WHITE PAPER FOR THE 33% PUBLIC MONEY INITIATIVE

A Monetary Reform Agenda for the United States of America

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Monetary Reform Task Force
monetaryreform-taskforce.net
WHITE PAPER:
33% PUBLIC MONEY INITIATIVE

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Fund disaster relief, reduce the deficit, eliminate government debt,
develop clean energy sources, build infrastructure, increase employment,
reduce poverty and promote social harmony

Ronald E Davis, PhD (Mathematics, Stanford, 1980)
MonetaryReform-TaskForce.net

INTRODUCTION

In early January 2012 I was standing in line at Frye’s Electronics here in Silicon Valley when I noticed the Winter issue of The American Scholar on the magazine stand with the following words emblazoned across the cover:

BRING BACK THE GREENBACKS!

I was very excited to see this call to action! Having written a book on monetary reform way back in 1975, I knew immediately what this was all about; what I didn’t know was that it was considered “Okay” to speak about such things in academic circles. At that earlier time, I had not yet finished my PhD dissertation on the relationships between linear programming and dynamic optimal control systems at Stanford, and I made a strategic decision to hold off on publishing my book until I got my degree. Ultimately, I delayed publication of the book until retirement from my 30 year teaching career in the management and decision sciences at the California State University System. Of course due to intervening events, and the natural learning process, the book must now be substantially revised and updated to make it current, a process that is underway. This White Paper is a preview of that upcoming book.

Upon reading the 2012 American Scholar cover article entitled “How to Pay for What We Need” by historian Richard Striner of Washington University, Maryland, I discovered that I was in basic agreement with the thesis proposed. This was that the US Government should resume the practice of issuing debt free money that is spent, rather than lent, into existence, and that it should do so in tandem with the bank created money that would continue to be the major source of our money supply. This is what we call a hybrid money system, one in which some of the money supply is provided by the banks and some is supplied by the government, debt free.

Government Created Money (GCM) was issued by American Colonies in the time of Benjamin Franklin. Fiat paper money called “Bills of Credit” was very successful in keeping people employed and provided for the needs of trade and commerce. Already in 1729 Ben Franklin had written a treatise “The Nature and Necessity of a Paper-Currency.” Harvard economist John Kenneth Galbraith, in his 1975 book “Money: Whence it Came, Where it Went,” wrote that in Pennsylvania at least, they did a very creditable job of managing the money supply This evaluation was echoed in the Wikipedia article “Early American Currency;” which states that

“Pennsylvania, however, was responsible in not issuing too much currency and it remains a prime example in history as a successful
government-managed monetary system. Pennsylvania's paper currency, secured by land, was said to have generally maintained its value against gold from 1723 until the Revolution broke out in 1775."

The prosperity resulting from government issued money in the Colonies was the envy of the British Parliament and the Bank of England. When asked why there was so little unemployment in the colonies, Benjamin Franklin explained as follows:

"That is simple. In the Colonies we issue our own money. It is called Colonial Scrip. We issue it in proper proportion to the demands of trade and industry to make the products pass easily from the producers to the consumers. In this manner creating for ourselves our own paper money, we control its purchasing power, and we have no interest to pay."

However, instead of learning from Franklin and instituting a similar practice in England, The British parliament turned around and passed three Currency Acts which restricted the colonies from doing what had brought them so much prosperity, issuing their own money. The first Currency act of 1751 applied only to the New England colonies, and limited future issues of colonial money to certain circumstances. It allowed existing colonial paper money to be legal tender for public debt (payment of taxes) but not for private debts (payment to merchants). Then the Currency Act of 1764 extended the act to all of the colonies, and allowed issue of new colonial paper money for public debts, but not private debts. And finally the act of 1773 permitted use of colonial money for payment of British troops per the quartering act. However, prohibition of designating colonial paper money as Legal Tender for ALL debts, public AND private, was forbidden throughout. These acts which prohibited the colonists from issuing their own money with the inscription saying that the paper bills of credit were LEGAL TENDER for ALL debts, public AND PRIVATE, enraged the colonists and triggered the Revolutionary War. According to Ben Franklin, who had spent several years in London lobbying against the Currency Act of 1764,

“The refusal of King George III to allow the colonies to operate an honest money system, which freed the ordinary man from the clutches of the money manipulators, was probably the prime cause of the [American] Revolution.”

During the revolutionary war, the country was governed by the Continental Congress, which issued Continental Currency, or Continentals, to finance the war. The demands of the war effort led to an excessive issue of money which in turn led to inflation and a decrease in value of the currency. However, it was an act of economic warfare by the British which finally led to the demise of this currency. This was accomplished by British printing and distribution of counterfeit colonial Continentals in large quantities. Again from Ben Franklin we learn that

Paper money was in those times our universal currency. But it being the instrument with which we combated our enemies they resolved to deprive us of its use by depreciating it; and the most effectual means they could contrive was to counterfeit it. The artists they employed
performed so well that immense quantities of these counterfeits which issued from the British government in New York were circulated among the inhabitants of all the states, before the fraud was detected. This operated considerably in depreciating the whole mass, first, by the vast additional quantity, and next by the uncertainty in distinguishing the true from the false; and the depreciation was a loss to all and the ruin of many. It is true our enemies gained a vast deal of our property by the operation but it did not go into the hands of our particular creditors, so their demands still subsisted, and we were still abused for not paying our debts!

Fortunately, private capital and assistance from France enabled the colonists to persist with the war effort until British General Charles Cornwallis surrendered the British forces to a Franco-American Army at Yorktown, Virginia, on October 19, 1781. The Peace Treaty was not signed until September 3, 1783 in Paris, France. The Statue of Liberty stands as a perpetual reminder of the support of the French in the final days and months of the Revolutionary War. But obviously, the Americans still had a lot to learn about how to regulate the quantity of money in such a way as to preserve its buying power.

So when the Constitutional Convention began in May 1787, the delegates were understandably wary about the power to issue bills of credit. On the one hand they had the positive experience in Pennsylvania for over fifty years, but on the other hand they had the recent experience with the Continentals during the Revolutionary War. Since they did not want the colonies to be issuing multiple kinds of paper money, they stipulated in Article 1 Section 8 Clause 5 that

No State shall...coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts....

This is called the State Coinage Clause because it pertains only to the State privileges. The monetary power of Congress was significantly broader. In Article 1 Section 5 Clause 5 it states

The Congress shall have Power To...coin Money, regulate the Value thereof, and of foreign Coin....

It is clear that the founders meant that Congress could issue money in the form of coins of unspecified material, as no constraint on this is mentioned as it was in the State Coinage clause. What is not clear is whether or not they meant to imply that Congress could “create money in any form, including bills of credit” as had been common practice in the colonies for over fifty years. The power to create and issue bills of credit was explicitly authorized in the Articles of Confederation, but was removed from the Constitution. However, at the end of the day, the Constitution neither authorized nor prohibited Congressional issuance of bills of credit (fiat money) in any explicit way, so it was in effect, deliberately ambiguous on this point, leaving it for resolution by some future Supreme Court.

