

Friends – Please print this out or order hard copies (see final page) and use it to explain monetary reform to your friends with an abbreviated yet complete explanation!

Presenting the American Monetary Act (as of July 18, 2009)

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“Over time, whoever controls the money system controls the nation.”
Stephen Zarlenga, Director

Introduction

Dear Friends,

The World economy has been taken down and wrecked by the financial establishment and their economists; and by their supporters in the media they own, and even by some in the executive and legislative branches, in the name of “free markets” and insatiable greed. Shame! Shame on them all!

The American Monetary Act (the “Act”) is a comprehensive reform of the present United States money system, **and it resolves the current banking crisis**. “Reform” is not in its title, because the AMI considers our monetary system to never have been adequately defined in law, but rather to have been put together piecemeal under pressure from particular interests, mainly banking, in pursuit of their own private advantage, without enough regard to our nation’s needs. That is the harsh judgment of history as made clear in *The Lost Science of Money*, by Stephen Zarlenga (abbreviated LSM).*

That book presents the research results of The American Monetary Institute to date and this Act puts the reform process described in Chapter 24 into legislative language. Chapters 1 thru 23 present the historical background and case studies on which Chapter 24 is based. We recommend serious students of our money system read the book now, and suggest that those who’ve read it read it again.

This Act has been in preparation since December 2004 and was placed on our web site for public criticism in February 2006, and concurrently released in Philadelphia at the Eastern Economic Association Conference, for general comment. It draws from and improves a previous proposal known as “The Chicago Plan,” which was advanced by Professors Henry Simons, Irving Fisher and other leading economists in the 1930s in response to the wreckage of the Great Depression, which resulted from our poorly conceived banking system. This Act is more comprehensive and includes improvements to infrastructure, including the human infrastructure of health care and education.

While The American Monetary Institute is responsible for its present form, the Act is based on Aristotelian monetary concepts in existence since at least the 4th century BC and employed successfully in a variety of monetary systems since then, ranging from democratic Athens to republican Rome. It is not merely a theory - its main elements have a long history of successful implementation in major societies around the world, including the American Colonies and the United States. These concepts enabled us to first establish the U.S. and then to maintain it as one nation.

The current text of the Act (continuing to be developed) is presented on the right side of each page. On the left appears an explanation of the terminology and why it’s necessary. A background explanation is presented after each Title. Then the next Title is considered. This is still an open process – **suggestions and criticisms are welcomed**.

This five page form of the Act is a structural summary, which gets more detailed and fleshed out by legislative aides preparing it for introduction into Congress as a Bill. The following brief summary:

The Need for Monetary Reform serves as a preface to the American Monetary Act.

You are invited to join in this citizen’s movement and demand for monetary reform! Attend the AMI Monetary Reform Conference held annually in Chicago at Roosevelt University each September.

Sincerely,

Stephen Zarlenga Director, AMI

* Please see *The Lost Science of Money* book for the case histories that demonstrate in detail, the points of this pamphlet.

The Need for Monetary Reform

Monetary reform is the critical missing element needed to move humanity back from the brink of economic destruction and nuclear disaster, away from a future dominated by fraud, ugliness and warfare, toward a world of justice and beauty.

The power to create money is an awesome power – at times stronger than the Executive, Legislative and Judicial powers combined. It's like having a "magic checkbook," where checks can't bounce. When controlled privately it can be used to gain riches, but much more importantly it determines the direction of our society by deciding where the money goes – what gets funded and what does not. **Will it be used to build and repair vital infrastructure** such as the New Orleans levees and Minneapolis bridges to protect major cities? Or will it go into warfare and real estate loans creating the real estate bubble – leading to a crash and depression.

Thus the money issuing power should never be alienated from democratically elected government and placed ambiguously into private hands as it is in America in the Federal Reserve System today. Indeed, most people would be surprised to learn that the bulk of our money supply is not created by our government, but by private banks when they make loans. Through the Fed's fractional reserve process the system creates "money" when banks make loans into accounts; so most of our money is issued as interest-bearing debt (see page 14 below).

Under the Constitution, Article I, Sec. 8, our government has the sovereign power to issue money and spend it into circulation to promote the general welfare, for example, through the creation and repair of infrastructure, including human infrastructure - health and education - rather than misusing the money system for speculation as banking has historically done; periodically causing one crisis after another. Our lawmakers must now reclaim that power!

Money has value because of skilled people, resources, and infrastructure, working together in a supportive social and legal framework. Money is the indispensable lubricant that lets them "run." It is not tangible wealth in itself, but a power to obtain wealth. **Money is an abstract social power based in law**; and whatever government accepts in payment of taxes will be money. Money's value is not created by the private corporations that now control it. As Aristotle wrote: "Money exists not by nature but by law."

Unhappily, mankind's experience with private money creation has undeniably been a long history of fraud, mismanagement and even villainy, and the present crisis could become the worst yet! Banking abuses are pervasive and self-evident. Major banks and companies focus on abusing the money system instead of production. Billions have been stolen, trillions more are being shamelessly grabbed in so called bailouts! Much of our leadership is acting like patsies, instead of protecting our people as the financiers rape America.

Private money creation through "fractional reserve" banking fosters an unprecedented concentration of wealth which destroys the democratic process and ultimately promotes military imperialism. Less than 1% of the population now claims ownership of almost 50% of the wealth, but vital infrastructure is ignored. The American Society of Civil Engineers gives a D grade to our infrastructure and says it will soon be a D-; and estimates that \$2.2 trillion is needed to bring it to safe levels over the next 5 years!

That fact alone shows the world's dominant money system to be a major failure crying for reform.

Infrastructure repair would provide quality employment throughout the nation. There is a pretense that government must either borrow or tax to get the money for such projects. But it is well enough known that the government can directly create the money needed and spend it into circulation for such projects, without inflationary results. A reformed monetary/banking system can make this happen NOW!

Monetary reform is achieved with three elements which *must* be enacted together for it to work. Any one or any two of them alone won't do it, but would further harm the reform process. ***The reform has its best chance of passage in this severe monetary crisis created by the privatized money system. Considering that the same establishment controls our weapons systems, this may be humanities only chance for reform, to stop the now obvious slide of our middle class into slavery or some form of "Disney Fascism."***

First, incorporate the Federal Reserve System into the U.S. Treasury where all new money would be created by government as money, not interest-bearing debt; and be spent into circulation to promote the general welfare. The monetary system would be monitored to be neither inflationary nor deflationary.

Second, halt the bank's privilege to create money by ending the fractional reserve system in a gentle and elegant way. All the past monetized private credit would be converted into U.S. government money. Banks would then act as intermediaries accepting savings deposits and loaning them out to borrowers. They would do what people think they

do now. ***This Act nationalizes the money system, not the banking system. Banking is not a proper function of government, but providing the nation's money supply is a government prerogative!***

Third, spend new money into circulation on 21st century eco-friendly infrastructure and energy sources, including the education and healthcare needed for a growing and improving society, starting with the \$2.2 trillion that the Civil Engineers estimate is needed for infrastructure repair; creating good jobs across our nation, re-invigorating local economies and re-funding local government at all levels.

The false specter of inflation is usually raised against such suggestions that our government fulfill its responsibility to furnish the nation's money supply. But that is a knee-jerk reaction - the result of decades, even centuries of propaganda against government.* When one actually examines the monetary record, it becomes clear that government has a far superior record in issuing and controlling money than the private issuers have had.* Inflation is avoided because real material wealth has been created in the process. Research and development of superior pollution-free technologies is facilitated.

What we're proposing builds upon the "Chicago Plan" which came out of University of Chicago economists in the 1930s and was widely supported nationwide by the economics profession back then. It was thought to be the next immediate step in the reforms coming out of the Great Depression. This was before that important university and most other university economics departments went over to the "dark side" with their free market worship. That's a religion with no supporting evidence that ignores the facts which clearly disprove it.

Lawmakers have often believed they could ignore the big questions on how our money system is structured. Right from the Constitutional Convention delegates ignored society's monetary power and the excellent record of government issued money in building colonial infrastructure and giving us a nation.* They left the money power up for grabs, when properly estimating it would have meant placing it in a fourth monetary branch of government. "We marvel that they saw so much, but they saw not all things" wrote Civil War General and money reformer Benjamin Franklin Butler 80 years later.

