TAINTED RESEARCH LYSENKOISM - AMERICAN STYLE

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Religion, the drug of exploited masses?

All power-structures in human society face the problem of keeping the majority of population both in relative poverty and in dutiful submissiveness, so that the power-elite could enjoy relative affluence undisturbed by popular unrest. Karl Marx suggested that capitalist society has solved this problem by calling upon religion to promise people rich rewards in the transcendental world as compensation for deprivations in this valley of wailing, provided only that they are borne with peaceful resignation. As there is no way to assess scientifically the validity of its teachings, the claims of religion can never be proved or disproved. Concerning the genuineness of its promises, to the faithful no proof is necessary and, to the non-believer, no proof is sufficient.

Be that as it may, Marxist anti-religious propaganda had one undesirable side effect for the power-elite. From now on it has to call upon science, rather than religion, to deliver the promise to the masses that would keep them satisfied with their lot. Clearly, in this case, there are scientific methods available to test the validity of claims with which a restless population can be kept at bay. While reward for meekness may not be postponed to the after-life, it may still be removed sufficiently in time so that the ultimate validity of the promise cannot be tested, at least not in one's lifetime.

The *enfant terrible* of Soviet biology

An outstanding example of this was the demand of the Soviet government under Stalin upon biology to disown classical genetics, and to deliver pseudo-scientific principles to the effect that it is possible to transmit acquired traits biologically, along with inherited ones, perhaps not to the next, but certainly to some other future generation. The Soviet regime needed to propagate this fable in order to keep a nearly starving population in check with promises of fabulous increases in agricultural productivity and abundance of food production at some unspecified future date. Soviet propagandists found a willing collaborator in the person of Trofim Denisovich Lysenko (born in Karlovka, Ukraine, in 1898), the *enfant terrible* of Soviet genetics. On the basis of a borrowed discovery that the phases of plant growth can be accelerated by small doses of low temperature, Lysenko built up a quasi-scientific creed, combining Darwinism with the Michurinian thesis that heredity can be changed by good husbandry. However, this effort was more in line with Marxism than with genuine scientific theorizing. Failing to obtain scientific recognition and pre-eminence in the usual manner Lysenko, with the approval of the Communist Party, declared that the accepted Mendelian theory of genetics was in error. Outstanding Soviet scientists who resisted Lysenko's methods and theories were banished or, worse still, sent to the Gulag never to be heard from again. In 1949 Lysenko was awarded the Order of Lenin as well as the Stalin Prize for his book *Agrobiology* published a year earlier. With the rise of Khrushchev and his agricultural policies Lysenko faded from the limelight, but was reinstated in 1958. Finally he resigned from the presidency of the Academy of Agricultural Sciences of which he was in charge between 1938 and 1956, then again between 1958 and 1962, on grounds of ill health. In 1965, after Khrushchev's downfall, Lysenko was also relieved of his post as head of the Institute of Genetics.

Our term “lysenkoism” will refer to the servile, not to say obsequious attitude of scientists ready to cave in to the demands of the powers-that-be, even at the price of betraying the integrity of their own discipline. Under lysenkoism scientists are intimidated and forced to profess and propagate tenets that they would reject on purely scientific grounds. It is generally assumed that lysenkoism is possible only under a regime of brutal dictatorship. Scientists, at least when it comes to their confirmed scientific beliefs, have the probity of obeying incorruptible standards. They will not adopt a hidden agenda, nor will they knowingly abet misinformation or expound false theories in the hope of official approbation and personal glory. They are supposed to abhor pusillanimous or sycophantic behavior.

“Why, that’s plain stealing, isn’t it, Mr. President?”

