September 24, 1993

Dear Mr. Lamb:

I am writing to you because I admire your continuing efforts to enlighten people about complex economic and social connections. I like the way you probe for the basic causes of the problems we all face. You appear to be looking for solutions with an open mind. I hope you can help me to do the same.

I have spent a number of years researching an area of our economy which has not received wide attention by mainstream economists. This subject involves mathematical analysis of an alternative method for supplying money for circulation (M-1), the lifeblood of our economy.

My work, and that of a few others who have thoroughly examined our money creation process, has produced some valuable insights which I believe can profoundly improve our economic and social structure. I'm requesting your help in getting an open minded, intelligent, in depth examination of this complicated subject.

The concept of money is something almost everyone accepts without much thought as to how it gets in and out of our system. I find that many people have the mistaken idea that the U.S. Government somehow prints and spends money into the economy. Of course if that were true, there would be no need to have a $4.5 trillion national debt plus its compounding interest payments which grow geometrically each year. Government officials, political groups, business people, media people and others who influence our decisions seem to have a very limited understanding of the abstract, almost mystical subject of how money is created and extinguished daily by private banking institutions. They do, however, form strong political/economic views using their limited understanding of this obscured process. It appears to me that most people with these hardened political/economic views are unlikely to readily expose themselves to the uncomfortable feelings which might arise if one of their basic economic assumptions is thrown open to question.

My goal is to foster an honest public examination of a non traditional approach to optimizing our national money supply needs. I believe this alternative method of creating money can quickly help us out of many of our growing economic and social dilemmas. Most current solutions proposed by all sides eventually fail to work as expected or lead, in fact, to worse problems in the future. I think it's becoming obvious to more people that something critical to our economic well being is not functioning as it should.

I need a thoughtful, in depth dialogue with someone like you, who might have the ear of some of our decision makers. Are you open to discussing and thinking about alternatives to our current method of creating money? I promise to provide you with some eye opening facts and ideas.

As you may already be aware, money creation is an extremely complex process with subtle relationships. Those few people who do fully understand it complexities and subtleties are sometimes tempted to use them behind the scenes to further their own agenda. Since the vast majority of our people do not understand the full implications of the way added bank debt is used to create new money, they often find it virtually impossible to make effective economic decisions. Unfortunately this problem also extends to our leaders.

If you can take the time to assess this valuable information and pass it on, both our country and the world are likely to become measurably better places in which to live. Please contact me if you are interested in beginning a dialogue. Thank you for your consideration.

Respectfully,

[redacted]

Wyndoor, Pennsylvania 19118

[redacted]

Encl.

[redacted]crc

Paying for Flood Disaster Aid

The cost of aiding flood victims in the midwest may eventually reach $20 billion or more. The Federal government will be called upon to provide a substantial share of the assistance needed by those whose homes, farms, and businesses have been destroyed. In these times of tight money, only three options are considered for raising the needed funds.

Option #1: Additional borrowing by the Federal Government which would add up to $20 billion more debt on top of the $4.5 trillion officially on the books. The continuously compounding interest costs of this debt are in reality a geometrically increasing tax on all of us. Debt service is now the third largest expenditure of the Federal government and, unlike defense, it will grow over the coming decades, compounding itself despite the current rock bottom interest rates.

Option #2: An immediate short term increase in taxes to cover the entire cost of the relief effort.

Option #3: A cut in other federal spending to offset the entire cost of the relief effort.

Under all of these options a group of truly needy victims would be helped to recover a portion of what this disastrous flood has destroyed. However, if any of the first three options above are chosen the cost of paying for flood relief will come out of the pockets and needed programs of others.

There is another better option not currently under consideration.

Option #4: The U. S. Congress, with the President's cooperation, should reclaim part of its constitutional responsibility for creating and controlling our national money supply. $20 billion in debt free/interest free money could be created directly by the U. S. Treasury in the same way we permit the Federal Reserve and its member banks to do every day. This money could aid the flood victims (individuals, businesses and banks) and improve the economy without increasing taxes, the federal debt or inflation. It would also provide a limited trial that would prove the value of this approach.

The money would remain in the economy free of the burden of debt or interest repayments and available to keep stimulating non inflationary real economic growth.

There is no law in nature or economics which dictates that we must continue to allow private corporations to be the exclusive creators and extinguishers of our money supply. The privately owned Federal Reserve Bank and its member banks have created almost all our money as geometrically compounding debt or bank spending. The only exceptions are coins and the few hundred million dollars created debt free/interest free by President Lincoln to help win the Civil War.

