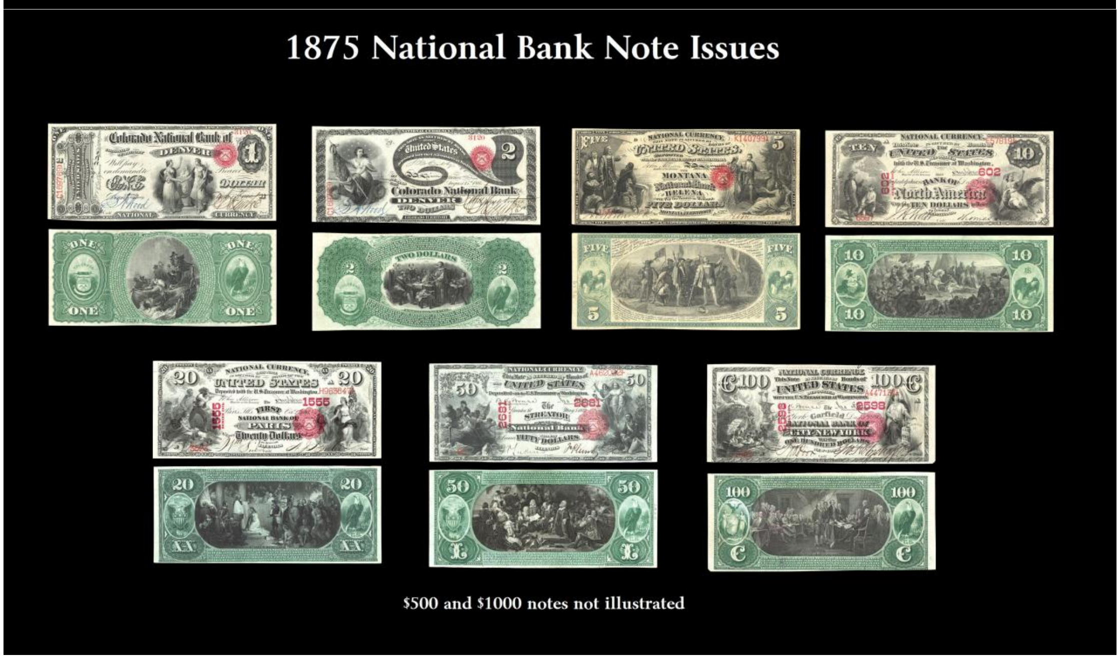


National Bank Notes first came into being by passage of the National Banking Act of 1863. By the terms of this act, the government was enabled to grant federal bank charters to banks which were then allowed to issue their own notes, but only up to *90%* of the par value of the United States Government bonds which the banks had previously deposited with the government as security for the notes about to be issued. Each bank had its own charter number, which appeared on all notes issued after 1875. The charter for any bank was valid for a period of twenty years. After that period, a bank could renew the charter for an additional twenty years and continue to keep issuing notes. These National Bank Notes, although issued by individual banks, were still conventional United States paper money produced by the Bureau of Engraving and Printing under the same conditions as regular Treasury issues and were legal tender. This was a clever means of selling US national debt and as such clearly the idea that borrowing did not increase the money supply and was less inflationary did not apply to this point in history. That comes purely post-National Bank Note period with the emergence of economic theory that first appeared as a separate course taught at Cambridge University in 1902.

Currency has often been tied to debt. In order to make government securities more popular and more easily within the reach of the average citizen, Congress passed the Act of February 26, 1879 creating Refunding Certificates. This Act made it possible for the Treasury to issue to the public the Refunding Certificates of 10 Dollar denomination. These certificates bore interest at the rate of four per cent per year and at the time of issue, it was meant for the interest to accrue indefinitely, as no time limit was set. This was the inducement for the public to keep on holding these notes.

However, in 1907, an Act of Congress stopped the interest on these notes as of July 1 of that year. By that time, the interest alone amounted to $11.30. Technically, interest is still accruing on these notes, but their rarity far exceeds the original face value including more than 100 years of interest.

