The Federal Reserve Has Destroyed the Meaning of Saving

by Eric Englund

For those who understand the dangers of central banking, it should not come as a surprise that the Federal Reserve's systematic debasement of the dollar has also led to the debasement of our language (in this case, the very meaning of saving). In turn, the debasement of our language has led to dangerous financial behavior on the part of the common man. What is at risk here is more than our savings and capital formation. Nothing less than liberty is at stake here. Let me explain.

In a free market society (which would include a 100% gold dollar), a natural tendency would be for the prices of goods and services to decrease over time. The beauty of a gold dollar is that, conversely, its purchasing power would increase over time. Therefore, setting aside part of one's money income (as savings) would be an attractive proposition for two key reasons. First, as mentioned above, the purchasing power of money would increase over time, thus rewarding savings. Secondly, a bank would pay the saver interest which is an additional reward for saving. Clearly, having a 100% gold dollar would provide an economic environment conducive to saving.

Since the establishment of the Federal Reserve, in 1913, the U.S. dollar has lost over 95% of its purchasing power. Hence, it is not surprising that the Federal Reserve's reckless inflation has led to the common man's expectation for the dollar to lose value over time. As the Federal Reserve intensifies the rate at which it creates money out of thin air, the common man's behavior (in the sphere of personal finance) tends to change for the worse. He is led to speculate in response to a constantly depreciating currency.

With the expectation for money to lose value over time, there is a tendency for people to seek higher rates of return than offered by passbook savings accounts, certificates of deposit, and other savings vehicles. During particularly acute periods of money creation by the Federal Reserve (in the 1920s and the 1990s for example), the common man turned to the stock market in search of higher rates of return. However, it is clear that the common man does *not* understand that his behavior had changed from being a saver to becoming a speculator. Herein lies the key as to how the debasement of our currency has led to the debasement of our language (i.e. eliminating the word "speculation" from Wall Street's vernacular and ultimately replacing it with "saving").

As a quick aside, it is crucial to understand that investing is spending, and thus the opposite of saving. Therefore, speculating falls into the category of spending as well (perhaps reckless spending would be a better description).

The corruption of what it means to save occurred incrementally. The first step was to eliminate the distinction between "investment" and "speculation" in common stocks. In Benjamin Graham and David L. Dodd's classic textbook *Security Analysis*, the authors point out that: "An investment operation is one which, upon thorough analysis, promises safety of principal and an adequate return. Operations not meeting these requirements are speculative." Most Americans are economically illiterate (thanks largely to public schools) and most certainly cannot perform basic security analysis such as reading (and understanding) a company's balance sheet and income statement (which a true investor should be able to do). However, Wall Street knows that people do not want to be called speculators even though most individual investors really are. On this point, Benjamin Graham stated (in his wonderful book *The Intelligent Investor*): "…in the very easy language of Wall Street, everyone who buys or sells a security has become an investor regardless of what he buys, or for what purpose, or at what price, or whether for cash or on margin."

Indeed, Benjamin Graham was on to something here. The corruption of our language can lead to reckless behavior on the part of the common man (i.e. speculating in the name of investing). In the same book, Mr. Graham conveyed the following warning: "The distinction between investment and speculation has always been a useful one and its disappearance is a cause for concern. We have often said that Wall Street as an institution would be well advised to reinstate this distinction and to emphasize it in all its dealings with the public. Otherwise the stock exchanges may someday be blamed for heavy losses, which those who suffered them had not been properly warned against."

Unfortunately for Wall Street and the ill-educated common man, Graham and Dodd's wise words have fallen upon deaf ears. With the advent of the Individual Retirement Account (IRA), the 401K, the Keogh Plan, and Thrift Incentive Plans, came a further corruption of our language. All of these aforementioned investment (speculation) vehicles have been broadly mislabeled as retirement *savings* accounts. In talking to acquaintances, colleagues, friends, and family, it is disturbing to consistently find that people think that simply putting aside a portion of current income, to purchase common stocks and mutual funds (for a retirement savings account), is the same thing as saving. I know individuals who have purchased high-tech mutual funds, aggressive growth funds (and specific stocks such as Amazon.com and Cisco Systems) for their retirement savings accounts. To a person, each one believed that foregoing current consumption to speculate (by Graham and Dodd's accurate definition) was equivalent to saving.