At this point in our history, being bound to a system where private banks are in total control of the creation of our national money supply is exacerbating our current economic situation and pushing us towards a serious debt crisis. Eliminating unnecessary and damaging interest costs from our money creation process is a mathematically provable and healthy approach to solving many of our economic and social problems.

Under Option #1, #2, #3 and #4

Flood victims would hopefully go from deep in the hole back close to where they were before the flood.

Under Option #1

The rest of society would pay for flood relief in perpetuity as interest compounds forever on this increased amount of new federal debt.

The economy would get an initial spurt from flood victims spending of the $20 billion in federally borrowed new money. Over the next 15 years, taxes would have to increase by another $20 billion just to pay the compound interest on this added federal borrowing. That's assuming a doubtful continuation of today's historic low interest rates. More realistically this added debt (along with $4.5 trillion in current debt and all future federal deficits) is likely to continue to double every 10 years. This will occur because our annual deficits are at least as large as the annual interest costs on our debt. In the end the positive effects would be mostly in the local economies while the negative effects would tend to be nationwide in future years.

Under Option #2

The rest of society would go slightly more quickly into a small hole financially but for a limited period of time.

The economy overall would not change appreciably because the small individual drop in the rest of society's spendable income would match the large spending increase of a relatively few flood victims. The local economies would again show most of the positive effects but these would come at the immediate expense of the rest of society.

Under Option #3

Only those people affected by the cutbacks in federal spending would bear the initial financial burden of the flood relief. The economy overall would not change appreciably because the drop in spendable income by those affected by the federal cutbacks would be balanced by the spending increase of flood victims. The local economies would show the most positive effects but these would be offset by negative effects in the rest of society when other federal spending dropped accordingly.

Under Option #4

The rest of society would actually be measurably better off than where they were before because the $20 billion in new debt free/interest free money would create additional sales for many businesses. This equates to new jobs, added savings, spending and investments throughout the economy and particularly in the local economy. There would be no increase in tax rates or added debt/interest to be repaid forever. (Tax receipts will rise, however, due to more business profits and more employed people.)

The economy would get a permanent shot in the arm with the infusion of new debt free/interest free money. This would not reverse over time as in Option #1 above because there would be no constantly increasing compound interest payments to the money's creators.

For those who will claim that Option #4 would cause inflation, I offer the following observations. Money created under the current system is inflationary because it is created mostly as new bank debt. The interest attached to this newly created debt money constantly compounds and must be removed from the economy as bank interest payments in larger amounts each year. This is the primary cause of the decline in our money's value. This devaluation expresses itself in rising prices as each dollar buys less in goods and services each year.

Furthermore, even if Option #4 can somehow be shown to be inflationary, it certainly cannot create more inflation/devaluation of the money supply than would the increased taxes and interest costs produced by Options #1 and #2. Both of these are cost increases which must be passed along as increased prices by businesses and increased taxes by government. Option #3 would only spread the negative situation to a new group in our society.

From my own business experience I would conclude in fact that this increase in available new sales dollars would actually result in lower prices, more efficiency, more good jobs and less conflict in our society. This would be especially true because there would be no accompanying increase in interest costs to government, business and individuals.

Our economy has lots of excess productive capacity. Certainly most business people's reaction to a sudden increase in sales is not to raise prices, particularly when their unit production costs are dropping due to more efficient use of their plants capacity.

This whole concept has many far reaching positive applications and implications. For further information, please contact:

[redacted]
Wyndmoor, Pennsylvania 19118
[redacted]

A Way to Simultaneously Strengthen Our Economy and Our Banking System

Our entire banking industry and the economy itself could be made steadily stronger and made less risky if banks were not required to constantly undermine their own stability and the country's economic future. This occurs because of an archaic money creation system which creates most of our money supply as bank debt.

Banks, performing their assigned task in our current system, must withdraw a geometrically increasing portion of our money's real value from the existing money supply each year. This value is removed in the form of constantly compounding interest charges on all previously created bank debt which remains unpaid. Interest paid to banks is extinguished from the money supply along with principal repaid. New money created and spent into the economy by banks to pay their operating expenses, profits and to purchase real assets does enter the economy debt free. However, most of our increasing money supply is created as rapidly growing bank debt through new bank loans to individuals, companies and governments.