My Friends, our Great Task is to complete that part of government left inadequately defined by the founders; to more precisely define the money power in our society and bring it securely within the proven system of checks and balances they established. History shows that the money power will act like a fourth branch whether we recognize it as such or not. It's not safe to leave so much power and privilege in private hands! It's counter to our system of checks and balances. The developing crisis requires us to re-evaluate and focus on it now. We must not shrink from our responsibility to begin implementing the long known solutions to this problem. We start by placing the "money power" within our government where it obviously belongs. Or would you prefer to let "Enron" continue to control it, and us? And yes - Enron was on the Dallas Fed Board!

As the late Congressman Wright Patman, Chairman of the House Committee on Banking and Currency for over 16 years, said, "I have never yet had anyone who could, through the use of logic and reason, justify the Federal Government borrowing the use of its own money....I believe the time will come when people will demand that this be changed. I believe the time will come in this country when they will actually blame you and me and everyone else connected with the Congress for sitting idly by and permitting such an idiotic system to continue."

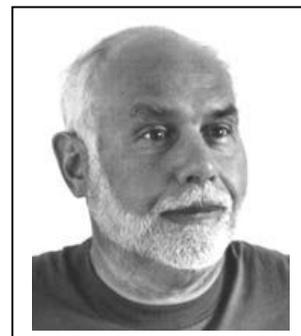
Friends, look around you. That time has certainly come! Awaken – get up and fight for your family and nation.

Thanks for your attention,

Stephen Zarlenga
Director

*Please see ***The Lost Science of Money*** book by Stephen Zarlenga for the case histories that demonstrate in detail, the points of this pamphlet.

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Background

The World's greatest problem, besides poor spiritual values, is that the governments of the World do not create their own money, but have allowed private banks to usurp the special privilege to lend their credits into circulation in place of actual money. Whether a nation has a private or a governmentally owned central bank the private bank loans function as money within the world's economies. Two major problems arise: First the obvious interest cost which the banks receive when they create money out of thin air. This costs the US government about \$400 billion per year in interest charges on the national debt – about 18-20 % of the annual federal budget. Not to mention the interest the banks also charge against all the private borrowings. So the private creation of fiat money acts like a private tax on all of society, to the benefit of those with the privilege to create such money. This has spread poverty and has concentrated wealth to obscene levels!

Societies might survive even with such a ball-and-chain around every producer's leg, but the second problem is even worse: It's the bankers, not the society, who decide the direction of the nation – what gets funded and what does not. Will money go into fixing New Orleans levees and Minneapolis bridges, or into real estate bubbles and Wall Street gambling, and warfare?

Understanding The Nature of Money

Mankind can survive under all sorts of political systems from democracy to dictatorship, but the best systems will be those in harmony with the nature of man. Likewise all sorts of things can be used as money; but the best will be that in harmony with the nature of money. Therefore evaluating what constitutes proper monetary reform requires us to examine the nature of money.

In 1718, John Locke wrote: "Observe well these rules: It is a very common mistake to say that money is a commodity... [but] Bullion is valued by its weight... money is valued by its stamp." America's great Ben Franklin agreed, writing: "Silver and gold...(are) of no certain permanent value... We must distinguish between money as it is bullion, which is merchandise, and as by being coined it is made a currency; for its value as merchandise, and its value as a currency are two different things..." (LSM, Ch. 14*)



Founding Father Ben Franklin, the great scientist (early work with electricity) and statesman (guided the Continental Congress; convinced France to support our revolution) was a monetary genius. His 1729 essay *The Nature and Necessity of a Paper Currency* summarized the ideas he used to help Pennsylvania with its money system in 1723 rescuing her from a prolonged usury crisis. Franklin told the world: "**Experience, more prevalent than all the logic in the World, has fully convinced us all that paper money has been of the greatest benefit to the country**"- thereby also identifying good thinking methodology.

The Aristotelian Concept of Money – a legal fiat

Both Locke and Franklin echoed Aristotle's concept of money as an abstract legal power, a fiat of the law, summed up in Aristotle's phrase "**Money exists not by nature but by law.**" (Ethics, 1133) To Aristotle money isn't a commodity that comes out of a mine or a farm. It comes from "nomos" - the law or binding custom, and the Greek name for money was "nomisma." Aristotle makes the supreme distinction between *money* which is abstract, and *wealth* which is tangible. He is the creator of the "science of money." (Ch.1)

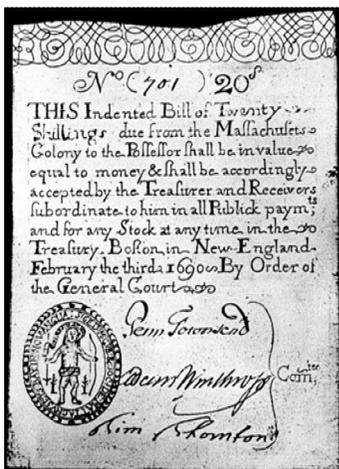
The history of ancient systems shows a pattern of Aristotle's science of money being discovered; used to build the society; corrupted and then lost; and again rediscovered over the centuries.

American Colonial Development

Massachusetts rediscovered the science of money in 1690 when she issued "bills of credit," the first paper money in the West. She *spent* them into circulation paying for colonial expenses. In 1723 under Franklin's guidance

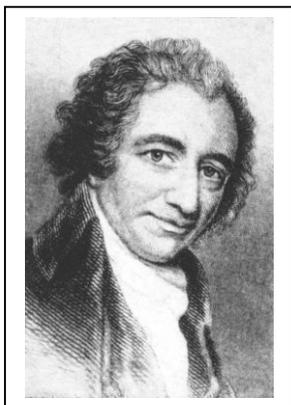
*Chapter notations are to chapters of The Lost Science of Money book containing the information.

Pennsylvania *loaned* such money into circulation and used the interest earned for colonial expenses. The colonial fiat currencies dramatically improved life in the colonies, facilitated the building of real infrastructure, reversing the flow of emigrants who for decades had been moving back to England.



Dutch and English laws forbade sending money to the colonies. By necessity we became a monetary laboratory trying everything from agricultural and metallic commodities to 'land banks.' Finally Massachusetts issued paper "bills of credit," spending them into circulation. They were not a promise to pay anything, but were a promise to receive them back in payments to the colony. It turned life around, building real infrastructure in the colonies. Right from the earliest days we have been a nation of fiat paper money. Without it there is no United States of America.

Such American "nomisma" -the **Continental Currency**- helped us win our independence. The Continental Congress authorized \$200 hundred million in Continentals and issued \$200 million (plus replacement notes). They have been smeared as inflation money, and while the British counterfeiting billions of them eventually destroyed the Continentals, still they carried us over 5 ½ years of warfare to within 6 months of final victory. **They gave us a nation! Later the Greenbacks let us keep it.** \$450 million Greenbacks were authorized and \$450 million were issued. Eventually they exchanged dollar for dollar with gold coins, but few people bothered to exchange them. Examining the real facts surrounding government money creation, a very different picture emerges than from the propaganda on them.



Tom Paine, Father of the Revolution, praised the Continental Currency:

"Every stone in the bridge, that has carried us over, seems to have a claim upon our esteem. But this was a corner stone, and its usefulness cannot be forgotten."

"...But to suppose as some did, that, at the end of the war, it was to grow into gold or silver, or become equal thereto, was to suppose that we were to get 200 millions of dollars by going to war, instead of paying the cost of carrying it on." (Ch. 14)

Why does this concept supporting government "fiat money" seem alien to investors and economists today? The answer was given by the great monetary historian Alexander Del Mar in 1905: **"As a rule political economists...don't take the trouble to study the history of money; it is much easier to imagine it and to deduce the principles of this imaginary knowledge."**

Thus there is a mythology – *a reigning error* – that government always issues money irresponsibly. But this is the result of centuries of propaganda sponsored by those benefiting from privately issued money. The Continental Currency is attacked, without discussion that the British counterfeited untold \$ billions. They did the same for the French Assignats – the details became public when the counterfeiters sued each other in the English courts. The German hyperinflation is cited by the private money promoters without pointing out that the German Reichsbank was privately owned and controlled, and that the hyperinflation began the month that all governmental influence over it was removed on the insistence of the allied occupiers. The hyperinflation ended when the German government re-asserted its control over the money system. These and other cases are detailed in *The Lost Science of Money* book, which all statesmen must read.

