

Desocializing Money

Part I of Complete Desocialization Of A Failed Socialist Democracy

Desocialize: To cause to cease to be politically socialist.

Introduction

The summer of 1990, in Murray Rothbard's lecture [The Future of Austrian Economics](#), he described the Austrian school's surprise at the suddenness of the recent collapse of the Soviet Empire. Consequently, there was a lack of practical preparation for that opportunity. This point was reiterated in Rothbard's paper "How To Desocialize", published in "[The Economics of Liberty](#)". Jeffrey Tucker quickly organized a conference on desocialization for some eastern Europeans needing guidance. Lacking any advance planning for the collapse, events unfolded clumsily and the outcome was probably less liberty than there could have been.

Today, it's quite plausible that many governments in the most developed countries could collapse almost overnight, and possibly quite soon. Little has been published since the early 1990's to help a recurrence of such an event to unfold more gracefully. What was written then primarily addressed dictatorial socialist regimes, and had to allow for new governments already forming in the void. Today's socialist democracies, like the USA, have different challenges which require the proposals of 1990 to be revisited.

Granted, it's virtually impossible to predict how a truly free market will address the needs of individuals in a stateless society of natural order. However, on a much shorter timeline, if government were to economically collapse tomorrow, much of what needs to happen initially can be reasonably planned and prepared for today. These actions would expedite a truly free market expansion and hopefully prevent establishment of a new government to again destroy liberty.

This is the first of a short series on Complete Desocialization Of A Failed Socialist Democracy. Money and then banking are addressed before all else. They're essential for the non-government portion of the economy to survive the transition and immediately begin to grow in the new free market. All of these papers explore these questions:

- 1) What would be the most just disposition of property formerly held by government?
- 2) How can we prepare now to best accomplish this?

Ethics of Desocialization

In [Ethics of Liberty](#), chapter 24, [The Moral Status of Relations to the State](#), Murray Rothbard developed the following pearls:

- “as a criminal organization with all of its income and assets derived from the crime of taxation, the State cannot possess any just property.”
- “Any criminal titles to property should be invalidated and turned over to the victim or his heirs; if no such victims can be found, and if the current possessor is not himself the criminal, then the property justly reverts to the current possessor on our basic "homesteading" principle.”

So, if government property is being used when government ends, and the property was not stolen from a known individual victim, then the current possessor of the property has a just homestead right.

A very important case is the gold stolen from people [in April 1933](#). It was forcibly exchanged for “any other form of coin or currency coined or issued under the laws of the United States”. The increase in Fed liabilities from 1933 to 1934 was primarily in deposits, and not physical currency ([Federal Reserve Banking and Monetary Statistics 1914-1941, Table 85, p332](#)). So, the just claim for gold held by the US government should include coin, currency and deposits. Exceptions for some unjust deposits will be discussed.

- “the State's confiscations, taking place in the form of taxation, are mixed into a common pot, and it is impossible to point to specific owners of its specific property.”

Therefore, confiscations by taxation will not be recoverable in the form of a specific just claim.

- “the purchase of a government bond is simply making an investment in the future loot from the robbery of taxation. As an eager investor in future robbery, then, the bondholder appears in a very different moral light from what is usually assumed.”

Therefore, all debt voluntarily loaned to the government will be illegitimate and not owed after government ends. Involuntary debt that was coerced from people by threat of force, such as Social Security, will be a legitimate claim and owed to those who have involuntarily paid into a “Trust” expecting a future return of that money. The latter is a different matter from all other involuntary taxes, which had no expectation of the money being returned as money.

Commodity Redemption for US Dollars

When a government fails, the only true money it leaves behind is the monetary metals and other durable commodities it held. Those would be available for compensation of just claims for stolen gold and involuntary investments mentioned above. All commodity holdings of the US government need to be fully audited and physically located. An independent Money Desocialization Board (MDB) should be formed to plan and administer just distribution of the commodities back to the people.

