

An Open Letter to President Obama

January 20, 2009

Dear President Obama:

May I first say, congratulations on being elected our 44th president of these United States of America! I was proud to witness your inauguration today. I sense that your administration is open to the ideas and philosophies of all the people within our country and that you will consider new ideas that could help with the problems and issues facing our country today. This letter is being written to inform you of some key concepts of economics and money that you may not be fully aware of at this time. I will briefly describe these concepts for your consideration and reflection and I ask that you reflect on the meaning of these concepts as they relate to our current financial crisis.

As a student of our monetary history I have reviewed how our currency (the dollar) originated in 1785 and how it was implemented by our founding Fathers in 1792-93. The philosophy behind our money was the key to our success as a nation and our success in becoming the greatest producer and consumer of economic wealth on our planet. What has evolved since the founding of the dollar describes and demonstrates why our current currency system is part of the problem and is unlikely to help in the resolution of our current financial crisis. Following is a brief history of the philosophy underlying our money from 1785 to 1971 (the breakdown of the Bretton Woods Agreement of 1944):

1. The symbol (\$1.00) and name for our money (the dollar) were initially chosen by Congress in 1785, assisted by Thomas Jefferson our first Secretary of State and Alexander Hamilton our first Secretary of the Treasury. Congress then suggested some objective definition for this symbol and name prior to it serving as our 'money'. The idea of a definition for our money symbol was also part of the philosophy of Adam Smith whom we adopted as the founding Father of Capitalism in 1776. His book, *The Wealth of Nations*, recognized the importance of a currency unit that was perceived as objective and which could serve as a medium of exchange, store of value, and standard of value.

2. This symbol (\$) and the number which follows (1.00) was probably perceived as subjective and without any clear meaning as our initial unit of account. The reason that the symbol and number is subjective is because it is derived from our imagination and must then be defined to acquire any objective meaning as our unit of account. Symbols and names without any meaningful definition are generally not viewed as objective by most philosophers. So to give our currency unit meaning, it was defined in terms of a real physical commodity which the people in the marketplace viewed as objective; gold and silver were the choices of the people prior to the establishment of our monetary unit.

Both Thomas Jefferson and Alexander Hamilton were aware of what served as 'money' in the colonial marketplace. And, it is unlikely that they could have obtained agreement from investors and savers in the marketplace without our unit of account being related to some objective thing which the people had confidence in and which was perceived as real. I would guess that most people have a similar view of reality today.

3. The history of money initially emerges from a barter society. Within a barter society, physical things emerge as reference points for 'value', a key concept within a barter society. People exchange goods and services within a barter society and derive their 'values' for the exchanges subjectively. So, the concept of 'value' for any exchange is derived subjectively and then compared to other goods in the marketplace for a reference point to derive 'value'. Due to the coincidence of wants (which makes a barter society difficult to administer) people have chosen unique commodities as reference points for 'value' for all basic exchanges, e.g., beads, deerskins, nails, wheat, iron, copper, silver, gold and many other physical items. People have never freely chosen paper or mental (imaginary) symbols and numbers as their standard of value (monetary unit) in a purely barter society. Paper and numerical symbols (\$1.00) have since emerged as proxies for the physical thing (gold/silver) initially chosen by the marketplace as money.

As legal tender laws developed, financial institutions were able to convince investors and the people that paper notes and certificates were superior philosophical ideas and also workable as 'money'. History demonstrates that paper with

numerical symbols imprinted thereon were actually superior for limited time periods (usually up to 35 or 40 years). The flexibility and fungible nature of symbols and numbers (\$1.00 and multiples thereof) made these imaginary numbers a superior form of 'money' as long as the marketplace perceived that these numbers were objectively administered, created, and distributed by our nation's Central Bank. However, what has happened in recent months is now changing the mindset of many investors and also the public at large.

The issue of the nature of our 'money' has become a major issue philosophically. People are now becoming aware that our dollar is being created subjectively and arbitrarily by primarily two key policymakers (Mr. Bernanke and Mr. Paulson). This is viewed by many as a manipulation of our 'money' in circulation and a source of the volatility and uncertainty which then produces a lack of confidence and serious distortion in the valuation of goods and services in the marketplace.

4. Historically, money needed to fulfill three basic functions in order to be considered viable: as a medium of exchange, a store of value, and a unit of account or standard of value. When our symbol and number (\$1.00) was adopted by Congress in 1785 it did not fulfill these three functions. It was merely an imaginary symbol and number (\$1.00) with the name 'dollar'. Therefore, Alexander Hamilton and Thomas Jefferson recognized this reality (my assumption) and defined our symbol and number (the dollar) in terms of silver (and indirectly in terms of gold).

This definition gave our dollar an objective meaning (\$1.00 was equal to 371.25 grains of silver). With this meaning, the marketplace could 'value' other goods and services in terms of this definition (if not totally objectively, at least more objectively than with no definition). Our currency unit could then fulfill all three basic functions of money. This definition, also provided the marketplace with assurance that our 'money' served as a store of value over long periods of time. I think you would agree that a symbol and number (\$1.00) with no definition or backing and with no exchangeability with a real physical commodity, would not likely support confidence if we were to start with this philosophy today.

5. Why is the marketplace sometimes skeptical of the actions of our financial policymakers today? Is it because the Fed Chairman and Secretary of Treasury create trillions of units of our currency subjectively and arbitrarily 'out of nothing' and then plug these currency symbols (\$1.00 and multiples thereof) into their computers and call this official 'money'? I would suggest that many investors and informed observers view this philosophy as unsound. .

Do you really believe that an imaginary number (\$1.00), created subjectively and arbitrarily, can elicit confidence and trust from the marketplace? How can this imaginary symbol and number (\$1.00) serve as a standard of value (a meaningful unit of account) for all the toxic assets which need to be valued; especially as inflation and deflation distort any objective evaluations in the marketplace? How can I (an appraiser) value any physical good, e.g., a house or an office building, objectively with an imaginary number as our monetary unit? If our unit of account (\$1.00) is created subjectively and arbitrarily via the consciousness of key policymakers without total transparency, how can I derive any meaningful values for any goods or services in our economy? Isn't the concept of 'value' dependent on some standard of value that is stable over time? How can this be accomplished with an imaginary symbol (\$1.00) as our monetary unit? It would seem to me that all my valuations have no objective meaning? What is a symbol (\$1.00) and name (dollar) without a definition?

In conclusion, President Obama, I ask that you continue to observe what is happening in the marketplace and that you give some consideration to the nature of our global money system and its breakdown. I ask that you review the global agreement which was formulated at Bretton Woods in 1944, its breakdown in 1971, and the current situation of fiat currencies, i.e., the floating numbers and symbols of some 174 sovereign nations being maintained by a limited group of policymakers. Isn't there a need today to recognize that our current global money system is seriously flawed and that a new global system which could elicit a renewed confidence and trust from the global marketplace is needed?

Thanks for considering the philosophy which underlies this letter. The key concepts to reflect upon are the concept of 'value' and the subjective nature of our money. I ask that you openly discuss this philosophy with your staff and your economic advisors. We may need a new agreement of all nations to resolve our current economic collapse.

Sincerely,

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