At the urging of Presidential mentor and advisor Col. Edmund “Dick” Taylor, and with the able assistance of New York banker and Republican Representative Elbridge G Spaulding who served in Congress as Chairman of a House Ways and Means subcommittee at the time, debt free government paper money (i.e. US Notes aka Greenbacks) was issued again in the Civil War era during Abraham Lincoln’s
administration. Through a series of three Legal Tender Acts, Congress authorized the issuance of about $450 million in US Notes. This money was not borrowed from any bank, it was simply printed up and spent into the economy by the Treasury Department to pay government expenses during the war. This legal tender paper money continued to circulate and be reissued in the economy for about 100 years thereafter, until the last replacement bills were printed in 1966 (under LBJ) and distributed up to 1971 (under Nixon). The US Treasury Department estimated that in 2012 roughly half of the original issues (about $239 million) were still in circulation. At the end of the civil war, these issues comprised about 20% to 40% of the entire paper money supply in the US, and constituted a major factor in determining the outcome of the Civil War. The US Note issues did not cause a major or lasting inflation, and their use would have most certainly been “indurated down to a fixture” as a permanent part of the US government, with the able assistance of Lincoln’s economic advisor Henry Carey, had it not been for the assassination of Abraham Lincoln at the conclusion of the war. We make reference here to a London Times editorial circa July 1862, apparently written by associates of the Bank of England. (http://fourwinds10.com/siterun_data/business/currency/news.php?q=1345907722)

“If that mischievous financial policy [of issuing debt free US government notes], which had its origin in the North American Republic, should become indurated down to a fixture, then that Government will furnish its own money without cost. It will pay off debts and be without a debt. It will have all the money necessary to carry on its commerce. It will become prosperous beyond precedent in the history of the civilized governments of the world. The brains and the wealth of all countries will go to North America. That government must be destroyed, or it will destroy every monarchy on the globe.”

Although there are conflicting accounts of exactly when this appeared, it would have been most natural for it to have appeared just a few months after the initial 1862 Legal Tender Act that provided for issuance of the debt free US Notes.

Fortunately, notwithstanding the assassination of Abraham Lincoln at the end of the war, the US government was not destroyed. However, the money creation powers of the US government were effectively “privatized” by the Federal Reserve Act on December 23, 1913 by a compliant President Woodrow Wilson who later regretted his part in this heist of money creation power by private banks. Later he said

“I have unwittingly ruined my country. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated in the hands of a few men. We have come to be one of the worst ruled, one of the most completely controlled and dominated governments in the world... no longer a government of free opinion, no longer a government by conviction and vote of the majority, but a government by the opinion and duress of small groups of dominant men”.

—Woodrow Wilson

The Federal Reserve System is effectively the Third Bank of the United States. The First and Second Banks of the United States were privately owned, and the Third one is too. The history of how the bankers met secretly in November of 1910 on Jekyll Island off the cost of Georgia to design the law to implement this essentially private system is well told in many sources, just google “secret meeting on Jekyll Island” to get a few of them. Although the members of the Federal Reserve Board are nominated by the President and confirmed by the Senate, employees of the Federal Reserve System are paid by the System banks, not the US Treasury, and they receive no government benefits. All of the Federal Reserve Banks are privately owned. The US Government owns no shares in the Federal Reserve Bank.
Corporations. Thus it is misleading that the government allows the Federal Reserve System to use a ".gov" extension on their websites. They want citizens to think the Federal Reserve System is part of the government, but in fact it is not. It is Congressionally created, but not Congressionally controlled.

Many monetary reformers argue that the Central Bank of the United States should be government owned, and a strong case can be made for that position. However, one of our goals here is to show that the benefits of Debt Free Public Money listed in the London Times editorial can be achieved by a resurgence of Public Money issues, even WITHOUT a government owned central bank. In fact, we argue that they can be had with only minor adjustments to the Federal Reserve System, thus paving the way for a smooth non-disruptive transition to a healthy sustainable economy. Nationalization of the FED, or creation of a separate government owned central bank, can be attempted when the Public Money tool has been proven effective based on experience with legislation such as proposed here, but would be extremely difficult to “sell” without having any recent experience with debt-free Public Money. Public Money must be tested first on a small scale to validate “proof of concept,” much as prototype test models are built for new invention ideas in the physical realm. Successes with prototype models lay the foundation for building larger and larger prototypes until finally a full scale model can be built.

When the Fed contracted the money supply by 1/3 in the 1929 to 1933 time-frame, it became obvious to top economists at the depth of the resulting great depression that the Fed was not behaving in a responsible manner. So they turned their attention to designing a new and improved money system which became known as The Chicago Plan for 100% Money. The two principal elements of the plan were to end the fractional reserve system and instead require that commercial banks hold 100% reserves against all demand deposits. A draft of the plan developed by a team of Economic Professors at various universities (including Chicago, Harvard, Yale, and Princeton) was circulated for review and comments early in 1933, resulting in two appendices being added at the end of the year. Although there were discussions with lawmakers during 1934, the Banking Act of 1935 did not implement the two pillars of the plan, as laid out in the book “100% Money” by Professor Irving Fisher of Yale University that came out in 1936. Similar ideas were published in 1939 in a draft proposal entitled “A Program for Monetary Reform,” but these ideas were not put into legislative actions.

The 100% Reserve System proposal was kept alive in the books (Money and Freedom (1955) and Rights vs Privileges (1992)) and articles of Robert de Fremery. These were passed on to Stephen Zarlenga, who then founded the American Monetary Institute in 1996. This was formed as a non-profit charitable trust devoted to the independent study of monetary history, theory and reform. Zarlenga published his major work on the subject (The Lost Science of Money) in 2002, and annual AMI conferences have been held in Chicago for the last 13 years beginning in 2005 (see www.monetary.org). He identified three pillars of his reform plan (1) Nationalization of the Fed; (2) replacing a fractional reserve with a 100% reserve requirement; and (3) Institute anti-deflationary (government spending) programs which enable Congress to pump debt free money into the economy for such things as infrastructure, social security, and health care programs.