When an arbitrary and inflationary debt interest burden is attached to most newly created money by banks, as it must be in our current money creation process, the result is ever larger drains on the money supply in the future. The banking industry's actions, therefore, take needed dollars out of the economy and away from their own loan customers, thereby compromising their own loan portfolios.

Our economy needs a steadily increasing money supply to allow for economic growth. To replace all interest and principal payments extinguished in the loan payment process, and to provide the steady growth in money needed, banks have to spend or loan huge amounts of new debt burdened money into our system each year. A vicious circle of more rapidly compounding interest payments on our growing bank debt produces a steady decline in the real value of goods that our money supply can purchase. This is the primary source of inflation in our economy. Inflation can be described as the declining purchasing power of our currency which occurs as the overwhelming and unnecessary debt interest burden on our circulating money supply grows geometrically each year.

If all new money needed for the healthy growth of our economy were created and stabilized in value <u>debt free</u> by the U.S. Treasury (per the Constitution), the banks and their loan customers would not have to suffer the increasingly more dangerous periodic financial declines which our bank debt money system guarantees must eventually occur. Debt free U.S. Treasury money, once created and spent directly by our elected representatives for all our benefit, in lieu of income taxes, would stimulate more growth and savings. Similarly, interest free loans of debt free U.S. Treasury created money to municipalities across the country for badly needed infrastructure improvements, would provide increased economic activity and jobs. People would become more comfortable about deferring some of their spending in a consistently expanding non-inflationary economy. Banks could then concentrate on the much safer and more constructive business of attracting checking and savings deposits and then loaning this growing supply of existing money to a growing number of financially stable and responsible individuals, companies and entrepreneurs. These now healthy bank loans of existing saved money could also be supplemented, when economically necessary, by low interest loans of U.S. Treasury created money to the banking industry. Borrowing and repaying saved <u>existing</u> money would eliminate disruptive periodic restriction of the money supply, just as current loans and repayments between <u>non</u> bank related parties in today's economy do not affect the amount of money in circulation. Individuals or companies would simply forego spending a portion of their earnings in return for the payment of a fee by another party who wanted to temporarily increase his spending or invest profitably. Banks would still collect the difference between what depositors are paid and what borrowers are willing to pay. Bankers would not, however, have the thankless responsibility of expanding and contracting our money supply. (Many times in direct conflict with their own legitimate business interests.) A stable, steadily growing debt free money supply would benefit all of us with increased GNP (sales), low inflation, low unemployment, increasing standards of living, lower taxes, elimination of bank failures and many fewer business or individual failures. These improved conditions for all our citizens would also help eliminate the causes of many of our persistent growing social problems. Risks to the banking industry and the financial markets would be much lower in the healthy, steadily growing economy that would result.

I think this solution to our apparent economic paradox warrants more in depth consideration. The "Sovereignty" proposal that follows provides a practical first step to take.

[redacted]
Wyndmoor, PA

Sovereignty

A not for profit organization of taxpayers and future taxpayers

1154 West Logan Street
Freeport, Illinois 61032
(815) 232-8737

SOVEREIGNTY PROPOSAL

Sovereignty is a nonpartisan, not for profit organization founded with two purposes: (1) to reduce the high and escalating taxes, both income and property, and (2) to fund to a greater degree the necessary and legitimate needs of our communities and nation. The needs we refer to are bridges, roads, water/sewer/waste disposal systems, environmental projects, education, housing, and health care. In summary, we want less taxes and greater funding.

Sovereignty has correctly identified a massive amount of waste in the form of interest payments that we make on federal, state, and local government debt. The cost per person for just interest on the federal debt is $1,200 per year. When one multiplies this amount times the population of one's city or county, it is evident that the waste is massive. **It is waste because no borrower gets any value from interest payments.**

Sovereignty wants tax-supported bodies to be able to borrow money interest-free directly from the U. S. Treasury for capital projects and for paying off existing debt. It is a loan, not a grant, and is to be used to build capital projects, not to pay day-to-day expenses. As the loans are repaid to the U.S. Treasury, the money is extinguished out of the money supply. The Treasury would get the money not from the federal budget, but rather, Congress would create the money (as authorized in the U. S. Constitution, Article 1, Section 8, Clause 5) just like banks and the Federal Reserve do every day.