It was thought that the freedom of expression for the individual guaranteed by the American Constitution would prevent lysenkoism from spreading to the United States. Sadly, this hasn’t been the case. As the American government repudiated its domestic gold obligations in 1933 and, again, its foreign gold obligations in 1971, new generations of economists were all too eager to comply with the request to justify the breach of faith or, to put the matter somewhat less charitably, to find excuses for the government to have declared bankruptcy fraudulently. I use the adjective “fraudulent” advisedly. In both 1933 and 1971 the American government had ample gold resources to meet its obligations, as later auctions of U.S. Treasury gold would convincingly demonstrate. When asked by Franklin D. Roosevelt of his opinion regarding the matter, the great blind senator from Oklahoma, Thomas P. Gore, replied: “Why, that’s just plain stealing, isn’t it, Mr. President?” (See: Economics and the Public Welfare by Benjamin M. Anderson, second edition, 1979, Indianapolis: Liberty Press, p 317.) Roosevelt, using the excuse of the banking emergency, and appealing to the patriotic feelings of the citizenry, recalled the gold coins in circulation against payment in Federal Reserve notes. He stressed that the measure was to be “temporary”, and the gold should be returned to the rightful owners once the emergency has passed. But after the citizens complied, Roosevelt cried down the value of Federal Reserve notes (that is, he wrote up the value of gold in terms of paper) and nothing further was ever said about returning the gold to its rightful owners. This, and the later episode of dishonoring gold obligations under President Nixon in 1971 (also described as “temporary”), were instances of deliberate sabotage of the gold standard with the aim of “making America safe for socialism.”

Turning stone into bread and water into wine

The American government was in obvious need of economic and social theories to justify the chicanery on grounds of “higher moral imperative”. It was necessary to show that the gold standard was not sabotaged and then forcibly overthrown but it had become obsolete and collapsed under the weight of its own inner contradictions. Many economists were anxious to come to the rescue of government in this face-saving exercise. They concocted theories to the effect that the gold standard was unworkable anyway. First and foremost among these apologists was Lord Keynes of Britain. Later he was followed by Nobel Laureate Milton Friedman of the United States, to name only the two most prominent.

Keynes built his theory on the notion that the difference between a liability and an asset becomes academic when related to the balance sheet of the government. As a consequence, provided that care is taken not to increase liabilities too greedily, items can be shifted adroitly from the liability to the asset column, while remaining confident that people won’t notice the prestidigitation. Thus the debt of the government can in principle be increased beyond any limit. Moreover, government debt is no longer a curse. It is a benefit to society, the more the better, as it is the very asset upon which purchasing media can be built. Retiring government debt is an old-fashioned idea. Keynes was fond of bragging that his theories can make it possible to turn stone into bread and water into wine, while the gold standard only gives you bankruptcy, unemployment, and misery.

It is easy to see through this sophistry. In reality, government debt is balanced by the power to tax. But as the birth of the American republic so brilliantly demonstrates, the taxing power of the government is far from being unlimited. At one point taxpayers will rise and overthrow the government in protest against unreasonable and unfair taxes. No less, a durable and stable monetary and payments system cannot be based on irredeemable currency. Such a currency depreciates year in and year out. Government doublespeak calls this process "inflation" suggesting inevitability, as if it was caused by continental drift. But after a time people will refuse to take the depreciating currency in payment for real goods and services, causing paper money to lose the remainder of its value abruptly.

The deliberate confusion between assets and liabilities was followed by other serious obfuscation: the confusion between wealth and debt, as well as capital and credit. This had a most profound effect on speculation. The creation of assets, wealth, and capital is subject to certain limitations by nature, whereas liabilities, debt, and credit can be churned out at will. Thus the stage is set to the grandiose act of "abolishing scarcity", as well as to remove the limits on speculation imposed by nature. Today speculation is no longer under the control of the real economy, rather, the economy is under the control of speculation. Through trading derivatives and other make-believe assets bond speculators are permitted to rake in gains many times greater than those that the real economy is able to produce. Speculation addressing risks created by man, as opposed to risks created by nature, has the tendency to snowball: speculators pyramid (that is, use their profits to increase their commitments on the same side of the market). Thereby the economy is turned into a Ponzi-scheme that is bound to topple. This is the weak point in the Keynesian edifice, which does not recognize the existence and danger of destabilizing speculation.

The thief trying to get away by crying "thief!"