Stephen Zarlenga and his aide, who later became Elizabeth Kucinich, were able to interest US Representative Dennis Kucinich in his monetary reform plan, and on September 21, 2011, he and his co-sponsor Rep John Conyers introduced the HR 2990 legislative proposal entitled National Emergency Employment Defense Act of 2011 in Congress. It is a seminal piece of work, but was not enacted by Congress.
After having attended two of the annual AMI conferences myself, I came to the conclusion that only the third of the three pillars was feasible in the short run. Attempting to nationalize the Fed and move to 100% Reserves without first testing the idea of Public Money on a small scale was, in my mind, putting the cart before the horse. To me, the reforms listed by Zarlenga were in the wrong order, exactly the reverse of what they should be. Testing of the Public Money idea on a small scale would come first (leaving the Fed in place). Nationalization of the Fed would come second. And then increasing the reserve requirement to 100% (or some substantial level) would come third. Each of these phases would be in a separate piece of legislation, and might take several years to complete and assess results before going on to the next phase. Trying to do all three at the same time, without “prototyping” first, in one bill, was in my view an exercise in futility. It is so easily defeated with a two-word objection: TOO RISKY.

Hence, The Monetary Reform Task Force (MRTF website at monetaryreform-taskforce.net) was created by this author in 2012 as an independent research and development activity devoted to exploring the possibility of a hybrid money system in which the larger part of the money supply is created by the banking system (that being the FED in the US) and the smaller part of the money supply is created debt free by the government. In order to insure a smooth transition, the debt free government percentage of the money supply would grow gradually from 0% at the beginning of a seven-year transition period up to 33% at the end of the transition period, leaving the commercial banking system as it is but gradually increasing reserve requirements imposed by the FED on member banks to offset any inflationary pressures caused by introduction of the new government created money. During and after the transition period, money creation would, under this plan, become a shared responsibility, with 33% of all new money coming from the government, and 67% coming from the commercial banks under the Federal Reserve System, a monetary public-private partnership if you will. Ultimately the percentage split could be somewhat different of course, but we choose 33% as the nominal target for present discussion since it seems intuitively feasible at the moment and corresponds to the percentage recommended by monetary reformer Paul Hellyer for the Canadian economy (ref. Light at the End of the Tunnel, and Money Mafia). It seems appropriate that Canada and the USA should have similar values for the public/private money supply ratio.

The draft legislation prepared by the MRTF for transitioning into this hybrid monetary system is referred to as the 33% PUBLIC MONEY INITIATIVE (to distinguish it from the 100% Public Money Initiative promoted by the AMI). The balance of this White Paper is an explanation of the draft legislation, title by title. The presentation will be in four parts. In the first part, we cover the authorization for debt-free Government Created Money (GCM) in electronic form, or, as we prefer to call it, Electronic Public Money (EPM), and to four of the most important applications of it: (1) emergency funding for government operations in circumstances when the government would otherwise shut down; (2) emergency relief for natural disasters (such as hurricanes, floods, earthquakes, oil spills, forest fires, volcano eruptions and the like), (3) funding for deficit reduction that enables termination of the budget sequestration cuts imposed by the Budget Control Act of 2011; (4) debt reduction through the repayment of intragovernmental loans. For reasons that are explained later, these can be funded with Public Money without worry about inflation. In the second part we cover a new public interest inflation control agency that we call the Monetary Creation and Control Authority (MCCA); also covered is the new Infrastructure Development Finance Corporation (IDFC) for clean energy technology development and infrastructure funding employing both loans AND grants. In the third part we cover social and economic justice issues that could be greatly facilitated by the issuance of debt-free Public Money through three new government offices, the Office of Full Employment, the Office of Poverty Alleviation, and the Office of Conflict Resolution. Finally, in the fourth part, we consider nationalization of the FED,
or creation of a government owned Central Bank of the United States. We do not address the question of 100% Reserves at this time, since the efficacy of Public Money and anti-inflation/anti-deflationary systems need to be tested in a hybrid environment first.

PART I

Authorization for Public Money and its use for Government Shutdown Prevention,

Emergency Disaster Relief,

Federal Budget Deficit Reduction,

National Debt Reduction

Periodic GAO audits of the Federal Reserve System
Title I – Government Authority to Create Public Money

So if the US government is going to start creating money again, one has to deal with certain fundamental questions right at the outset. Here is a list of the most pressing ones:

1. How and in what form is the debt free government money to be created?
2. By what mechanism will inflation and deflation be controlled?
3. What are the approved “first uses” of government created money?
4. Who decides the allocation of government created money?

Detailed answers to all these questions that we have developed, in the five years since reading Professor Striner’s article in American Scholar, have been provided in draft legislation posted at monetaryreform-taskforce.net. It is recommended that you download and have a printed copy handy as you continue reading this paper. What we present here are the rationales for what you find in the draft legislation.

The question of monetary form is easily settled by considering the magnitude of the investments required to repair or replace the nation’s infrastructure, with estimates varying from $3.6 to $4.6 trillion. These amounts go way beyond the scope of what can be done conveniently with paper money. In the modern age, most money is in the form of electronic credits in a monetary account balance stored on a bank computer somewhere. When new money is created for the government, therefore, we shall assume that it is in electronic form, and we shall call it Electronic Public Money (or EPM) to indicate clearly that it is created without any corresponding debt and credited to the Treasury General Account for the benefit of the American people. Although greenbacks could be reissued as before, there is really no need to do this in the first step, and it is cleaner and free of logistical details, for the time being, to bring all new government created money come into existence as EPM. Hence the rally cry “Bring Back the Greenbacks” needs to be replaced now with

LET THE DEBT-FREE ELECTRONIC PUBLIC MONEY FLOW!

The question of how the new EPM is to come into existence is a bit more involved. Under the US Constitution, the power to create money (they expressed it as coin money, where the word coin, being in lower case, is used as a verb) is given to Congress. However, most congressional representatives have little or no background in economics, and are by their position naturally inclined to want to provide funding for projects that are located in their districts. So one has the specter of a Santa Claus Congress that spends way too much and causes a massive inflation that devalues the currency tremendously. To avoid this out-of-control spending spree, as a practical matter, it is clear that the Congressional power to create money needs to be delegated to an independent body that is staffed with knowledgeable economists and which is free of the desire to fund numerous pork barrel projects. Those promoting the Fed before Woodrow Wilson signed it into law in 1913 made this same argument, and said that the power to create money should be delegated to the Fed which would have the expertise and independence from political pressure to carry out the money creation process in a non-inflationary way.

There is a flaw in their argument, however, because although the Fed is independent from political pressures it is not independent of the profit motive of the banking industry. There is a huge conflict of interest built into the Federal Reserve System (FRS), because the Fed banks are all private corporations and five of the Fed bank presidents vote right along with the seven Fed Board members to make monetary policy in the secretive Federal Reserve Open Market Committee (FOMC) meetings. If the Fed
banks are unanimous on any particular point, it only takes two votes from board members to carry the vote in their favor, which is almost always going to be the case, since several of the Board members generally have banking experience in their background. So the FOMC is under virtual control of the private interests even though it is made to look as if the Presidentially Appointed Board members can hold sway even when the banks are aligned against them.