Creating additional money for such loans increases bank deposits. However, the Federal Reserve has already confirmed that the reserve requirement of banks can be adjusted to allow no additional money to be available to the general public if that's their desire. This action proves there will be no inflation.

Tax-bodies would be able to borrow for a second reason, and that would be to pay off debt. This would free up the interest payments over the many years that the taxpayer would otherwise have to make.

Obvious benefits would be:

1. A reduction in taxes.

2. The ability to get at more necessary projects.

3. Pay one-half to one-third the price for new projects built.

4. With more money in taxpayers' pockets, they would buy each other's products and bring about real economic development.

The privilege of creating and issuing money is not only the supreme prerogative of Government, but is the Government's greatest creative opportunity. By the adoption of these principles, the taxpayers will be saved immense sums of interest. ABRAHAM LINCOLN

5. Substantial increase in production of steel, cement, heavy equipment, etc.

6. Greater revenues for all treasuries due to greater employment and better paying jobs.

7. Less crime and social problems as hope replaces hopelessness.

8. Massive increase in employment for all citizens.

Because we have a better way to fund public projects than through the use of municipal bonds, the **over $900 billion** invested in those bonds can be redirected into the private sector. Banks and savings and loans will compete for some of this $900 billion, and that's good too. This will bring more money into CDs and money markets, which is the source of loans for business expansion, home building, and auto buying.

Proper incentives can be made available to investors for investing in the strategic needs of our country like desalination plants, alternative fuels, certain environmental projects, nuclear waste clean ups, high speed trains, etc. With interest-free loans funding public projects and over $900 billion more dollars going into the private sector, **we will have everyone pulling in the same direction.**

"Are public capital expenditures productive?" was a question asked in a study completed in 1990 by David Alan Aschauer, senior economist for the Federal Reserve Bank of Chicago. His conclusions were:

(A) Public investment induces an increase in the rate of return to private capital and stimulates private investment expenditures.

(B) Public investment brings forth private-sector output that is four to seven times as large as the public-sector outlays.

(C) Given a sufficiently high marginal productivity of government capital spending, a surge in public capital expenditures can bring about a multiple expansion of output, even in an economy with fully utilized resources.

Thirteen economists, three bankers, and several other professional people make up Sovereignty's Advisory Committee.

SOVEREIGNTY ADVISORY COMMITTEE

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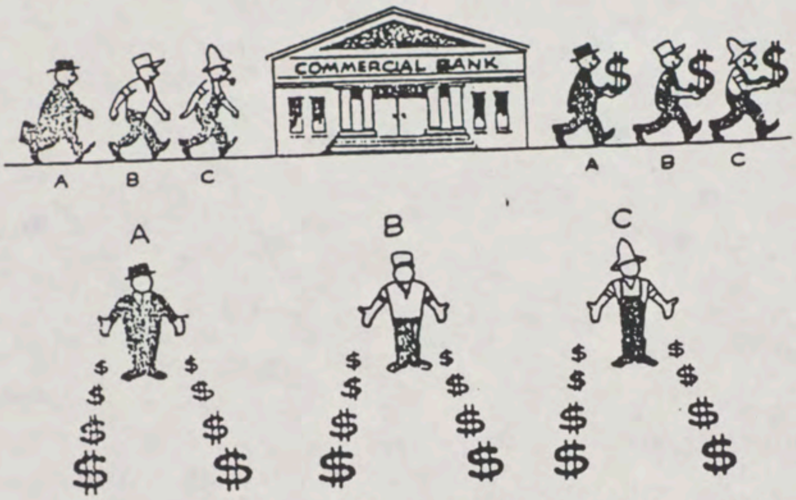
BEVERLY HILLS, CALIFORNIA

INSTITUTIONS SUCH AS THE FEDERAL RESERVE AND COMMERCIAL BANKS CREATE MONEY EVERY DAY

Do commercial banks create the money that they lend?

Yes.

ONE INSTITUTION--THE COMMERCIAL BANK--CREATES NEW MONEY--CHECKBOOK MONEY--WHEN IT LENDS. PRODUCERS AND WORKERS BORROWING FROM COMMERCIAL BANKS PUT THIS NEW MONEY INTO CIRCULATION.