This Battle to Control the Money Power has raged for millennia over the same dividing line: will the money system be *privately* controlled by the few, to favor the few; or will it be *publicly* controlled by government, potentially for the common good.

How a society defines money determines who controls it. Define money as wealth, and the wealthy will control. Define it as credit, as is done today, and the “lenders” will be in control. Define it as Aristotle did - **an abstract legal power** - and government can control it to promote the general welfare. Despite the prevailing prejudice against government, historical case studies show much better results from publicly controlled money systems, than privately controlled ones. (see *The Lost Science of Money* book)

This battle is summarized as Aristotle’s science of money vs. Adam Smith’s metallic view of money. Smith’s definition (*Wealth of Nations*, 1776) obliterated the concept of money in the law: “By the money price of goods it is to be observed, I understand always, the quantity of pure gold or silver for which they are sold, without any regard to denomination of the coin.” He took the concept of money back to metal by weight (*ponderata*), where it had been before the Romans arrived in England. (Ch. 12)



“Adam Smith vs. Aristotle” summarizes the battle to control the Money Power. Whether money should be tangible wealth and thereby be privately controlled to benefit the wealthy (Smith), or be an abstract legal fiat power publicly controlled to promote the general welfare (Aristotle). To all Goldbugs: Fiat money is not the problem – *the private issue* of fiat money is the problem, which is like a private tax on all society.



What was Smith’s motive? We’re not mind-readers; however we note that his Patron’s family (The Scottish Duke of Buccleugh) had recently intermarried with the English House of Montagu, which was the power behind the private Bank of England. We also note that Smith’s *Wealth of Nations* book came out in 1776, the year after the American Continental Congress began issuing our Continental Currency which enabled us to fight and win the revolution against England, then the world’s strongest military power. (Ch.12)

Was it ever Feasible to Use Gold for Money?

Aside from going counter to the true nature of money as an abstract legal power, there is a very practical matter that supporters of Gold money can’t address: *There is never enough supply of gold sufficient for such a money system. The Gold supply has not kept pace with the growth of population and commerce.* This periodically increased the real value of gold.

Money systems usually solved this problem by cheating – pretending to be operating a gold based system but really mixing private bank paper into the money supply, pretending it was convertible; leveraging the amount of gold in the system through fractional reserves of one type or another. Because this bestowed great power and unearned wealth onto bankers, there has never been a shortage of apologists for such mixed systems - we call them “economists!”

The Bank of Amsterdam – A Gold Deposit Bank

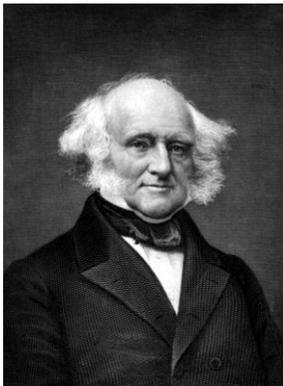
The greatest growth rate ever recorded in gold supplies occurred from 1500 to 1600 as centuries of gold accumulation was stripped from the Central and South American Indians at gunpoint. Spain did the bloody work on the ground, while English and Dutch Navies intercepted much of the loot in the Atlantic. Thus the value of gold and silver to fall 80% from about 1500 to 1650 as the metallic reserves of Europe rose over 400% and so did prices. But industry thrived during this period as money became much more plentiful and more widely distributed sparking what’s been called the “Renaissance of the North.”



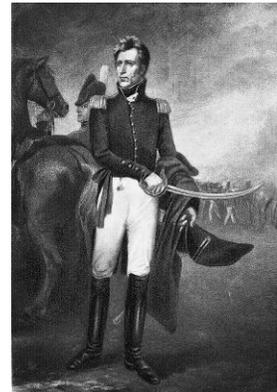
The Bank of Amsterdam (1609-1815) was owned by the city. It was supposed to be a classic gold “deposit bank” holding deposits and transferring them from account to account. No interest was paid and no loans were to be made, except to the city of Amsterdam. But *it did* extend large secret loans to the Dutch East India Company, making it a “covert” bank of issue. Even during this greatest period of growth in the European gold supply, taken at gunpoint from the America’s, *it wasn’t possible to base a money system on metal alone, though if there was ever a time when that could be done, it was then.* (Ch.9)

Andrew Jackson & Martin Van Buren Attack the “MONEY POWER”

The only attempt at a true metallic money system in America was made by Presidents Jackson and Van Buren in the 1830s. Jackson paid off the entire US debt in 1835. He took the private 2nd Bank of the U.S. out of government affairs. Van Buren set up 15 branches of the U.S. Treasury to handle government payments. But this real move to metallic money caused the worst deflation and depression crisis in the nation until then. Van Buren quickly introduced government issued money in the form of U.S. notes. (Ch. 15)



Presidents Jackson and Van Buren acted to end special bank privileges. In the late 1830s They removed government funds from the private 2nd Bank of the United States and refused to accept inconvertible state chartered bank paper for land purchases from the government. But while cutting off bank created money, they neglected to provide government created money in its place, thereby causing the worst deflation seen up to then in America.



Such notes had earlier been carefully issued from 1812 in various denominations. A total of \$60.5 million had been authorized, but only \$36.7 million had actually been issued. Government error, if any, was on the side of taking great care, not recklessness. The note issuing process was not abused by government. (Ch. 15)

The Civil War Greenbacks from 1862



The Greenbacks were created by our Government and spent into circulation interest free and debt free. \$450 million were authorized and \$450 million were issued, and they couldn’t be counterfeited. Greenbacks didn’t promise to pay something else – *they were the money.* Being printed, not borrowed, they didn’t create any more national debt or interest payments. Thus they were called “The best currency that ever a nation had.” (Ch. 17)

The Greenbacks provided a daily lesson in the nature of money. Greenbacks were eventually redeemable one for one with gold coin, but they were so convenient that hardly anyone bothered to redeem them. (Ch. 17)

A brief summary of developments since the Greenbacks:

The National Banking System

From 1864-1913 the National Banking Act shifted bank charters from the state level to the national level. It required more capital and reserves, and removed much petty corruption that plagued banking. But it formalized institutional corruption in allowing a form of fractional reserves, where banks were able to create money based on reserves (Ch. 17-18) It culminated in the Panic of 1907, which then led to establishing the “Fed.”

The Federal Reserve System

In 1913 the Federal Reserve System was surreptitiously created by America's banking "elite." (Ch. 19). In summary, the Fed is "ambiguous" – *it's not* a part of the Judicial, the Executive or the Legislative Branches. *It oversees itself. *It gets its own budget from its money operations *The 12 regional Fed's shares are owned by the member banks in their district.*It is not owned by the Rothschild's, or the Morgan's, etc, as rumored. *The U.S. President appoints the Chairman for 4 years and the 5 member Washington board for 14 years. *There are no "shares" in the Washington Board. *It is controlled by the banking "fraternity" and delegates powers to private bankers that should always remain under our constitutional system of "checks and balances."

The Great Depression

By December 1932, it's been only 20 years since the establishment of the Fed, but in that brief time the Federal Reserve System had wrecked and taken America down to its knees:

***Farms** were wrecked with huge debt and falling land prices; ***factories** were closed; ***banks** were closing; ***exchanges** were destroyed; *the **economy** collapsed – people couldn't find work and many were hungry.

From 1929 to 1932: National income dropped 52%. Industrial production fell 47%. Wholesale prices fell 32%. The real value of debt rose 140%! Unemployment rose 329% from 3.5 million to 15 million people. Over a quarter of our workforce was unemployed. All that destruction in less than 20 years! (Ch. 20)

The "Chicago Plan" Solution

Clearly changes in the monetary system were called for, but most economists were useless, and J. M. Keynes merely entrenched the problem, advising that government must borrow money that they allow the banks to create out of thin air, instead of doing the right thing and creating the money itself. What nonsense!

Then Henry Simons and Paul Douglas, great University of Chicago economists, correctly diagnosed the problem: "*The mistake lies in fearing money and trusting debt.*" Simons' elegant solution, called the "Chicago Plan," would substitute money for the debt in circulation as bank loans. It was supported by great economists across the country (Irving Fisher of Yale; Frank Graham and Charles Whittlesley of Princeton; Earl Hamilton of Duke; to name a few). This brilliant plan *nationalized the Federal Reserve System* and *stopped the banks from creating any part of the money supply* (The American Monetary Act incorporates these 2 elements).