The ability of Congress to ignore this obvious and blatant conflict of interest is striking. Would Congress allow defense policy to be determined by the defense contractors? Or energy policy to be determined by the Oil Companies? Or environmental policy to be determined by the mining and extraction companies? Or the FDA to be controlled by the pharmaceutical companies? Although corporate control over government policy has grown in recent years, as a natural corollary of the Citizen’s United decision, nowhere is the conflict of interest more blatant and manifest as in the banking industry. Wilson and the Congressional dupes gave the monetary policy issues over to a committee essentially dominated by those who make a profit from creating money! Incredible!

Obviously, the banker’s profit motive is going to induce the Fed to create more money than should be created. This is clearly seen in the following chart which shows the value of money since the inception of Fed operations in 1914. It is basically the inverse (reciprocal) of the Consumer Price Index (CPI) which is normalized to have a value of 1.00 at the beginning time period (1914).

![Value of Dollar since 1913](chart.png)

This chart shows that under the Federal Reserve System the value of the dollar has dropped to about 1/25th of its former value. In fact, a dollar then could buy what it would take $24.32 to buy now. This corresponds to an average price inflation rate of about 3.21% per year. Clearly, the Fed has failed miserably in its responsibility to regulate the value of the dollar so that it maintains a nearly constant value over time. Using NASA type control models and computational forecasting techniques, the value of Public Money can be preserved much better in the future than in the past, very much better. This is covered in greater detail in Title VII of the proposed legislation, which covers the Monetary Creation and Control Authority.
Title II – Government Shutdown Prevention

Although relatively infrequent, the spectacle of a Government Shutdown undermines confidence in the competency of our legislators, is a great embarrassment for all Americans, and make the USA look weak to the outside world. It suggests that there is a structural flaw with the design of our government that is in need of repair. We believe that the flaw is quite simply that our government does not create its own money any more, it relies on borrowed money. Hence when budgets for tax dollars expires or government borrowing limits are reached, the government shuts down. This should not be. This title provides that when such emergencies arise in the future, Public Money will be used in place of tax dollars or borrowed money to keep the government running until new budgets and/or borrowing limits can be approved in Congress. For details on how this Public Money would be created, see Appendix A at the end of this paper.

Title III – Emergency Disaster Relief

Due in part to the impact of global warming, the 2017 Atlantic Hurricane Season has been particularly devastating. With Hurricane Harvey in Texas, Hurricane Irma in Florida, and Hurricane Marie in Puerto Rico and the US Virgin Islands, total damages are in the vicinity of $300 billion dollars. Puerto Rico was particularly hard hit because of the accumulated adverse effects of the Jones Act of 1920 which have set the Puerto Rican economy back by around $80 Billion over the nearly 100-year time span. This accounts, in large part, for the $74 Billion territorial debt and the $53 Billion unfunded pension liability that it confronted even before the storm hit. Hence the Hurricane relief for Puerto Rico provided for in Title III includes some debt relief for the struggling territory as well as an accommodation for the Jones Act, which put private profits before public welfare. It was a mistake, and should be accommodated for. By funding emergency costs with EPM, the response can be faster, not detract from any other budget items, and also not increase the national debt by a single dime. In relation to the total money supply, the amounts involved in these events is so small, and the impact on future GDP growth so large, that these emergencies can be covered immediately, prior to establishment of the Monetary Creation and Control Authority, without concerns about inflation.

Title IV – Deficit Reduction to Void the Budget Sequestration of the Budget Control Act of 2011

Blood in the human body is like money in an economy. It flows and it causes other things to be moved around in the body as well. There is a certain amount of it, which is related to the volume of the body in which it flows. Now consider what happens during a blood transfusion for sickle cell anemia, for example. Blood is injected in one place, while being removed from another place. If the amount removed is the same as the amount injected, then the blood volume remains the same. If the amount removed is greater than the amount injected, then the blood volume will drop and the patient will have low blood pressure. If the amount injected is greater than the amount withdrawn, then the blood volume will increase and the patient will have high blood pressure. Obviously, the plan should be for the two rates to be the same so that the blood volume of the patient remains constant. At the end of the blood transfusion, some of the blood in the patient will be new, but some of it will be old blood that was there before. Fortunately, in practice it is never necessary to do a 100% replacement of the blood, some substantially lesser percentage will usually suffice. For example, if a single 500ml bag of blood is injected (and an equal amount of pre-existing patient blood is withdrawn) in a patient having 5 liters of blood initially, that would constitute a 10% transfusion. Sometimes two bags are used, but rarely three.

With that analogy in mind, the monetary reform plan we propose can be said to be analogous to a 33% blood transfusion. It is to be spread out over seven years, and begins very simply, as follows. When
commercial banks create money for the loans they make, it is for use by the borrower, not themselves. They keep the interest part of the repayment, but when principal is repaid, that money must be extinguished. The same is true of the Federal Reserve Banks. When they buy US government bonds or other Treasury securities, they create the money with which to buy them. However, when such assets are redeemed, the principal amount must be extinguished. The interest earned, unlike in the case of commercial banks, is supposed to be returned to the Treasury, though lack of an annual GAO audit of Fed bank finances makes it impossible to know whether the interest is actually returned or not. But the point is, that the Fed banks both create and extinguish money. Now, when the Fed extinguishes money when Treasury assets are redeemed, the government just goes out and replaces the money extinguished by selling more bonds on the open market. This is called “rolling over the debt.” What we propose is that the debt should not be rolled over; instead, the government should create new Electronic Public Money (EPM) to replace the money that the Fed has extinguished, thus replacing debt backed interest bearing money with debt and interest free government created money. This breaks the cycle of perpetual “borrowing from Peter to pay Paul” that will be our fate if a reform such as proposed here is not enacted. The Government Created Money does not have to be repaid to the government (except for what comes back in tax revenues) and circulates without any due date, that is, in perpetuity.

Now a great thing about replacing debt based money with government created money is that the EPM issues constitute a reduction of budget deficits, since they obviate the necessity of rolling over the debt. Hence the budget deficit is reduced, dollar for dollar, for each and every dollar substitution that is accomplished in this way. The inflow of EPM reduces the deficit and enables less borrowing to be done. And there is absolutely no inflationary impact of this new money, since it is merely a replacement for money extinguished by the Fed. The amount extinguished by the Fed is the same as the amount issued by the government to replace it, so the money supply remains the same, so there is zero impact on inflation. This inflation proofed method of reducing deficits turns out to be sufficiently potent to enable the harmful and distressing budget sequestration cuts required by the Budget Control Act of 2011 to be set aside. Hence, across the board budget cuts of 10% can be cancelled, and the government can resume normal funding levels for all of the budget items that were previously affected by the budget sequestration cuts. In fact, all of the EPM created as substitute credits in this way will be used to refund all budget items to their full levels sans sequestration (not new projects). This return to full funding for federal budget items will be a boost to the economy that will show up in job growth and enhanced growth rate numbers for GDP.

