

Three solutions to the tight credit market in US Feb 2009

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Option 1: Create a public banking system for federal, state and local governments

President John Kennedy issued United States Notes (US dollars) in parallel with the Federal Reserve Notes (also US dollars) in 1963; later, the United States Notes were withdrawn from circulation (1). To loosen the credit market in US, re-issue the United States Notes to create a public banking system for federal, state and local governments. The public banks provides low interest loans to state and local governments to bridge the gap between tax receipt and expenditures and to buy back all outstanding state and municipal bonds. When outstanding federal, state and municipal bonds are repurchased from the current bondholders, they will have cash to invest in the financial market and thereby ease the tight credit market.

1. The US Treasury is the bank for the federal government. Create 'Federal and State Financial Cooperatives' as the public bank for state and local governments, with one office in each 50 state.
2. The US Treasury issues new money, the 'United States Notes' directly from the US Treasury without auctioning Treasury Notes or borrowing from anyone or any private institution. Congress provides suitable legislation for this, similar to President Kennedy's executive order #11110 for issuing the 'United States Notes'.
3. The US Treasury uses the new money to buy back US Treasury bonds held in US (but not in foreign accounts); and to provide loans to bridge the gap between federal tax receipt and government expenditures.
4. The US Treasury provides loans at 1% interest to state and local governments through the 'Federal and State Financial Cooperatives'. The state and local governments buy back all outstanding state and municipal bonds and receive loans to bridge the gap between tax receipts and expenditures.
5. The financial cooperatives are non-profit, any profit is returned to the US Treasury.
6. The financial cooperatives maintain a 100% bank reserve ratio; they have no money creation privilege. They do not offer banking services to the private sector.
7. The United States Notes are backed by the federal government's assertion 'this money is accepted for payment of taxes' and backed at 1% of face value with a basket of commodities.
8. The United States Notes are for domestic use only and has no commercial value in the international marketplace.

Comments on option 1

1. The financial cooperatives provide loans to the 50 states and local governments to weather tight credit, recession, inflation and poor credit rating; buy back public infrastructures that were sold to private investors; protect state and local governments from major (private) bank failures; and stave off private investors looking to investment in public infrastructures. The financial cooperatives never go bankrupt; provide no financial services other than to receive deposits and make loans to state and municipal governments; has no ATMs, minimal business hours; no investment opportunities and does not divert money from the private sector to finance government expenditures.
2. President Kennedy ordered the US Treasury to issue United States Notes without borrowing from the Federal Reserve with executive order #11110 in June 1963. The US Treasury printed 'United States Notes' in parallel with the 'Federal Reserve Notes', \$4+ billion were spent into circulation, President Kennedy was assassinated and the publically owned 'United States Notes' were withdrawn. The United States Notes were backed with silver.
3. Modifications to President Kennedy's United States Notes are as follows:
 - The 1% face value backing is a token of 'trust' that the government will not create infinite amount of fiat currency. The 1% face value is based on the bank reserve ratio set by the Federal Reserve (1-3%), low probability of the US government going bankrupt and transparency in money creation. The Kennedy Notes were backed at 100% face value.
 - The new United States Note is backed by a basket of commodities that reflects a broad cross section of the economic activities in US. Commodities in the basket include precious metals (gold, silver), industrial metals (chromium, nickel, tungsten, zinc), energy (oil, gas, coal) and non perishable food (corn, rice, soybean, wheat). The basket of commodities provides currency backing as well as a buffer in event of emergencies, natural disasters or supply disruptions. The list of industrial metals is from the 'USGS Mineral Commodity Summaries 2007', metals that US have more than 50% dependency on import (2). The Kennedy Notes were backed by silver only.
4. The 'domestic use only' clause insulates the United States Notes from international currency speculation. International transactions are conducted using the 'Federal Reserve Notes'.
5. This provides public banking for federal, state and local governments without nationalizing private banks or reforms the Federal Reserve System. To reform the Federal Reserve, see next option.

Option 2: Reform the Federal Reserve banking system in US

Reform the Federal Reserve System using Stephen Zarlenga's plan (3). This plan is similar to the 'Chicago Plan' proposed by HC Simons in 1933. The Chicago Plan was supported by over 200 academic economists in US, but not JM Keynes; and later

supported by Milton Friedman and Robert de Fremery, both were Nobel laureates in economic; the original 100% reserve solution was discovered in 1922 by Frederick Soddy, Nobel laureate in chemistry (4). For more information on the Zarlenga plan, see www.monetry.org or 'The Lost Science of Money' by Stephen Zarlenga. Briefly, the Zarlenga and Chicago Plan are as follows:

1. Nationalize the Federal Reserve, but do not nationalize private banks. Restore the power of money creation back to the US Treasury; abolish fractional banking, no money creation by private banks. The US Treasury does not borrow from or pay interest on the fiat currency (through US Treasury bill auctions in the current system).
2. Commercial banks remain in the private sector; they provide loans, act as accountants to process loans and charge fees for their services.
3. Increase the bank reserve ratio to 100%. Banks borrow from the US Treasury to bring their reserves up to 100%; abolish the banking practice of lending \$20 for every \$1 held in deposit (fractional banking at 5% reserve ratio). Banks lend money they have on hand or borrow additional money from the US Treasury to lend to their bank customers. The interest received by banks goes back to the US Treasury, but the banks keep a processing fee.
4. The Federal Reserve becomes part of the US Treasury, the US Treasury becomes the 4th branch of the government; separated from the Executive branch. The US Treasury regulates the money supply to maintain stable prices, support infrastructures and social programs (in the Zarlenga plan but not in the Chicago Plan).
5. Set the maximum limit on interest for loans at 8% (in the Zarlenga plan but not in the Chicago Plan).
6. Eliminate 'in cash' payment but allow 'in kind' payment for all futures contracts in the commodities market; apply a tax on foreign currency exchanges to limit speculation on currencies (in the Zarlenga plan but not in the Chicago Plan).
7. Derivatives are a form of gambling, and should be regulated (inferred but not in Zarlenga or Chicago Plan).

Option 3: restoring a collapsed US dollar in the global economy

Fiat currencies do not have commodity backing. Fiat currency in the Zarlenga plan is backed by legislation; essentially, the federal government asserts 'this money and only this money is accept for payment of domestic taxes'. There is no international currency and no world government to impose an international tax. National currency used as foreign reserve currency is based on its demand for global trade, transparency, trust and stability. If the US dollar hyper inflates, the US central bank failed to curb its money creation. Meanwhile, other countries may also hyper inflate their currencies, creating additional uncertainty in the global currency market. To regain confidence in the US dollar, apply option 2, the Zarlenga plan. If option 2 fails then modify it by including a 1% commodity backing as described in option 1:

1. Reform the Federal Reserve System using the Zarlenga plan, as described in option 2 above.
2. Back the US dollar at 1% of face value with a basket of commodities, as described in option 1 above.
3. Increase transparency on money creation; publish the M3 money supply information so all foreign countries could assess the inflationary risk of the US national currency.

References

1. Several internet sites contain information on this subject, search <JFK United States Notes>
2. US Geological Survey, 2007, Mineral Commodities Summaries: Available from the internet as a pdf file from www.usgs.gov
3. Zarlenga, Stephen A. 2002. The Lost Science of Money. American Monetary Institute, Valatie NY. <www.monetary.org>
4. Zarlenga, Stephen A. 2005. The 1930s Chicago Plan and the American Monetary Act. AMI Monetary Reform Conference, Chicago Oct. 2005. Available from www.monetary.org; also The Lost Science of Money, Chapter 24 Reforming the US Monetary System.