Fix the Monetary System by Todd Altman

In *Rights vs. Privileges* (pp. 12-13), Robert De Fremery writes:

> *There is no question that the present tax system adds to inflationary pressures and aggravates the so-called business cycle. But inflation itself is caused by our unsound banking system. In other words, if we reformed our tax system and kept our unsound banking system, we'd still have the problem of inflation and unemployment even though less severe than before. The tax system, as I see it, is the main cause of our very inequitable distribution of wealth, whereas the banking system is the main cause of inflation and depression.*

I agree with this assessment. Under our current banking system (i.e., money system), all money is created out of nothing by a private banking cartel and then loaned into circulation at interest — first by the Federal Reserve, via its purchase of government bonds; and second by commercial banks, via fractional reserve lending.

There are two critical problems with this process.

First, when the banking cartel loans money, only the principal gets created, not the interest. This is why the overall indebtedness of the economy ($31 trillion at present) is always several times greater than even the most liberal estimate of the money supply ($8.5 trillion at present). Granted, if no one borrowed, there would be no interest to pay; but there would also be no money supply, and thus no economy.

Second, because all money is created as a loan, whenever the principal of a loan is paid back, the money supply is reduced by that amount.

Say, for instance, the money supply is currently zero. If a bank loans Person A and Person B $100 each and charges them 10% interest, the money supply increases to $200, yet total indebtedness increases to $220. As a result, the only way either one can pay the interest he owes is to capture a portion of the other person's loan principal through the process of commerce.

Thus, if Person A captures enough of Person B's loan principal to repay his loan plus interest, the money supply is reduced to $90. Of the $110 it receives from Person A, the only portion the bank can spend back into the economy is the $10 it receives as interest. Doing so increases the money supply to $100, leaving Person B with $10 of unpayable interest debt. At that point, the only way Person B can avoid bankruptcy is for someone else to obtain an interest-bearing loan from a bank, making it possible for Person B to capture the necessary portion of that someone else's loan principal to get out of debt.

So we see that, under our debt-based money system, interest can never truly be paid off, but can only be shifted from one person to another, or one sector of the economy to another (public to private, or vice versa). That more than anything else is what creates our dog-eat-dog, musical chairs economy — an economy in which millions of people work frantically to capture other people's loan principal; and in which virtually everyone works (to one extent or another, and whether they realize it or not) as indentured servants to the banking elite.

The only way to fix this problem is to replace our debt-based money system with a debt-free money system. Under a debt-free money system, all new money would be spent into circulation interest-free instead of loaned into circulation at interest. This is just common sense. If the government can issue a dollar bond, it can issue a dollar bill. Both have the same backing. The only difference is that one bears interest, the other doesn't; one serves the banking elite, the other serves the general public.

To avoid inflation during the transition phase, it would be necessary to require all banks that are either chartered or insured by the federal government to simultaneously raise their reserve requirements a little each month, so as to phase debt-money out of circulation at about the same rate that debt-free money is phased into circulation. (Because a zero growth rate of the money supply would cause a recession, the rate at which debt-free money is phased in would have to be somewhat higher than the rate at which debt-money is phased out.) This transition process would continue until all banks had a 100% reserve backing, at which point they would be prohibited from ever returning to a fractional reserve backing.

It would then be a simple matter of pegging the growth-rate of the US money supply the to consumer price index (or something similar) — that way, if the price level began to rise, the law would require (1) a moderate decrease in the percentage of government spending that comes from newly issued Treasury currency, and (2) a proportionate increase in the percentage that comes out of tax revenue. If the price level began to fall, the law would require the reverse.

As the resultant decrease in the public debt freed up an increasing percentage of the $200+ billion wasted every year on interest payments alone, and as the resultant boom in prosperity increased the tax base, tax revenues would soon exceed overall expenditures, thereby creating a real budget surplus (as opposed to the phony, "projected" surplus we heard so much about in the late 90s). At that point, adjustments to the growth rate of the money supply could be made simply by adjusting the percentage of the surplus that is rebated to taxpayers. In other words, the rebate would go down if the price level went up, and up if the price level went down. GJ