Title V – Debt Reduction to prevent ever increasing National Debts

Turning now to debt reduction, this is easily accomplished by creating EPM to pay off intragovernmental debt, which is incurred when the government borrows from federal trust funds (primarily the Medicare and Social Security Trust Funds) to cover current operating expenses. According to Wikipedia, the value of intragovernmental debt holdings as of February 21, 2017 was $5,531,705,453,238.55. At $150 billion per month, this could be paid off in about three years. In theory, the entire debt could be paid off in a single payment just as well, since there is no cost for the creation of EPM. But this might raise too many eyebrows to proceed in this manner. The money repaid to the trust funds is not for current period expenses anyway, so there is no need to rush the process. The duration of the repayment period will be adjusted by the actual legislators anyway, so we have chosen a nominal three-year time frame to get a national debt forecast that can be plotted against a continuation of current policy excluding EPM infusions. Here it is:
It is great to see the National Debt going down instead of up! And because the securities redeemed at the Fed in this time period is approximately $1.175 trillion and the amount paid back to federal trust funds approximately $5.531 trillion, the ending national debt with EPM injections is more than $7 trillion less that would be the case under a continuation of current policy. The repayment of intragovernmental debt is not in the slightest degree inflationary, because the formulas for Trust fund payments do not depend on trust fund balance. Put another way, payments to the Trust funds is money to be spent in future time frames, not currently. Also, the downward trend can be extended beyond three years by making debt payments to other categories of creditors, such as foreign nations that in other regards are treated as hostile nations. Why borrow from hostile nations when we can create our own? This will be seen to be noninflationary as well, since the money paid to foreign nations will not all return to the states right away, it will come back gradually, if at all.

So far we have shown how to set aside budget sequestration and put the National Debt on a downward trajectory without using a dime of taxpayer revenue money (it’s done entirely with new EPM). There would be some gains in employment and GDP growth rate attendant with the refunding of the 10% budget sequestration cuts that are cancelled, and one might even try to get EPM started with just the first three titles in the draft legislation. But so much more, including major infrastructure investments, is possible with the insights gained from a new standard for money that comes forth from just a bit of mathematical analysis. Please see Appendix B below which covers the derivation of the Inflation Prevention Inequality and the Real Output standard for money.

Title VI – Periodic Partial Audits of the Federal Reserve System

In a democratic country, the identity of the stockholders of its Central Bank should not be shrouded in secrecy. Nor should its financial statements be secret, or the math models used for policy analysis. This information should all be in the public domain, and Title VI is a step in this direction. Additional steps could be legislated in subsequent phases of the monetary reform process.
PART II

Inflation Control and

Infrastructure Development Finance Corporation
Title VII – Monetary Creation and Control Authority

So the solution we adopt is to create a new independent monetary authority which will be independent both of political pressures AND the private profit motives of the banking industry. Because this body will be charged with controlling the rate of money creation in accordance with the Constitutional stable value of money mandate, we call it the Monetary Creation and Control Authority, or MCCA. Members of this authority will be free of any connection to the banking industry and to the other three branches of government, doubly independent if you will. This will enable them to pursue monetary policy from a public interest point of view, driven by the three Congressionally mandated goals of full employment, strong growth, and stable prices. This does enlarge the size of government a little, but it will save trillions of dollars in the long run, so it is a prudent step to take. Why pay trillions in interest for what can be done essentially free? It is a no brainer once you look at the numbers.

With the MCCA in place (see legislative draft for details), the EPM creation process is as follows: The first step is that the MCCA (subsequent to a vote of its nine-member board) creates an EPM creation order for the Federal Reserve Bank of New York of a certain number of dollars, say $1 trillion for infrastructure investment, for example. This order is transmitted to the Secretary of the Treasury, who signs it and forwards it to the NY Fed president. The NY Fed president gives it to a technician, who creates a $1 trillion credit in the Treasury General Account. There is no bond or debt evidenced by this process, the Treasury account balance is simply increased by the amount of the EPM creation order, and that new money is then ready to be injected into the economy to circulate perpetually without it ever having to be repaid to the bank. Doing it this way will save trillions in interest in the future, and some of the money created can even be used to pay down existing debt, as we shall see in the discussion of Title VI.

The question of inflation control is a bit more complex under this hybrid system because there would be three sources for money creation: The Fed banks can create money (monetary base), the Fed member banks can create money (commercial bank credit, through their lending activity), and the new MCCA can order the Fed to create (base) money for deposit into the main Treasury deposit account. The inflation constraint applies to the total of these three money creation activities. Hence there must be coordination between the FOMC and the MCCA so that everyone knows what everyone else is doing. Organizationally, this is accomplished by having representatives of the Fed FOMC attend MCCA meetings, and having the Chair of the MCCA attend FOMC meetings. Of course neither the MCCA nor the FOMC can control exactly what the commercial bank reaction will be to monetary policy decisions that they make, but big data analysis can be used to derive normal distributions for what they are likely to do based on historical behavior. Moreover, the computer simulation programs based on macroeconomic forecasting models that are used for policy evaluation and analysis will be shared between them as well. These macroeconomic simulation models will enable the MCCA to insure that expected monetary growth rates will be consistent with the inflation control goal for monetary policy.

Title VIII – Creation of the Infrastructure Development Finance Corporation

To facilitate the infusion of EPM growth stimulus into Infrastructure projects, it is proposed to reincarnate the successful Reconstruction Finance Corporation (1932-1957) as the new Infrastructure Development Finance Corporation (IDFC). The only reason for shutting down the Reconstruction Finance Corporation was that demand for the type of emergency loans made during the depression and
the second world war dried up after the economy got back on its feet again in the fifties. However, for infrastructure, there is a need for both loans AND GRANTS since some infrastructure projects do not produce revenue streams that can be used to repay outstanding loans when they are complete. The benefits of these projects are diffuse and to many segments of society, so that the funding of them must be done by grants instead of loans. Or some combination of the two. Since the accumulated backlog of needed infrastructure projects stands at about $4.6 trillion, spread out over seven years, this would amount to a $700 billion annual investment, in loans and grants, from the IDFC. However, since some of this amount would be for loans, which are recouped and then loaned or spent again, somewhat less than $700 billion can be allocated to the IDFC after the first year.

There are several other aspects of boosting the GDP that go to issues related to infrastructure. One of these is the development of alternative clean energy technologies. We have an existing Office of Energy Efficiency and Renewable Energy within the Department of Energy. Currently, the renewable technologies fall into five categories: (1) solar, (2) wind, (3) geo-thermal, (4) hydro, and (5) bioenergy. IDFC funding should be provided for five more, for example zero-point energy, scaler wave energy, anti-gravity energy, LENR, and self-powered electro-magnetic motors. Breakthroughs in these technologies could significantly reduce the use of fossil fuels and hence slow the progress of global warming.