Friedman argued that it is a fatal shortcoming of the gold standard that it makes the currency out of an expensive commodity that could be replaced by credits created virtually at no cost. No sooner is the gold standard established than the movement to dilute it with paper credits is afoot. To Friedman's mind this is as plausible as the human impulse to make laborsaving devices. When this movement reaches maturity and the payments system becomes saturated with credit substitutes, the gold standard must of necessity collapse. Friedman's sophistry is no less disingenuous than that of Keynes. In reality, the creation of credit is subject to real and strict limitations, in particular, redemption in specie upon maturity, which, in the case of sight liabilities, is redemption on demand. But if the banks are allowed to obstruct the free flow of gold, and if the government is protecting the banks with privileges and exemptions from the effects of contract law, then trouble lies ahead. If double standard in contract law is established whereby banks failing to deliver on their promises to pay gold are routinely let off the hook with impunity through "bank holidays", "standstill agreements", and similar devices while all other firms stand to be liquidated by their creditors when they fail to deliver on their contractual obligations, then collapse of the gold standard in due course is indeed to be expected. However, this is not a fault of the gold standard, but that of the banks and the government. Here we have the textbook example of the thief trying to get away by crying "thief!"

Buying shares at infinite P/E ratio

Recently the phrase "tainted research" has gained currency. It was introduced by journalists referring to the practice of a bank falsifying the results of in-house research in order to promote a stock, which the bank is about to dump. The glowing reports of analysts should help the bank get rid of assets turned sour without losses. Another instance is related to IPOs. Banks are supposed to nurse along baby companies before their shares can be traded publicly in the stock exchanges. This involves investing the banks' own funds in the shares (called underwriting) and then offering them to the public (IPO = initial public offering). In a bull market people expect IPO shares to increase greatly in price, and they are eager to buy the banks' offering. They would buy them even if the company has never turned a profit and has zero earnings (thus infinite P/E ratio), because people have confidence in the integrity of the banks, in their in-house research and underwriting experience. When the new dot-com shares were listed on the NASDAQ, the banks made huge amounts of money, while investors ended up holding the bag. Logically, they should have bought shares in the expectation of increasing P/E ratio, but tainted research led them to buy shares at infinite P/E ratio, only to see it collapse to zero.

Whoever pays the piper will call the tunes

The phrase “tainted research” is new, but the practice is as old as governments. We have seen that the United States used tainted research to justify the overthrow of the Constitutional monetary order in 1933. Economic theories concocted by Keynes and Friedman were promoted, and sound theories of money and credit were unceremoniously discarded. The Federal Reserve System has been hiring economists not so much to gather and sort statistical data, but to develop new economic theories justifying irredeemable currency, synthetic credit, and central bank intervention in the markets. *All this research is tainted.* The Constitution still prohibits the use of irredeemable currency and synthetic credit. Apparently, Federal Reserve officials are not too confident that their theories could stand up in the light and heat of debate on the wisdom of changing the Constitution so as to justify the monopoly and unlimited power given to the banking cartel.

Equally tainted is research financed through government grants. Here the adage applies that whoever pays the piper will call the tunes. The tunes of the government are seductive like the songs of the sirens, promising eternal bliss in exchange for freedom. There is a great conflict of interest here. The government is sponsoring research in order to justify the removal of limitations restricting its own power.

Prostitution of the universities

It is to the eternal shame of this age that our great universities have prostituted themselves to the government and the banks in pursuit of research funds. The universities gave up their most precious asset, independence, in exchange for money. They will probably never again be able to act as a free agent. Lysenko-types have taken over at the helm. They decide priorities, hiring and admission policy, and set the agenda to please the Leviathan. They even politicize course offering, sanctioning the introduction of gay and lesbian studies, for example. They are in favor of unionizing faculty, thus reducing professors from the status of a trustee to that of a hired hand. The larger issue motivating these changes seems to be the desire to let the government and its agencies wrest the direction of higher education away from the community of scholars. The net result is a great deterioration of standards. Students are kept in ignorance as the study of the classical languages and literature, undiluted mathematics, true economics, and undoctored history is moved to the back burner.

The separation of the government and academia is scarcely less important than that of the state and church. They both act to prevent the concentration and abuse of power.