There were two types of these Refunding Certificates. On the first type, the name of the purchaser was written in on the obverse on a line provided for that purpose. The reverse of this type is completely different from the second type (see the illustrations in the text) as it consists of an assignment form for conversion of the note into a four per cent bond. The obligation on this note is as follows:

> ***"This certifies that the sum of Ten Dollars has been deposited with the Treasurer of the United States under Act of February 26th, 1879. . . . convertible with accrued interest at 4 per cent per annum into 4 per cent bonds of the United States issued under the Acts of July 14, 1870 and January 20, 1871 upon presentation at the Office of the Treasurer of the U. S. in sums of $50. or multiples thereof."***

Silver Certificates are extensive series that lasted into the 1960s. Two Acts of Congress authorized all the Silver Certificates that were issued, the Acts of February 28, 1878 and August 4, 1886. The first issue consisted of notes from $10 to $1,000 for the series of 1878 and 1880. These notes are particularly different for on the obverse they state "Certificate of Deposit" suggesting that it represents silver coins actually on deposit. This term not appear on the later issues. The obligation on this first issue reads as follows;

> ***"This certifies that there have been deposited with the Treasurer of the U. S. at Washington, D. C. payable at his office to the bearer on demand .. .. silver Dollars. . .. This certificate is receivable for customs, taxes and all public dues and when so received may be reissued."***

The second issue of Silver Certificates consisted of notes from $1 to $1000 denominations for the series of 1886, 1891 and 1908. The third issue consisted only of $1, $2 and $5 Dollar notes of the series of 1896. The fourth issue consisted only of $1, $2 and $5 Dollar denominations for the series of 1899. The fifth issue consisted only of $1 and $5 denomination notes for the series of 1923. Thereafter, silver certificates were issued in the current small size note format.

Gold Certificates are by far the most colorful and vivid of all the USA currency issues. Although there were nine emissions of gold certificates prior to the confiscation of gold, only four of the issues were actually circulated to any extent, namely the fourth, seventh, eighth and ninth issues. The first three issues appeared between 1865 and 1875. These notes remained in general within the confines of banks and clearing houses and were used in settling gold balances without having to actually move gold around.

The seventh issue consisted only of $10 and $20 Denomination notes of the series of 1905, 1906 and 1907. The $20 Dollar notes of 1905 are considered the most beautiful of all gold certificates because of their color. Their basic design is similar to that of other 20 Dollar notes, but the obverse center portion of the paper is gold tinted and part of the legends are printed in gold ink, and not the black and white of other issues. These notes also have a red seal and red serial numbers. Thus, the color combination formed by black and white and gold and red, makes a very pleasing impression.

1907 $1,000 Gold Certificate

The eighth issue of Gold Certificate consisted only of $1,000 Dollar Notes of the series of 1907. It is one of the largest notes in gold coin to actually circulate. The ninth and last issue of the Gold Certificates is the most common today. These notes are series of 1913 and 1922 and the issue consisted of all denominations from $10 to $1,000 Dollars. Up until the series of 1922, the obligation on gold certificates read as follows: ***"This certifies that there have been deposited In the Treasury of the United States of America Dollars in gold coin payable (or repayable, series 1882) to the bearer on demand."***

1882-1900 $10,000 Gold Certificates

The fourth issue of 1882 included $20 to $10,000 Denominations. The fifth and sixth issues of Gold Certificates were the series of 1888-1900 and consisted of $5,000 and $10,000 Dollar denomination notes only. These tended to be used largely internally at banks reflecting reserves. You will notice that the $10,000 note is printed on one side and is cancelled by the Federal Reserve.

The **Federal Reserve Act** of December 23, 1913 also authorized the first issue of Federal Reserve Bank Notes. All denominations were issued from 5 to 10,000 Dollars. The notes from 5 to 100 Dollars are series of 1914. The higher denomination notes from 500 to 10,000 Dollars are series of 1918. With the establishment of the Federal Reserve System, a new type of currency came into existence. The notes issued under this system are the **Federal Reserve Bank Notes** and the **Federal Reserve Notes**.

The **Federal Reserve Bank Notes** were also inscribed "***National Currency***"; the **Federal Reserve Notes** are not so inscribed and are currency of the system as a whole rather than issued by individual banks in the system. The obverse designs of these two issues are markedly different while the reverses are similar.

