The Two Step Plan to National Economic Reform and Recovery

Step 1: Directs the Treasury Department to issue U.S. Notes (like Lincoln's Greenbacks; can also be in electronic deposit format) to pay off the National debt.
Step 2: Increases the reserve ratio private banks are required to maintain from 10% to 100%, thereby terminating their ability to create money, while simultaneously absorbing the funds created to retire the national debt. These two relatively simple steps, which Congress has the power to enact, would extinguish the national debt, without inflation or deflation, and end the unjust practice of private banks creating money as loans (i.e., fractional reserve banking). Paying off the national debt would wipe out the $400+ billion annual interest payments and thereby balance the budget. This Act would stabilize the economy and end the boom-bust economic cycles caused by fractional reserve banking.

Monetary Reform Act – A Summary (in four paragraphs)

This proposed law would require banks to increase their reserves on deposits from the current 10%, to 100%, over a one-year period. This would abolish fractional reserve banking (i.e., money creation by private banks) which depends upon fractional (i.e., partial) reserve lending. To provide the funds for this reserve increase, the US Treasury Department would be authorized to issue new United States Notes (and/or US Note accounts) sufficient in quantity to pay off the entire national debt (and replace all Federal Reserve Notes).

The funds required to pay off the national debt are always closely equivalent to the amount of money the banks have created by engaging in fractional lending because the Fed creates 10% of the money the government needs to finance deficit spending (and uses that newly created money to buy US bonds on the open market), then the banks create the other 90% as loans (as is explained on our FAQ page). Thus the national debt closely tracks the combined total of US Treasury debt held by the Fed (10%) and the amount of money created by private banks (90%).

Because this two-part action (increasing bank reserves to 100% and paying off the entire national debt) adds no net increase to the money supply (the two actions cancel each other in net effect on the money supply), it would cause neither inflation nor deflation, but would result in monetary stability and the end of the boom-bust pattern of US economic activity caused by our current, inherently unstable system.

Thus our entire national debt would be extinguished – thereby dramatically reducing or entirely eliminating the US budget deficit and the need for taxes to pay the $400+ billion interest per year on the national debt – and our economic system would be stabilized, while ending the terrible injustice of private banks being allowed to create over 90% of our money as loans on which they charge us interest. Wealth would cease to be concentrated in fewer and fewer hands as a result of private bank money creation. Thereafter, apart from a regular 3% annual increase (roughly matching population growth), only Congress would have the power to authorize changes in the US money supply – for public use -not private banks increasing only private bankers' wealth.

MONETARY REFORM ACT

Monetary Reform Act in Printable Version

An Act

Note: Portions in blue are the most important.

To restore confidence in and governmental control over money and credit, to stabilize the money supply and price level, to establish full reserve banking, to prohibit fractional reserve banking, to retire the national debt, to repeal conflicting Acts, to withdraw from international banks, to restore political accountability for monetary policy, and to remove the causes of economic depressions, without additional taxation, inflation or deflation, and for other purposes. 1

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, that:

Section 1. SHORT TITLE. This Act may be cited as the Monetary Reform Act.

Sec. 2. IMPLEMENTATION. This Act shall be implemented over a one-year transition period, beginning thirty days after the date of the enactment of this Act.

Sec. 3. DEFINITIONS. The definitions of terms shall be those set forth in the Federal Reserve Act of December 23, 1913, as amended. United States Notes as used herein shall mean Treasury issue United Stated currency notes (as defined in 31U.S.C. Sec. 5115) not bearing any interest, being lawful money and legal tender for all debts, public and private, and which term as used herein shall include Treasury Department Deposits (a.k.a. Treasury Deposits or Treasury book entries) convertible to United States Notes, which may be substituted therefor at the discretion of the Secretary of the Treasury. During the transition period, Treasury Deposits as used herein shall include Federal Reserve Deposits.

