American Government & Politics: A Christian Worldview
Article: "The Federal Reserve Killed My Grandfather" (15–20 Minutes)

TEACHER INSTRUCTIONS/KEY

Goal

This interesting article explains the origins of the Fed and its destructive effects on American society, including the title incident and the Great Depression.

Instructions

1. Instruct students to read the article and answer the review questions. (Give them 10–12 minutes.)
2. Have students discuss their answers in pairs or small groups (if time).
3. Ask for volunteers to share their answers as a class.

Key

1. Article I, Section 8 gives the U.S. Congress the power "to coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures." (Under the Articles of Confederation, the Congress was forbidden to coin money unless nine of the 13 states agreed to allow it.) What is the danger of allowing the government to print paper money?

   They overspend and "pay" for their overspending by printing money, which devalues the money's worth for everyone except those who receive the new "money" first. It tempts government officials to make promises to give freebies to voters in exchange for their votes.

2. What falsehood do big-government advocates use to explain the Great Depression? What actually caused it?

   They claim it was the "failure of free enterprise," when in reality it was the policies of the Federal Reserve that caused the depression.

3. Briefly describe how life would be different in America if there were no monetary inflation caused by the Federal Reserve. In other words, what would happen if (a) the cost of mass-produced items that were initially only affordable for the wealthy (computers, air conditioning, cars, corrective eye surgeries, cell phones, etc.) drastically *decreased*, as is normal, and (b) the Fed didn't inflate the money supply, so that something that cost $1 in 1913 still cost $1 today.

   AWV, but the amount of massive wealth and standard of living would be off the charts, with Americans (who make more than they did 100 years ago because they're more productive, using computers, AI, high-tech machinery, etc.) making more money being able to buy and save much more, since their money hasn't lost 97 percent of its value since 1913.

4. How do the Bible's limitations on government's functions again prove its practicality and justness, in light of the Federal Reserve?

   AWV, but following the Bible's guidelines would have completely precluded the existence of any national bank and would have prevented untold misery, especially for the poor.

The Federal Reserve Killed My Grandfather

Future of Freedom Foundation
Jacob G. Hornberger • December 2, 2020

[W]hen I was in high school, my father told me about the death of his father. In the 1920s, my grandfather, who lived in San Antonio, owned the second-largest insurance agency in Texas. He had extended a large amount of credit to his customers. One afternoon he came home, and my dad said that his face was "white as a sheet." He told the family, "I have just sold the company." Shortly after that, he died of a heart attack.

My grandfather had gone broke as a result of the Great Depression, which also undoubtedly brought on the heart attack. Of course, he wasn't the only one. There were countless people who lost their life's fortune. Many wealthy people who were now penniless ended their lives through suicide.

At the time people were told that the 1929 stock-market crash and the subsequent Great Depression were the result of the "failure of free enterprise." It was a lie. The crash and the Depression were the result of the Federal Reserve System, the system of monetary central planning that progressives had brought into existence in 1913.

For more than a century, America had lived without a central bank. Its monetary system was based on gold coins and silver coins being the official money of the country. That gold-coin, silver-coin system was established by the Constitution, the official document that called the federal government into existence.

The Framers made clear that America's monetary system would never be based on fiat or "paper" money. That's why the Constitution gave the federal government only the power to "coin" money, not print money. It's also why it expressly prohibited the state governments from making anything but gold and silver "legal tender" or official money.

The federal government was also given the power to borrow money. However, the gold standard effectively limited that power. If the government began issuing too many bills and notes promising to pay gold coins and silver coins, there was a danger that everyone would suddenly demand to be paid the gold coins and silver coins owed in such notes, which would render the federal government bankrupt.

The early part of the 20th century was when the progressive movement was striving to convert America's free-market system to a welfare state system, which would necessarily entail massive amounts of government spending. As a step in that direction, in 1913 the progressives persuaded Americans to adopt both a national income tax and the Federal Reserve System.

The job of the Federal Reserve was to centrally manage the issuance of the federal government's debt instruments. As with all experiments involving central planning, which is a socialist construct, the result was a disaster. In the 1920s, the Fed overextended the issuance of debt instruments, which posed a danger of a run on the federal government's gold reserves. Panicking, the Federal Reserve over-contracted, which brought on the 1929 stock-market crash, which was followed by the Great Depression.

The last thing federal officials felt they could do is acknowledge that the Fed was the root cause of the crisis. After all, countless people, such as my grandfather, had lost their businesses and even their lives because of the crisis. There was economic devastation all across the land, with unemployment at unprecedented levels. Can you imagine what would have happened if they had told people the truth—that it was the federal government itself, operating thorough the Federal Reserve, that had caused the crisis? It is very possible that there would have been a violent revolution.

That was why they resorted to the "failure of free enterprise" lie. By doing that, there would be nothing that people could do. Equally important, people would be more willing to go along with President Franklin's New Deal program, which was sold as a way to "save" free enterprise.

It was just another lie, however. In actuality, Roosevelt's program was a combination of socialism and fascism, which in many ways closely resembled what Adolf Hitler and Benito Mussolini were doing in Germany and Italy as a way to deal with the Great Depression.

For example, there was Social Security, a socialist program whose concept had originated among socialists in Germany. There was the National Industrial Recovery Act, along with its propaganda campaign known as the "Blue Eagle," that could easily have been adopted by Fascist Italy. There were public-works projects that closely resembled those in Nazi Germany.

Among the worst things that FDR did was destroy America's monetary system by ordering people to turn in their gold coins to the federal government. The nationalization was no different from what Stalin and the communists were doing in the Soviet Union.

Roosevelt's conversion to a fiat or paper-money standard, without even the semblance of a constitutional amendment, set the stage for massive, out-of-control federal spending, taxation, debt, and inflation that came with the advent of the welfare-warfare state. America's new monetary system would come to be characterized by decades of debasement and debauchery, which especially adversely impacted the poor.

It is impossible to imagine how different America would be if the Federal Reserve, the income tax and the IRS, fiat money, and the welfare-warfare state had never come into existence. The upward trajectory of economic prosperity, sound money, voluntary charity, peace, harmony, and rising standards of living that had characterized the nation from its inception would have continued, all the way through today.

Moreover, countless people who lost their fortunes and their lives in the Great Depression, such as my grandfather, would have continued building and expanding success businesses. There is no doubt that America would be a much better place today.

Questions for Review:

1. Article I, Section 8 gives the U.S. Congress the power "to coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures." (Under the Articles of Confederation, the Congress was forbidden to coin money unless nine of the 13 states agreed to allow it.) What is the danger of allowing the government to print paper money?

2. What falsehood do big-government advocates use to explain caused the Great Depression? What actually caused it?

3. Briefly describe how life would be different in America if there were no monetary inflation caused by the Federal Reserve. In other words, what would happen if (a) the cost of mass-produced items that were initially only affordable for the wealthy (computers, air conditioning, cars, corrective eye surgeries, cell phones, etc.) drastically *decreased*, as is normal, and (b) the Fed didn't inflate the money supply, so that something that cost $1 in 1913 still cost $1 today.

4. How do the Bible's limitations on government's functions again prove its practicality and justness, in light of the history of the Federal Reserve?

The above article may be found here: fff.org/2020/12/02/the-federal-reserve-killed-my-grandfather