The **Federal Reserve Notes** were issued by the United States to all twelve Federal Reserve Banks. The notes were not issued by the banks themselves (as were the **Federal Reserve Bank Notes**) and the obligations to pay the bearer were borne by the government, and not by the banks. Hence, these notes were not secured by United States bonds or other securities as had been the case with the **National Bank Notes**. In reality, the notes were secured, but the nature of the security is not certified on the actual notes. The obligation on the **Federal Reserve Notes** is completely unlike that on the **Federal Reserve Bank Notes**, and is as follows,

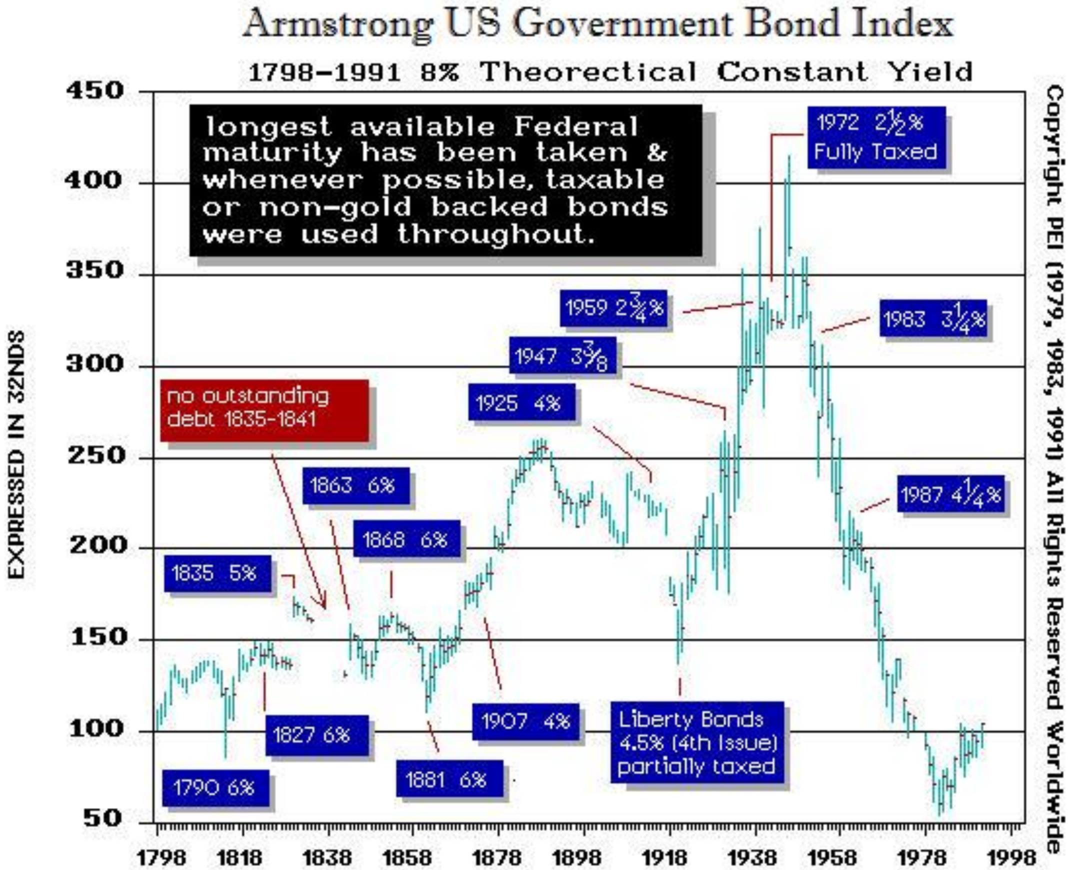
> "***The United States of America will pay to the bearer on demand Dollars . . . This note is receivable by all national and member banks and Federal Reserve Banks and for all taxes, customs and other public dues. It is redeemable in gold on demand at the Treasury Department of the United States in the city of Washington, District of Columbia or in gold or lawful money at any Federal Reserve Bank.***"

There were two separate issues of the **Federal Reserve Bank Notes**, the series of 1915 and series of 1918. The first issue was authorized by the Federal Reserve Act of December 23rd, 1913 and consisted only of 5, 10 and 20 Dollar notes. These were not issued by all twelve banks in the system but only by the banks at Atlanta, Chicago, Kansas City, Dallas and San Francisco. The last named bank issued 5 Dollar notes only. These notes are inscribed "***National Currency***" and are similar to the earlier **National Bank Notes**. The obligation to pay the bearer on demand is made by the specific Federal Reserve Bank and not by the United States. The obligation on the first issue of **Federal Reserve Bank Notes** is similar to that on the **National Bank Notes**. There is a slight variance in the wording but not in the meaning.