Though Keynes' advice dominated, yet some good but minimal banking reforms, such as the Glass-Steagal laws curbing speculation were enacted with the expectation that something more comprehensive like the Chicago Plan would follow; but once the crisis devolved into WW2, it was ignored. The main good achieved out of the horrible and deadly Great Depression was the Social Security System, America's most important anti-poverty legislation.

Deification of Free Markets and Removal of Regulations

A most destructive part of the late 20th century was the continued transformation of economics into a clandestine religion, which deified markets, and demanded de-regulation for unproven theoretical reasons: Don't try to pass laws over the market – it will crush your puny laws (*Omnipotence*). Don't try to dictate results to the market, it has the input of millions of participants and will always know more than any regulator (*Omniscience*). Do the right things and the market will reward you; misbehave and you will be punished (*Benevolence*). Clearly the economists are defining a **GOD**, not a mere mechanism for buying and selling.

Unfortunately, Libertarians considered Ayn Rand's novels promoting capitalism, as historical evidence. One of her followers was Alan Greenspan, Federal Reserve Chairman for 20 years, and the person most responsible for de-regulation of markets. He allowed the banking system to run amok, and bring down the world economy.

Plutocratic Abuse and Criminal Activity Have Dominated

Faced with the horrendous effects of his actions and inactions, Alan Greenspan, in late 2008, did admit his error in trusting financial leaders to act in the *long term* interest of themselves and their shareholders. What Greenspan missed was that sometimes in the *short term* it is possible to grab so much loot that these villains will not care about the long term. *No one else has admitted this error!* Interestingly, this same mistake underlies all free market theology. When one appreciates it, the structure falls.

Substantial regulation is always required, but substantial reform needs to be enacted first.

Our apologies for cramming so much history into so few pages. *The Lost Science of Money* covers all this and much, much more, in detail, in 736 pages. It's strongly recommend for your permanent family library.

Reforming Our Monetary System *

Monetary reform is as old as money itself. And while Money plays such a crucial role in our lives and civilization that we couldn't function without it, how few of us have given it the attention it deserves! Not just to make more – but to understand how the money system works; the institutions and regulations that determine what is money; how it's introduced or removed from circulation; who controls these decisions for what purposes. Who benefits, who loses?

We want to live in a world of growing freedom and opportunity, but have we done enough to assure that society's money system is operated to advance our civilization? Evidence grows that the money power instead has become oppressive. Lets see which changes are called for.

Why does reform become Necessary? A century ago the great monetary historian Alexander Del Mar wrote: “The money system is society's greatest dispenser of justice or injustice.” A good system functions fairly, helping to create values for life. A bad one, such as the present system, obstructs the creation of values; gives special privileges to some and disadvantage to others; causes unfair concentrations of wealth and power; leads to social strife and eventually warfare and a thousand unforeseen bad consequences.

Because great power is exercised through money, power-hungry elements from ancient times to the present pursued the political ambition to dominate through the Money Power. This requires societies to periodically reform corrupted systems. The main weapon in this battle has been the manipulation of language and thought, where definitions serve as heavy artillery. Those benefiting from the corruption fund university economics departments and finance “professionals” (*we call them economists*) to promote their viewpoint through economic theories. That's why this corrupt system has continued for so long despite its abysmal performance.

Why is reform urgent now? Financial abuses of the world's money systems are pervasive and self-evident. Dominant companies focus on usury instead of production. Globalization harms helpless third world nations – and even the Planet! Action on monetary reform has become urgent as we enter the 3rd millennium.

How does reform proceed? It must start with an understanding of the nature of money; that money is not a commodity; that money and credit are two very different things.

If society defines money as a commodity (as wealth) then the wealthy will control the system. In our system money and credit have been confused. If society defines money as credit, as the present system does, then the bankers will control the system. Define money in the proper Aristotelian sense as an abstract legal power, and control over money and society can then be under our constitutional system of checks and balances.

The Lost Science of Money book presents the historical chain of the concept of money from Aristotle forward to arrive at our concept of money:

“Money's essence (apart from whatever is used to signify it) is an abstract social power embodied in law, as an unconditional means of payment.” (LSM, p. 657)

Confusion, Complexity and Dishonesty Serve to “Protect” America's Nightmare Monetary System

Unfortunately explaining exactly how the credit circulating in our society is created is like walking into quicksand, because the process itself is so unjust and so counter intuitive and so harmful to good public policy, and full of poor banker terminology. We'll present it here and see whether readers like this full explanation or instead would prefer a shorter summary, for the next printing.

Modern Money Mechanics – The Chicago Fed's guidebook.

Modern Money Mechanics (published and republished 6 times from 1961 to 1994 by the Chicago Federal Reserve Bank) is the most reliable and readable description of the Fed's money creation operation. This process is a “moving target,” with elements potentially superseded recently by the Bank for International Settlements so called Basel agreements, but it continues to be a system of fractional reserves as discussed below; and remember that this process and practices keep shifting with increasingly horrendous results.

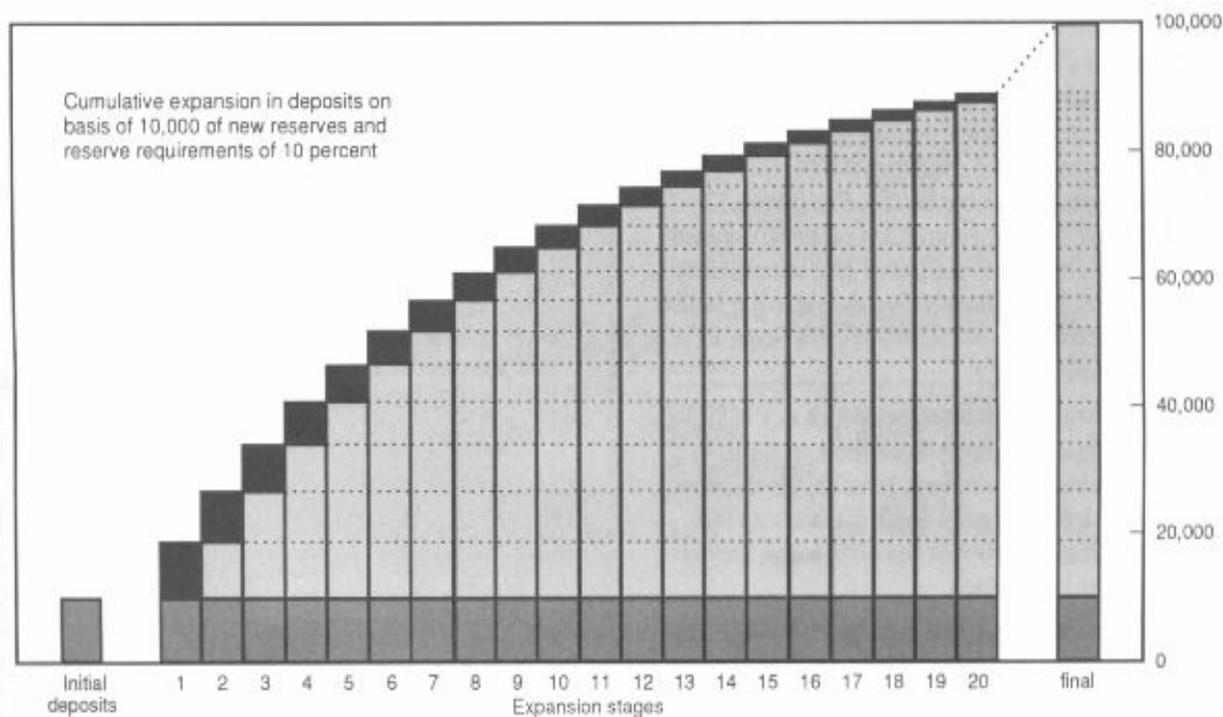
***Special thanks for this section to Dick Distelhorst; Robert Poteat; Steven Walsh & Jamie Walton.**

Money is a crucial part of modern society – But Where Does Our Money Come From?

Most people think our money is issued by our government and indeed money *should* be created and issued by government and used for the benefit of all by spending new money directly to promote the general welfare. That is what passage of the American Monetary Act will do. However, this does not happen. In our present system, the Federal Reserve Bank of New York, one of the 12 private Federal Reserve branch banks, begins the process by creating money out of thin air. Then using this money as a reserve base, the rest of the banks create about ten or more times that amount of money out of thin air by what's called "fractional reserve banking." The required "reserve" varies, ranging from 0% on the first few million loaned; then 3% and then to 10% for larger sums.