Sec. 4. ONE HUNDRED PERCENT (100%) RESERVE REQUIREMENT. Section 19(b)(2)(A-D) of the Federal Reserve Act is hereby amended to raise the Reserve Requirement ratio for financial institutions, in equal monthly increments of eight and one-half percent (8.5%), to one hundred percent (100%), during the said transition period. No existing reserve requirements shall be reduced, but shall be increased as the overall Reserve Requirement ratio incremental increase surpasses them. The initial minimum overall Reserve Requirement ratio shall be fixed at eight and one-half percent (8.5%) for all accounts, effective in one month. United States Notes, Federal Reserve Notes, Treasury Deposits and Federal Reserve Deposits shall be included in Reserve calculations in the transition period. No waivers or exemptions to this section may be granted, and any in existence are hereby repealed.2

Sec. 5. RETIRING THE NATIONAL DEBT. The Secretary of the Treasury is hereby authorized and directed to purchase, in open market operations or otherwise, all outstanding Federal Debt held by the public, with United States Notes; thereby the net (public) National Debt is to be completely retired and replaced with United States Notes.3 Treasury Deposits are to be created for intra-U.S. government debt in quantity sufficient to extinguish the remaining gross National Debt.

Sec. 6. STABLE MONEY SUPPLY. The Secretary of the Treasury is hereby authorized and directed to time and apportion the purchase of United States Bonds and other federal debt securities held by the public, and the issuance of United States Notes and the creation of Treasury Deposits to the rate of the Reserve Requirement Ratio increases made pursuant to this Act, in order to keep the money supply (calculated including the monetary substitutions provided for herein) constantly stable, except as is provided in section 7, infra. Should the Secretary of the Treasury determine that additional bank deposits be needed to provide

funds for the bank reserve ratio to be increased to 100% without inflation or deflation, the Treasury Secretary is authorized to retire other U.S. government agency securities with U.S. Notes issued in sufficient amount to provide the needed funds, or such amounts shall be transferred from aforesaid (see Section 5., supra.) Treasury Deposits to commercial bank accounts. 4

Sec. 7. FUTURE MONETARY GROWTH. Beginning with the transition year period, and thereafter on an annual basis, the total dollar amount of United States Notes (as defined supra: i.e., the sum of outstanding currency plus Treasury Deposits) outstanding (calculated to include the total amount of outstanding Federal Reserve Notes, i.e., not yet replaced with U.S. Notes) shall be increased by the Treasury Department, steadily, by three per cent (3%) per annum5, which amount shall be paid into the economy by the Treasury Department, first to retire (or purchase) any future war bonds (issued pursuant to section 8. hereof), then any remaining marketable and non-marketable federal debt (e.g., Federal government agency securities, intra-governmental debt, and fully guaranteed obligations of the government), then, pursuant to appropriation by Congress, to pay for goods, services, or interest. Any such new money not appropriated (i.e. allocated for expenditure) by Congress during any such year, shall be rebated by the Secretary of the Treasury to individual, personal income taxpayers on a fixed percentage basis within thirty (30)days of the close of such year. Except in time of war, no United States government bonds, bills, savings bonds or other debt obligations may be sold by the government, except as is provided for in this Act. No federal agency or federally-chartered bureau, board or instrumentality may engage in any further lending or borrowing, nor guarantee same, after the date this Act becomes law.
Sec. 8. WAR EXCEPTION. In the case of a formal Congressional declaration of war with a foreign nation, the three percent (3%) monetary growth provided for in section 7., supra, may be exceeded and United States government bonds may be sold or purchased in open market operations by the Treasury Department, pursuant to Congressional authorization. The suspension of the fixed three per cent (3%) monetary growth, and United States government bond sales, shall terminate annually unless renewed by Congress, or upon the cessation of hostilities, or by formal proclamation of the President declaring the war ended, or upon the exchange of ratifications of the treaty of peace. The provisions of this Act shall supersede the provisions of the National Emergencies Act (50 U.S.C. 1601, et seq., Titles I-V, as amended), and any declaration of emergency by any member of the Executive Branch.

Sec. 9. FULL RESERVE BANKS. After the transition period, institutions using the word bank in their name or title, may not engage in lending, except that the capital of the owners may be invested or loaned on the open market, but may charge fees for their services and may invest deposits in Treasury Department Deposit accounts. These: full reserve; one hundred percent (100%) reserve; deposit; check or narrow; banks, as they, exclusively, may also be titled, must treat deposits received as trust-funds of money held for depositors. By the end of the transition period, for every dollar deposited, banks must have a dollar of United States Notes on hand or invested in a Treasury Department Deposit account. All bank deposits shall be in demand accounts. Banks shall be free to pay any rate of interest on accounts. Only bank deposits may be transferable by check, credit card, electronic transfer or any substitute therefor. At the beginning of the transition period, entry into such one hundred percent (100%) reserve banking shall be open to all persons having no criminal record, subject to minimal bonding requirements to be established by the Secretary of the Treasury.6