The second 1918 issue of **Federal Reserve Bank Notes** was authorized by the Act of April 23, 1918. The notes were issued by all twelve banks. Part of the obligation on this issue differs from that on the first issue, as follows,

> "***Secured by United States bonds or United States Certificates of indebtedness or United States one-year gold notes, deposited with the Treasurer of the United States of America. ...*** "

Federal Reserve Bank Notes are all quite rare for most were redeemed. The **Treasury Department** records only a little more than $2 million dollars is still outstanding out of a total issue of nearly $762 million dollars. Obviously, such notes were redeemed most likely prior to 1934 and the confiscation of gold under Franklin D. Roosevelt. To reduce the cost of printing currency, the notes were reduced in size to the current format by the ***Act of July 10th, 1929***. After the enactment of the ***Gold Reserve Act of 1933***, the obligation was changed to read: “***This note is legal tender foe all debts, public and private, and is legal tender for all debts, public and private, and is redeemable in lawful money at the United States***



Treasury, or at any Federal Reserve Bank." Of course gold was no longer lawful money domestically, so exactly what could the notes be redeemed for was at best coins.

Yet through all of this, there is a tremendous problem with this perception of the role of the Federal Reserve. It is absolutely true that we **NEED** the Federl Reserve to provide stability to the banking system. However, that **NEED** is to be limited to the role of J.P. Morgan during the **Panic of 1907**. All the Fed should have done was to be there to provide liquidity in times of economic upheaval. A bank would place its secured loans up at the Fed if it needed instant cash to stop a run. It has been Congress that just can't keep its hands in its own pockets. The Fed when designed had 12 regional branches each functioning independently so that interest rates would **NOT** be a single national rate because the United States is not a single economy by diverse with industry, agriculture, commodity production (oil & mining) all in different regions. Service industry tends to be clustered predominatly with the population. So one size does not fit all. During

1934 The new Roosevelt Money

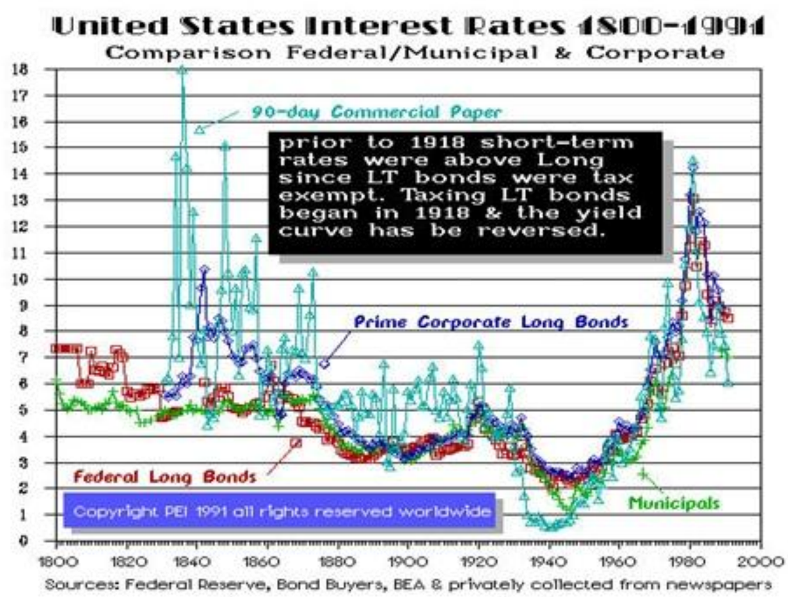
commodity booms in oil, Texas is living the large life andd New York is suffering. This single rate nonsense was usurped in 1927 by the Fed trying to bailout Europe. We forgot this part of the design.

The reason for the **BANKS** operating the Fed was to divorce the two words Political Economy. This was not an evil design, but politically practical. For you see, to stimulate the economy, the Fed was initially set up to buy corporate paper injecting money directly into the local economy. Because of World War II, the Democrats were worried about the war creating oinflation as did every war before it. Thus, Americans were traditionally isolationists and did not want to get into Europe's battles. After much manipulation, FDR managed to get the USA into the war. To eliminate the effects of the massive expenditures, they changed the Fed's role. **FIRST**, they formally usurped all powers consolidating it into one national poliicy. **SECONDLY**, instructed the Fed to create **MONEY** to support the Federal bonds at **PAR** to prevent any decline. **THIRDLY**, they eliminated the Fed buying corporate paper to stimulate the economy instructing it to buy only Federal bonds instead. We can see in this perpetual index of Federal Bonds from 1798 to 1991 the impact of these policies.