How Does the Federal Reserve System Create Money out of thin air?

This chart and its explanation are often used to explain fractional reserve banking because it was published on a number of occasions by the Federal Reserve Bank of Chicago. The following is an admittedly simplified description used for brevity. Besides giving an excellent graphic reference showing how the money supply expands, it also helps explain how money is created.



Source: Federal Reserve Bank of Chicago, "Modern Money Mechanics" (1962; rev. 1968; 1971; 1975; 1982; 1992; 1994)

There are really two stages in money creation; the first is by the Federal Reserve, the second by the various banks. Notice in the bottom left corner the "initial" deposit of \$10,000. This deposit was made by the Federal Reserve itself. The Federal Reserve created this money as a liability onto itself. Or, in other words, it paid for it with its own bookkeeping entries. Its "checks" can't bounce.

This first process involves the government borrowing money. Congress and the Executive need to spend more money on social security, health care, education, infrastructure and sadly, war, than they raise in taxes or other revenue streams. To acquire this money the Treasury sells 'securities'. These Treasury IOUs come to maturity in three time periods; up to one year the security is called a "Bill," from one year to 10 years it is called a "Note" and over ten years it is called a "Bond."

Treasury securities are sold mostly to domestic and foreign banks, and thus Treasury gets its operating money for government expenditures.

The money creation process starts with the Federal Reserve buying these securities, not usually from the government, but from Treasury securities dealers representing banks, and from banks themselves. The Fed pays for these securities by notifying the dealer's bank to credit the dealer's account for payment for the

securities sold to the Fed. At the same time the Fed credits the same amount to the bank's account at the Fed. That is simply recorded on an account ledger as a liability - an amount the Fed 'owes' that bank.

The following example shows this new Fed liability from an accounting perspective when the Fed purchases \$10,000 in securities from Bank A.

Federal Reserve Bank		Bank A	
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Treasury Securities	Reserve Account	Reserve Account	Dealer's Account
+\$10,000	+\$10,000	+\$10,000	+\$10,000

This double-entry accounting system is described in Modern Money Mechanics. (That forty page, 8.5 x 11 booklet is available from the AMI at \$25 per copy)

Under the Federal Reserve Bank, the Assets column has increased by \$10,000 because the Federal Reserve now owns the actual Treasury securities with the face value of \$10,000 (plus the interest it earns).

Under the Federal Reserve Bank, the Liabilities column has increased by \$10,000, which was the cost of purchasing the security. The Federal Reserve is able to make these purchases with mere bookkeeping entries, only because of accounting rule privileges sanctioned by our government.

Under Bank A (the bank that has the Treasury securities dealer's account), its Assets column is increased by \$10,000. ***This is the first moment that this 'reserve' money has come into existence*** – while at the same time the Fed now holds the Treasury Security.

Under Bank A, the Liabilities column represents the payment by the Fed to the Treasury securities dealer of \$10,000 (banks call their customer's deposits liabilities).

Summarizing the above: The Federal Reserve at the time of purchase took those Treasury securities, IOUs, and gave securities dealer money and Bank A reserves. ***This money the Fed gave the securities dealer was simply done by creating a liability on paper, and by doing this the Fed created money.*** Now that we have an understanding of the initial creation of money by the Fed, we are ready to learn about the second stage – fractional reserve banking.

The Second Stage – How Fractional Reserve Banking Then Creates Money out of thin air:

Let's assume for illustration purposes that the \$10,000 deposited into Bank A, received for the account of the dealer, for the sale to the Federal Reserve, stays in Bank A's accounts. Using the account ledger from earlier, under Bank A's liabilities is the \$10,000 in the dealers' account, balanced by assets of \$10,000 in Bank A's reserve account at the Fed.

As an asset, Bank A can use those reserves of \$10,000 to create new money in the form of loans or investments up to at least 90% of that amount (with the accounting rules now in effect). Therefore, about \$9,000 of new money can be created and lent out by Bank A. If Bank A loans Arthur \$9,000 to buy a used tractor from Bill and Bill deposits the \$9,000 in Bank A (or any other bank), the fractional reserve lending can continue. After Arthur's loan, Bank A can see that its asset column has just increased by \$9,000. After Bill's deposit, the bank receiving the deposit (if not Bank A) can see that its liability column and asset column has just increased by \$9,000. The second bank can now create 90% of that amount, or \$8,100 of additional money, and loan it out to Carl to build a porch onto his house. The contractor who gets this job deposits the \$8,100 into some other bank and that bank can now loan out 90% of that amount, or \$7,290. Banks call the money they receive from other banks when a customer from one bank makes a payment to a customer of another bank "reserves" and the amount of this which they can loan or invest "excess reserves." What's important is that the original deposit by the Fed of \$10,000 can expand: \$10,000 + \$9,000 + \$8,100 + \$7,290 + \$6,561 ... with each addition being a new loan of 90% of the previous loan (after it gets deposited somewhere). The original reserve of \$10,000 (the new money the Fed initially created) can continue to expand deposits with each new bank loan, to eventually become \$100,000, or ten times the original deposit. This is graphically presented in the diagram from the Chicago Fed. The above are some wholesome loan

examples. But most of the loaning went into overpriced real estate transactions, and stock market gambling and takeovers!

The interest earned on \$90,000 of this new money goes to the banks. Morally, the first use of this money should belong to everyone through our government for there to be justice. If the bank does not receive the interest plus any principal payments, from its borrowers, the bank can foreclose and take any collateral that the borrower has pledged.

Here are Three Problems with Fractional Reserve Banking:

First, it's immoral. It takes from the whole society and gives to a privileged few, *apart from their not doing anything to deserve it*. They get it for cleverly manipulating accounts, without creating any values useful for life. This has concentrated wealth to obscene levels in our society.

Second, the interest on money created along with debt creates an unnecessary initial cost on all money in circulation. This is like a ball-and-chain on the leg of every person working to create values for living.

Third, whoever controls the money system controls the direction of society; if it's government, then in a democracy citizens can decide what to do with it, and it will function under our constitutional system of checks and balances. If it's banks, then only bankers will decide what to do with it, most likely in their own interest.

In practice this has funded ridiculous bubbles on Wall Street, or incredible real estate bubbles. They did not fund the levee repairs around New Orleans or bridge repairs in Minneapolis, or the \$2.2 trillion the engineers tell us is needed to make our infrastructure safe!

The American Monetary Act corrects and reforms the system with three elements:

First, the Federal Reserve system becomes incorporated into the U.S. Treasury. This nationalizes the money system, not the banking system. Banking is *not a proper function of government*, but control and oversight of the money system *must be done by government*.

Second, the accounting privilege banks now have of creating money through fractional reserve lending of their credit is stopped entirely, once and for all. Banks remain private companies and are encouraged to act as intermediaries between their clients who want a return on their savings and those clients willing to pay for borrowing those savings, but they may no longer create any part of the nation's money supply.

Third, new money is introduced into circulation by government spending it into circulation starting with the \$2.2 trillion the engineers tell us is needed for infrastructure repair and renewal. In addition, health care and education are included as human infrastructure. *Everyone* supports the infrastructure, but they worry how to pay for it. That becomes possible with passage of the American Monetary Act.

History shows that all three elements must be done, and done together, for the reforms to work. This is clear in the pages of *The Lost Science of Money* book, by Stephen Zarlenga.

The system has again shifted in the present crisis. The Federal Reserve itself purchased about \$1.5 trillion bonds direct from the U.S. Treasury and has credited the government's account, creating the money as a bookkeeping entry. This is actually better than the more complicated process described above that's been operating for decades, because the Federal Reserve has to turn over its net earnings to the Treasury.

But this doesn't represent reform. The simpler process, used in financing WW2, evolved into the more complex one because the financiers could then grab more money and power. For while the Fed turns over its earnings on money creation to the Treasury, the various banks keep the net interest they earn in the fractional reserve money creation process. That fractional reserve accounting feature is still in effect and at an opportune moment the system will obviously shift back to the more complex, more profitable one for banks.

The above descriptions may seem difficult – the system's main "protection" is the confusion it generates.

Just keep in mind that the power to create our nation's money has been usurped and privatized. Those in control promote their interests rather than the general welfare; destructively manipulating accounting rules; unfairly concentrating wealth and misdirecting society's resources into various gambling activities instead of creating values for living. That must change once and for all. ***We must demand and act for that change.***

THE AMERICAN MONETARY ACT

The Purpose and Short Title of the Act are given.

