“THOU SHALT NOT CRUCIFY LABOR ON THIS CROSS OF PAPER MONEY”

A MESSAGE TO AMERICAN LABOR LEADERS

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The “crime of 1873”

My title is a paraphrase of the 1896 battle-cry of William Jennings Bryan during his presidential bid. He was talking about ‘crucifying mankind on a cross of gold’. Bryan was protesting against the unconstitutional closing of the U.S. Mint to silver. Congress inadvertently suspended the unlimited coinage of the standard silver dollar, which it had no authority to do under the Constitution. Bryan called it “the crime of 1873”.

No battle-cry was issued during this year’s presidential campaign by the finalists in protest against our present unconstitutional paper money system, even though it has started a wave of unprecedented unemployment that would sweep through the land in the wake of the current financial crisis and the official response to it: further serial cuttings of the rate of interest.

Politicians have long ago vacated the field of warning people about the danger caused by violations of the monetary provisions of the Constitution. It is now incumbent on the leadership of American labor to call the workers to rise in protest against the job-destroying policies of the government. Please take a few moments and bear with me as I go through a simple monetary explanation of the job-destruction process that has been going on in America for the past thirty years through serial cuttings of the rate of interest, that will reach fever-pitch next year.

Serial rate-cuts destroy the wage fund

Suppose you are a worker taking home $50,000 a year in wages. When your income-flow is capitalized at the current rate of interest of, say, 5 percent, you arrive at the figure of $1,000,000. The sum of one million dollars or its equivalent in physical capital must exist somewhere, in some form, the yield of which will continue paying your wages. Capital has been accumulated and turned into plant and equipment to support you at work. Part of your employer’s capital is the wage fund that backs your employment. Assuming, of course, that *no one is allowed to tamper with the rate of interest.*

Suppose for the sake of argument that the rate of interest is cut in half to 2½ percent. Nothing could be clearer than the fact that the $1,000,000 wage fund is no longer adequate to support your payroll, as its annual yield has been reduced to $25,000. This can be described by saying that every time the rate of interest is cut by half, capital is being destroyed, wiping out half of the wage fund. Unless compensation is made by adding more capital, your employment is no longer supported by a full slate of capital as before. Since productivity is nothing but the result of combining labor and capital, the productivity of your job has been impaired. You are in danger of being laid off — or forced to take a wage cut of $25,000.

Lemming-like rush into certain disaster

I have news for you. Employers are not in the habit of compensating for the destruction of capital caused by falling interest rates. Rather, they welcome the cut as manna sent from heaven. They are kissing the hand that is strangling them. They are as badly misinformed about the lethal effects of a falling interest rate structure as the rest of society. They confuse a *low* interest rate structure with a *falling* one. No less than employees, employers are hurt by the destruction of capital caused by serial rate cuts. After all, it is their capital, too, that is being destroyed. Nevertheless, they accept at face value the official propaganda line that "falling interest rates are good for you". Employers are like lemmings running to their own certain disaster.

The "crime of 1971"

In the euphoria of celebrating the advent of the irredeemable dollar in 1971, politicians and economists have 'forgotten' to look at the untoward consequences of the New Brave World of synthetic credit. Not only was the dollar destabilized by the 'crime of 1971'; interest rates were cut adrift as well. The U.S. Treasury was soon forced to print 16 percent coupons on its 30 year bonds which would not otherwise sell.

This did not present much of a problem to the Treasury, since interest on bonds was now payable in irredeemable dollars. The same paper, the same amount of ink, and the same printing press would produce the coupon at the same cost, whether it carried the figure 4 or 16, with which the obligation would be discharged.

However, bringing down the rate of interest from 16 percent to its normal level of 4 percent was a different story altogether. It meant that the rate had to be halved twice from 16 to 8 and from 8 to 4 percent, destroying three quarters of the wage fund. Is there any wonder why so many well-paid American industrial jobs were driven offshore in the intervening years, as production was being outsourced?

Academia and media were silent on the real cause of the de-industrialization of America: the destruction of capital through serial rate-cutting. They are still silent as they expect that the Federal Reserve will do more money magic and pump still more money into the economy, causing rates to fall still more. They are oblivious to the fact that this will destroy still more capital in the process, pulling more rug from underneath employment.

Vanishing capital

The problem is vanishing capital. During the past thirty years capital was destroyed across the board as the long-term rate was pushed down from 16 to 4 percent, and the short-term rate from 22 to 1 percent. The process is insidious: only one in a million can identify the causal relation between vanishing interest and vanishing capital. As a result the captains of industry are not aware of what is happening to the capital of their enterprise until it is too late and they are forced to fold tent. Even then, they have no idea what has hit them. It would never cross their mind to blame irredeemable currency and the serial cutting of interest rates for the disaster. Hat in hand, they go to Washington to beg for bailout money with which they can shore up their capital structure. They don't realize that Washington will claw it all back just as soon as the next round of rate cuts are announced.

Make no mistake about it: vanishing capital does not disappear without a trace. It is being siphoned away clandestinely from the capital account of businesses, to benefit the issuers of irredeemable dollars and their cohorts. These honorable gentlemen cut rates with their right hand and grab the obscene profits thus generated on their bond portfolio with their left hand. It is legalized embezzlement. Keynesians say that the government can turn the stone into bread through driving down the rate of interest to zero. It would be more accurate to say that the government, in a vampire-like fashion, sucks the blood of labor through the bleeding of their wage fund.

