

Evaluating the Message

The Ron Paul Phenomenon Is Not Dead! Part 1 of 4

by Geraldine Perry / May 9th, 2009

Although the 2008 election is over and done, the passion ignited by what has become known as the “Ron Paul Phenomenon” has not evaporated. In fact, it can be fairly said that the Ron Paul Phenomenon is alive and well — and presently regrouping.

Evidence can be found in the growing plethora of both established and newly developing grassroots groups which either grew out of the Ron Paul Campaign or else network with it. Not a few of the new groups fall under Paul’s own newly created foundation, Campaign for Liberty. Most interestingly, a large percentage of the members of these groups do not confine themselves to standard political niches, and their remarkable dedication and independent ways set them apart from mainstream politics.

What was most unique about the Ron Paul 2008 Presidential Campaign was it’s almost uncanny ability to tap into a deep, almost palpable hunger for “outside the Beltway” leadership that has been growing within the populace for quite some time. It was this hunger which enabled the campaign to attract heartfelt and often impassioned support from a surprisingly diverse range of people who spanned the political and social spectrum.

This “phenomenon” in its larger sense carries the very real potential for developing into a viable third party, particularly if it can recombine with other disaffected portions of the populace. Therefore, and whatever our own political persuasion, it is perhaps in our own best interests if we use this brief respite from campaign season mania to engage ourselves in a sincere effort to understand, as objectively as possible, the “Ron Paul Phenomenon” in all its facets.

We begin here with an evaluation of one of the central messages of the Paul campaign, having to do with Constitutional issues. To be sure Paul has for decades been an outspoken and frequent critic of what more and more people are recognizing as a key problem: that of a dangerously over-bearing, over-grown Federal government which has gone far beyond the limited government established by the Framers.

It is because of increasing government willingness to use all means necessary to achieve and maintain military and economic dominance all over the world — and over its own citizens — that ever greater portions of the populace are embracing anew George Washington’s prescient sentiment: “Government is not eloquence, it is not reason. Like fire, it is a dangerous servant and a fearful master.”

Paul’s prolific newsletters, networking systems and speeches provided him with a ready platform from which to publicize his stance against the Iraq War, the Patriot Act and militarism overall. So it was that Paul’s well broadcast anti-war, anti-police-state position won him significant support from within the ranks of all the major anti-war groups, who were in turn able to further augment Paul’s anti-war, anti-militarism message through their own ample, well established networks.

At the same time Paul was able to tap into the opposite end of the political spectrum by calling for a repeal of the 16th amendment as a means of ending the income tax, and limiting government spending. Herein lies a conundrum because (rightly or wrongly) not only are the peace groups unlikely to support strictly limited government spending — except insofar as reigning in war and militarism are concerned - but a fair study of the income tax issue makes it clear that the Sixteenth Amendment did not grant the federal government any new taxing power, nor is it the source of the federal government’s power to impose income taxes.^{1, 2}

In other words, and while a perfectly reasonable case can be made that all amendments after the Bill of Rights need at the very least to be re-examined and for a variety of reasons even abolished,³ a repeal of the 16th amendment will not end the income tax or help limit government spending. So how did such a serious

amendment will not end the income tax or help limit government spending. So how did such a serious misconception gain such a foothold in the public mind?

Interestingly enough, some researchers have charged that one of the main objectives of the 16th amendment was to serve as a diversionary tactic by which the productive classes — that is farmers, laborers, small businessmen and the like — would be taxed while the wealthiest of the wealthy would escape tax free, or nearly tax free.⁴ Thus these chosen few might be in a better position to “manipulate the public mind”, to borrow a phrase from one of the leading business intellectuals of the 20th century, Edward Bernays.

One of the main methods for the wealthy elite to escape taxation was through the charitable foundations which were given tax exempt status by Congress in 1913. It was through these foundations, and other means, that the public mind could, and should, be manipulated — thus maintaining a long held sentiment among certain elements within the more privileged circles of society. Edward Bernays summed up this notion in his 1928 book *Propaganda*: “The conscious and intelligent manipulation of the organized habits and opinions of the masses is an important element in democratic society. Those who manipulate this unseen mechanism of society constitute an invisible government which is the true ruling power of our country.”