As part of this Title VIII, the Congressional Office of Technology Assessment would be refunded to carry out objective scientific evaluations of new technology breakthroughs.
PART III: Social and Economic Justice issues

   Full Employment
   Poverty Abatement
   Conflict Resolution
Three other new offices proposed in the legislation, beyond the MCCA and IDFC, are focused on increasing the percentage of the work force that are actually employed, another factor determining GDP growth rates. Some of these could be handled as amendments after the use of EPM had proved itself in the first couple or few years. These are the Office of Full Employment (in the Department of Health and Human Resources), the Office of Poverty Alleviation (also in HHR), and the Office of Conflict Resolution (in the Justice Department).

Title IX – Creation of the Office of Full Employment

It has been said that the measure of any society is how it treats its poorest members. Among the American poor, there are three subgroups that stand out like sore thumbs in the eyes of the world. Namely, veterans, homeless, and the formerly incarcerated. This title provides that EPM can be created to hire the unemployed in these three categories to perform civic work such as inner city cleanup and beautification projects, picking up trash, and the like, as a paid worker. The EPM to fund such hires would be provided by the federal government, but the money would be granted to the States, Counties, or Cities who would do the actual hiring. Also, NGO projects promoting new employment opportunities at the local level, such as the Ujima Project in Boston run by the Center for Economic Democracy, could be partially funded with matching grants to accelerate the job creation process.

Title X - Creation of the Office for Poverty Alleviation

The needs of the poor go far beyond the need for a job. They need health care, psychological counselling, food and shelter, and information relating to life enhancing opportunities in their locales of which they are unaware. They also need job training in the work skills that are needed by local business and industry. This title provides EPM funding for such projects, following the pattern developed by the World Bank. Whereas the World Bank offers debt relief, the Office of Poverty Alleviation would offer actual EPM funding which does not have to be repaid. Hence the results could be expected to be much better than those obtained by the World Bank.

Title XI – Creation of the Office for Conflict Resolution

Most any domestic conflict can be resolved by a mediator equipped with an unlimited amount of money for one or both sides of the conflict. Although inflation prevention does imply some limit on EPM creation rates, never-the-less a substantial amount of money can be brought to bear on conflict resolution by the MCCA if it targets its investments wisely. For example, it could subsidize Flint Michigan enough so that Flint could buy clean water from Detroit Michigan rather than use the dirty river water that is cheaper, but not fit for use by humans. And for the police forces in Chicago and across the country, a booklet on the principles behind the American Revolution could be prepared that explains that when Thomas Jefferson wrote “All men are created equal” that is to be understood as saying, in the modern world, “All men, women, and transgendered citizens of the USA shall be endowed with equal rights and protections under the law.” In particular, discrimination based upon race, gender, religion, sexual orientation, or ethnic heritage is illegal. In addition, an online tutorial on twentieth century civil rights legislation could be prepared and required instruction for all police officers that interface with the communities in which they serve.
CONCLUSIONS

In summary, we have shown that government created debt free money in the form of Electronic Public Money can, at a minimum, achieve the following economic goals for the USA economy.

- It can keep the government running when it would otherwise shut down (Title II)
- It can renew and replace infrastructure damaged by natural disasters such as hurricanes Harvey (Texas), Irma (Florida), Marie (Puerto Rico and US Virgin Islands), and record wildfires in California (Title III)
- It can reduce deficits enough to cancel the burdensome budget sequestration cuts imposed by the Banking Act of 2011. (Title IV)
- It can put the National Debt on a long term downward trend. (Title V)
- It can, through a new Infrastructure Development Finance Corporation fund infrastructure at substantial levels designed to renew and replace all major American facilities in seven years. (Title VIII)
- As part of the IDFC grant program, it can fund clean energy technologies that can substantially reduce dependence on fossil fuels and reduce the threat of climate change.

In addition, it can fund other measures designed to increase participation of able bodied persons in the work force and enhance quality of life for poor and middle income segments of the population. More specifically, the draft legislation provides for these additional “first uses” for supplemental EPM funding:

- Emergency health care funding related to (i) natural disasters (Harvey, Irma, Marie) for which supplemental EPM funding may be routed through FEMA, (ii) man-made disasters (Flint MI water supply) for which supplemental EPM funding may be routed through state government agencies, and (iii) opioid drug addiction epidemics, for which supplemental EPM funding may be routed through SAMHSA (Substance Abuse and Mental Health Services Administration);

All of this without dipping into tax revenues at all, and restrained to the degree necessary to protect the value of the dollar. The question now is, will the American people have the courage to educate their legislators to the availability of these possibilities, and will Congress have the courage to overcome opposing lobbies and pass the enabling legislation. As Thom Hartmann says, democracy starts with you, tag, you’re it. Please send a copy of this paper and the accompanying Draft Legislation for Hybrid Public Money to your Congressional Representative and Senators today!

For more details on these and other extensions of the EPM concept, see the materials provided at monetaryreform-taskforce.net. Opportunities for individual action may be found there as well.
PART 4: A follow-up Act for a future government owned CENTRAL BANK

After the power and efficacy of GCM and EPM have been clearly established under the preceding act, the completion of the monetary reform process should include creation of a government owned new United State Central Bank. This could be accomplished by buying up the stock in the Fed Bank of New York, converting it to a Public Benefit Corporation, and converting the other Fed Banks into Certified Benefit Corporations. Alternatively, we can envision creating a new bank from scratch as provided for by the following act, to be implemented three to five years after the (re)introduction of GCM/EPM into the American economy.

An Act to Create the United States Central Bank and Reconstitute the Federal Reserve Banks

Section (a): Between the fourth and seventh year of the seven-year transition process, a new bank shall be established in Washington DC with the title United States Central Bank (USCB). All federal government accounts and federal money creation activities will be carried out by this new bank, which will be a wholly government owned Public Benefit Corporation patterned after the Bank of Canada Act of 1934 as amended in 1938.

Section (b): All monetary policy decisions previously carried out by the Federal Reserve Board and the Federal Open Market Committee will be transferred to the US Central Bank and the Monetary Creation and Control Authority. Debt-free money creation orders from the MCCA shall be carried out by the US Central Bank free of charge.

Section (c): When the US Central Bank opens, the government will cease printing Federal Reserve Notes and begin printing United States Notes. Federal Reserve Notes in the vaults of banks will be replaced on a one for one basis with new US Notes of the same denominations periodically until very few Federal Reserve Notes are left in circulation.