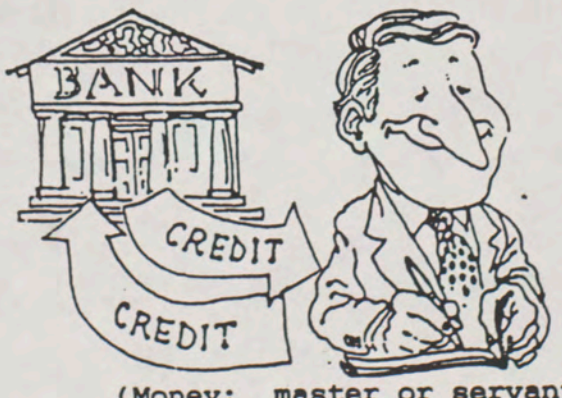


(The Story of Money, Federal Reserve Bank of New York, page 4.)

Do banks extinguish the money paid to them when borrowers repay their debts?

Yes. The money paid to commercial banks goes out of existence and is extinguished out of the money supply.

But bank credit isn't a one-way street. It adds to our money supply, to be sure, but our money supply declines as bank credit is repaid. Banks, then, can "destroy" or "extinguish" money as well as "create" it.



(Money: master or servant?, Federal Reserve Bank of New York, page 14.)

The Power to Coin Money

by

Bob Blain, Ph.D.

President Bill Clinton faces the same dilemma as every President since George Washington; namely, how to fund needed projects without increasing the Federal debt.

Federal debt was $75 million when Washington became President and $82 million when he left office. To collect taxes to pay interest on the debt he sent Federal troops into Western Pennsylvania to suppress the Whiskey Rebellion. Andrew Jackson reduced the Federal debt to $38 thousand by 1836, only to see the country plunge into a severe depression in 1837. Ronald Reagan added more to the Federal debt than all previous administrations combined, because he was heir to a debt growth process two centuries old.

By 1992 Federal debt was $4.1 trillion. From 1790 to 1992, taxpayers paid $2.9 trillion in interest on Federal debt.

The present Federal debt is arguably the original debt enlarged by annually compounding interest. $75 million borrowed at 5.34 percent interest compounded annually for 203 years equals $2.9 trillion. Borrowed at 5.52 percent it equals $4.1 trillion. The interest has been paid and almost immediately borrowed back again.

James Jackson, Congressman from Georgia, predicted that this would happen in a speech he made to the First Congress on February 9, 1790. Jackson warned that passing Alexander Hamilton's plan to base the country's money supply on the existing Federal debt of $75 million would: "settle upon our posterity a burden which they can neither bear nor relieve themselves from." He predicted: "In the course of a single century it would be multiplied to an extent we dare not think of." He clearly saw that Hamilton's plan would put in place an exponential process of debt growth. To support his warning he cited the experiences of Florence, Genoa, Venice, Spain, France, and England.

Hamilton's plan was for Congress to commit the country to pay interest on the debt until the debt was paid. In the meantime the debt certificates would circulate as money. He argued that this would turn a $75 million debt into a $75 million money supply.

The problem was that interest payments would come out of the money supply. This would reduce the quantity of money that remained in circulation and cause recession, until new loans returned the interest money back into circulation. The history of Federal government finance shows regular periodic swings from debt reduction and recession to debt increase and recovery. In the Reagan-Bush era we experienced increased debt and recovery. It appears that we are now entering a period of debt reduction and recession, unless we have the courage to change.

The power that Congress has neglected all these years is the power: "To coin money and regulate the value thereof" (Article I, Section 8, Paragraph 5 of the Constitution). It has overused its power: "To borrow money on the credit of the United States" (Article I, Section 8, Paragraph 2). According to the Federal Reserve, 98 percent of the U.S. money supply is borrowed. Only 2 percent is coined.

The First Congress set the wrong precedent. It should have created $75 million and paid off the debt. With a population of 4 million people and an economy starved for a medium of exchange, that would have increased the money supply by $18.75 per person.

Why did the First Congress borrow instead of coin money? Newspapers at the time accused members of Congress of acting to serve their own interests. They sent agents into the countryside to buy up the debt certificates that the general public thought were worthless. They then passed the Funding Act knowing that it would give them and their heirs a source of income that would grow exponentially as the debt grew. For every debtor there is a creditor. What is a $4 trillion debt for debtors is $4 trillion in claims for creditors.

The present Congress has a range of options that need to be considered.