Heck, the meaning of saving has been so debased that some people even believe that paying down mortgage debt is a form of saving. Indeed, Wall Street and its federal watchdog (the Securities and Exchange Commission) absolutely refuse to use the word speculation in its proper context. Instead, we now call speculation "saving". Thus, the debasement of the incredibly important word (saving) has become complete (save for the adherents of Austrian economics).

How did the problem of speculation, in internet stocks, tech stocks, and other common stocks, reach such massive proportions? We do know that the Federal Reserve created massive amounts of money after the Long Term Capital Management fiasco (in 1998), and inflated further (in early 1999) in anticipation of a Y2K disaster (thus providing the liquidity for rampant stock speculation). Moreover, as should be clear by now, the meaning of the word saving has been corrupted to the point that sheer speculation has become the path to safety, comfort, and personal welfare in the present, and in one's retirement years. So, once again, how has the problem of *speculation*, in common stocks, occurred on such a massive scale? Ludwig von Mises provides an answer in has magnum opus *Human Action*. He states (on page 46 of *The Scholar's Edition*):

> "Common man does not speculate about the great problems. With regard to them he relies upon other people's authority, he behaves as "every decent fellow must behave," he is like a sheep in the herd. It is precisely this intellectual inertia that characterizes a man as a common man. Yet the common man does choose. He chooses to adopt traditional patterns or patterns adopted by other people because he is convinced that this procedure is best fitted to achieve his own welfare. And he is ready to change his ideology and consequently his mode of action whenever he becomes convinced that this would better serve his own interests."

Undoubtedly, millions of Americans followed the herd into the stock market seeking the "selfish" interest of financial security (convinced that his money was safe as long as he was in the stock market for the long term). The common man has been duped, by our corrupted language, into speculating in the name of saving. Indeed, an economic environment, dominated by an ever depreciating currency (thanks to the Federal Reserve), can lead to the corruption of our language and to risky financial behavior on the part of the common man.

With the economy clearly weakening and the fiat money, jet-fuelled ride on the stock market plummeting back to earth, Americans are becoming quite concerned about their "savings". To quell these concerns, brokers (such as Charles Schwab) are running ad campaigns to soothe brokerage customers' nerves with the irresponsible platitude that your money is *safe*, in the stock market, as long as you are in it for the long term (sound familiar?). Just relax, Alan Greenspan's seven interest rate cuts in 2001 will come to the rescue. All will be well.

As the three major stock indices (the Dow Jones Industrials, the S&P 500, and the NASDAQ) regress back to their respective means, much further financial pain lies ahead for Americans. With such pain inevitably comes calls for government action. Perhaps the Federal Reserve will incrementally cut short-term interest rates to 0% (just look at Japan). Perhaps large brokerage houses will have to be bailed out at taxpayer expense (does this smell like a justification for tax hikes?). In the event the economy busts into a deep depression, be assured that another "new deal" type of scheme will be hatched in Washington, D.C. All of this will come at the expense of further eroding our liberty.

So here is a quick summary. In the pernicious economic environment created by the Federal Reserve's continuous debasement of our money, it is clear that a simple, yet crucial, word such as "saving" can literally lose its meaning. In turn, it is apparent that Americans have speculated in the name of saving. This can only lead to economic disaster, more government intervention, and eventually, loss of liberty.

F.A. Hayek understood the extreme danger of corrupting our language. In *The Fatal Conceit: The Errors of Socialism*, Hayek dedicated an entire chapter (titled "Our Poisoned Language") to this topic. He opened this chapter with a chilling quote from Confucius: "When words lose their meaning people will lose their liberty." Debasing the very meaning of saving may prove to be a crippling blow to our free market society and, thus, our liberty. For this we can lay the blame at the doorstep of the Federal Reserve and its inflationary policies
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Nelson Nash's comment on this message is below.

Eric's message is so very important! I hope that you will read it as many times as it takes to get it firmly implanted into your mind. Thanks, Eric!