Sec. 10. TREASURY DEPOSITS. Funds placed in Treasury Department Deposits shall be utilized by the Secretary of the Treasury pursuant to appropriation by Congress, to pay for goods, services, or interest needed by the federal government. Any such funds received by the government in excess of federal expenditures not funded by tax revenues shall be rebated to individual, personal income taxpayers on a fixed

percentage basis within thirty (30) days of the close of that year. Withdrawals of Treasury Deposits in excess of receipts in any given year shall be funded by future monetary growth as provided in section 7., supra, or should the withdrawals ever exceed monetary growth, by tax increases; in this latter, unlikely event, the Secretary of the Treasury is hereby authorized, in the absence of any other, specific authority, to add a fixed percentage surcharge to income taxes for that period, equal to the sum of excess withdrawals.

Sec. 11. INTEREST. The initial rate of interest payable on Treasury Department Deposits shall be equal to the average yield on three-month Treasury bills during the preceding quarter. Thereafter, it shall be adjusted quarterly in accordance with changes in the average yield of ninety-day commercial paper over the preceding quarter.7

Sec. 12. LENDING INSTITUTIONS. Banks or any other persons may establish separate associations, with or without joint ownership or management, not to be titled banks, such as investment trusts, mutual funds, brokerage or lending houses, to sell stock, to receive, borrow, lend or invest money at interest, but by the end of the transition period only from existing funds (i.e. United States Notes and Treasury Deposits). Contractual provisions must be made by such institutions upon the receipt of any funds with their owners, investors or depositors, that at no time may more funds be subject to demand than are presently idle and one hundred per cent (100%) available on demand. For any funds deposited with such associations payable on demand there must be a dollar of United States Notes on hand or deposited in a Treasury Deposit. No such association may denominate any account a demand account, nor promise immediate availability of any funds which may be invested, deposited or otherwise placed by such association without notice in any instrument or account other than Treasury Deposits. No funds deposited or invested with such associations may be transferred by check, credit card, electronic transfer or any substitute therefor. Owners, investors, lenders and depositors must be advised of the use of their funds, fairly appraised of the risks including the risk of total loss, of the maximum term of the use and of the potential and actual lack of availability of their funds, and the agreed or expected interest rate or the rate of return.

Sec. 13. REPEAL OF CONFLICTING ACTS. The National Banking Act of 1864 and amendments, and the Federal Reserve Act of 1913 and amendments, are hereby repealed,8effective at the end of the transition period. All Federal Reserve System monetary authority and Federal Reserve Deposits shall be transferred to the Treasury Department at the end of the transition period. From the effective date of this Act, and during the transition period, the Federal Reserve System and its District Banks shall not engage in open market transactions, nor change the Federal Funds Discount Rate, nor alter any Reserve Requirements, nor otherwise alter any money aggregate, nor transfer, dispose of, nor move any gold or silver in either their physical or legal possession, except as provided for in this Act, contrary provisions of the Federal Reserve Act or other statutes notwithstanding. The paid-in capital of Federal Reserve System member banks shall be credited to their Federal Reserve Deposit accounts at the beginning of the transition period, and the Federal Reserve Banks, employees, assets and liabilities transferred to the jurisdiction and control of the Treasury Department and employed for the purposes of this Act, including continuation of check-clearing and other services not prohibited by this Act. The Secretary of the Treasury is directed to replace gradually all outstanding Federal Reserve Notes with United States Notes, as soon as is practicable. Outstanding Federal Reserve Notes shall remain legal tender for all debts, public and private. Section 602(g)(14) of theRiegle Act of 1994 amending U.S.C. Title 32, insofar as it removed the requirement of reissuing United States currency notes upon redemption, is hereby repealed. Title 31 U.S.C. Section (a)2(b) limiting United States Notes to a total of $300 million and prohibiting their use as reserves, is hereby repealed. Existing legislation in conflict with this Act, whether in whole or in part, is hereby repealed in whole or in part as may be necessary to resolve any conflict

with this Act.9

Sec. 14. PENALTIES. After the transition period, no person may loan, create credit or liabilities payable on demand or transferable by check, credit card or electronic transfer, without having one hundred percent (100%) reserves of United States Notes, dollar for dollar, for any such amounts. Violation of this provision will subject the violator to civil penalties for fraud, and to criminal penalties. 18 U.S.C. Crimes and Criminal Procedure 1344. Bank fraud: is hereby amended to include a new subsection (3) as follows: Whoever knowingly executes, or attempts to execute, a scheme or artifice (3) to engage in fractional reserve banking practices as described and prohibited by the Monetary Reform Act, Section 14, shall be fined not more than three times the total dollar amount of the violation(s), or imprisoned not more than 20 years, or both; but if the amount of the violation does not exceed $1,000, the violator(s) shall be fined treble damages or imprisoned not more than one year, or both.