The “Findings” summarize the problem – that Society’s monetary power has been privatized in the hands of the financial industry (1), especially the ambiguous but essentially privately controlled Federal Reserve System.

This privatization has led to a multitude of afflictions (2) through the mechanism of allowing financial institutions to issue money in the form of interest-bearing debt (3).

The “Findings” point out (4) how this differs from government creating money, not debt, and spending it into circulation interest free. That removes the interest burden on our money supply and allows public control rather than private influence to determine how money is introduced into the economy. For example, whether it is largely directed as at present into real estate speculation and various Wall Street games, or into crucially needed infrastructure, such as levees protecting major American cities, and the nation’s bridges and dams.

*A solution is described (5 & 6) and its objectives are outlined (7), in a general form taken from the U.S. Constitution that all reasonable Americans can support in order **“to promote the general welfare.”***

An Act to restore the Constitutional power to create Money to the Congress of the United States

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

SEC 1. SHORT TITLE

This Act may be cited as the American Monetary Act

SEC 2. FINDINGS

The Congress finds that –

- (1) The Federal Reserve Act of 1913 effectively ceded the sovereign power to create Money delegated to Congress by the Constitution to the private financial industry.
- (2) This cession of Constitutional power has resulted in a multitude of monetary and financial afflictions, including a growing and unreasonable concentration of wealth, an uncontrollable national debt, excessive taxation of citizens, inflation of the currency, drastic increases in the cost of public infrastructure investments, excessive un- and under-employment, and erosion of the ability of Congress to exercise its Constitutional responsibilities to provide for the common defense and general welfare.
- (3) The issue of means of exchange by private financial institutions as interest-bearing debts should cease once and for all.
- (4) The power of Government to create Money and spend or loan it into circulation as needed is similar but different in nature from the power to create and market instruments of indebtedness; it eliminates the need to pay interest charges on the nation’s money supply to financial institutions and removes their undue influence over public policy.
- (5) The unprecedented 2008 breakdown of the US banking and monetary system has brought severe and unacceptable effects on employment and the economies of the United States and every major country.
- (6) Under Federal Reserve administration of the US monetary power, mandates, directives, and common sense goals have not been met regarding: *full employment; *a relatively stable currency value; *avoiding excessive debt; *a destructive concentration of wealth; *operating in the public interest; *proper funding to maintain our vital infrastructure, which the American Society of Engineers informs us is \$2.2 trillion behind in keeping it safe.
- (7) An examination of the historical record demonstrates that U.S. Government control over our money system, in providing the nation’s money supply has been superior to private control. The current crisis is the latest most glaring demonstration of that fact.
- (8) As our money system is a key pillar in maintaining our society and as the Federal Reserve System and the financial establishment have failed to operate to promote the general welfare, the US must directly re- assume the powers granted in Article I, section 8 of our Constitution.

Background: The Fed is a private organization, not a part of our government.

The Federal Reserve System consists of 12 regional Federal Reserve banks, with boards of directors, under an umbrella direction of the seven member Federal Reserve Board in Washington, which has the power to determine major aspects of banking activity, such as setting interest rates, and the reserve and other operational requirements. There are no shares of the Washington Fed Board organization; the only “ownership” of the Fed is in shares of each of the 12 regional banks. They are entirely owned by the private member banks within their respective districts, according to a formula based on member bank size. The ownership is highly restricted in that such ownership is mandatory; the shares can’t be sold; and they pay a guaranteed 6% annual dividend.

Thus the stories that the Federal Reserve is “owned” by foreign bankers (the Rothschild’s and other prominent banker names usually come up) are not accurate and these types of rumors have mainly served to discredit wholesome criticism of the banking system.

It will be clear from the following facts that the Fed is *definitely* not part of the US Government.

*The Fed is *not* organized within the Executive, Legislative or Judicial branches of our government.

*Who pays the Fed’s bills and determines its budget? *Not any part of our government.* The Fed gets its funding from its own specially privileged operations. The Fed Board determines Fed budgets.

*Who monitors and oversees Fed activities? *Again the Fed itself.* While some important elements of proper auditing have taken place, there has not yet been a comprehensive independent audit, by the Government Accountability Office as proposed in a recent letter from Ralph Nader to new Fed Chairman Ben Bernanke, calling for greater monetary transparency.

*Federal Reserve employees *are not* part of the US Civil Service System and are not covered by government employees’ health insurance or pension programs. Who does the hiring and firing? Except for the highly publicized Chairman and seven member Washington Board, this is in private, unelected hands.

*Federal Reserve Banks *are not listed* as government organizations by the telephone companies, a small but telling fact.

The ambiguity surrounding the Fed arises because the U.S. President appoints the Fed Chairman to four year terms, and the seven member board to 14 year terms. Also the Fed is supposed to implement government fiscal policy, but it has not really done so. (see *Is the Federal Reserve System Part of the U.S. Government*, at our website <http://www.monetary.org/federalreserveprivate.htm>)

Several structural problems arise from private control: The system tends to be run to benefit those in control rather than the whole society. This concentrates wealth into fewer and fewer hands. The interest received by the banking system for money creation flows into their hands. The control over where the money goes determines the direction the society moves in. Privately controlled money tends to go into speculation to make a quick buck. Infrastructure, health and education get ignored or short changed.

The private banking system, not government, now creates our money in the form of debt.

Most Americans think our money is issued and controlled by our government. They are surprised to learn that most of our money is created when people and businesses have to borrow from banks, since this is the main way that money now enters the system. The banks make loans by crediting the borrowers account. This is fiat money, or “purchasing media” created out of thin air, thanks to a special legal privilege granted to them called “fractional reserve banking.” They write a computer credit in the account of those whose needs have driven them to the banking system to borrow money.

This concentrates great power and transfers tremendous wealth to the financial sector.

Under this privately controlled monetary system, it’s not surprising that wealth and power have become concentrated to obscene levels never before seen in our society, where less than 1% of the population is now claiming ownership of nearly 50% of the nation’s wealth!

This money creation prerogative, often referred to as “**THE MONEY POWER**,” (President Martin Van Buren always capitalized it!) has traditionally been associated with national sovereignty. Alienating the power from government into private hands has inevitably served to concentrate elements of what should remain national sovereign power into those private hands, where predictably it has been used to promote the interests of the few in control rather than the society as a whole. That is clearly unacceptable in both a *democracy* and a *republic*. It establishes *plutocracy – the rule by wealth*.

Sections 101 & 102 specify the U.S. Dollar as our currency unit and make it “legal tender” – meaning all debts can be legally paid with it; creditors must accept it in payment.

It does not prescribe a value for the dollar in terms of commodities, or labor or any other thing. The value of the currency unit is already known in the market in terms of its relation to assets and goods and services and existing obligations.

This value is not fixed but adjusts to continuous changes in supplies and desirability of goods and services and is also influenced by the existing supply of money. This is a valid use of the market mechanism.

If the money supply and economy are reasonably guided, such changes should be gradual and gentle and are a normal part of life. They help assure that the forces of production and consumption are rooted in economic realities, not frozen or dictated ideologically.

Sec 103: “Negative Fund Balances” is the Treasury term for how much money the government needs to come up with to balance its available funds with its immediate expense needs. At present this balance has to be obtained through taxation or borrowing. This process in effect allows the private banking system to create the money and loan it to the U.S. at interest. But under this Act, our government will create such money directly, and interest free.

Sec. 104 requires the Secretary of the Treasury to forecast these disbursements in a timely and effective way; and maintain enough research muscle to analyze and understand the impact of these disbursements both in the U.S. and internationally.

TITLE I – DISBURSEMENT OF U. S. MONEY

SEC. 101 AUTHORIZATION FOR DISBURSEMENT

Not later than 90 days after the effective date of this section, all United States Government disbursements shall be denominated in United States Money, the nominal unit being the U.S. Dollar.

SEC. 102 LEGAL TENDER

United States Money shall enter into general domestic circulation as full legal tender in payment of all debts public and private.

SEC. 103 NEGATIVE FUND BALANCES

The Secretary of the Treasury shall directly issue United States Money to account for any differences between Government appropriations authorized by Congress under law and available Government receipts.

