as it is a mathematical impossibility to pay back the debt owed to the bank (Joespeh, 2008). Regardless of how much income the US government generates, the value of the dollar and thus the i tends to fluctuate upwards. This results in more money needing to be printed for loans to repay the original debt and so inflation is generated. This results in the repayment figure of debt to be constantly changed. This changing of the debt figure means that the debt can never be totally paid back; it is a mathematical fact (Joespeh, 2008). As a result, the US state treasury will always be in debt to the private Federal Reserve central bank. The US government will be eternally indebt to the Federal Reserve Bank.

Interestingly, it should be noted that the British state has also been in this situation since the foundation of the Bank of England by its lenders (Kynaston, 1995). When recognising that the US War of Independence and Constitution was a predominantly caused by this rejection of the British banking system, it becomes even more difficult to understand why the US state later adopted the same system (Joseph 2007, 2008).

When addressing the effects of such a paradigm some interesting paradoxes arise. Firstly, it should be noted that this system has only been in use since 1933. It should also be acknowledged therefore that the US government has had to take out massive loans in order to fuel major events such as the gulf wars, the Vietnamese war and to assist in the recovery of natural disasters such as hurricane Katrina (Cooper & Story 2011, Jackson 2008, Kessler 2011, 2012, Joseph, 2008). Therefore, it can be clearly understood that the US government has to take out gradually more and more loans in order to pay off its debt as well as to tackle these other major global events (Joseph, 2008, Nichols &Gonczy 1992). In conclusion, it can be recognised that the US state has gradually been creating more and more debt. The next obvious question is to ask whether this system is sustainable. In order to answer this question a deeper economical understanding should be developed.

<u>Details of a Fractional Reserve Banking System</u>

This is where the function of a fractional reserve banking system can be defined. Whenever the US government requests a loan from the Federal Reserve, new money is created by the US Federal Reserve Bank in exchange for official government bonds (Joseph 2008, Nichols & Gonczy 1992). These bonds are essentially a promissory note to the bank that they, the state, will pay the bank back (Joseph 2008). The government then deposits that new money ('n') into another bank. It is at this point that the government disperses the new money around the state for roads and schools, etc. However, the large proportion of 'n' is kept in other domestic banking establishments. These bank realise that the government is unlikely to withdraw all of that credit at once, so it reserves 10% of 'n' and loans the other 90% ('Y') to other business's or investors. This is how the banks make profits through loans.

'Y' is considered to be a product of the multiplier effect ('m'), It is considered to be part of this effect because this money is seemly made out of 'thin air' as it does not exist in any real, physical format (Khan 2008). It exists only in the form of 'assets' to the bank, however to the recipient of the loan, the money is in its physical format. This is because the recipient is taking the physical money that was deposited by the state, 'n' (Khan 2008, Nichols &Gonczy 1992). These recipients of the new loan ('Y') use this loan in whichever way they see fit. 'Y' is usually dispensed in the form of salaries, buying factories, buying new property, etc. The new people who receive 'Y' will usually deposit their loan in a bank before spending. Here, the bank once again reserves 10% and offers the 90% of 'Y' as a loan for other recipients. This cycle happens many, many times over. On average, for any deposit given into a bank, 9 times that amount is created out of thin air (Nichols &Gonczy 1992, Joseph 2008). Technically, this process can go on forever but doesn't due to the futility of lending such a small amount (as every time 'y' is created it becomes smaller and smaller each time it is deposited) (Joseph 2008).

Of course all of this money that is loaned out is loaned out at interest ('i'). When this is recognised an interesting conclusion can be made. The usual conception made by the mass public is that the amount of money in society ('n') is the amount of dollars in society (Khan 2008, Joseph 2008). Or to put it another way, the money supply is equal to the amount of dollars created, which seems logical. This definition is called 'M0' (Khan 2008). However, the accurate definition for describing the true money supply ('M') is '$M = n + Y + \dot{i}$', this is defined as 'M1' (Khan 2008). In this instance, there is more money in circulation due to it taking the form of debt than what there actually is in physical circulation (Khan 2008). This is the fractional reserve system.

Why, When, and By Who was the Federal Reserve Act created?

Why?

It is logical to assume that the creation of the FRA1913 was to solve some sort of pre-existing problem within the state and its economy. Therefore, this section will investigate the reasons why such an act was created. Specifically, this section will look at the rationale of the act in regard to its historical context in order to explain its legitimacy. Later in this investigation, the actors who played a part in creating the act will also be analysed. A critical insight will be applied here, exposing the deeper motives of such actors. Following this analysis, an application of the theoretical lens will be applied. Using this lens, connections between actors will be made in relation to power and role. In conclusion, a critique will be presented over the morality of the acts creation, questioning whether its publication is a product of a democratic state or one of private organisations. Succeeding this, a further analysis will be provided explaining the intention of the act and how these intentions compare to the actual results of the FRA1913.

The full title of the Federal Reserve Act 1913 (FRA1913) is stated as follows; "An Act to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." (Law Librarians' Society of Washington, D.C., 2011). Firstly, a legal critique needs to be presented here to state that although the act is still in use, its original full title is severely out of date. It initially states that the FRA1913 is to "furnish an elastic currency". This typically means in economics, to establish a healthy inflation/deflation rate around the money supply (Fox et al: 133) (M0). However it can be clearly seen, with the analysis given in previous section of this study, that the accurate description of the money supply is actually M1. It must be understood therefore that the FRA1913 cannot create an 'elastic currency'. The implementation of the FRA1913 with the intention of creating an 'elastic currency' is a plan that has failed in both the theoretical and practical arenas; this point has even been expressed by economist and financial scholar McCracken 2007. Instead, what is actually created is an increasingly debt based currency (Joseph 2008). This point has even been cited by other economists, financial scholars and politicians (Earl of Caithness 1997, Feldstein 1983, Frieden 1992, Dove 2011). This point can be expressed by comparing the graph's below as provided by the 'US Department of the Treasury, Financial management Service' (2012) and 'The Chris Martenson Organisation' (CMAL LLC, 2010).