So, might tax exempt foundations have played a role in disseminating the misconception that the 16th amendment did indeed grant Congress a new power of taxation? Well, it seems that the efforts of well respected tax exempt foundations such as the Cato Institute, the Heritage Foundation and others have, in a sense, created a kind of consensus on this issue, despite learned dissension from within their own ranks.²

As one example, we have the very well received *The Heritage Guide to the Constitution* published in 2005. An analysis of this book led two Constitutional writers to observe that while the book claimed that the Sixteenth Amendment “not only expanded Congress’ power to tax, but it exempted income taxes from the requirement that all direct taxes be apportioned among the several States, [t]hese assertions... have no basis in fact. [This was a peculiar situation inasmuch as] the Heritage Foundation had legal scholars from all over country collaborate on their analysis of the Constitution... [Therefore] these misrepresentations concerning the effect and scope of the Sixteenth Amendment cannot be attributed to sloppy research. [Moreover] Leaving the two most important cases on the Sixteenth Amendment out of an analysis of the Amendment cannot be by accident. The reader can draw their own conclusions concerning these omissions.”⁵

The subject of taxation is irrevocably tied to money creation, and here too Paul misses the mark, or at least conflates issues. For example, he writes “The drafters of the Constitution were well aware of how a government armed with legal tender powers could ravage the people’s liberty and prosperity. That is why the Constitution does not grant legal tender power to the federal government, and the states are empowered to make legal tender only out of gold and silver.”⁶

Paul is far from alone in his misunderstanding of what the Constitution actually says about money, not to mention who actually is currently in charge of creating it. For example, very often misconstrued is the wording of Article 1, Section 10 of the Constitution: “No state shall emit bills of credit, make any Thing but gold and silver coin a Tender in Payments of Debts...” Briefly stated, this is a limitation on the powers of the states only.

It is in fact through Article I, Section 8 that the national government is granted legal tender power: “The Congress shall have the power to ... coin [as in create] money, regulate the value thereof, and of foreign coin, and fix the Standards of Weights and Measures.”

Thus the government — and NOT the privately owned banking system as is currently the case — is Constitutionally charged with legal tender power. The states are limited in what they can use as money.

The reason behind this was that prior to the Revolution all the colonies had issued their own money. Then, “[f]rom 1776 to 1789 under the Articles of Confederation, the Colonies continued their practice of emitting bills

of credit and coining money, which circulated along with Continental currency and other types of money. After the adoption of the Constitution, the states were now prohibited from issuing money. Since the national government had banned the state's money-issuing powers, colonial script could not be received in payment of debts owed to the central government. This is the reason for the insertion of [Article I, Section 10]. It never was intended to establish a metallic basis for money...

"[Moreover] the framers of the Constitution wanted to be totally free from having to borrow money into circulation. None of the colonies had used the goldsmith's fractional reserve method of issuing bills against gold or any other metallic backing. Their currency had been issued on the basis of the commercial needs of the colonies."⁷

Supporting the above and fleshing out more legal detail is a recently published scholarly article on original intent appearing in the *Harvard Journal of Law & Public Policy* which concludes, in part, that: "According to the original understanding, the Constitution's Coinage Clause granted to Congress the express power to coin money and bestow legal tender quality upon that money.... In addition, the money thus "coined" did not need to be metallic. Paper or any other material that Congress selected would suffice."⁸

A good deal of the present-day confusion over how and who is charged with the creation of our money seems to stem from the works and writings of Alexander Hamilton. What is most important to keep in mind is that the early, hard fought money debate centered on whether the Hamiltonian model of using "implied powers" to allow a privately owned banking system to create our money out of debt was in fact Constitutional.

