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No Child Left a Dime

-J. Kevin Meaders, J.D.CFP®, ChFC, CLU

November, 2013—In the early 1900's, John D. Rockefeller Sr. was known to hand out bright shiny new dimes to poor children in the streets of New York, as a gracious act of charity—always clearly in public view. As one cynical commentator noted, "Saint John ripped off money by the millions and doled it back—one dime at a time."[1]

The dimes John D. was handing out were quite different from the dimes we have today. Called Mercury dimes, they contained a 90% silver content (the other 10% being copper), and are now worth over $1.50, even at today's depressed silver prices.[2]

Since 1965, we've been using the Roosevelt dime, which of course contains no silver, but is comprised of mostly copper and a little nickel—to make it look more like silver. This was done because the value of the silver in the dime became more expensive than the monetary worth of the coin itself. A dime's worth of silver cost more than ten cents, and that doesn't include the expense of minting.

The actual value (in terms of copper and nickel) of our dime today is only worth about 1.75 cents.[3] And just in case you're curious, in typical government fashion it costs about two cents to make one penny. In 2012, the government lost $58,000,000 just minting pennies, which up until 2005 had been profitable.[4] Why has this happened?

Because the U.S. government, like all other once-great civilizations before it, began to debase its currency. The Greeks, the Romans, the Ottomans, all eventually began adding a little something extra to the mix—to reduce the purity—to debase the currency.

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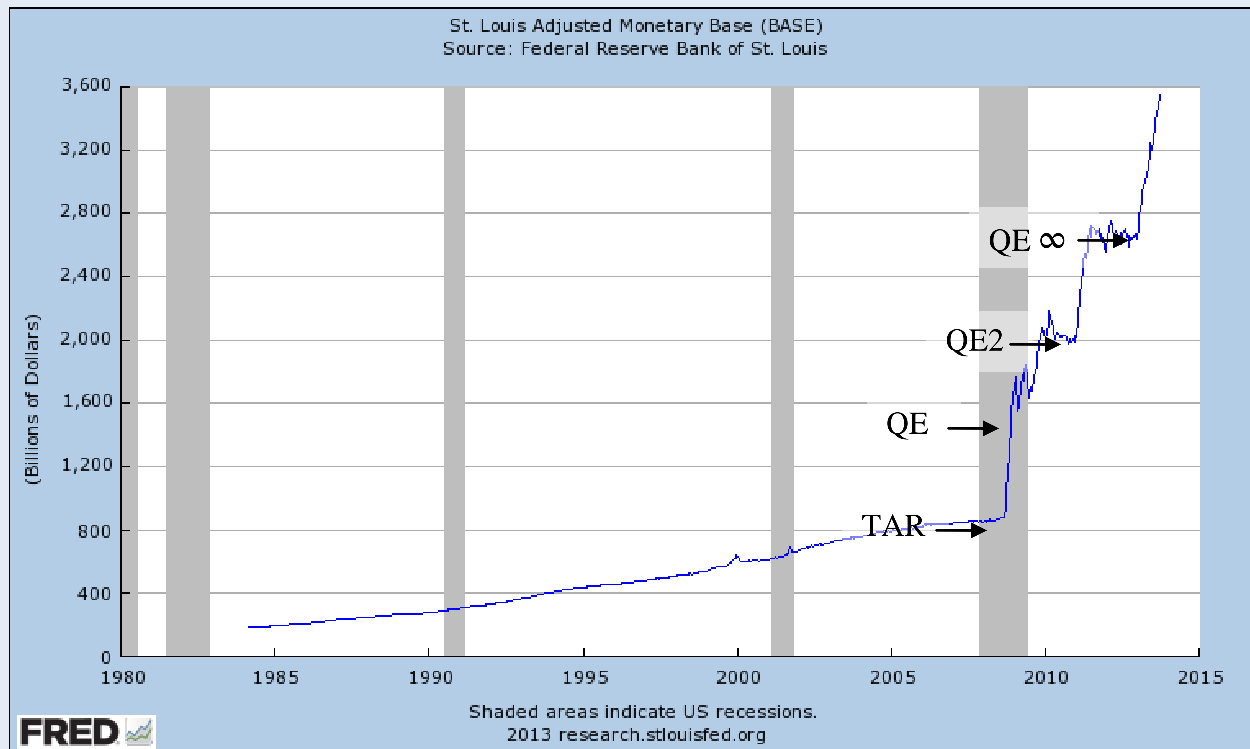
[1] *The Rockefeller File*., 1976. Gary Allen.
[2] Coinflation.com. Calculated based on a silver spot price of $21.70 per ounce. No numismatic value attributed.
[3] Coinflation.com. $0.0175218 is the melt value for the 1965-2013 dime on October 03, 2013.
[4] U.S. Mint. Data as of 12/31/2012.