Let's first quantify the amount of major commodities held:

- The [IMF reports](#) 18-million pounds of gold reserves in US government holdings. These are worth \$432 Billion at \$1,500 per ounce.
- The [US Strategic Petroleum Reserve](#) (SPR) has a capacity of 727 million barrels. At \$90 per barrel the oil is worth \$65 Billion, or 2.7 Million pounds of gold in July 2011 prices.
- The value of other US government held commodities is less significant and will be disregarded in the estimates calculated below.

Next, let's consider the potential just claims:

- The Social Security Trust retirement fund claimed [assets](#) of \$2.4 Trillion at the end of 2010.
- Medicare is insurance with no promise of returning the money. So, it may not be a just claim for the commodities formerly held by government. 2010 year end Medicare assets were \$0.4 Trillion and much less significant than Social Security.
- Everything related with government employment is a voluntary unsecured contract which would become invalid when the employer dissolves. The one exception is for those conscripted against their will and therefore enslaved, instead of being voluntarily employed. If the military draft is not reactivated, any conscription related claims would now be almost 40-years old. Compared to other just claim categories, this one is insignificant for calculations below. (just claims for disabled veterans residing in government hospitals will be addressed in a later paper)
- \$7.5 Trillion is the May 2011 USA [True "Austrian" Money Supply](#) (TMS2). \$7.4 Trillion of that is currency, demand deposits and savings deposits.
- Included in TMS2 are significant Fed and bank balances held as reserves and in mutual accounts between them. For example, in June 2011 the Fed was holding about \$1.6 Trillion in total (excess) [reserves of depository institutions](#). These reserves and mutual accounts between the money creators/counterfeiters would certainly NOT be a just claim for commodities held by government. Determination of the total amount of TMS2 in this class is needed, so it can be excluded from redemptions.
- Another class of deposits in TMS2 that will not represent a just claim would be loans from the Fed or banks remaining in the form of deposits, even after being transferred between institutions. This money was created from nothing, has had no productive involvement in the economy and represents no just claim for anything. Again, there is a need for some independent means of identifying and quantifying these claims to be excluded.
- In addition, any fiat money deposits that were owned by the collapsed government would be illegitimate and not eligible for redemption.
- The TMS2 figure includes \$960 Billion in currency. The NY Fed has stated that "[the majority is held outside the US](#)". Estimates range as high as 60% of US currency outside the USA. The vast majority of the dollar currency in foreign hands was put there by legitimate exchanges for goods imported into the USA. Therefore, all of the currency in TMS2, regardless of where it is, should be a just claim for redemption.

- Foreign countries also have reserves of dollars that were exchanged for new local currency. According to the [IMF Currency Composition of Official Foreign Exchange Reserves](#) (COFER), dollar claims at the end of 2010 were \$3.15 Trillion. Again, these reserves resulted from legitimate exchanges for goods imported into the USA. The foreign nation has a just claim for the gold redemption of these dollar reserves (less US reserves of their currency) in order for just redemptions of their own currency.

Considering the above, let's evaluate a possible redemption rate of dollars for gold. \$7.4 trillion of TMS2, plus the \$2.4T involuntary investment in Social Security, plus \$3.15 Trillion in foreign reserves, comprise the extreme case for the redemption rate. Let's only deduct the \$1.6 Trillion in excess reserves at the Fed, lacking any additional deduction figures for unjust deposits. The redemption rate for currency, qualifying deposits and involuntary investment claims would have an upper limit of $(\$7.4T + \$2.4T + \$3.15T - \$1.6T) / (18M \text{ lbs} \times 16\text{oz/lb})$ or \$38,715 per ounce of gold. If we include the 2.7M gold pounds of exchange value for the SPR oil, then the redemption exchange rate becomes \$33,665 per gold ounce.

If the US government doesn't have as much gold as reported, it doesn't matter. The dollar redemption rate would simply be adjusted upward in proportion to cover all the just claims. In this case, the value of gold that people already own will increase in value. Prices throughout the economy would adjust to the supply of money and the amount of that supply will not matter. With less gold, prices of items produced here would appear cheaper to foreigners, causing gold to flow into our economy, until gold based prices stabilized globally. This is how commodity based money systems naturally regulate foreign trade and local money supply.