Propping up wealth-destroying schemes

The most pernicious instance of tainted research is that offered in support of the preposterous thesis, by now firmly planted at the foundation of monetary policy, that deliberate currency debasement can make the export industry prosper and the trade deficit shrink. If this theory were true, then countries should reduce the value of their currencies to zero and give away their products to foreigners free of charge. But let us dig a little deeper and expose the sophistry involved. Suppose that the country is on the gold standard and has tried everything to improve its export business, but the best it could manage to bring in is $9 in revenue for every $10 in expenditure. In other words, the export industry is not a business but a wealth-destroying scheme. It needs to be dismantled, and its capital ought to be deployed elsewhere. But wait, Keynesian sophists come to the rescue. Scrap the gold standard, and debase the currency sufficiently to make the export industry profitable. As you are now paying labor in debased dollars, your expenditures will go down and, lo and behold, the money-losing export industry is turned into profitable business.

As can be seen, this is just a trick based on the manipulation of the accounting unit. Nothing in the real economy has been changed to make the enterprise profitable. Incidentally, this also reveals why gold must go. As an accounting unit, gold is incorruptible, the only one as such. Gold tells as it is. Honest bookkeeping standards and gold are inseparable. The trouble is that politicians of the new deal, and of the new world order, could not live with an incorruptible bookkeeping standard.

In the wake of the recent accounting scandals the search is on to find the small-time crooks in the accounting departments responsible for the embezzlements. The search is in vain. When the accounting unit is open to manipulation at the highest level, then the breeding ground for crooks at the lowest is most prolific, and balance sheets are hardly worth the paper on which they are printed.

Is deflation possible under fiat money?

Mr. Alan Greenspan understands gold. (Neither Keynes, nor Friedman really understood it.) Many decades ago he wrote papers describing how the gold standard had been sabotaged and then discarded because it was an obstacle in the way of disenfranchising the saving and producing public. Recently he confirmed that he stood by every word he has ever written on the conflict between gold and fiat money. On May 21, 2003, Mr. Greenspan in a testimony before the Joint Economic Committee of Congress had this to say in answering the question of Rep. Paul Ryan on deflation:

“With the elimination of the gold standard in the 1930's and the development essentially of world-wide fiat currencies, almost no economist believed that you could create deflation with fiat currencies because the supply of those currencies, by definition, comes from government fiat. We went through most of the post World War II period with the expectation that fiat currencies were essentially inflation-ridden and that the major focus of central banks was to suppress inflation. The notion that deflation could emerge just never entered our minds until the Japanese demonstrated to us otherwise.”

“As a consequence of that, not having had any experience in the modern world with dealing with deflation under fiat currencies, our knowledge-base was virtually non-existent, in the sense that we know how to deal with inflation.”

“Inflation, obviously, is something that for half a century we have been struggling with. We know how to suppress it. We know the consequences of suppressing it. We know the impact of various monetary policy decisions on the levels of output growth and of unemployment. So we are familiar with the mechanism. It’s not that we can very easily and automatically just suppress inflation; it has been a struggle of very great dimensions for most central banks in the world. What’s happened now is that since I guess the middle of the 1990's we’re beginning to see that it is possible for deflation to coexist with a fiat currency and, in a way, it is, I suspect, credit to central banks, which essentially have restrained the expansion of credit enough that many aspects of the gold standard, which induced deflationary patterns in past periods, had been replicated in our monetary system and that, frankly, is quite good. We at the Federal Reserve recognize that deflation is a possibility. Indeed, we now have been putting very significant resources in trying to understand, without actually seeing it happen, what this phenomenon is all about. We cannot say that in the market place there is a severe increasing concern of deflation. Indeed, the various expectations of price by both business and consumers has been relatively flat for recent years, so this is not something which the markets are beginning to sense that it is about to erupt and something which we must address."