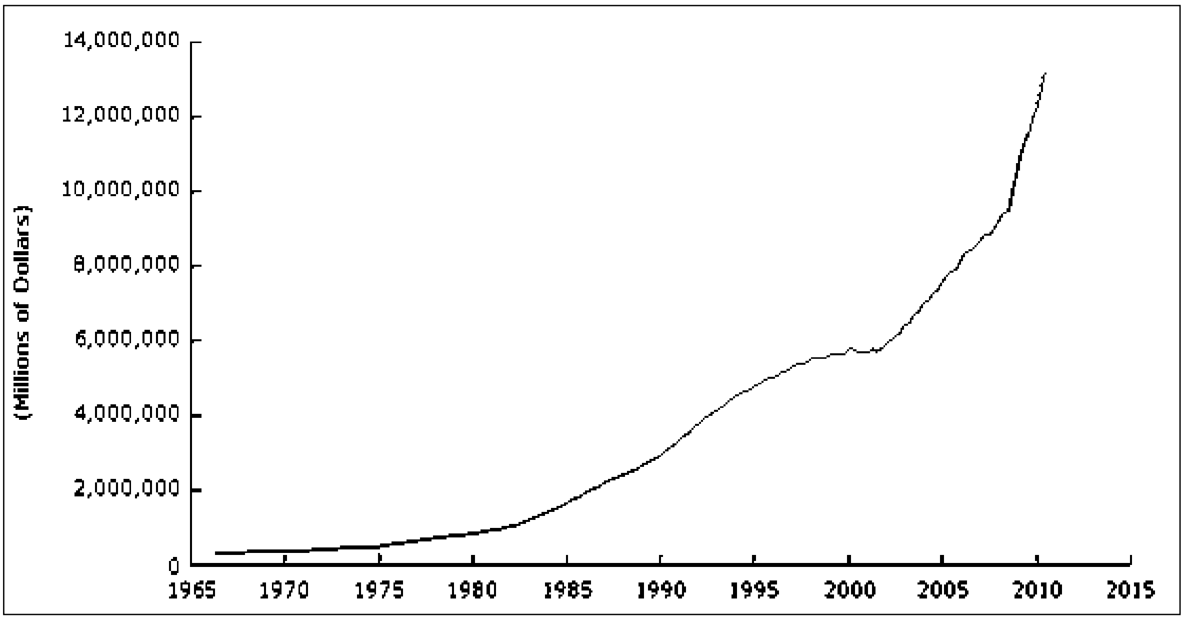

Figure 1. Graph to show 'Federal Government Debt: Total Public Debt', (US Department of the Treasury, Financial Management Service' 2012).

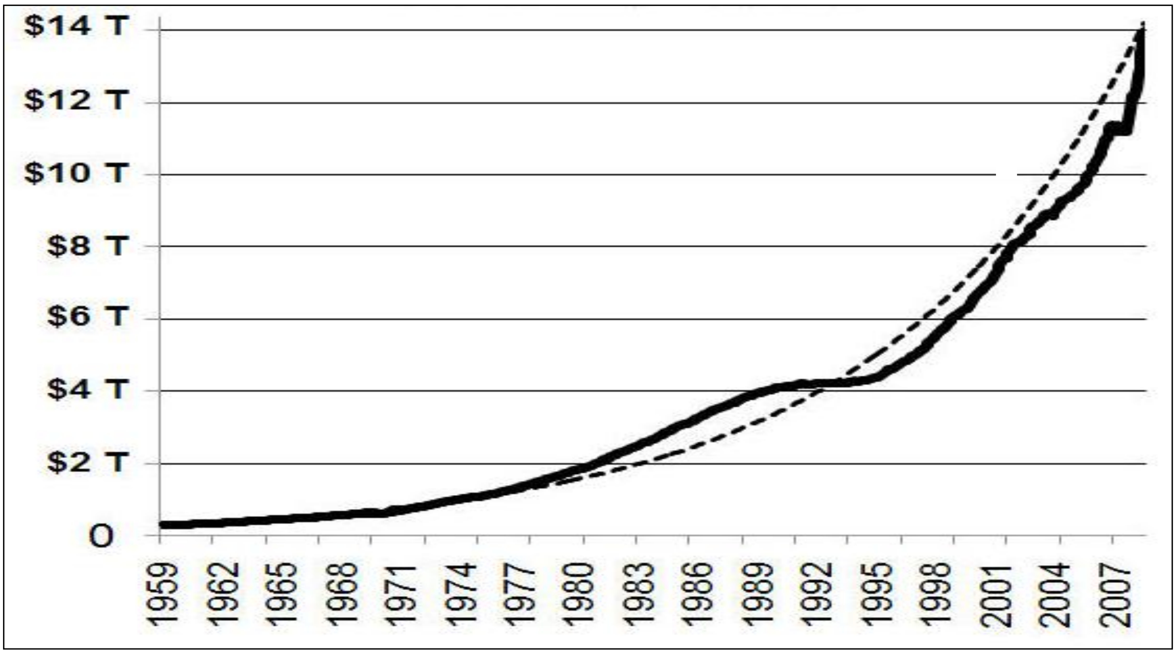

Figure 2. Graph to show 'US Money Supply' between 1959-2007, (CMAL LLC: 2010).

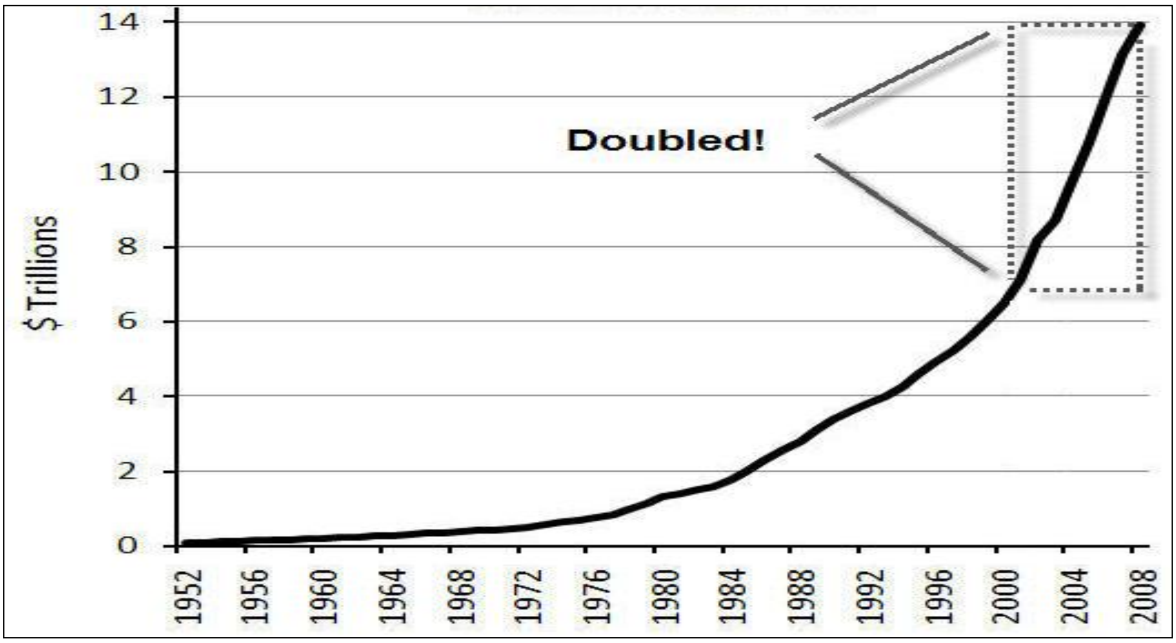

Figure 3. Graph to show US 'Household Debt' between 1952-2008, (CMAL LLC: 2010).