Note: The fact that the Treasury will be able to make disbursements based on direct issuance of United States Money for negative fund balances reflects Congress’s Constitutional authority to “coin Money”, because Congress will then have the ability to adjust the amount of Money so created by regulating both appropriations as well as revenues from taxation and other sources. The focal point of power will be the House of Representatives as the initiator of revenue bills. Restoring to Congress its Constitutional authority will shift the ability to create Money and enter it into circulation from the private banking industry to our elected representatives, as the Constitution mandates.

SEC. 104 FORECASTING OF DISBURSEMENT REQUIREMENTS

The Secretary shall:

- (1) forecast disbursement requirements on a daily, monthly, and annual basis;
- (2) provide such forecasts to Congress and the public;
- (3) integrate forecasts with the Federal budget process;
- (4) maintain a sufficient research capability to continuously and effectively assess the impact of disbursement of United States Money on all aspects of the domestic and international economies;
- (5) report to Congress and the public regularly on the economic impact of disbursements of United States Money and the status of the monetary supply.

SEC. 105 MONETARY CONTROL

- (1) The Monetary Authority and the Secretary shall pursue the policy that the money supply should not become inflationary nor deflationary in itself but will be sufficient to allow goods and services to move freely in trade, in a balanced manner.

Section 105 instructs the Secretary to pursue a stable monetary policy and neither cause inflation nor deflation through monetary policy.

To oversee and assure that this policy is carried out, a 9 member Monetary Authority, is appointed by the President and confirmed by the Senate, to establish the monetary targets to accomplish this policy and any substantial discrepancies between the targets and actual results are quickly reported.

Section 106 specifies that instead of borrowing money created by the banking system, the U.S. will create the money directly.

However, the Congress continues to have the power to borrow money on behalf of the United States, should the Congress consider that advisable in a given situation.

Section 107 provides thorough, independent and timely accounting of this money creation process.

Section 201 provides that as U.S. debt instruments (bonds and notes) become due, they are to be paid with U.S. Money, not by rolling over more debt. This will be a gradual process as the debts extend decades into the future. Such payments will then be available for many other productive investments, and will tend to lower interest rates.

- (2) Monetary supply targets shall be established by a Monetary Authority consisting of a Board of nine public members appointed for staggered six-year terms by the President with the advice and consent of the Senate. The Board reports periodically to the U.S. Congress.
- (3) Administrative responsibility to regulate the monetary supply in reasonable accordance with targets established by the Monetary Authority shall rest with the Secretary of the Treasury.
- (4) The Secretary shall report to Congress any discrepancies between targets and supply in excess of one percent at the end of each quarter.

SEC. 106 DISBURSEMENT IN LIEU OF BORROWING

- (1) Disbursement of United States Money under this Act shall be made in lieu of borrowing through Treasury instruments.
- (2) Such borrowing shall cease as of the date stated in Section 101 of this title, unless otherwise authorized by Congress;
- (3) Nothing in this Act shall prevent Congress from exercising its Constitutional authority to borrow on the full faith and credit of the United States.

SEC. 107 ACCOUNTING

The Secretary shall account for the disbursement of United States Money and of current fund balances through accounting reports maintained and published by the Secretary and by departments and agencies of the Government. The General Accountability Office shall conduct an independent audit every second year.

TITLE II – RETIREMENT OF U.S. INSTRUMENTS OF INDEBTEDNESS

SEC. 201 COMMENCEMENT OF RETIREMENT

Not later than one 120 days from the effective date of this section, the Secretary shall commence to retire all outstanding instruments of indebtedness of the United States by payment in full of the amount legally due the bearer in United States Money, as such amounts become due.

Background: Publicly created money - the key ingredient needed to achieve human progress

*Two Important effects will result from our Government creating money directly instead of borrowing money the banks have created. **First we'll begin saving the interest costs** which in 2007 was \$465 billion; which was 17% of the U.S. federal budget that year. At present, the interest cost that is paid on infrastructure construction generally doubles to triples the cost of construction. Saving the interest will make it much easier to bring our crucial infrastructure up to acceptable 21st century safety levels. The American Society of Civil Engineers gives our present infrastructure an embarrassing grade of "D" and estimates that \$2.2 trillion is needed to make it safe once again.*

***More importantly, private lenders will have far less influence over public policy decisions.** The power to determine the fiscal course of our society will be in the hands of the Congress, where our Constitution places it. The difference is that a more reasonable and independent method of funding will be used. With Congress in charge, society's blood – its monetary circulation – is much more likely to go into vital infrastructure – for example building and repairing levees that protect major cities – instead of going into real estate speculation and destructive Wall Street games as banker control over money creation has traditionally misdirected society's money power.*

*Section 301 describes how Federal Reserve notes will be replaced by U.S. money. We won't call them notes because that could indicate debt, and they are not debt. Some Green backers of the 1870s knew this and called them "certificates of value." That's the best description we've heard, except for our own term – we just call it "**money**."*

Section 302 ends fractional reserve banking in the U.S. This is the mechanism which allows the banking system to create "money" out of thin air: When banks make loans, they simply credit the borrower's accounts at the bank, in exchange for the borrower signing over his finances to the bank as collateral. It's essentially all credit.

Under the present fractional reserve of 10%, the banking system as a whole can loan about ten times the reserves; in effect creating money, or more accurately, the credit which serves as money in our system.

"Seigniorage" is the principal and interest banks receive on their creation of such credit "money;" estimated now at far over \$100 billion per year.

Seigniorage rightfully belongs to the nation, through our government, so at commencement, the Act, by an accounting adjustment, turns the credit that banks have already created, into real American money. This conversion will indebt the banks to the U.S. Government for those amounts they created.

Today when borrowers repay banks this credit money goes out of circulation. But the new accounting rules will direct that those client repayments, be used to repay the bank's new debt to the U.S. Such payments will then be available to the Monetary Authority for purposes under Title V of this Act. Virtually everybody wants those good things but they wonder how to pay for them. Passage of the American Monetary Act makes that possible, without inflationary consequences.

TITLE III – CONVERSION TO U.S. MONEY

SEC. 301 CONVERSION OF FEDERAL RESERVE NOTES

- (1) Not later than 90 days from the effective date of this section, the Secretary shall establish the rules and procedures for converting outstanding Federal Reserve Notes to United States Money of equal face value.
- (2) Not later than 120 days from the effective date of this section, as Federal Reserve Notes are converted to U.S. Money the Secretary shall provide a sufficient quantity of United States Money to the domestic banking system to allow for conversion of all cash-on-hand;
- (3) Not later than 180 days from the effective date of this section, all financial institutions within the United States shall disburse funds only in United States Money;
- (4) The Secretary shall promptly dispose of all Federal Reserve Notes as they are returned in exchange for U.S. Money.

SEC. 302 REPLACING FRACTIONAL RESERVE BANKING WITH THE LENDING OF U.S. MONEY

- (1) Not later than 60 days from the effective date of this section, The Secretary shall establish and publish the accounting rules, pricing and processes which converts the then existing bank credit in circulation, into U.S. legal tender money. At that point, all money in all accounts in the U.S. Banking system shall be declared to be U.S. legal tender, without exception.
- (2) In consideration for converting existing bank credit into U.S. legal tender money, each bank shall become indebted to the U.S. Treasury for the amount of credit it has extended. That amount will be the sum of the bank's loans, regardless of duration, minus the bank's capital and retained earnings; which could have been loaned as money, not credit. U.S. Treasury securities held by the bank will be cancelled and credited to the bank's position of indebtedness to the US. A ratio of the total of such assets (capital, retained earnings, U.S. Treasury securities) to the total of the bank's loans outstanding will be determined.
- (3) The accounting rule changes will direct that as customers repay the principal on their bank loans, a proportion will be paid over to the U.S. Treasury. That proportion will be the total, less the ratio calculated under 2) above. Such repayments will continue until the banks indebtedness to the U.S. Treasury is paid off. Banks may also settle their debt through transfers from additional capitalization and retained earnings. These repayments will go into a pool available for disbursement under Title V of this Act, at the Monetary Authority's direction, and the still necessary Congressional appropriations for spending.
- (4) The effect of (1) thru (3) above is to after the fact, make the banks intermediaries between the government which properly creates money, and the clients who have borrowed it, and private banks in America can properly lend it and earn a profit.

Banks will be encouraged to act as intermediaries between clients seeking a return on funds they deposit and clients ready to pay for the use of those funds. They will not be allowed to create any new money in this process.