Sec. 15. WITHDRAWAL FROM INTERNATIONAL BANKS. It is hereby declared as a matter of federal statutory law that membership and/or participation of the United States government, or its agencies, or of the Federal Reserve Board or Reserve Banks or any officer or employee thereof, with the Bank for International Settlements, the International Monetary Fund, the World Bank, and all other international banks, is inconsistent with and in direct conflict with the purposes of this Act of Congress. The President is hereby authorized and directed to take such steps as may be necessary to withdraw the United States from all participation, and membership, in the Bank for International Settlements, the International Monetary Fund, theWorld Bank, and all other international banks, in any orderly manner, but in a period not to exceed one year from the effective date of this Act, and to recover the original and any subsequent United States subscriptions, contributions and quotas to such organizations, not already fully and lawfully expended, whether in the form of gold, deposits, currency or otherwise; and to enter into negotiations to establish new exchange facilities consistent with the purposes of this Act having no authority to create money or credit in any form, and having no independent authority to establish laws or regulations binding upon the United States or its banks, financial institutions or citizens, and subject to the ongoing, annual budgetary authority and approval of Congress.10

Sec. 16. FOREIGN EXCHANGE. The Secretary of the Treasury is hereby authorized and directed to enact regulations allowing the external rate of exchange freely to fluctuate, as foreign price levels fluctuate (i.e. in accordance with their respective purchasing power), while utilizing the exchange stabilization fund and foreign currency reserves to counterbalance fluctuations in the exchange rate. The Secretary of the Treasury shall enact such regulations in order to: 1. keep the stable, internal domestic price level established by this Act unaffected by foreign exchange rate fluctuations; 2. maintain imports and exports of capital, in equilibrium. In no event shall foreign exchange rates be allowed to alter the fixed rate of monetary growth set forth in section 7., above.11

In any period in which the exchange stabilization fund and foreign currency reserves are inadequate to maintain equilibrium in capital flow, the Secretary of the Treasury is hereby authorized and directed: to restrict any imbalanced inflow of dollars to an amount equal to the monetary growth rate for such period (as set forth in Section 7.,supra), which monetary growth shall be thus funded; and, to prohibit any imbalanced outflow of dollars. Imbalances in excess of such amounts must first be chronologically booked for subsequent exchange as soon as the free markets restore the equilibrium necessary for the exchange(s) to occur.

The Secretary shall issue regulations to establish an advance foreign exchange book, open for public

inspection, of all contracted, future foreign exchange transactions and obligations, in order to facilitate such exchanges. Such exchanges must be assigned by the Secretary on a first-come, first-served basis, in order to guarantee foreign exchange availability, for a one quarter per cent (0.25%) fee. 12

Sec. 17. APPROPRIATIONS. The Secretary of the Treasury is authorized and directed to establish Treasury Department Deposits, convertible to United States Notes on demand, sufficient to accomplish the provisions of this Act. The Federal Reserve Act is hereby amended to add this section: that the Governors of the Federal Reserve System are authorized and directed to establish Federal Reserve Deposits sufficient to accomplish the purposes of this Act, in amounts to be determined by the Secretary of the Treasury. The Director of the Bureau of Engraving is hereby authorized and directed to print a sufficient quantity of United States Notes to accomplish the provisions of this Act. There is hereby authorized to be appropriated, out of any funds not otherwise appropriated, such sums as may be necessary to carry out the purposes of this Act.13

Sec. 18. SEVERABILITY. If any provision of this Act, an amendment made by this Act, or the application of such provision or amendment to any person or circumstance shall be held to be unconstitutional, the remainder of this Act, the amendments made by this Act, and the application of the provisions of such to any person or circumstance shall not be affected thereby.