Section (d): Because prior to the opening of the US Central Bank the Federal Reserve Banks will be providing basic money creation and distribution functions on behalf of the public at large, they should be restructured, after the MCCA is fully staffed and functional, as Certified Benefit Corporations (Certified B-corps) in which the Government holds equity ownership in rough proportion to the fraction of the money supply created by the Government or the Federal Reserve (i.e. “high powered money” or “monetary base.”) relative to the total money supply.

Section (e): Each year, for seven years, the Treasury Department shall buy stock in the 12 Federal Reserve Banks sufficient to bring its equity position in each bank up to at least the target cash reserve requirement for the end of that year, as specified by the MCCA. The Government shall have all rights and privileges that private shareholders of the Federal Reserve Banks have.

Section (f): All transparency, accountability, and sustainability requirements associated with Benefit Corporations and Public Benefit Corporations shall apply to the reconstituted Federal Reserve Banks and the USCB.
APPENDIX A:

Debt-Free Electronic Public Money (EPM) Creation Process

According to the U.S. Treasury Financial Manual 5-3000, the Federal Reserve Bank of New York (FRB NY) is custodian of the US Treasury General Account (TGA)

1. Each EPM Creation Order (EPM/CO) originates with Congress or the Monetary Creation and Control Authority (MCCA), an independent Congressional agency operating in parallel with the Congressional Budget Office (CBO), which is charged with the responsibility of authorizing EPM Creation Orders and also limiting public money creation activity in such a way as to preserve the value of the dollar, i.e. so as to prevent inflation or deflation;
2. Each EPM/CO is transmitted to the Treasury Department, signed by the Secretary of the Treasury, and then transmitted to the FRB NY;
3. The FRB NY credits the TGA with the stated amount of new public money as indicated on the EPM/CO (no account is debited when this balance augmentation is carried out);
4. The Treasury Department confirms the completion of the new electric public money deposit by the FRB NY, and acknowledges receipt of the new money by transmitting a Certificate of Public Money Creation to the FRB NY.
5. The FRB NY staples the Certificate of Public Money Creation to the EPM/CO that initiated the deposit, and maintains a file of all such money creation documents as they are processed from time to time.

NOTES

1. EPM created in this way does not increase the national debt, as there is nothing to pay back, EPM is debt free.
2. The newly created EPM is not an asset or liability of the FRB NY, and affects no account other than the TGA receiving the new money.
3. The new money circulates in perpetuity, never having to be repaid to the FRB NY or any other financial entity. There is no due date when the money has to be paid back.
4. The EPM Creation Process is not “visible” to the commercial banks or branch banks of the Federal Reserve, hence its occurrence does not require any changes in any accounting practices currently used by the commercial banks or the Federal Reserve Banks, other than the requirement that the FRB NY keep a file of documentation for the money creation events carried out at the request of the Treasury Department
5. Disposition of the newly created EPM may be for any purpose specified by Congress or the Monetary Creation and Control Authority, but need not be specified on the EPM/CO transmitted to the FRB NY.
6. Although the money creation is carried out by the FRB NY, it is only done so at direction of the Treasury Dept. and/or the MCCA and takes place only in the TGA. Hence this money is in this case referred to as debt free Government Created Money or simply Electronic Public Money. It blends perfectly with, and is of the same nature, as the money that was already in the TGA at the moment the balance augmentation is carried out by the FRB NY.

FOR MORE DETAILS, SEE THE DOCUMENTS POSTED AT monetaryreform-taskforce.net
APPENDIX B: INFLATION PREVENTION INEQUALITY AND THE REAL OUTPUT STANDARD FOR MONEY

The fundamental money exchange equation (presented first by Professor Irving Fisher of Yale University) states that \( MV = PY \) where \( M \) = money supply, \( V \) = money velocity, \( P \) = consumer price index, and \( Y \) = real GDP. The left side of the equation is the total money received in all transactions in the economy, and the right hand side (\( PY \)) is the nominal GDP for the economy. So real output \( Y = \frac{GDP}{P} \) where \( P \) is sometimes referred to as the GDP implicit deflator or inflation indicator variable. Since the amount spent and the amount received is the same in each individual transaction, the totals across the economy must be the same also.

Modern economists have pointed out, however, that the right hand side of the equation is incomplete, leaving out all the non-GNP related expenditures having mainly to do with financial asset acquisitions like buying a CD, stocks, bonds, and mutual fund positions. These are all financial transactions that are included on the left hand side of the equation, but are missing from the right hand side. To rectify this situation, one can simply add on a term that represents the totality of non-GDP transactions which we call \( Y_a \). Hence the corrected tautology becomes \( MV = PY + Y_a \) where the “a” subscript stands for financial asset related transactions, including all non-GDP transactions.

For the analysis that follows, it is desirable to change this additive correction into a multiplicative one. Hence we define a “fudge factor” \( K = \frac{PY+Y_a}{PY} \) so that the tautology becomes \( MV = KPY \) where “\( K \)” is the scale factor (bigger than 1) that increases \( PY \) until it just equals \( PY+Y_a \). For example, if \( PY \) and \( Y_a \) were the same value, then \( K \) would be 2.

Some authors have characterized this equation (or its incorrect predecessor) as being static without realizing that the year time frame is actually a sliding window of time so that in fact all five of the included variables vary over time. One can emphasize this fact by making each variable a function of time, in which case the equation becomes \( M(t)V(t) = K(t)P(t)Y(t) \).

Taking natural logarithms converts products into sums, so one has

\[
\ln(M(t)) + \ln(V(t)) = \ln(K(t)) + \ln(P(t)) + \ln(Y(t)).
\]

Then differentiating each term with respect to time one has

\[
\left(\frac{\dot{M}}{M}\right) + \left(\frac{\dot{V}}{V}\right) = \left(\frac{\dot{K}}{K}\right) + \left(\frac{\dot{P}}{P}\right) + \left(\frac{\dot{Y}}{Y}\right)
\]

where the dot over the numerator of each ratio indicates the time derivative of the quantity in the denominator of each ratio. Each is a relative rate of change for each variable, and by multiplying by 100, each term becomes the percentage rate of change in each variable. Hence we define

\[
m = 100\frac{\dot{M}}{M} \quad v = 100\frac{\dot{V}}{V} \quad k = 100\frac{\dot{K}}{K} \quad p = 100\frac{\dot{P}}{P} \quad y = 100\frac{\dot{Y}}{Y}
\]

In this case the dynamic money exchange equation becomes \( m + v = k + p + y \). It is quite convenient for analysis that this equation takes a linear form, and is stated in terms of percentage rates of change for each variable. From this simple equation, the inflation prevention inequality follows from the following elementary algebraic manipulations. Suppose the chosen tolerable rate of inflation, which we call the inflation tolerance, is \( I_0 \) (currently 2% although stable prices would imply 0%). Since \( p \) is the inflation
rate in percentage terms, the government would have to control the money supply to grow in such a way that \( p = m + v - k - y \leq I_0 \) or isolating \( m \) on the left hand side, we must have

\[
    m \leq k + y - v + I_0.
\]

We call this the new INFLATION PREVENTION INEQUALITY (IPI) since it gives an upper bound on money supply growth rate that can be allowed without precipitating an inflation more than the inflation tolerance \( I_0 \). In the future, it is this relationship (concurrently with other dynamic macroeconomic models) that can be used to prevent inflation under debt free sovereign money, issued without debt into the economy, rather than the disincentive of debit with interest obligation which is used to limit excessive monetary growth under debt based monetary systems such as the Federal Reserve System. With this inequality firmly in hand, the government can assume its money creation functions again without fear of inflation.