It is clear to see from these sources that there is not an 'elastic' money supply. Instead, it is apparent that there is a single trend; as the money supply increases so does the national and house hold debt. In fact, this is a scientific certainty (Joseph 2008).

The second major critique of the full title of the FRA is its claim "to afford means of rediscounting commercial paper". The dominant discourse amongst historians accepts that the FRA1913 was created in order to end panics such as that of 1907 and the collapse of commercial banks (Johnson 1999, Mishkin 2007, Tucker 2008, Joseph 2008). Therefore, it must be understood that giving the banks the power to 'rediscount' commercial paper was based on the intention to enable better circulation within the economy, which would lead to fewer panics. The real life implications of this were simply that the banks were given the power to degrade the buying power of the dollar through inflation. In reality, this means the printing of more money in order to overcome a financial disaster. Admittedly, this strategy would work for the short term but would only delay the problem instead of resolving it; for in order for the economy to stay healthy the inflation would have to eventually deflate. Consequently, all the problems of the past would eventually arise in an accumulated 'snow-balled' format. This 'snow-balling' of inflation was kept at a minimum due to the gold standard. This gold standard limited the amount of discounting a bank could do on the dollar, which in turn limited the amount of inflation. This standard forced banks to have a limit on the amount of money they could create (Joseph 2008).

From 1910-1990 the gold standard was continually removed and then re-employed in order to accommodate for events such as the world wars (Amadeo, 2011). In 1971, the gold standard was official abolished by the US state. From here, it is thought by many scholars that the US money supply, and by extension the national debt, exploded (Iacono

2008, Frum, 2000, Elite E Services 2009). This explosion was so prominent it was named the "Nixon shock" (Frum, 2000: 296), after the US president at the time. This event in history can be clearly seen in this graph below:

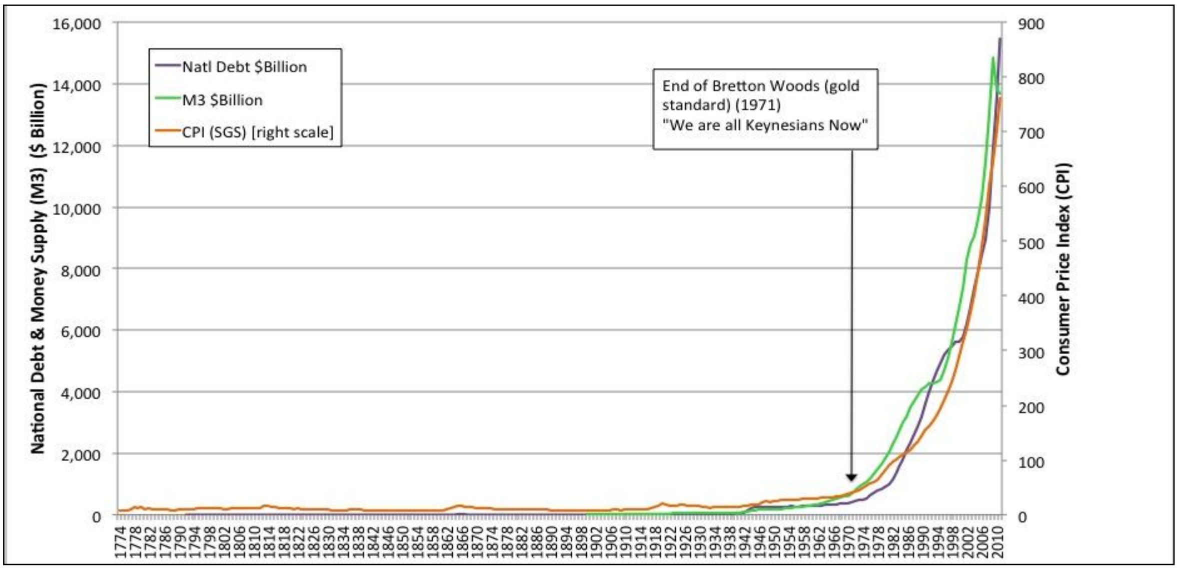

Figure 4. Graph to show 'US National Debt & Money Supply VS. Consumer Price Index' between 1774-2010, (Lomatch 2011).

The reason for this 'explosion' has been placed on the combination of the powers granted by FRA and the abolishment of the gold standard (Joseph 2008). In short, the combination of these two events gave the Federal Reserve Bank the power to create near infinite money (Joseph 2008). It is important to understand that this was not the original intention of either act. Therefore it can be said that the purpose of the act, that is defined in its full title has not been met even though it is still in practice today. Further still, it can be argued that the act is being currently used in a way that was not initially intended by its publishers (Joseph 2008).

It can be stated therefore, that the FRA1913 and the institution it created, the Federal Reserve, are not operating as they we originally intended. The polar opposite is actually in effect. It is clear that the FRA1913 was published with the intension of stabilising the economy by creating a limited but 'elastic' money supply. Now however, the money supply is clearly not 'elastic'.

Understanding these events, an obvious paradox emerges; "why would the US state purposely place itself into an increasingly instable position and place itself into possibly infinite debt?". In order to understand why this paradox was created, a deeper analysis needs to be conducted. Specifically, an investigation into the actor's surrounding the creation and later modifications of the FRA1913. This will be done in order to see whether these individuals have privately benefited from this self-destructive financial paradox.

When?

In order to gain the greatest insight into the forming of the US fractional reserve paradox the investigation must start at the beginning and look at the first creators of the act back in 1910. Later in this historical investigation, the 1971 'Nixon Shock' will be investigated examining why Nixon promoted the concept of increasing the national and public debt by removing the gold standard. Concluding this, a critical outlook will be given identifying the criminogenic elements hidden within the FRA's history.