Here we have the interest rates between 1800 and 1991 showing the spikes during the Civil War and World War I. This was neutralized during World War II but the political usurpation of the Fed.

Our problem is NOT the Fed, it is the role it keeps being forced into. Now the Fed is in charge of the economy and it can bailout anything, not just banks. So you can see that we have gone from the plain and simple role of J.P. Morgan into a complex entity that keeps being changed and reshaped by people who have no clue what they are doing.

There have been many attempts to create a monetary system within the United States which have plagued politicians resulting in a highly tortured past. The US dollar currently is the established de facto **WORLD RESERVE CURRENCY** ever since 1944 and **Bretton Woods**. However, it has been our misconception of **MONEY** that has driven these failed attempts at creating some sort of superpower within the economy, and then we yell and scream that the Fed is own by bankers. It was not created for the purpose it is being used today. Because the US dollar is the **RESERVE CURRENCY,** our **domestic** policy objectives in the USA are **exported** via the currency to the entire world making this entire system completely nuts. We are far beyond any rational design here. This is because politicians keep tinkering with the role of the Fed for political objectives, not sound economics.



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THE RESERVE CURRENCY THAT PAYS INTEREST

Thanks to two world wars, the USA became both the arms dealer and the breadbasket for the world. That status caused the gold to flow to the United States in addition to the instability of a political economy in Europe. Europe and Asia had been devastated by war. There were no tanks that invaded America. Nevertheless, the US dollar became not merely the reserve currency thanks to Bretton Woods, but it has constructively been transformed into currency that pays interest. The misnomer that we simply print money which is inflationary has been pure fiction. The actual printed currency is less than 5% of the total money supply. What is far worse is that the dollars held by foreign countries accumulated initially through trade are not printed dollars at all but bonds paying interest. Therefore, the dollar has actually come full circle. We have returned to the Civil War era when the currency used to pay interest as an incentive to further encourage its acceptance. In effect, some of the earliest federal issues of currency paid interest and were a hybrid form of circulating bond. The term "greenback" meant there was no interest or gold backing. We have re-created that through our sovereign debt structures which have been furthered by Marxism to justify perpetual borrowing on the part of government. As they say, the road to hell is paved with good intentions.

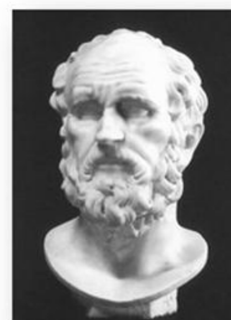
Bretton Woods

The establishment of the US dollar as the reserve currency at Bretton Woods in 1944 illustrates the inability of government to honestly create a stable monetary system. When politicians are an elite separate class and not mere citizens who represent the people, DEMOCRACY crumbles into a PUBLIC v PRIVATE confrontation. While some see the gold standard as a symbol of stability, they have failed to realize is that the professional political class does not function in the same manner as directors of a private corporation. Government devolves always into a confrontation over power between the people and the government. They have the tanks, the guns and the courts to enforce their decrees and see themselves as law givers – not public stewards of `our LIBERTY.

The gold standard of Bretton Woods collapsed because this professional political class continued to spend money without any link to the convertibility of paper dollars into gold. Politicians tend to be specialists in creating laws but lack a common sense of the money manager. For this reason, governments perpetually collapse due to fiscal mismanagement. The self-interest of government is **ALWAYS AND WITHOUT EXCEPTION**, diametrically opposed to **LIBERTY** of the people. It must be that way because government produces nothing, consumes the wealth of the people, and its power is defined by "governing" and dictating to the people. Government is not GOD and there is no benevolent design that kindly watches over the welfare of the people. It see everything as power and control of the people and then hunts them down as a food source to consume their wealth to sustain itself. This is why historically **FISCAL MISMANAGEMENT** destroys every for of government