* * *

END NOTES

1. A draft in 17 sections; by Patrick S.J. Carmack, J.D.; Copyright 1995. All rights reserved. For a free copy of the Act, send a SASE to: Monetary Reform Act, P.O. Box 25777, Colorado Springs, CO 80939, or call 719-930-7549 to order the video The Money Masters which has the Act as an insert, or visit http://www.themoneymasters.com. Minor revision is an ongoing process in response to suggestions received.
2. The principal point of this section and of the entire Act is to replace private creation of money by debt-based, bank-book-entry creation (i.e. by bank loans), based on fractional reserves (i.e. high-powered money) which is inherently unstable and unjust, with government creation of money by credit-based Treasury deposits and U.S. Notes (i.e. for government payments or purchases) which are based on full reserves (i.e. not high-powered money), by definition for the benefit of all the people, not just for bankers.

3. The gross National debt is presently c. $9.9 trillion [Sept. 2008]. The net or Public National Debt portion of that (i.e. net of what the government owes itself) is c. $5.4 trillion, of which the Federal Reserve holds c. $480 billion in the System Open Market Account managed by the NY Fed. There is obviously less urgency in paying off what the government owes itself (i.e., the difference between the gross and the public national debt, owed to different government departments and funds), presently c. $4.5 trillion. The Act provides that the remaining c. $5.4 trillion public debt should be paid off with U.S. Notes issued by the Treasury Department. The only real objection to this is that, under the present law, such action would be hyperinflationary, which is true. This is why the proposed Act requires the simultaneous increase in the required reserve ratios of banks from 10% to 100%, which both fully solves the inflationary issue and ends private bank creation of money. Commercial bank loans in the US total c. $7 trillion. This represents money created by the banks as loans. Increasing the reserve ratio to 100% would require banks to have a source of deposits equal to the needed increase in reserves which would be c. $7 trillion, in order to avoid calling in loans Paying off the public national debt would provide c. $5.4 trillion of the needed capital. Commercial banks hold another c. $1 trillion in other US government agency securities, which the Act provides would also be paid with U.S. Notes, thus providing a total of $6.4 trillion and extinguishing national debt to the same amount. The Act provides for the gradual payment of the c. $4.5 trillion intra-governmental debt, which

shall be timed to provide the balance of the needed reserves (c. $600 billion), and thereafter to provide the 3% growth of the money supply, until fully retired. The intra-governmental debt thus provides a ready and flexible avenue for the Treasury to manage the amount of U.S. Notes created to retire the National debt to match capital needed for the reserve ratio increase. Hence there is no technical obstacle to implementation of this section.

Alternatively, in a less comprehensive but arguably easier reform, full-reserve banks could be required to keep their reserves in either the form of cash or federal debt securities. This would be equivalent to keeping their reserves in interest-bearing Treasury Deposits. Both methods would effectively require banks to substitute existing bank liabilities for the entire marketable government debt in one form or another. Free markets to facilitate this substitution would very rapidly arise and should be allowed to so function. Similarly, Federal Reserve Notes and/or Deposits could be used instead of U.S. Notes and Treasury Deposits, PROVIDED one hundred percent (100%) reserve banking (Act section 4.) is enacted. The form of the new reserves required for the transition to full-reserve banking is immaterial provided they result in the substitution of government securities for existing bank liabilities, and provided fractional reserve banking is terminated as the reserve requirement is increased to one hundred percent (100%), scheduled concurrently to avoid any inflationary/deflationary effect.

4. In another example and approach, the "monetary base" created by the Fed is presently about $911 billion. This is multiplied by the commercial banks between 9 and 10 times (due to exceptions in the required reserve ratio of 10%) resulting in banks "assets" of roughly $9.9 trillion (after deducting required reserves). The gross national debt is presently c. $9.9 trillion. Paying off the gross national debt would provide $9.9 trillion in new reserves to fund the banks' assets (predominantly loans) on a 100% basis, without the banks creating any money. The US Treasury would have created the $9.9 trillion and used it to pay off the gross national debt.

5. The three percent (3%) figure represents the low end of the three-to-five percent (3-5%) range proposed by Prof. Friedman and Mrs. Friedman, for a Constitutional Amendment limiting monetary growth, which we completely support (see endnote 14. for text). However, this draft Act takes the practically-easier legislative approach and adds the critical prohibition of fractional reserve banking as well as other related issues. With population growth and productivity increases averaging approximately one percent (1%) each per year for the last thirty years, a three percent (3%) growth figure will insure stable prices within a vary narrow range and would allow for price-level or cost-of-living adjustments (COLAs) in contracts with a predictable effect to address any slight variation in economic activity from the three percent (3%) monetary growth rate. Further, as perfect fine-turning of monetary growth in a complex economy is not possible, to err on the side of a very slight inflation would at least relieve those burdened by debt of some of the effects of the prior inequity caused by private money creation, whereas to err on the side of deflation would exacerbate such inequity. A fixed rate of growth will provide the needed stability so long lacking m monetary policy, which instability has caused every economic depression in United States history. In 1931, Sweden established a mixed commodity krona by setting up an oflicial C.P.I., and succeeded in keeping it stable (within 1.75%) for several years, until she had to give up the system under pressure from international bankers to stabilize foreign exchange rates. This example demonstrates both empirical proof of the validity of this ideal approach, and of its susceptibility to failure by political manipulation