The most prominent economic historian for this era is considered to be G. Edward Griffin. It was stated by US Senate representative Ron Paul, that Griffin's contribution to critical economic history provides "A superb analysis deserving serious attention" (World Net Daily 2012). Other scholars such as Mark Thornton, a Professor of Economics at Auburn University, criminological journalist Jane Ingraham and corporate-economics' advisor Don Schwerzler have also highly praised the accountancy of Griffin (World Net Daily 2012, Ingraham 1994, Family Business Advisor 2000). For these reasons, Griffin's account of the events surrounding the creation of the FRA1913 will be used as the key source for investigating the acts origin and by extension, its legitimacy.

Firstly, an understanding of the era should be explained. In the 1900-1920 period there were four main banking giants in the western world, J. P. Morgan, the Rockerfella family, the Warburg's family (Europe) and the Rothschild family (Joseph 2007, 2008, Griffin 1998, 2011). This group of banking elites where dubbed 'the money trust' (Griffin 1998). These banks where completely private and by no means had invested governmental responsibilities (Joseph 2007, Griffin 1998, 2011). Secondly, just after the 1908 crash there was a major public outcry for economic reform. Considering these conditions we can now examine the authors of the FRA1913 and critically ask why these Banks were allowed to create a piece of official government discourse.

By Whom?

Nelson W. Aldrich was the senator of Rhode Island in 1910. Aldrich chaired the commission that created the first draft of the Federal Reserve Act (Griffin 1998, 2011). The commission that create the act consisted of seven individuals. The first member was Aldrich, the other seven where Abraham Andrew, Frank Vanderlip, Henry Davison, Charles Norton, Benjamin Strong and Paul Warburg (Griffin 1998, 2011). It is important to look at these 7 individuals background in order to gain an insight into what their motives may have been when creating the first draft of the FRA.

Nelson Aldrich prior to 1910 was criticised in his role as senator for not doing enough to break up the 'money trust' (Griffin 1998, 2011). The 'money trust' seemed to monopolise Wall Street by bankrupting other smaller business and banks (Griffin 1998). Due to Aldrich's reservations over breaking up the 'money trust' some politicians thought that Aldrich could not be trusted as a member of the National Monetary Commission. It was clear to some members of the commission that Aldrich had biases towards supporting the 'money trust' (Griffin 1998, 2011). There is a strong argument that suggests that Aldrich's involvement with the National Monetary Commission was privately invested. Firstly, he was a close business associate of J. P. Morgan (Griffin 1998, 2011). Secondly, Aldrich eventually became the great grandfather of Nelson Rockefeller, more famously known as the US vice-president in 1974 (Griffin 1998, 2011). Although, this does not directly accuse Aldrich of manipulating the FRA1913 policies for private gain, it does demonstrate that Aldrich, Morgan and Rockefeller had intimate ties. This closeness is concerning as it subjects the political contributions given by Aldrich to be possibly untrustworthy, suggesting that he had a value-laden, private agenda whilst working for the government.

Abraham Andrew, who was the US Assistant Secretary of the Treasury in 1910, later became a Congressman and is claimed to have played a crucial role in the publication of the FRA1913 (Griffin 1998, 2011). It is argued by Griffin (2011) that without Andrews support, it would have been unlikely that the act would have been published. It would be suspicious if a policy maker did not want to publish one of his own items. However, the legitimacy of allowing the author of a policy to judge whether that policy is worthy of being published is questionable. For this reason the publication of the act is also questionable. This paradigm of allowing a policy maker to also be the publishers of their own work undermines the publishing process; it is this process that aims to prevent fraudulent bills. For these reasons, Andrews's contribution to the act is deemed to be questionable and ultimately untrustworthy.

The next individual at the meeting was Frank Vanderlip. At the time, he was the President of the National City Bank of New York (Griffin 1998, 2011). This bank was considered to be the largest bank in America at the time (Griffin 1998, 2011). Vanderlip's career consisted of representing the financial interests of William Rockefeller and the international investment firm of Kuhn, Loeb & Company (Griffin, 1998 2011). It is clear to recognise that Vanderlip would have been subject to giving biased academic and professional advice in regard to the creation any official government legislation, especially that regarding economics. Vanderlip clearly had a personally invested stake in creating the FRA1913. It should be questioned therefore the legitimacy of such an individual's contribution to the FRA1913. Secondly, it should also be questioned why Aldrich thought it was a good idea to employ Vanderlip considering Vanderlip's professional position. Ultimately, Vanderlip's role in contributing to the FRA1913 should be considered to be at the very least suspicious.

These criticisms of legitimacy-to-contribution are prevalent through the rest of the individuals at the FRA's draft meeting. Henry Davison was considered to be the senior partner of the J. P. Morgan banking enterprise (Griffin 1998, 2011). As a representative of a private bank it is clear his contributions will be privately sponsored and by extension, biased towards the development of J. P. Morgan enterprises. Equally, Charles Norton was the President of the First National Bank of New York and held interests in securing his own bank (Griffin 1998, 2011). Benjamin Strong, who was also at the meeting, was also the head of J. P. Morgan's Banker's Trust Company (Griffin 1998, 2011). With Morgan having three employee's in the FRA's draft meeting, it seems obvious that any academic or professional advice given by these gentlemen would be more concerned with the preservation of the J. P. Morgan enterprises than that of state interests. Additionally, it should be noted that after Strong contributed to the FRA1913 draft, he was appointed to be the first chairman of the Federal Reserve board (Griffin 1998, 2011). Mills (1989) work on the 'power elite' would suggest that this employment is not coincidental or a product of sheer professionalism. Instead it is suggested that such selective employment is tactical in further securing the private agenda's of these state / corporate individuals. Considering this new evidence, it becomes exponentially more evident to argue that the FRA1913 should not be trusted as a piece of legislation that promotes national interests. Rather, the act is more likely to be a front which consists of policies for promoting the private agenda's of the 'money trust' (Joeseph 2007, 2008. Griffin 1998, 2011) .