In Plato's Republic there is a debate recorded between **Socrates** (Σωκράτης) (ca. 469 BC–399 BC) and the sophist **Thrasymachus** (Θρασύμαχος) (ca. 459-400 BC). I believe the former made the mistake of observing history and trying to think that in contrast to a tyrant, a democracy composed of the people would somehow ensure that justice would always prevail. **Thrasymachus** wisely disagreed. He said:

> *"the different forms of government make laws democratical, aristocratical, tyrannical, with a view to their several interests; and these laws, which are made by them for their own interests, are the justice which they deliver to their subjects, and him who transgresses them they punish as a breaker of the law, and unjust. And that is what I mean when I say that in all states there is the same principle of justice, which is the interest of the government; and as the government must be supposed to have power, the only reasonable conclusion is, that everywhere there is one principle of justice, which is the interest of the stronger."*



Thrasymachus (ca. 459-400 BC)

Consequently, our greatest problem is our confrontation with government – not what constitutes money. It is our inability to have any form of a benevolent government. Once we allow a professional political class to emerge that becomes the elite, our lives change forever. Their survival depends on our subjugation. The founding fathers of the United States did not authorize a government that regulates everything. The word regulate meant "to make regular" and the only authority to do so was granted in what is known as the **Commerce Clause.**

Article I, Section 8 of the United States Constitution defines the extent of the power of government. The entire object of the **Commerce Clause** was to ensure free trade among the states – to establish a single common market eliminating the competition to trade among the states as was the case in Europe. Over time, hand-picked judges who always interpret law in favor of more power to government, have transformed the **Commerce Clause** into oppression of trade and all about government's expansive right to regulate everything within trade, right down to wages, work hours, and taxes. What was to ensure free trade has been used to control everything – not make it regular.

U.S. Constitution - Article 1 Section 8

The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States;

To borrow money on the credit of the United States;
<u>To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes;</u>
To establish an uniform Rule of Naturalization, and uniform Laws on the subject of Bankruptcies throughout the United States;
To coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures;
To provide for the Punishment of counterfeiting the Securities and current Coin of the United States;
To establish Post Offices and Post Roads;
To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;
To constitute Tribunals inferior to the supreme Court;
To define and punish Piracies and Felonies committed on the high Seas, and Offenses against the Law of Nations;
To declare War, grant Letters of Marque and Reprisal, and make Rules concerning Captures on Land and Water;
To raise and support Armies, but no Appropriation of Money to that Use shall be for a longer Term than two Years;
To provide and maintain a Navy;
To make Rules for the Government and Regulation of the land and naval Forces;
To provide for calling forth the Militia to execute the Laws of the Union, suppress Insurrections and repel Invasions;
To provide for organizing, arming, and disciplining, the Militia, and for governing such Part of them as may be employed in the Service of the United States, reserving to the States respectively, the Appointment of the Officers, and the Authority of training the Militia according to the discipline prescribed by Congress;
To exercise exclusive Legislation in all Cases whatsoever, over such District (not exceeding ten Miles square) as may, by Cession of particular States, and the acceptance of Congress, become the Seat of the Government of the United States, and to exercise like Authority over all Places purchased by the Consent of the Legislature of the State in which the Same shall be, for the Erection of Forts, Magazines, Arsenals, dock-Yards, and other needful Buildings; And
<u>To make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers, and all other Powers vested by this Constitution in the Government of the United States, or in any Department or Officer thereof.</u>

If one reads the **Commerce Clause** as expansive allowing laws about absolutely anything as long as it can be said the subject matter has to do with trade among the states or nations, then there is **<u>no limit</u>** to the power that can be created and justified. This is then blended with the **Necessary and Proper Clause** and you suddenly can justify everything in that list. This is what judges cannot be selected by politicians or political parties. They will always select those who will read their powers expansively. Thus, Thraymachus was correct. It matters not the form of government, for “justice” is always merely the self-interest of the political elite. To fix society, we MUST understand the source of the problem. If we do not do this, we face another Dark Age for government’s self-interest ALWAYS destroys civilization to sustain its very life.