Murray Rothbard, a well respected economist and a favorite of mine, explained it this way:

> Debasement was the State's method of counterfeiting the very coins it had banned private firms from making in the name of vigorous protection of the monetary standard. Sometimes, the government committed simple fraud, secretly diluting gold with a base alloy, making short weight coins. More characteristically, the mint melted and recoined all the coins of the realm, giving the subjects back the same number of "pounds" or "marks," but of a lighter weight. The leftover ounces of gold or silver were pocketed by the King and used to pay his expenses. In that way, government continually juggled and redefined the very standard it was pledged to protect.[5]

Whereas diluting a metal's purity is a simple theft to detect and naturally exudes revulsion, the dilution of a state's currency through the mask of central banking is accepted as just, necessary, and even desirable. But there is no fundamental difference in diluting gold and what the Federal Reserve has been doing to the dollar since 1913, when the Federal Reserve Act was passed. The chart below represents the Monetary Base, which is not the money in circulation, but the *base* amount of money that's been created.



Note the relatively gentle slope up until the 2008 depression, when we had TARP, QE1, QE2, Operation Twist, and currently, QE Infinity.[6] Prior to 2008, our monetary base was just over $800 billion. Note that today, roughly five years later, the monetary base is near a whopping $3.6 Trillion. This is an increase of over 450%!

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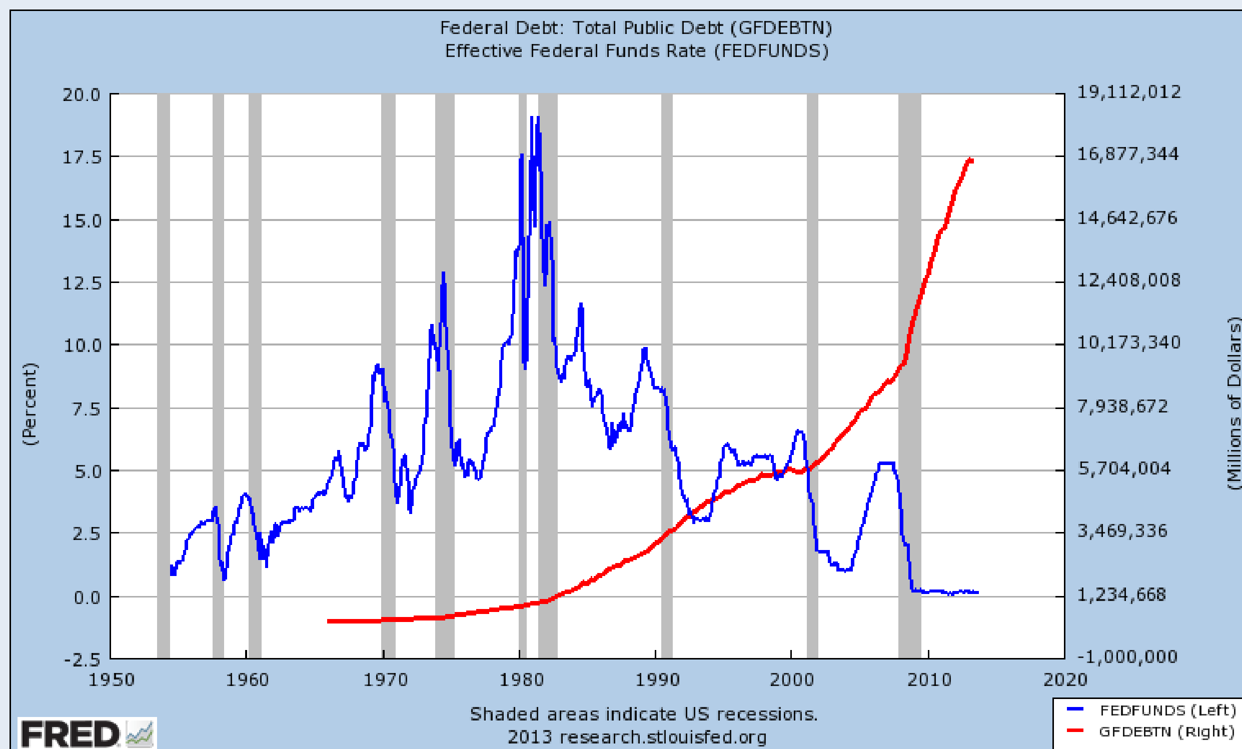
[5] ***What Has Government Done to Our Money?*** **Murray N. Rothbard.**