Author Olive Cushing Dwinnel offers some intriguing insight into Hamilton's arguments. After citing relevant quotes from Hamilton, she writes:

Pointing out the fraud of these arguments, it was one of the principles of the Colonial governments (even in that earliest Convention in Albany when the colonies met for protection, and peace with the Indians), as well as in the old Continental Congress and the Constitutional Convention, to create a uniform currency under Union authority, and discontinue the use of state power over issuing currency or emitting bills of credit...

The [Hamiltonian] argument that because the States were not permitted to continue issuing money after the Federal Government was established, as pointing to the same policy for the Federal government, is not based in fact or on the Constitution, for the Constitution provides that the Congress SHALL have the power to coin money....

Such arguments of Hamilton show either his complete lack of confidence in our Republican form of government, or else a clever trickery and sophistry of words to force the use of a foreign and usurious system of banking and private control of money issuance on the new government.... Also his statement that government cannot be trusted to use its power to issue sufficient currency while private banks and money lenders can be so trusted is another proof of his well known monarchial and imperialist sympathies and his complete distrust of a people's government.⁹

In another portion of the Ron Paul article previously cited, Paul does indeed point to the real problem when he states that "the primary beneficiaries of legal tender laws are financial institutions, especially banks, which have been improperly granted the special privilege of creating fiat irredeemable electronic money out of thin air through a process commonly called fractional reserve lending."⁶

It is absolutely true that the privately owned banking system — and NOT the government — is the prime beneficiary of current money creation laws. Why? Because the banks in this system, primarily the big banks, are allowed to create money — not really out of thin air — but out of public and private debt. This "debt/money" is

thus able to “make a gain of itself” through interest and other fees associated with debt creation. The problem is not fiat money, or paper, or even for that matter digital currency.

The problem is that the government has abandoned its Constitutional duty to “coin” debt free money and instead allows the banks to create our money as interest-bearing debt, through “implied powers”. This creates an untenable situation in which both public and private debt (through the fractional reserve system) must expand exponentially over time following mathematical law — thus devaluing the currency over time.

Put into perspective, we currently have a money supply of some \$14 trillion using estimated M3 figures. Meanwhile our total public and private debt is some \$53 trillion. Not only is there NO way to pay off the debt with the current money supply, but any new money that comes into circulation must be in the form of new debt, adding to the debt load as well as the money supply — all compliments of the banking system. Importantly, the money supply is managed by Fed-determined policies in tandem with the government’s willingness (or presumed need) to borrow from the Fed.

The difference between the money supply and the debt represents the accumulated interest charges and other fees that are associated with debt/money creation. Your own mortgage provides a more personal example, since the loan principal is what was created as “money” so that you might complete the purchase of your house. The “money” you got from your mortgage is what you gave to the home seller and he in turn was able to spend that “money” into circulation.

The accumulating interest charges and loan origination fees were separate and apart from the money/mortgage you used to make your purchase. Those charges were NOT created as “money”. In order for YOU to pay off those charges other people must take out ever more loans — thereby creating “money” through their loan principal. The accumulating interest charges then cause debt to exponentially increase as time goes on, hence the difference between our current national money supply and debt.

Most importantly, the above examples illustrate the amount of real wealth that is extracted from the working population and handed over to the banking system for payment of interest and fees — just so we might have the privilege of using money that is designed to “make a gain of itself.”

Within this context the income tax is little more than a tool to insure payment of the exponentially accumulating interest on the public debt — and to persuade we the people that taxes are needed to “pay” for government projects. In point of fact, in an honest, Constitutionally appropriate money creation system, taxes, fees or any similar revenue-producing device would NOT be required to pay for government services or projects!

The ONLY need for such devices would be to “extinguish” Constitutionally created money that has served its purpose, thereby “regulating the value” and preventing inflation. And because there is NO exponentially accumulating interest under a debt “free” system, the combined amount needed from federal revenue sources would be reduced by 75% or more. This is, therefore, one crucial component for dramatically reducing government “spending.” For a more detailed explanation see “Money Owed and Owned.”¹⁰

Again in the same article, Congressman Paul continues with a justification for his “competing currency” proposal: “As Dr. Edwin Vieira ... states: ‘A free market functions most efficiently and most fairly when the market determines the quality and the quantity of money that’s being used.’”⁶

This is true, insofar as a transparent, non-discriminating, well regulated money creation system is concerned. But the efficient, fair functioning of a market has little to do with whether or not “competing currencies” are brought into existence. In fact, competing currencies were the precise reason the founding fathers saw fit to require the federal government to create our money and “regulate the value thereof” of both coin and paper.