Periodic, non-discretionary, fine-tuned adjustments based on widespread indexation of prices, by a Monetary Commission of some sort would be the ideal, but lack the stability and predictability of a fixed growth rate

and are subject to corruption and to manipulation indirectly (e.g. such as by alteration of index definitions, components or base years as has repeatedly occurred with the Department of Labor's Consumer Price Index [CPI]).

The zero (0%) monetary growth proposal, particularly if tied to freezing high-powered money, lacks the essential feature of abolishing fractional reserve banking. This is particularly important in light of all the exceptions to maintaining any reserve ratio. However, if combined with such an abolition (and allowing for COLAs to address the inevitable deflationary effects), would be acceptable and arguably easier to advance politically due to the Schelling point effect of a figure such as zero, as Prof. Friedman has pointed out. But, as Paul A. Samuelson noted, the gyrations in the futures markets tend to belie the notion that monetary stability can be found in that direction.

6. Absent massive fraud or theft, full reserve banks cannot fail, rendering insurance such as F.D.I.C. and F.S.L.I.C. unnecessary. Only a minimal cost to insure against fraud or theft would be necessary. Had full reserve banking been in place before the S & L collapse, this one reform would have saved the U.S. taxpayers over $600 billion.

7. As now, no interest would be paid on currency in circulation – the government benefitting from the seigniorage. However, as Prof. Friedman and George Tolley warn, if the government pays no (0%) interest on reserves, which is the theoretical ideal (or charges banks interest on Treasury-assumed bank liabilities [e.g. on so-called Commercial Bank Conversion Bonds] – a variation of a one-time government take-over of existing reserveless [i.e. factional-reserve-based loans] bank liabilities), this would create a high incentive for private near-monies of various kinds (e.g. new forms of negotiable debt, equity or derivative instruments) to proliferate, particularly in advanced economies such as the U.S.

This would threaten many of the benefits of monetary reform including the stability of the money supply and the prohibition of private fractional reserve money creation. The interest may be viewed as a social cost for the benefits of a stable national money. The private trading (circulation) of futures based on widespread price indices as money offers only speculative, though intriguing, reform possibilities at this time.

8. While it would theoretically be easier simply to reform the Federal Reserve System than to abolish it, the experience of the last 300 years in Europe and the last 200 in the U.S. has proven time and again that private banking interests invariably utilize any independence afforded a central bank from government control as an opportunity to exert undue influence over it, often by acquiring outright ownership interests in it, and/or to gain control of it through placement of their employees and experts (schooled in protecting and promoting their private interests who often "retire" to very well-paid positions in private banking) in its key positions at the expense of the public good. This is one reason for the seeming anomaly that private banking interests champion the "independence" of central banks from any effective oversight by politicians generally controlled by them. It simply exposes central banks to even greater private manipulation with less interference from and explaining to have to do to "unreliable" politicians. Independent central banks concentrate national economic control in a body too removed from accountability and therefor from responsibility to the body politic, at least in the often critical short-term.

The so-called independence or autonomy of central banks from governmental control, such as the Federal Reserve System has in the United States, to whatever degree granted, has in practice meant increased private influence and control to that same degree.

The avowed purpose of central bank independence or autonomy – to reduce political (i.e. private special

interest) influence over its functions – something the present independent central banking system utterly fails to achieve but rather enhances, can be accomplished without this danger, by establishing a fixed rate of monetary growth not subject to any discretionary authority or manipulation, as is set forth in section 7. Of course, this too could be a reform within the present Federal Reserve System, but absent direct accountability to Congress (including for annual budget appropriations – a power now uniquely delegated to the Fed which funds its operations without Congressional budget authorization or audit, from interest it receives on the U.S. bonds it purchases for the cost of the paper) the Fed would remain the powerful, effectively independent and dangerous, entrenched banking lobby with virtually unlimited and unaudited funds, constantly working to resist, obstruct and repeal reforms, just as it did during the Great Contraction (i.e. Depression) which it caused. Further, the current division of responsibility for monetary policy between the Fed and the Treasury has allowed both bodies to shift responsibility to the other for harmful actions. This can only be solved by ending this division.