"Nonetheless, even though we perceive the risks as minor, the potential consequences are very substantial and could be quite negative. So we have created fairly significant resources to try to address this problem, increasing our knowledge of what actually happens, what's the process and what tools are necessary to fend it off. I think we have made very substantial progress in that intellectual endeavor. We do, obviously, have the problem that we never dealt with it before. We know as a consequence that when we don't deal with something, we have a large element of uncertainty, which strangely we do not have with the implementation of policies against inflation because we've dealt with it over so many decades. We believe that because in the current environment the cost of taking out insurance against deflation is so low that we can aggressively attack some of the underlying forces, which are essentially weak demand. And, indeed, we've done that since we started a very aggressive easing in monetary policy in early 2001. So long as the costs of engaging disinflation are so low, we have moved fairly considerably, and in statements we have recognized this not as an imminent, dangerous threat to the United States but a threat that, even though minor, is sufficiently large that it does require very close scrutiny and maybe, maybe, action on the part of the central bank."

Godfather of deflation

In spite of Mr. Greenspan patting himself on the back for his success in replicating many aspects of the gold standard, the record of the fiat money experiment in the United States could hardly be more miserable, and it threatens to become abysmal. Rather than admitting that research at the FED has been tainted, Mr. Greenspan is promising more of the same. He would not delegate the research on deflation to independent scholars. He would reserve the right to himself to act as the defense attorney, the prosecutor, and the trial judge, all in one person, at the court case where charges against the FED are heard, charges that the FED is directly responsible for the chill-fever economy and the inflation-deflation cycle caused by the mishandling of the issuance of money.

The most amazing thing about Mr. Greenspan's tainted research is that it shies away from subject of bond speculation. Mr. Warren Buffett, the "sage of Omaha", considers it a time-bomb. He calls derivatives "financial weapons of mass destruction". Mr. Greenspan demurs: "The benefits of derivatives, in my judgment, have far exceeded their costs". What he fails to see is the explosive and malignant growth of the bubble of speculative long positions in bond futures, call options, and other derivatives. It is so huge that it can no longer be safely deflated. Worse still, the contingency plan of Mr. Greenspan to combat deflation will have the effect of greatly accelerating that growth. In fact, the entire problem of runaway bond speculation and collapsing interest rates can be blamed on the unreformed Keynesian monetary policy as conducted by the Federal Reserve during the past 23 years.

Traitor to science

Mr. Greenspan stoops so low as to repeat the claims of Keynes that the gold standard is "deflation-prone" and "contractionist". He would not recommend that the U.S. House of Representatives, in whose sole competence the matter falls, return the country to a Constitutional metallic monetary standard in view of the fact that it was scrapped as a result of a terrible mistake.

Mr. Greenspan could have been the savior of the nation from the slavery of fiat money. Instead, he leads the world up the garden path into economic disaster. Now he wants to go on wielding unlimited power, to print unlimited amounts of money and to spring it on the economy, allegedly to protect us against deflation, which his own policies have brought about.

Mr. Greenspan richly deserves the third place in the Hall of Fame of Lysenkoism, right after Keynes and Friedman. In the fullness of time the three of them will go down in ignominy, as has Lysenko before them for being one of the most contemptible figures of the twentieth century: traitor to science.

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Note. I would like to call the reader's attention to my earlier writings in which I warn that it is not the gold standard but, rather, the sabotaging of it, that is responsible for the inflation-deflation cycle by inducing huge oscillating money-flows back and forth between the commodity and the bond markets. The result is either inflation or deflation, according as these flows, amplified by speculation, spill over in the commodity market or in the bond market. Central bank intervention is counter-productive and makes matters worse. In particular, in a deflation, as new money is being injected into the system to bolster "weak demand", it will refuse to flow uphill to the commodity market as intended. Instead, it will flow downhill to the bond market where the fun is as bond speculators run riot. The central bank can create as much fiat money as it wants, but will have no control over it once it has entered circulation. It is up to the speculators. Misguided Keynesian monetary policy could land the country in a depression by providing money for bond speculators who will then use it to drive interest rates down to zero; alternatively, it could trigger runaway inflation by frightening speculators out of their long positions in bonds. It is not possible to predict scientifically which way the cat will jump. In particular, see:

The Economic Consequences of Mr. Greenspan (July 19, 2001)
Japan's Finest Hour (January 16, 2002)
Revisionist View of the Great Depression, Part I-II (March, 2002)
The Wrecker's Ball of Swinging Interest Rates (August 26, 2002)
The Central Banker as the Quartermaster-General of Deflation (January 1, 2003