Finally, the last member at the meeting was Paul Warburg, who has been considered to be the most important member of the FRA1913 draft commission (Griffin 1998, 2011). This is argued due to Warburgs 'influence' and unique financial position regarding the contemporary issues in Europe at the time (Griffin 1998, 2011). He was a partner in Kuhn, Loeb & Company and was a high ranked representative of the Rothschild banking empire in North Western Europe (Griffin 1998, 2011). He worked closely alongside his brother Max Warburg who was the head of the Warburg banking consortium in Germany and the Netherlands (Griffin 1998, 2011). Surely, understanding that this individual had intimate ties with preserving assets in foreign countries, Paul Warburg would have been rendered an untrustworthy candidate for developing a piece of US economic legislation?

Ultimately, it is clear to see that all these individuals involved in the creation of the FRA1913 draft harboured intense private interests which comprised the legitimacy of their contributions to US economic reform. All members were either concerned in protecting their own private assets, the private assets of their representative company or assets in a privately shared enterprise (Joseph 2007, 2008, Griffin 1998, 2011). Therefore it should be question why such an act was made not by law-makers and scholars but by private-business representatives. By extension, it should be questioned why such a document would ever be allowed to be published through congress.

Perhaps however, this critique is too harsh. This criticism seems to imply that individuals who are part of a private organisation are incapable of creating unbiased legislation. After all, the individuals within this commission are all highly experienced. Therefore it would make sense to seek the advice of such successful financiers. Still, the reasons why Aldrich hired such close business partners to work alongside him on a piece of government discourse is concerning, especially as a senator. It seems to strongly imply that he had some sort of private investment in the act. Although arguably, it could be said that his request for help from such highly-influential, financially successful figures is justifiable when considering the urgent public demand for reform. However, this does not excuse Aldrich's action to leave out academic scholars from the draft meeting. In conclusion, the creation of the FRA1913 can be said to be, at the very least, irregular, suspicious and privately perverted.

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Why & When?

The 'Nixon Shock' is an equally curious event in history. It seems odd that any president of a state would purposely invest in increasing their nation's national debt. Therefore an investigation into this anomaly must be given.

It is argued that Nixon created the 'shock' in an effort to stabilize the economy, and tackle the 1970 inflation rate of 5.84% (Peet 2011). On August 15, 1971, Nixon implemented a 3 month 'freeze' on wage's and pricing as well as a 10% import surcharge. Most importantly however, Nixon also "closed the gold window" ending the dollars redeemability value in gold (Peet 2011: 1). This window has never since been reopened (Joseph 2008). In other words, Nixon's economic 'shock' reform eliminated the gold standard (Peet 2011). Curiously, Nixon and fifteen of his advisers made this decision without consulting the any of the members of the International Monetary Board (Peet 2011). It was due to the secrecy of this plan and its sudden unexpected implementation; the policy subsequently earned the unofficial title of the "Nixon shock". Interestingly, it was later found that Nixon and his team of advisors spent more time deciding when to publicly announce the policy rather that actually creating it (Peet 2011). Initially, when the policy was publicly announced, it received a warm reception (The Econ Review 2003). Consequently, Nixon was credited with saving the US economy from the 'foreign exchange crisis' and price-gougers (Yergin& Stanislaw 1997: 60-64, Hetzel 2008). Reviewing this insight into the 'Nixon shock', it could be argued that Nixon was actually a victim of Poulantzas's 'New Epoc' (Donaldson 2007: 101). Or In other words, Nixon was just reacting to a crisis to the best of his ability, selecting the lesser of two evils.

By Whom?

However, it seems odd that on an issue as grand as this, he only consulted 15 advisors compared to seeking help from other larger establishment such as the International Money System. This dubiousness can be attributed to Nixon's plan to catch the other nations off guard in order to gain a step ahead. However, if Nixon's true goal was to reduce US inflation he could have reduced the Vietnam war budget. This was the obvious move to take in order to reduce US inflation and improve the economy, there was strong public support for this option (Barringer 2009) and it was even argued that by taking this route, inflation would have dropped in mass literally over-night (Ambrose 1989:431-432). Therefore, to claim that Nixon is a victim of the 'New Epoc' is simply untrue as there was other more morally and economically beneficial options available. This investigation will not stop here however. Instead, it seems legitimate to investigate whether there were any other actors who would profit from forcing Nixon to take this decision. Ultimately, Nixon's preference to deregulate the Federal Reserve is a mystery. The question is purposed therefore, "who was benefiting from this odd policy?". It is thought by answering this question; the final piece of the FRA1913 will fall into place.

In retrospect to the 'Nixon Shock', Nobel prize winning economist Paul Krugman summarizes the post-Nixon Shock era as follows: "...the Federal Reserve is not obliged to tie the dollar to anything. It can print as much or as little money as it deems appropriate. ... a system that leaves monetary managers free to do good also leaves them free to be irresponsible—and, in some countries, they have been quick to take the opportunity" (The Johnsville news 2011 :1). The obvious benefiters from this new policy have been the private Federal Reserve Bank. It should be noted here that the modern Federal Reserve system is developed from the banking interests of older private banks, the 'money trust', and therefore has no legal obligation to benefit the state. Rather, the Federal Reserve is a private, profit-seeking corporation which after 1971, gained the power to print as much money it wanted with near no regulation from the state. The implications of this are morally questionable with the most demanding question being; "should a state's economic affairs be dictated by the interest of a few individuals who are not voted into power and do not have the interest of the people at heart rather that of seeking personal profit?". The obvious answer to this is simply no. A liberal democracy cannot be a liberal democracy if the leading powers are not voted into power (Joseph 2008).

Conclusion

In conclusion, it is becomes obvious to see that through the last 100 years, there has been an increase in the privatisation of state powers. This is truly concerning and simply ethically wrong. It is feared that if a nation government is pushed further and further towards privatisation, then that states government will turn its interests away from benefiting its citizens and toward the economic exploitation of its citizens. However, this concern could be simply regarded as theoretical speculation without certain evidence. Therefore the next big question should be, "is there any proof that the US government is really turning towards economically exploiting its people?". The answer to this question can be found in the next chapter.

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Chapter 3: Results of the FRA1913: What is the problem?

The problem with this fractional reserve banking system (FRBS) is that the currency is no longer backed by any standard apart from the promise or 'bank bond' that declares that the money loaned will eventually be paid back, which is a mathematical impossibility (Joseph 2008). Therefore this fiat currency can be considered to be backed by debt, as for every dollar made, there is at least a dollar owed back to the bank. It is this that gives the currency value (Joseph 2008; Khan 2008; Schilchter 2011; Nichols & Gonczy, 1992). Therefore the government and its citizens are all infinitely in debt to the banking system (Joseph 2008). Due to all the money being issued at interest, there will always be more money owed back to the bank than what is in the system (Joseph 2008; Nichols & Gonczy 1992; Schilchter 2011). This results in a certain percentage of people being unable to repay their debt to the banking system. Clearly therefore, it can be recognised that the moral implications of this system are questionable (Joseph 2008). This phenomenon is due to the paradox of more money being indebted than what is in the system. In acknowledgment of this, a further investigation into the effects of a debt-based monetary system is crucial to this study.