9. Other conflicting, or partially conflicting Acts, such as the Banking Acts of 1933 and 1935; Federal Securities Act of 1933; Securities Exchange Act of 1934; Margin Requirements Act of 1934; Public Utility Holding Company Act of 1935; Bretton Woods Agreements Act of 1944; Federal Deposit Insurance Act of 1950; Bank Holding Company Act of 1956; Bank Merger Acts of 1960 and 1966; Emergency Loan Guarantee Act of 1971; Electronic Funds Transfer Act of 1978; International Banking Act of 1978; Financial Institutions Regulatory and Interest Rate Control Act of 1978; Depository Institutions Deregulation and Monetary Control Act of 1980; Bank Export Services Act of 1982; Garn-St. Germain Act of 1982; Financial Institutions Reform Recovery and Enforcement Act of 1989, and subsequent amendments, would be repealed in whole or in part where in conflict with this Act.

10. The U.S. Supreme Court, in an increasingly important decision, held that an Act of Congress is on full parity with a treaty (or any lesser agreement), and that when a federal statute which is subsequent in time is inconsistent with a treaty, the statute, to the extent of the conflict, renders the treaty null. Whitney v. Robertson, 124 U.S. 190 (1888); et aliacf. Reid v. convert, 354 U.S. 1 (1957)

11. It is estimated that c. $350 billion in U.S. currency is held outside the U.S. This is high-powered money that would cause hyperinflation if repatriated in large amounts in a short period of time. Additionally, the U.S. presently has a high trade deficit, which has been roughly balanced by U.S. bond sales to foreigners, which total approximately $2.5 trillion at present. Further, currency speculators manipulate and exacerbate temporary exchange fluctuations, which can radically affect internal price stability, as was demonstrated in several of the Southeast Asian nations a few years ago.

Whoever originates and controls the volume of money, controls every single economic operation. Therefore, it is essential to monetary stability, and so to reform, as well as to maintaining national sovereignty, that the import and export of capital be kept in balance, so that the domestic money supply be not subject to manipulation nor to fluctuation in quantity, beyond the rule fixed in section 7., above.

Stability of the internal quantity of money is the only basis on which to obtain a stable price level, and foreign exchange rates must not be allowed to disrupt internal price stability. This can be accomplished, there being no theoretical difficulty. For example, the government of China simply forbids banks from handling large foreign transactions other than those for the purchase of Chinese goods, and also maintains a large exchange stabilization fund to defend the yuan. Chile requires that 30% of capital inflows stay in the country a minimum of one year.

12. i. e. the so-called Tobin tax, designed to discourage speculative trading in small differentials in interest on

exchange rates.

13. Prior inequitable and usurious profits accumulated by banks from fractional reserve banking practices are not addressed in this draft Act, which therefor leaves the banks in possession of prior profits of some $1.2 trillion (2008 commercial bank net worth), most of it from such unjust practices. Likewise, prior distribution of profits to bank owners is not addressed. This vast wealth and the economic and political influence it represents, particularly through the control of the media it has purchased, constitutes a standing danger to the Republic and should be addressed, perhaps by some effective form of anti-trust legislation and/or Court action breaking-up the giant banks (and media) into small localized units with separate ownership, or more aggressively by a bank nationalization, break-up into smaller units, and immediate reprivatization by public stock sale pursuant to rules insuring widespread ownership.

But any nationalization Act without an immediate reprivatization clause would create a new and unnecessary danger, as the power to loan does not properly rest with the government, is most effectively handled at the local free market level, and is easily abused for political purposes as was the case with pre-war Germany's Reichbank which granted loans to whomever the government chose for political reasons, as do government banks in communist command economies.

The goal is not nationalization of banks, but of money. By contrast, and by definition, creation of a national currency/money supply can only be effectively and properly handled by a national government, not by local governments or private persons, as reason and experience abundantly prove.

It is primarily for these reasons that we disagree with that portion of the monetary reforms advanced by Messrs. Peter Cook, Theodore R. Thoren and Richard F. Warner, insofar as they advance the notion that the Treasury ought to become a lender to banks and local governments, while we are in general agreement with their reform proposals otherwise (including their rejection of a return to a gold standard). Rather, consistent with the sound reform principle of subsidiarity, the private sector alone ought to engage in the various legitimate forms of lending, as set forth in section 12. herein, with free market supply and demand setting the interest rates.