Additionally one might ask, if private mints were allowed to produce a portion of our coins, would this not give

us yet another form of currency that is allowed to “make a gain of itself”? After all, these private mints would presumably want to earn at least a modest profit for their efforts, as would the mining monopolies the raw metals come from.

Finally and in the same article Paul writes that “While harming ordinary citizens, legal tender laws help expand the scope of government beyond that authorized under the Constitution.”⁶

It is NOT the legal tender laws per se which help expand the scope of government, but rather it is the sovereign power structure that surrounds the Federal Reserve, effectively built by the “money powers” in the years immediately following the Civil War and continuing to the present day. This power structure can be described as the “economic/police state” which Paul himself vociferously and frequently objects to, and includes the WTO, the North American Union, militarization of local police and the national guard and more. For a more detailed explanation of this power structure see “The Encroaching Economic/Police State.”¹¹

Paul’s recent, controversial earmark vote this past February¹² is only one example of philosophical inconsistency with respect to his voting record. But far more problematic is the extremely unfortunate misinterpretation of the Constitution itself, because this leads to false solutions and not just behavior that is inconsistent with campaign promises. One explanation for all this may in fact be that Ron Paul, like the rest of us, is merely a product of his environment.

But far more important, and more to the point, is that each of us is charged with the very serious responsibility to carefully evaluate the messages our leaders articulate. Whenever we as individuals fail to diligently execute that responsibility, none of us comes out a winner — not even Ron Paul.

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1. “[The 16th Amendment Is Not the Source of the Federal Income Tax](#),” by Robert Greenslade August 22, 1999. [↵]
 2. “[Constitutional Challenge: Repealing the 16th Amendment Wouldn’t Kill the Income Tax](#),” by David B. Levenstam. January 1999, *Reason Online*. [↵] [↵]
 3. *The Two Faces Of Money* by Geraldine Perry and Ken Fousek. [↵]
 4. *The Money Manipulators* by June Grem, Enterprise Publications, Inc. 1971. [↵]
 5. “[The Heritage Guide to the Constitution’ Misrepresents the Effect of the Sixteenth Amendment](#)” by Robert Greenslade & Claude Ellsworth. January 9, 2009. [↵]
 6. “[Bring Back Honest Money](#),” by Rep. Ron Paul, M.D. *Lewrockwell.com*, July 25, 2003. [↵] [↵] [↵] [↵]
 7. *The Money Manipulators* by June Grem, Enterprise Publications, Inc. 1971. [↵]
 8. “[Paper Money and the Original Understanding of the Coinage Clause](#)” by Robert G. Natelson, University of Montana, 31 Harvard J.L. & Pub. Policy 1017, 2008. [↵]
 9. *The Story of Our Money* by Olive Cushing Dwinell. 2nd edition. Private reprint. p69-70. [↵]
 10. “[Money Owned and Owed](#),” slide presentation by Geraldine Perry. [↵]
 11. “[The Encroaching Economic/Police State](#),” slide presentation by Geraldine Perry. [↵]
 12. “[Texas Lawmakers Rip Budget, But Seek Millions](#)” by Stewart M. Powell and Richard S., *Dunham*, Feb. 28, 2009. [↵]
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Geraldine Perry is co-author of The Two Faces of Money and creator of its related [website](#) which includes recent reviews. This website also has an abundance of related material and links, along with a free, down loadable slide presentation describing the two forms of money creation and the Constitutional solution, which is not the gold-backed dollar as popularly believed. As a means of imparting accurate information on health and nutrition to as broad an audience as possible she developed the web site [The Health Advantage](#). Read other articles by Geraldine.

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