1864 Compound Interest Note
Interest Schedule on Reverse

While it is true that the gold standard aspect of **Bretton Woods** collapsed, it is **NOT** true that the entire structure created in 1944 collapsed. To the contrary, everything else remains in place from the ***World Bank*** and ***IMF*** to the fact that the dollar remains as the **RESERVE CURRENCY** of the world. However, this monetary system of 1944 remains as the chicken that is still running even though the head (***gold standard***) was cut off. This gave birth to the ***Floating Exchange Rate System*** we have today that was not designed and is simply ***ad hoc***. This is also why it has not been taught in any university because nobody designed it. The dollar is no longer an **IOU** for gold representing some **TANGIBLE** asset. **MONEY** has transcended beyond that Western tradition of being a receipt for something tangible and has thus undergone a metamorphosis evolving into a completely new medium of exchange that nobody has quite fully understood – **VIRTUAL MONEY THAT PAYS INTEREST**. The dollar has become precisely as illustrated here – an 1864 Compound Interest Note with the schedule of payment on the reverse.

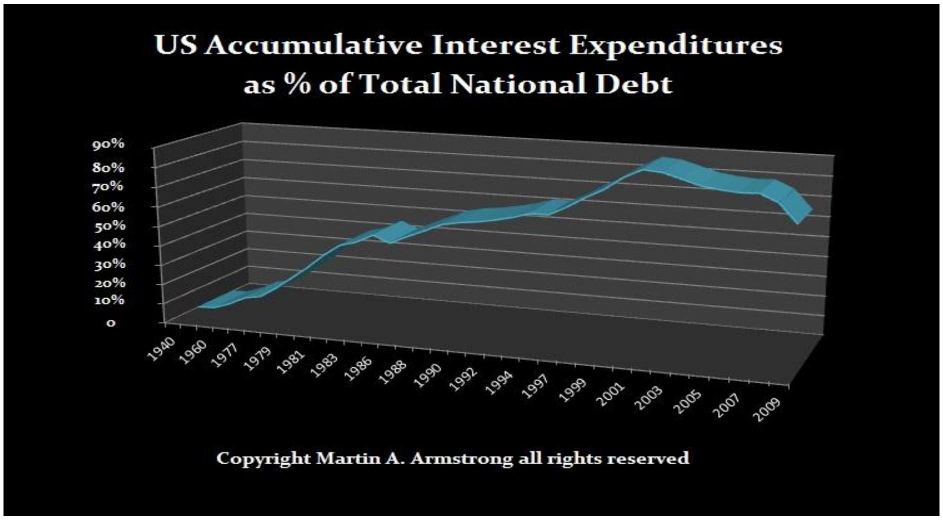
Therefore, this whole idea that we can live the high-life, be whatever we dream and never have to pay the consequences is simply dead wrong. The confusion that the Gold Standard advocates have created is this misconception that we print money and that is "fiat" that results in inflation. This is a far too simplistic view of finance. It presumes "printing" of actual dollars without restraint. Simply put, **HAD WE PRINTED** dollars instead of **BORROWING DOLLARS**, the national debt would be about 40% of its current size. Printing is **MUCH LESS** inflationary than borrowing. The reason, borrowing necessitates the creation of MORE money to pay the interest whereas printing does not.

If you simply add the accumulative interest each year, you will find that this is driving the debt higher and thus not even any motion to compel a **BALANCED BUDGET** will have any effect whatsoever on the stopping the crisis we now face – the extinction of Western Civilization percolating with nuclear weapons. The United States poses the exact threat that USSR did upon collapse – rouge nuks in the wake of political disintegration!