Government selection of lending proposals for "creditworthiness" or "profound societal impact" etc., or any criteria imaginable, and their evaluation, is inevitably subjective and therefor open to grave abuse by a monolithic lender. As Ms. G. M. Coogan wrote in Money Creators (p. 333-334), for the government to create money as loans is even more vicious than for private banks to create money as loans, carrying with it the power to aid (by granting loans) or destroy (by denying loans) whomever it chooses.

Decentralized, private lending agencies generally tend to loan to any creditworthy applicant, their primary motive being profit (or profit-derived power) which is maximized by making more loans; whereas governments replace this profit priority with political ends such as rewarding their supporters, the political value of which is maximized by restricting loans. So government lending tends to arbitrary discrimination for political motives, an abuse generally avoided in a truly free market lending situation.

Thus, perhaps the most dangerous error of any monetary reform proposal would be to place the lending of money in the hands of the government, which is the essence of communist economics, carrying with it the power to destroy. Indeed, Lenin recommended government origination and control of lending for the political control it affords. That money-lending ought to be carried out by private legal persons rather than the government is a major principle of sound monetary policy. The lending of money ought to be completely divorced from its origination, for as Ms. Coogan pointed out, it is fundamental that money ought not to come

into existence as loans or in response to loan applications, but only as the total stock of available goods increases (or a reasonable approximation thereof, such as three percent [3%] in the U.S.). Further, there is simply no need for the government to get involved in lending, and risk the dangers mentioned, in order to reform the present system and achieve all of the ends set forth in the preamble hereof.

14.Prof. Milton Friedman on his proposed Constitutional Amendment

“When the Constitution was enacted, the power given to Congress ‘to coin money, regulate the value thereof, and of foreign coin’ referred to a commodity money: specifying that the dollar shall mean a definite weight in grams of silver or gold. The paper money inflation during the Revolution, as well as earlier in various colonies, led the framers to deny states the power to ‘coin money; emit bills of credit [i.e., paper money]; make anything but gold and silver coin a tender in payment of debts.’ The Constitution is silent on Congress’s power to authorize the government to issue paper money. It was widely believed that the Tenth Amendment, providing that the ‘powers not delegated to the United States by the Constitution . . . are reserved to the States respectively, or to the people,’ made the issuance of paper money unconstitutional.

During the Civil War, Congress authorized greenbacks and made them a legal tender for all debts public and private. After the Civil War, in the first of the famous greenback cases, the Supreme Court declared the issuance of greenbacks unconstitutional. One ‘fascinating aspect of this decision is that it was delivered by Chief Justice Salmon P. Chase, who had been Secretary of the Treasury when the first greenbacks were issued. Not only did he not disqualify himself, but in his capacity as Chief Justice convicted himself of having been responsible for an unconstitutional action in his capacity as Secretary of the Treasury.’

Subsequently an enlarged and reconstituted Court reversed the first decision by a majority of five to four, affirming that making greenbacks a legal tender was constitutional, with Chief Justice Chase as one of the dissenting justices.

It is neither feasible nor desirable to restore a gold-or-silver coin standard, but we do need a commitment to sound money. The best arrangement currently would be to require the monetary authorities to keep the percentage rate of growth of the monetary base within a fixed range. This is a particularly difficult amendment to draft because it is so closely linked to the particular institutional structure. One version would be:

Congress shall have the power to authorize non-interest-bearing obligations of the government in the form of currency or book entries, provided that the total dollar amount outstanding increases by no more than 5 percent per year and no less than 3 percent.

It might be desirable to include a provision that two-thirds of each House of Congress, or some similar qualified majority, can waive the requirement in case of a declaration of war, the suspension to terminate annually unless renewed.

A Constitutional Amendment would be the most effective way to establish confidence in the stability of the rule. However, it is clearly not the only way to impose the rule. Congress could equally well legislate it.”

Quoted from: A Program for Monetary Stability, by. Dr. Milton Friedman, Fordham University Press (N.Y. 1960, 1992), pgs. X, 66-76, 100-101; and, Free to Choose by Dr. Milton & Rose Friedman, Harcourt Brace & Co. (San Diego 1980, 1990), pgs. 307-308.

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