One approach to the just distribution of the gold would be an initial redemption rate based on some upper limit of expected claims. After as short a time as possible to allow for all initial redemptions, the remaining gold would be proportionally dispersed to those who had receipts for initial redemption claims.

Redemption requests could be made for government held commodities other than gold, at the current free market exchange rate, while supplies last. Also, the MDB could exchange the commodities at market rates, making more gold available for redemptions.

It will be critical that money remain in circulation with as little interruption as possible to "minimize the effects of the inevitable economic breakdown", as Morris and Linda Tannehill indicated in chapter 15 (From Government to Laissez Faire) of [Market for Liberty](#) (1970). Rothbard (1, 2) and [Herbener](#) also mentioned this need for urgency. Currency having a redemption value until the redemption window closes will allow it to circulate alongside monetary metals during the short transition to reduce disruption. Minimizing the time required for the redemptions will be very important and advance planning is essential. An "economic breakdown" might not be "inevitable" with enough preparation.

Government Pensions

All contracts with government will become invalid at the time government collapses as an entity. This would include all government pensions and medical care agreements that were not pre-paid, because they are based on the future slavery of taxpayers. This is no different than promises for the future by any other entity which dissolves.

Paid contributions into a pension or healthcare trust fund are measurable and voluntary contracts. Any investments by these trusts that retain some value through the collapse of government will be proportionally available to the pensioners. Any claims for government held commodities by the pension trusts would be in accordance with the general discussion above.

Individual Preparation For Dollar Redemption

Here are some ways to be better prepared for commodity redemptions after government collapses:

- Keep your Social Security statements, showing all contributions and disbursements. Assuming the just claims for involuntary investment are honored, these records will help assure the claim, especially if government records are compromised.
- Keep statements for each of your bank deposit accounts. Assuming the just claims for qualifying deposits are honored, these records will help assure the claim, especially if bank records are compromised.
- Physical holdings of coin and currency will be more likely accepted for commodity redemption than money held in deposits and social security accounts. There may also be less delay. When the government and its fiat money collapse, there will probably be a run on banks by those who understand the gold redemption superiority of currency. The banks could quickly be emptied of cash.
- To minimize money risk, physically hold monetary metals to avoid the risk of just claims for redemption not being honored. Another option is physically redeemable secure warehouse certificates for metal allocated to the individual depositor. It's important to use a warehouse that does not make loans of metal. Money that is already in the form of monetary metals is likely to experience a large increase in purchasing power when government collapses, and more so if the government holds less than it currently claims.

Keep in mind that if banks close after a run, safe deposit boxes may not be accessible. Also, in 1933 the government confiscated gold and gold certificates, but not any other metal or mining company shares. If such confiscation reoccurs, safe deposit boxes in banks could require official witness for access to the boxes and reporting of any "illegal" contents. These things could happen before government economically destroys itself.

- Wealth can also be preserved in a pseudo-monetary form by holding widely needed and durable consumption goods. These may serve as a medium of exchange or be useful for barter during a difficult transition period.

Investments in land, capital and intermediate level production goods are not addressed in this section on money. They generally don't serve as money and wouldn't be useful in any claims for commodities formerly held by the government. However, such things that will retain economic value after the collapse will be an excellent means for preserving wealth.

Conclusion

It's critical to the continued functioning of the economy that money remains available after government collapses. It is possible to provide commodity redemption for the fiat currency, qualifying deposits and forced social security investments. This would immediately return the country to a commodity money system.

An independent Money Desocialization Board (MDB) or some other means should be formed as soon as possible. It would coordinate the necessary preparations, including:

- Full auditing and location of government held commodities
- Determine what deposits would qualify as just for redemptions.
- Determine what currency outside the country would qualify as just for redemptions.
- Establish an initial redemption rate of gold for dollars
- Arrange for security of commodities formerly held by government until they are all transferred to individual ownership.

An independent expert dialog is urgently needed to better refine the ideas presented in this paper and the rest of this series. This will better assure success for the transition to historic liberty and prosperity that few can imagine.

The remaining articles in this series will address [desocialization of banking](#) and all government held property.

By Mike Allen 25 July 2011