This oddity of a debt-based monetary system has also been recognised in the UK (McConnachie, 2001). In 1997, the Earl of Caithness made a speech within the House of Lords explaining his concerns over the functionality of such a debt-based economic system. He argued that any debt-based economic system is self destructive in nature as well as encouraging morally questionable activity. He began his speech by clearly stating his purpose was "...to reassess whether our economy is soundly based" (cols 1869-1871). His conclusion is summarised as follows; "...our whole monetary system is utterly dishonest, as it is debt-based ... under the existing system, the irony is that the better our banks, building societies and lending institutions do, the more debt is created ... Personal debt has already increased by nearly 3,000 per cent since 1971. How much more can we take?" (cols. 1869-1871). The Earl of Caithness highlighted how the control over money creation is not in the hands of government but in the hand of private banks. This duality deserves further analysis.

A private organisation within a capitalist system is not concerned primarily with the well-being of people but rather the pursuit of profit (Fresco, Meadow and Joseph 2009; Fresco 2008; Joseph 2008). This point can be exemplified thanks to the work of many such as Klein (2001), Joseph (2008) and Tombs et al. (1993, 1998, 1999, 2007) who have shown that successful companies such as Gap, Nike, Bayer (pharmaceuticals), Coca-Cola, Ford, Union Carbine (a global chemical firm) adopt an amoral approach to the pursuit of profit. It is this philosophy that has lead private organisations to knowingly and legally kill, abuse and enslave individuals (Klein 2001; Joseph 2008; Tombs et al 2007). It seems fair to state that this amoral philosophy is inherent in the majority of successful capitalist businesses; though there are obvious exceptions such as charity organisations and the like. It should be questioned therefore, what are the consequences of an amoral bank with the power to change the economy?

One of the most striking paradoxes of this debt-based economy comes from analysing the foreclosure figures against homelessness within the US. In 2008, 18.6million houses were foreclosed in the US (Gormlie, 2008). In the same year there were 3.5million homeless people (Morrison 2008). This means that for every homeless individual, there were at least five empty houses available (Morrison 2008; Gormlie 2008).The moral implications of this paradox should be investigated. It is clearly wrong that the resources and commodities exist to cater for people in need, yet such people's access to the resources is restricted or prevented entirely. Although the solution seems to be self solving, the problem persists due to the legal phenomenon surrounding the FRBS. This paradox was attributed to the 'sub-prime mortgage crisis' (Morrison, 2008; Gormlie, 2008). This explanation has been generally accepted within academia (Mishkin, 2009: 147-212; Morrison, 2008; Gormlie, 2008; Jarvis, 2012). However, on further examination of the sub-prime mortgage crisis, a trend becomes apparent. The underlying causal factor that forced these individuals out of their homes was that they were unable to keep up with the ever increasing debt that was owed to the bank (Morrison, 2008; Gormlie, 2008). As previously mentioned, the FRBS will always produce a certain percentage of people who are unable to repay their debts to the banking system (Joseph, 2008). Through this analysis, it can be argued that it is not just the 'sub-prime mortgage crisis' that caused homelessness but the structure that created the crisis; the fractional reserve banking system (Joseph, 2008). In much the same way that Marx was able to use his 'theory of crisis' to explain the underlying flaws of the structure of capitalism (Easterling, 2003; Bowman, 2009), this present analysis of the FRBS is able to identify the flaws within the 'sub-prime mortgage crisis'. It is clear that the mass homelessness within the US in 2008 was a product of the 'sub-prime mortgage crisis', and by extension the 'sub-prime mortgage crisis' was a product of the fractional reserve banking system. In conclusion, this percentage of persecuted individuals who have not done anything quantifiably criminal in a traditional moral sense will always receive legal abuse from the state (Joseph, 2008). This abuse usually being received in the form of forced evictions, imprisonment, child separation, forced removal of property, etc (Moor, 2009; Beck, 2011). Again, in another series of paradoxical events, the state seems to act morally criminal yet the morally innocent homeless are classed as legally criminal (Joseph, 2008). It can be stated therefore, that the paradoxical function of the FRBS has a treacle-down effect that creates further paradoxes within the states function (Joseph 2008).

It was said by the Earl of Caithness; "The next government must grasp the nettle, accept their responsibility for controlling the money supply and change from our debt-based monetary system. My Lords, will they? If they do not, our monetary system will break us and the sorry legacy we are already leaving our children will be a disaster" (cols 1869-1871). Since 1997, there have been increasing economic collapse, bankruptcies and global debt (TimeRime, 2011). There is clearly a demand for change and this brings about the next big question, 'how can this problem be fixed?'

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Chapter 4: Fixing the Problem: A multiple choice question

Since the realisation of the modern fractional reserve crisis, a number of solutions have been proposed. Some scholars have argued that the gold standard should be reinstated (Taylor, 2012; Hebert, 2011); others suggest that the nationalisation of the fractional reserve is needed (The Economic Collapse 2011; Kucinich, 2011; Makow, 2006). Some academics argue that a complete liquidation of the monetary system is needed in order to establish a successful long term solution (Joseph, 2008; Fresco, 2002, 2011). Others argue that the modern fractional reserve banking system needs to be left to its own devices (Amadeo, 2011). This perspective is favourable towards supporting a 'free-market' ideology predicting that when the banking systems 'hit the wall', they should be allowed to fail instead of being bailed out by the government. However, there is one clear understanding amongst all of these academic views; the modern fractional reserve banking era needs to eventually end. This chapter will focus on analysing and contrasting all of these major theories in order to establish the best possible solution to the modern fractional reserve crisis. To do this, each of these major theories will be analysed, discussing their advantages and disadvantages. Following this, a summary will be presented proposing the most suitable solution.

A Recourse Based Economy?