[6] Federal Reserve Bank of St. Louis, Research Division. October 2012.

In addition, interest rates (blue line on left axis below) have been at historic lows since 2009 while public debt has skyrocketed to almost $17 Trillion (red line on right axis below).



This is a pretty hairy proposition for the good folks at the Fed: they've been printing massive amounts of money to bail out the big banks; they've kept interest rates at essentially zero for over four years; and they've been buying U.S. treasuries because no one else will.

If this isn't monetizing the debt, I don't know what is. Of course, we should have known this would occur because Bernanke specifically promised it wouldn't, as he simultaneously shrugged off mention of reports that the U.S. might lose its AAA rating.[7] We know how that went.

So here we are with all time low rates and all time high debt. What happens when inflation hits and requires the Fed—by virtue of its publically stated mandate—to raise rates? As treasuries mature and are renewed by new, higher yielding notes, America's debt service will increase and squeeze the already deficit-ridden budget.

With $17 trillion in debt—and with Fed Funds rates artificially pegged near zero—our country's current interest payments are about $420 billion per year.[8] If rates rise to just 1%, our interest payments upon renewal could double to almost $900 billion—a little less than 25% of our current spending level, which is *still* running at a $1.6 trillion annual deficit.

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[7] *Bernanke delivers blunt warning on U.S. debt.* Washington Times., Thursday, February 25, 2010.
[8] U.S. Department of Commerce: Bureau of Economic Analysis. As of April 1, 2013.

How does this party end?

Clearly no one really expects that we will be able to pay off our debt. Indeed, it is becoming more and more apparent that we can't even meaningfully reduce our budget deficit. The only plan on the drawing board is to simply print more, debase more, and inflate more.

As Professor Ludwig Von Mises stated in his book The Theory of Money and Credit: "*Inflation can be pursued only so long as the public still does not believe it will continue. Once the people generally realize that the inflation will be continued on and on and that the value of the monetary unit will decline more and more, then the fate of the money is sealed. Only the belief, that the inflation will come to a stop, maintains the value of the notes.*"[9]

As I've said many times before, we are not the first nation to go down this road, and though history may not repeat itself, it often rhymes. Professor Mises reminds us of the eventual consequences of endless printing: "*If the practice persists of covering government deficits with the issue of notes, then the day will come without fail, sooner or later, when the monetary systems of those nations pursuing this course will break down completely. The purchasing power of the monetary unit will decline more and more, until finally it disappears completely.*"[10]

What chance do we have that the good professor was wrong?

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[9] Ludwig von Mises., *The Theory of Money and Credit*.
[10] Ludwig von Mises., *On the Manipulation of Money and Credit*.

About J. Kevin Meaders

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Kevin Meaders graduated from Oglethorpe University in Atlanta with a double B.A. in Philosophy and Political Science, and then obtained a law degree from Georgia State University College of Law, focusing on estate planning and trust law. He has earned the designations of Certified Financial Planner (CFP®), Chartered Financial Consultant (ChFC) and Chartered Life Underwriter (CLU). He holds a General Securities Principal and Registered Representative registration and Investment Advisor Representative registration through ING Financial Partners (member SIPC).

About Magellan Planning Group

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- Tax planning through a relationship with our in-house CPA to manage tax obligations throughout the year and prepare a tax return that takes into account current tax laws. (www.magellantax.com)

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