First, Congress could stop paying interest on the debt. Interest is the fuel that is exploding the debt. Cut off the fuel; stop the explosion. Since 1790 nearly $3 trillion in interest has been paid on the original $75 million (itself inflated by interest from $40 million at the conclusion of the Revolutionary War). Cutting interest would immediately cut this year's deficit by about $300 billion. Experience shows that all other actions, no matter how painful, do no more than slow slightly the rate of debt growth. Then Congress could begin the process of paying off the debt.

A second option is for Congress to create the money necessary to fund infrastructure projects. As a sovereign government, Congress is unique. It can create money debt-free and interest-free. Congress needs to stop thinking of itself as the same as all other organizations, which must take money in before they can spend it. Money does not grow on trees. It must be created. The only choice is whether to have it created as loans at interest from private banks or to have it created by Congress debt-free and interest-free.

More

How can Congress create money without causing inflation? Congress must regulate its value, as the power to create money includes the power to regulate its value.

A way for Congress to regulate the value of money is by funding projects at the current national price level. The current national price level can be calculated by dividing the most recent Gross Domestic Product by the number of hours of work that produced it.

For example, in 1991 the total Gross Domestic Product was $5,672.6 billion. In 1991 the employed labor force was 118.44 million people. If each employed person worked 40 hours per week for 50 weeks, each worked 2000 hours. If so, the GDP was produced by 118.44 million people times 2000 hours, or 236.88 billion hours. So the GDP was produced at the rate of $5,672.6/236.888 = $23.95 per hour of work.

Therefore, the price level in 1991 was $23.95 per hour of work. By now, February, 1993, the price level per hour is probably $25.00. So let Congress fund infrastructure projects at $25 per hour. How this amount is allocated among labor, land, and capital can be negotiated.

How much money should Congress create? How about creating money gradually until we reach full employment. We have more than 9 million people actively looking for work. If these people were employed in productive work, with all costs averaging $25 per hour, $50,000 per year per person, 9 million people would add $450 billion to national GDP. The pie would grow as unemployment went down. Congress could start by creating, say, $50 billion, $200 per person, in debt-free interest-free money, fund $50 billion worth of infrastructure projects, monitor the results, and make adjustments as needed. Meanwhile the Fed could raise bank reserve rates, not interest rates, to make checking accounts more secure.

A third more conservative option is being proposed by an organization, based in Freeport, Illinois under the chairmanship of Ken Bohnsack, called Sovereignty.

The group is called Sovereignty because it is their belief that a country that borrows money loses its sovereignty to its creditors. Their proposal is intended to restore U.S. sovereignty by reducing our dependence on borrowed money.

Sovereignty proposes that Congress create money and lend it interest-free by a per capita formula to tax-supported bodies for capital projects and to convert existing debt to non-interest-bearing. Since first proposed in January 1989, the Sovereignty loan plan has been endorsed by over 1,730 city, town, and county governments and school boards. The U.S. conference of Mayors endorsed the plan in Houston on June 24, 1992. As loans, the money would be repaid, so money injected into communities would fund projects, then be removed. Of the three methods for putting money into circulation available to Congress, giving, paying, and lending, lending is the most cautious.

Benjamin Franklin attributed the economic success of the colonies to their creation of all the money they needed. He said that the root cause of the Revolution was the act of Parliament that prohibited the colonies from continuing to issue their own money. The moneylenders of England thought it more profitable to them that the colonies borrow their money. President Lincoln had Congress issue $450 million in greenbacks to help finance the Civil War. President Kennedy, through Executive Order 11110 on June 4, 1963, had about $4 billion in silver certificates issued.

We hear from Washington that we need to sacrifice to bring the deficits under control - cut consumption, save, and invest. When that slows the economy, we will be told to spend more to stimulate the economy. We have heard it all before. Neither method works. We need debt-free interest-free money to fund the work that needs to be done. It's not sacrifice we need; it's productive employment. Let Congress use its unique power to coin money and regulate its value to fund that employment.

Money is no more than an accounting device, a system of notes certifying that the bearer has done a share of the work and deserves a share of the wealth. Money's backing is the goods and services produced by the labor force. By creating money Congress can activate the idle productive power of our people. And what they produce will add real wealth to the U.S. Treasury and add nothing to the Federal debt.

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Bob Blain is Professor of Sociology at Southern Illinois University at Edwardsville. His research on the history of U.S. public and private debt from 1791 to 2000 was published in November, 1987 in the International Social Science Journal, UNESCO, Paris. He can be reached at (618) 692-2490.