It was proposed by Peter Joseph (2007, 2008) and Jacque Fresco (2002, 2011) that in order to resolve the modern fractional reserve crisis, a global resource based economy (RBE) needs to be established. It is argued that if the modern monetary system is liquidised, a world resources union can be established. With this union the "intelligent management of Earth's resources" can be achieved (Durrani, 2007). As a result of this management, there would be no need for a debt based economy (Fresco, 2002). In turn, it is argued that there would be almost zero property crime (Fresco, 2002; Joseph, 2008). This includes such crimes as fraud, robbery, dubious salesmanship and many more (Fresco, 2002; Joseph, 2008). Secondly, it is also argued that there would be no financially based conflicts; meaning that wars that are created in order to secure a resource, such as oil, would be rendered meaningless (Fresco, 2002; Joseph, 2008). Any party participating in an RBE would not be interested in gaining financial superiority as there is no integral value in paper or digital money; except the resource it is made from: paper (Joseph, 2008). Other benefits of this system include the reforming of the education systems. Instead of individuals being encouraged to train in order to achieve a career, they would be trained in order to excel in the area they are interested in (Fresco, 2002, Joseph, 2008). This is considered to be a more natural, humanistic approach to education. It is also argued that sexual exploitation, such as prostitution, would also decrease due to its financial backing being removed (Fresco, 2002). Equally, it is argued that the illegal drug industries would also suffer (Fresco, 2002). This positive phenomenon is due to an RBE's absence of currency. Fresco explains that if currency was removed from the illegal sector, criminal acts would be less likely as there is financial incentive is removed (Fresco, 2002). One of the most important contributions an RBE is claimed to have is its ability to end planned obsolescence due to its pro-efficient nature (Fresco, 2002; Joseph, 2008). Therefore, the tactical failure of goods made by corporations in order to achieve more profit would no longer exist in an RBE (Fresco, 2002; Joseph, 2008). An example of this planned failure of goods and services can be found in the electronics industry, where a laptop / computer is designed for failure soon after its warranty runs out in order to encourage consumer demand (Bradford, 2009). Ultimately, the RBE system claims to become a more effective system than that of a fractional reserve system.

However there are criticisms of this RBE system. Firstly, the most devastating critique is the ‘inherent design flaws’ argument (Matthews, 2012). It is argued that in order for an RBE to work, at least a 51% world majority co-operation is required (Joseph 2008). If this ambitious figure is not met, it is feared that any RBE system would sponsor neo-colonialism (Matthews, 2012). Furthermore, it is argued that the mono-culture system desired by the RBE system is fragile due to a lack of diversity. It is argued that the mixture of differing economic systems is good as it creates a more durable international society (Matthews, 2012). In short, it is argued that ‘economies are much less likely to collapse entirely if there is variety’ (Matthews, 2012). Finally, it is also argued that due to the system being so heavily reliant on a single computing source in order to manage the world resources, it is thought that this system will be the target of the criminally inclined. For these reasons, it is ultimately argued that a RBE is inherently flawed and requires revision. Interestingly, Matthews criticises the modern fractional reserve system with equal intensity, demanding change. It is clear to see therefore, that there is academic demand for a new theory to resolve the modern fractional reserve crisis.

Bring back the gold standard?

It is argued by Taylor (2012) that if a gold standard were to be reinstated then the US economic conditions would improve. Although it is not argued that there would be the dramatic improvements that an RBE proclaims to offer, it is said that international trust will improve. It is thought that trade will become more secure due to this gold backing and by extension; the national debt will dramatically decrease (Taylor, 2012). Essentially, it is thought that reintroducing the gold standard would cause the reverse of the ‘Nixon shock’ of 1981. This argument is supported by the success of Gary Hebert, Governor of Utah, and the publication of the ‘Sound Money Act 2011’. This act has allowed gold and silver to be used as units of legal tender. Subsequently, this has led to Utah’s 2011/2012 taxes being decreased as this new form of legal tender cannot be taxed in the US (Stanek, 2011). It was later stated by UK economics and gold statistics data base ‘UK Gold Price’ (2011) that “Since 1971, the US dollar has effectively lost 97% of its gold value...A gold standard would provide a stable base for the US Dollar to recuperate its failings”. Ultimately, it can be said that there is modern evidence, both nationally and internationally sourced, that suggests that if the gold standard was reinstated, US economic prosperity will develop. The national and public debt will decrease and by extension, the phenomena of the modern fractional reserve crisis will be reversed.

Selgin (2012) criticises this concept of bringing the gold standard back. He stresses the importance of looking at the history of the gold standard, particularly how the Great Depression of 1930 was causally linked to the gold standard. He makes it clear that if a gold standard is to be reinstated, the US economy would be taking a step backwards, devolving instead of moving intelligently forward. This point made by Selgin is valid as the inherent problems with any gold standard will not be eliminated, even in a revised modern gold standard. For example, it was highlighted by USGS Mineral representatives; Butterman and Amey (2005), that the total amount of gold ever mined is estimated to be around 142,000 metric tons. It was argued that this amount of resource is simply far too small in order to act as an effective money base. Mayer (2010:33-34) expanded this idea by noting "As an economy's productive capacity grows, then so should its money supply. Because a gold standard requires that money be backed in metal, then the scarcity of the metal constrains the ability of the economy to produce more capital and grow.". In short, a gold standard would limit economic growth. Possibly the most important criticism of the gold standard is how it may instigate alternative motive for war and international conflict. Goodman (1981:165-166) argued that the unequal dispersal of gold gives it an 'advantageous' property. Gold, according to the understanding of a gold standard, would not only be valuable in terms of services and goods but also in terms of economic empowerment for those countries that produce and harbour gold. This added value would strain international relations and ultimately encourage conflicts of resource (Goodman, 1981).

Nationalise the Federal Reserve?

It should be noted that the US Constitution states under Article I, Section 8, that the US government is the one official body that should be allowed to print money. It clearly states the US Congress has the responsibility to "coin money, regulate the Value thereof, and of foreign coin, and fix the standard of weights and measures" (The Economic Collapse 2011). This point, over who should have control over the Federal Reserve, was even raised by Congressman Dennis Kucinich as he released a video announcement over YouTube declaring his support for the 'Occupy Wall Street' movement stating "…Wall Street banks got billion dollar bailouts but the American people get austerity. 14million Americans are out of work. 50million people don't have health insurance and a million people a year lose their homes to foreclosure. Our policies take the wealth of the nation and accelerate it into the hands of the few. We need a government of the people and for the people. We need a financial system that is of the people and for the people. It is time we take our nation back and take our monetary system back from the big banks."(Kucinich, 2011). The benefits for nationalising the Federal Reserve should be made clear. It is thought that if the Federal Reserve is nationalised then a domino effect will follow. It is proposed that the gold reserve will be reintroduced and as a consequence of this, inflation will fall. If this is to be successful, the economic health of the country will improve. This prosperity will manifest itself in a lower unemployment rate, lower taxes, an increase in responsible homeowners and so on (Kucinich, 2011; Makow, 2006). This concept of nationalising the Federal Reserve is supported from grass-roots movements to congressmen; due to this high demand for change, it would seem that this solution would be the most achievable.