Public Debt of the U.S., 1870-2009

Source: Bureau of Public Debt, U.S. Dept. of the Treasury

Fiscal year	Debt (bil)	Debt per cap. (dollars)	Interest paid (bil)	% of federal outlays
1870	$2.4	$61.06	—	—
1880	2.0	41.60	—	—
1890	1.1	17.80	—	—
1900	1.2	16.60	—	—
1910	1.1	12.41	—	—
1920	24.2	228	—	—
1930	16.1	131	—	—
1940	43.0	325	$1.0	10.5%
1950	256.1	1,688	5.7	13.4
1960	284.1	1,572	9.2	10.0
1970	370.1	1,814	19.3	9.9
1977	698.8	3,170	41.9	10.2
1978	771.5	3,463	48.7	10.6
1979	826.5	3,669	59.8	11.9
1980	907.7	3,985	74.9	12.7
1981	997.9	4,338	95.6	14.1
1982	1,142.0	4,913	117.4	15.7
1983	1,377.2	5,870	128.8	15.9
1984	1,572.3	6,640	153.8	18.1
1986	2,125.3	8,774	190.2	19.2
1987	2,350.3	9,615	195.4	19.5
1988	2,602.3	10,534	214.1	20.1
1989	2,857.4	11,545	240.9	21.0
1990	3,233.3	13,000	264.8	21.1
1991	3,665.3	14,436	285.5	21.6
1992	4,064.6	15,846	292.3	21.2
1993	4,411.5	17,105	292.5	20.8
1994	4,692.8	18,025	296.3	20.3
1996	5,224.8	19,805	344.0	22.0
1997	5,413.1	20,026	355.8	22.2
1998	5,526.2	20,443	363.8	22.0
1999	5,656.3	20,746	353.5	20.7
2000	5,674.2	20,106	362.0	20.2
2001	5,807.5	20,361	359.5	19.3
2002	6,228.2	21,616	332.5	16.5
2003	6,783.2	23,326	318.1	14.7
2004	7,379.1	25,130	321.6	14.0
2005	7,932.7	26,754	352.4	14.3
2006	8,507.0	28,414	405.9	15.3
2007	9,007.7	29,804	430.0	15.4
2008	10,025.0	33,237	451.2	16.2
2009	11,956.6	38,850	383.4	26.0



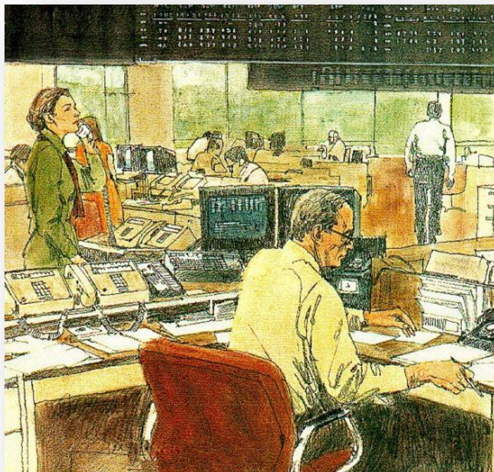
The debt is on automatic pilot. It will grow at the expense of **EVERYTHING ELSE** until it defaults. The consequence of all of this debt creates a serious problem. Not even a **BALANCED BUDGET** is a solution because the interest on existing debt will continue to rise as a percent of total. This means that **ALL** other spending social and military will be crowded out by the obligation to service the debt by paying interest of which 40% is exported.

The accumulative interest expenditures will simply rise to the point they bring down the entire system. For you cannot cut the interest expenditures without defaulting on the debt. Austerity is not the answer for cutting spending, raising taxes, will reduce economic growth, increase unemployment, and cause a further decline in tax revenues. There is just way too much debt to get out of this trap without some clever default. And, on top of all of this, the USA is in the best shape compared to Europe and Japan.

The longer we postpone political-economic reform, the worse the problem is becoming. We are standing on the edge here about to commit suicide. We cannot hunt down everyone for taxes. That will reduce the **VELOCITY** of money and cause the hoarding of wealth instigating an economic implosion. We must **STOP** this insane policy of let's just worry about today with no long-term planning. For unless we address this problem soon, there will be no tomorrow to worry about. When Rome fell – the Romans were still laughing. As Sinatra's hit song, Send in the Clowns so poignantly stated, don't bother – they are already here. This is what the **Sovereign Debt Crisis** is all about.

That said; the US Dollars still remains the best of the three ugly sisters. Japan and Europe are in far worse shape than the United States. We will see both Europe and Japan collapse **BEFORE** the United States, SO prepare for the worst – yet hope for the best.

2012 Subscription Services



Will be Coming by the Summer

We will be starting up the subscription and per access service to the regular forecasting. This will not alter the current public service reports on explaining the events that surround us. The subscription services will be the computer generated reports that will cover the entire world. These reports will provide the specific forecasts for time and price. Those who are not trading will still have free access to the reports provided currently. Nothing there will change.

As far as services are concerned, there will be the general written reports on a monthly basis per market. You can obtain access on this level that will be reasonably priced for the average individual. For the institutions and individuals, there will be the daily reports available per access so you can gear the level of service and the number of markets to you particular needs.

We will also restore the alert service where you can input which markets to watch and the computer will send you an alert when it is time to add a position or to change direction. This will provide the full world economy for those with major portfolios. Those interested may get on the list by sending an email to:

PrincetonEconomics@HotMail.COM