At this point any self-respecting monetary reformer is likely to utter an involuntary objection along the following lines. “Wait a second, if the banks create all the money, how can the government possibly control the monetary growth rate.” Excellent point. Of course, if monetary base is not under control of government, and bank lending is not either, then the government is completely out of the picture and the country is left at the mercy of the banking fraternity. But suppose for a moment that reforms were put in place such as proposed here giving the government complete control of the creation of monetary base, including coins, paper money and electronic sovereign money (ESM). For the purposes of this discussion, we shall take \( M_2 \) as the measure of the money supply, although other choices are possible. The analysis is the same in each case. We use \( MB \) as the symbol for monetary base, and \( M_2M \) as the \( M_2 \) money multiplier, a quantity determined by the commercial banks based on how much excess reserves they hold. We then have

\[
    M_2 = MB \times M_2M, \text{ so } \ln(M_2) = \ln(MB) + \ln(M_2M) \text{ and } m_2 = mb + m_2m.
\]

Here \( MB \) is controlled by the government and \( M_2M \) is controlled by the aggregate of the commercial banking industry. The lower case letters indicate the percentage growth rate of the corresponding variable in capital letters. The good news is that historically, the plot of \( M_2M \) over time has been very smooth and continuous so that accurate estimates of \( M_2M \) and its first time derivative (using spline fits for example) are easily determined to high degree of accuracy. This being the case, we can substitute \( mb + m_2m \) in for \( m \) in the IPI to get

\[
    mb \leq k + y - v - m_2m + I_0
\]

This gives an upper bound on the monetary base growth rate (which government controls) in terms of a number of other growth rates that it does not control. The fact that the government does not control the terms on the right side (except for the tolerance parameter) does not render the inequality useless. All that is required is that the data be available to estimate the growth rates on the right hand side, and this can be done.

A NEW STANDARD FOR MONEY

In order to impose a zero tolerance on inflation (CPI constant and \( I_0 = 0 \)) under conditions of unchanging monetary velocity and constant \( K \) and constant \( M_2M \), the IPI reduces to \( m \leq y \), which says that the money supply growth rate should not exceed the growth rate of the real output of the economy. From this, one is led to see that the real and true backing for the money in an economy is the real output of
the economy itself, taken in an aggregative sense, not based on any one or select few outputs like gold, silver, platinum and the like. The real output of the economy includes ALL GOODS AND SERVICES produced and sold in an economy, and it is this total measure of production (evaluated in constant dollars) that serves as the basis for or the backing of the money supply. Hence the value of the money is based not on what can be obtained in precious metals when turned in at the Treasury Department, rather it is based on what can be bought in the open market with those dollars or whatever the unit might be, that is by its purchasing power. The dollars spent at the grocery store are backed by the grocery bag taken home. The dollars spent on electronic equipment are backed by the very electronics that are purchased. The dollars spent on a haircut are backed by the improved appearance of one’s hair resulting from the cut. And so on including all the transactions made everywhere throughout the economy. So when you sum it all up, you get the new

REAL OUTPUT STANDARD FOR MONEY

THE BACKING FOR MONEY IS THE AGGREGATE OF ALL GOODS AND SERVICES PRODUCED AND SOLD THROUGHOUT THE ENTIRE ECONOMY, that is to say, BY THE REAL OUTPUT OF THE ECONOMY. UNDER CONDITIONS OF CONSTANT MONETARY VELOCITY AND CONSTANT K FACTOR, STABLE PRICES ARE MAINTAINED BY INSURING THAT THE MONETARY GROWTH RATE EQUALS THE REAL OUTPUT GROWTH RATE. IF MONETARY VELOCITY or K IS CHANGING OVER TIME, STABLE PRICES ARE MAINTAINED BY OBSERVING THE NEW INFLATION PREVENTION INEQUALITY.

It is this new standard for money, together with the IPI, that makes it feasible to restore to the government its money creation role at this time as never before. This money creation function was usurped from government by the private banking industry in 1913 and has been in private hands for over 100 years. It is time now for the government to assert its powers to create debt-free interest-free money in substantial quantities with commensurate decreases in its borrowing activity using US Bonds and carefully planned increases in reserve requirements. By doing so, it can save trillions of dollars in unnecessary debt while pumping inflation-proofed dollars into infrastructure, clean energy, and education programs that will spur growth rates to double present levels while bringing unemployment down to half their present levels. As predicted by the London Times, we will enter a new era of inflation-free economic expansion that will have no end, unless we foolishly let the banks privatize the money creation function again as they did before.

This understanding of what actually backs the fiat money created by the government (i.e. real economic output) enables us to discover two more ways in which EPM can be injected into the economy in an inflation free way: (1) growth dividends that accommodate the natural growth of the economy, and (2) proactive GDP boosting investments that will cause GDP to grow faster than without them. In the first case, this is analogous to providing new blood to a living baby as it grows into adulthood, since the volume of blood needed by an adult is greater than that needed by a baby. The body generates this new blood automatically, and the parents do not have to pay anyone anything for the new blood to be created. It happens naturally. It should be the same for an economy. When it grows naturally due to increases in population, technology, productivity, and innovation, the new money to support the increased volume of transactions should be provided automatically by the government in a debt free way and in proper proportion so that inflation does not occur. This is now possible thanks to the Inflation Prevention Inequality. But we can go another step forward by making a “rational expectations” extension of the inequality, to take into account the increase in growth rate that occurs if the new money is specifically targeted at infrastructure and energy technology. In this case, the backing for the new money comes into existence as a result of the expenditure, and at the end of the day the increased
economic activity comes about without any significant inflationary impact. This makes government EPM investments in all sorts of GDP boosting projects possible without fear of inflation. And as a double check, the Monetary Creation and Control Authority will be in place to total up the expenditures and estimate the GDP impacts. By limiting total EPM creation, and/or raising the reserve requirements on commercial banks, it can, using advanced NASA style optimal control algorithms and dynamic system forecasting models, effectively prevent excessive inflation from occurring.