However, the question should be asked, 'what happens if the Federal Reserve is nationalised but doesn't adopt a gold standard?'. It is feared that history will repeat itself, in much the same way that prior to the FRA1913 congressmen and statesmen were problematically, intimately tied with the 'money trust', it thought that the main banking bodies that form the current Federal Reserve will be inclined to corrupt state representatives. Therefore, it would be unwise to presume that by nationalising the Federal Reserve, all other synonymous problems will also dissolve as a consequence. It should be made clear, that by simply nationalising the Federal Reserve the influence and power of other exploitative bodies will not be removed from the system; they will simply be repositioned.

Let nature take its course?

Throughout the last decade there have been a record high number of globalised bailouts (The New Times Rwanda, 2012; Roberts, 2009; Fassoulas, 2012; Mail Online, 2012). It has been found that these bailouts are due to the financial systems inherent, inevitable banking failures as previously discussed. It has been argued that instead of bailing the banks out, which usually relies on raising public taxes (Mackenzie, 2012; Schneeweiss, 2012; The Washington Free Beacon, 2012; O'Carroll, 2012), the banks should be allowed to fail (Lilico, 2011; Hannan, 2011).

Morally, this paradigm makes sense as it is the banking systems own design that dictates that businesses should be subject to both achievement and failure in order to create a competitive market (Joseph, 2008). Therefore, should it not be argued that a private bank should receive the same treatment as the rest of the private sector? Secondly, it should be considered that for the banks to increase public taxes in order to maintain their power is an insult to the public. It is these institutions that openly exploit as well as unjustly imprison and de-home the public under the same 'free enterprise' philosophy. Furthermore, it is argued that if the banks were allowed to fail then the power of the CEO's will also diminish, reducing the likelihood of such individuals infiltrating and corrupting a nationalised banking system (Amadeo, 2011). In this regard, it can be argued that this should be the first and most important step in the 'domino effect' as it will ensure the depowerment of the source of the criminal behaviour. Clearly, it can be established that this would be the most moral, emotionally retributive and economically logical choice for tackling the modern fractional reserve crisis.

However, there are aspects of this theory that are questionable. Firstly, if the bail-outs were not met and the banks were forced to 'hit the wall' and go bankrupt, the immediate consequences would be devastating. Even if a government plan was eagerly ready to step in, the time taken to dissolve one global banking system and instate a new system would be globally devastating on a scale never seen before (Hunt, 2011). In order for this transition to go swiftly, all the major world banks would have to agree to dissolve together at the same time and work alongside the government. The likelihood of even a single bank willing to voluntary dissolve is extremely slim. Therefore to expect all the world's central banks to voluntary collapse at the same time in extremely unlikely. However, the immediate effects of the entire world's central banks collapsing at the same time should still be considered. With international trade being delayed for just a single day it is thought that the planet would grind to a halt (Wagstyl, 2012), with banking runs similar to those of 1907. Ultimately, it can be said that in any event of the World Bank's defaulting on their debt, another global crisis would arise. Although eventually the global economic world would become healthier in the long run (Hunt, 2011; Joseph, 2008; Fresco, 2002, 2011) the immediate effects would cause extreme harm. This bailout paradigm also has a more scientifically problematic issue which is visible only when examining the FRBS structure. It is argued that by bailing out the banks, the root problem is not solved (Joseph, 2008). Instead the problem is delayed and as described before, a snowball of problems is created. This will result in issues of the past to eventually come back to haunt the future.

The perfect answer...

All of the above solutions should be considered in order to formulate a solution which causes as little harm as possible as well as encompassing the greatest amount of benefits. Additionally, the ideal solution should be engineered in such a way to have the highest degree of achievability. The clear long term solution is to establish a global RBE. Although this concept is problematic in parts, the benefits far out-weight the disadvantages. For these reasons, support should be given towards eventually establishing a RBE. However, it would seem apparent that establishing an RBE on a macro scale would seem unlikely in the near future. Therefore, the most support should be placed on creating a short-to-long term domino effect. A series of events should be proposed as to best tackle the immediate problems leading up to the final solution of creating a RBE. The evidence suggests that the best solution is to merge and adapt the three remaining ideas into a single, harmonious policy.

There needs to be a revolutionary act that encompasses the re-employment of the nationalisation of the Federal Reserve and simultaneously reintroduces the gold standard. Following this, anti-trust laws need to be in place in order to minimise the possibility of state officials being privately sponsored by external banking and business establishments. Once this is achieved, the failures of the private banks should be allowed to come to fruition; meaning that they should not be bailed out or state sponsored in any way. This will encourage the public to invest in the state bank. This is morally desirable as the state bank will be working in the interests of the people and not for the sterile pursuit of private profit. Following this, an international treaty should be established in order to protect member states from bank runs and bankruptcy. This system can be seen as a revised version of the Euro, where all member states have a vested interest in the development of other member states. Following this success, a long term plan should be put in place, establishing an international RBE. Ideally, this will be done with the involvement of the other member states in order to achieve a higher rate of stability, security and ultimate success.

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Chapter 5: Conclusion.

This study has set out to investigate the legitimacy of the FRA1913. Firstly, it is recognised that the demand for economic change around 1913 was a completely legitimate concern. However, the FRA1913 was not a legitimate way of tackling this problem. There is little justification for how the act was created and published. The act was created in a morally dubious fashion and therefore should have received little legal recognition. Secondly, the consequences of the FRA1913 have been devastating not just to the US public but to other states who have adopted the US economic system. Not only has this devastation been spread through many countries, it has been spread through many generations. Even a hundred years after the implementation of the Act, it still negatively affects US and world citizens. The results of mass unemployment, illegitimate taxes as well as the paradoxically legal removal of individuals from homes and the increase of illegal homelessness should all be accounted to the FRA1913. For this reason, the FRA1913 has little practicality and extremely little moral legitimacy.

Immediate change is needed. This change should be well revised and intelligently deployed. If this is not done it is feared that the problems the FRA1913 has created will intensify over time. For these reasons, change should be demanded and implemented as soon as possible.

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