The fate of the auto industry

As a result of vanishing capital the American auto industry, not so long ago the envy of the world, is tottering at the brink. The statistical likelihood of the three giant auto-makers running out of capital at the same time is nil. The fact that they do is the evidence of outside interference. The capital of the auto industry has been eroded and ultimately destroyed by the serial rate cuts of the Federal Reserve. It is true that the industry has been adding new capital in the form of state-of-the-art technology. But it could not keep up with the relentless serial rate-cutting. The Fed can cut rates faster than the auto industry can build and equip new factories.

The blame for the suffering should be put squarely on the criminal check-kiting conspiracy between the Treasury and the Federal Reserve. They issue and swap liabilities which they are neither willing nor able to meet. It is a charade, pretending to serve the interest of the national economy when, in fact, they are destroying the nation's capital.

The destruction is not visible to the naked eye. The details are in the book-keeping. That's why the sabotage is so hard to detect. As the rate of interest is being pushed down, it makes inroads on the wage fund. Employers are unable to meet their payroll because the falling interest-rate structure calls for ever larger capital to fund it. Unemployment is the result, which is becoming widespread and chronic.

Under a stable interest rate structure none of this would happen. The auto industry and its workers would have a bright future, as they did before the 'crime of 1971' hit them. Every worker who is being laid off should be reminded of that fact. They should know that they are being sacrificed on the altar of Mammon. They should understand that they are being crucified on the cross of paper money.

Capital destruction at an ever faster rate

Please also note that the rate of capital destruction is accelerating as we are getting closer to the black hole of zero interest. In principle halving the rate can continue indefinitely. In reality, ever smaller absolute cuts will have ever greater destructive effect on the wage fund. While in the 1980's it took an 8 percent decline to wipe out half of the wage fund, right now a 2 percent, and thereafter a mere 1 percent cut will do the trick, causing the same amount of damage to employment. This means that the level of economic pain increases ever faster, soon reaching the point where it will become unbearable.

The situation is more than desperate. The political process has failed. The president-elect has committed himself to the status-quo. *He will not challenge the unlimited power usurped by the Fed,* as his nomination of the president of the Federal Reserve Bank of New York to the post of Treasury Secretary indicates. This nomination evoked the comment, echoed in the New York Times on November 25, that “Geithner deserves retirement, not promotion”. (He is 47.) Obama’s utterances during the election campaign seem to suggest that he believes in Keynesian prestidigitation, turning the stone into bread through serial cuts in the rate of interest, and in Friedmanite money magic of the printing press.

Labor’s finest hour

The only remaining hope the country has is that labor will not tolerate the ongoing destruction of capital. It will not take it lying down any more. It will take to the streets and confront the small reactionary elite running our monetary regime, including Geithner. This is the most destructive system ever devised: the regime of irredeemable currency. Every time it has been tried in history it failed miserably. As the current crisis clearly shows, this time is no different. What is different is that this time the entire world is on irredeemable paper money. That has never happened before. Accordingly, the stakes are immeasurably higher as irredeemable currency is getting ready to self-destruct.

Labor must take the initiative and demand that Congress put an immediate end to the mindless destruction of capital. Congress should stop the Federal Reserve from pursuing a monetary policy of open-ended deliberate interest-rate cuts. The economy is now like a runaway train with brakes disabled, entering a downhill section of tracks. Crash is certain. At the end of the run the country could be completely denuded of capital, with a large part of its labor force idled.

Labor could be the savior of the country in forcing a return to constitutional money at the eleventh hour, by demanding that the Obama administration open the U.S. Mint to gold and silver. That measure would enable the brakes on the money-train. It would stabilize foreign exchange and interest rates and stop the shredding machine, now spinning out of control, from destroying capital. This would be labor’s finest hour: saving the United States from financial ruin and ignominy.

This country has an intelligent, dedicated, and industrious labor force. The best in the world. It should step into the breach. Time for street action has come, if we want to prevent blood from flowing in the streets later.

References

By the same author:
Revisionist View of the Great Depression, May 11, 2002

The Central Banker, Quartermaster General of Deflation, January 1, 2003

Gold Is the Cure for the Job-Drain, September 23, 2003

Real Bills and Unemployment, September 26, 2005

Unemployment: Human Sacrifice on the Altar of Mammon, September 30, 2005

Is Our Accounting System Flawed? June 16, 2008

Revisionist Theories of Depressions: Can It Happen Again? November 4, 2008

These and other articles of the author can be accessed at the website www.professorfekete.com

Calendar of events

Szombathely, Martineum Academy, Hungary, last weekend of March, 2009
Encore Session of Gold Standard University Live.

As is known, Mr. Eric Sprott of Sprott Asset Management, Inc., has withdrawn financial support saying that, in his opinion, the results of Gold Standard University Live do not justify the expenditure. In consequence GSUL is forced to terminate operations. However, in recognition of the unprecedented crisis of the regime of irredeemable currency presently unfolding, there will be an *Encore Session* in the form of a weekend seminar.
Topics: *When Will the Gold Standard Be Released from Quarantine?*
The Vaporization of the Derivatives Tower
Labor and the Unfolding Great Depression

San Francisco School of Economics, June-August, 2009
Money and Banking, a ten-week course based on the work of Professor Fekete

Further announcements will be made on the website: www.professorfekete.com

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