This becomes possible under new bank accounting rules, not under present rules, the key being that checking accounts become a warehousing service.

Banks will not be able to create new money through savings accounts because those accounts will represent real money that depositors have saved. Suggested rules on p.14 below.

Where will such real money come from? From all types of payments by our government: for education, infrastructure and health care; for social security, and government bond repayments. From the trillions of dollars of government money that has replaced the trillions in old Federal Reserve notes and bank deposits.

Sect. 303(1) establishes a rule used by several ancient money systems (Hammurabi, Hindustan, Rome and others) that the amount of interest shall never exceed the principal amount of the loan. We adopt this provision out of respect for its frequent historical appearance.

An interest rate ceiling of 8% is established throughout the United States. The howls of concern that will arise over this provision will all ignore that until 1980-81 forty nine states had such limits, without the predicted dire consequences!

- (5) Not later than 90 days from the effective date of this section the Secretary shall publish new lending and accounting regulations for various types of accounts including:
 - a) Checking type accounts (i.e. demand deposit accounts) which become a warehousing and transferring service for which banks charge fees.
 - b) Savings and Time Deposit type accounts, whereby loans can be made with maturities related to the duration of deposits.
 - c) Money Market and Mutual Fund type investment accounts.
- (6) The regulations and actions in parts (1) thru (5) above will encourage private, profit making money lending activity by banks, but prohibit private money creation, through lending credit.

Note: It is anticipated that the money spent into circulation by the U.S. Government under Title V of this Act, will ultimately be deposited into the banks, where that money, not fractional reserves, will provide the engine for continued loans and any necessary expansion. It is also anticipated that enough public spirited banking professionals will join with Treasury officials in assuring that these regulations are properly formulated recognizing realities within the banking industry, to assure a smooth transition.

SEC. 303 INTEREST CEILINGS

- (1) The total amount of interest charged by a financial institution to any natural person borrower through amortization, including all fees and service charges, shall not exceed the original principal of any loan, except mortgages;
- (2) The maximum interest rate of 8% per year will apply throughout the U.S. inclusive of all fees;
- (3) Interest payments by the U.S. to foreign central banks or their intermediaries will be reduced pro-rated over a 15 year period to a maximum of one fourth of 1% per year.

TITLE IV – RECONSTITUTION OF THE FEDERAL RESERVE AS A BUREAU WITHIN THE UNITED STATES TREASURY DEPARTMENT

SEC. 401 RECONSTITUTION OF THE FEDERAL RESERVE

- (1) No later than 90 days from the effective date of this section, the Secretary shall purchase on behalf of the United States all outstanding Federal Reserve Stock at current market value denominated in United States Money.

Background: the concept of money was being removed from the English language, so that when one spoke of money, one was substituting ideas of debt, for example calling bank notes money or calling U.S. notes debt. Economists have blurred the crucial distinction between money and credit, by referring to real money as **“high powered money,”** and referring to bank credit as **“lower powered money.”** This greatly empowered those dealing in credits – the banks. AMI ends this error of confusing money with credit, and vice versa. That falsehood has led to the present unethical situation. We must carefully distinguish between **money** and **credit**.

Section 401 describes how the Federal Reserve System shall be incorporated into the U.S. Treasury.

The Fed will continue to be the nation's check-clearing house, but will do so as a bureau within the U.S. Treasury.

It will administer the U.S. monetary policy to the banking system, assuring that banks are in compliance. But the Federal Reserve will no longer determine monetary policy. That will be guided by the new Monetary Authority, which will establish monetary target levels, and manage the system for practical results rather than for theoretical or ideological reasons. To "promote the general welfare" will become the guiding light of monetary policy.

- (2) The Federal Reserve in its role as a central bank of issue, a national fund processing clearinghouse, and a fiscal agent for the Government shall be reconstituted as a bureau within the United States Department of the Treasury.
- (3) The Federal Reserve shall be administered by a commissioner and deputy commissioner appointed for six-year terms by the President with the advice and consent of the Senate.
- (4) The Federal Reserve shall administer on behalf of the Secretary the monetary targets established and authorized by the Monetary Authority and shall administer lending of United States Money to authorized financial institutions as described in TITLE III of this act to assure that money creation is a function of the United States and fractional reserves lending is ended.

TITLE V – INFRASTRUCTURE MODERNIZATION

SEC. 501 DIRECT FUNDING OF INFRASTRUCTURE IMPROVEMENTS

Note: Since the banks will not be creating new money and it is crucial in an expanding economy and population base that new money be added into circulation, this will be done through direct funding of infrastructure, education and health programs on a per capita basis assuring an equitable distribution throughout the nation.

Not later than 90 days from the effective date of this section, the Secretary shall report to Congress on opportunities to utilize

Background: Adam Smith institutionalized a mythology of money pretending that government can't properly administer the MONEY POWER, that private money is better. Better for whom?

Thanks to centuries of propaganda there is a widespread attitude against government that really constitutes an attack on society. But government is the only organizational form that can potentially protect the people from the thieving "Enrons" of the world. And theft is not the end of it, it's often a matter of life and death.

We found the "smoking gun" where Adam Smith, a normally cautious professor, launched the vicious attack on the English Government, smearing it as "slothful" and "negligent" and "thoughtless(ly) extravagant" (see LSM, Ch. 12). Smith inadvertently laid bare the reason for his attack: to keep the MONEY POWER in the hands of the then privately owned Bank of England, when serious proposals were being made to nationalize this power back into the British Government. He also bitterly attacked the American Colonies for issuing our own money.

What was Smith's motive? We're not mind-readers; however we note that his Patron's family (The Scottish Duke of Buccleugh) had recently intermarried with the English House of Montagu, which was the power behind the private Bank of England. We also note that Smith's *Wealth of Nations* book came out in 1776, the year after the American Continental Congress began issuing our Continental Currency, which enabled us to fight and win the revolution against Britain, then the world's strongest military power.

The Continentals have been smeared as inflation money, and while British counterfeiting eventually destroyed them, still they carried us over 5 ½ years of warfare to within 6 months of final victory. The Continentals gave us a nation. Later the Greenbacks allowed us to keep it. Examining the real facts (that we summarize below) surrounding government money creation, a very different picture emerges, from the propaganda about them.

Consider that if this Act stopped here, it would probably cause a deflation because it removes the privilege of the banking system to create new money. But a growing society requires that new money be added continuously, just to maintain existing financial relations. Most past monetary reforms have actually been deflationary.

Therefore explicit provision is made for the Government to spend new money into circulation without creating new debt or interest payments. This takes the place of bank credit circulating as money. While Congressional approval is still required for expenditures, these provisions will facilitate that.

Everyone agrees we need the best infrastructure. They have disagreed on where the money could come from. The Act now provides a way to fund it in a fair, non-inflationary manner. Per capita spending rules minimizes playing politics over expenditures.

The Act recognizes the necessity of considering the ethical, ecological, and sustainability implications of the monetary system and policies.

In addition to direct Federal Infrastructure expenditures, Sec. 502 allows local government bodies from states to school boards more discretion to borrow newly created money interest free to create and repair infrastructure of their choice. Per capita formulas will restrict the loan amounts and since the funds have to be repaid, great care would be taken in these local decisions.

Sec. 503 provides much needed state funding and a strong local empowerment feature to the Act. The fiscal starving out of local governmental bodies from school boards to villages to states will become a thing of the past.

direct funding by the Government to modernize, improve, and upgrade the physical economy of the United States in such areas as transportation, agriculture, water usage and availability, sewage systems, medical care, education, and other infrastructure systems, to promote the general welfare. This will be done with very substantial intrinsic ecological sustainability and quality of life considerations.

This program shall promote throughout the U.S. a harmonious and balanced development of economic activities, sustainable and non-inflationary development respecting the environment, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion. Per Capita and local cost factors will apply.

Note: These ecological, sustainability and quality of life considerations are derived from the European Central Bank treaty protocols, which examined the questions extensively.

SEC. 502 INTEREST FREE LENDING TO LOCAL GOVERNMENTAL BODIES

Not later than 120 days from the effective date of this section, the Secretary shall provide recommendations to Congress for a program of interest-free lending of United States Money to state and local governmental entities including school boards and emergency fire services for infrastructure improvements under their control and within their jurisdictions, based on per capita amounts and other criteria to assure equity as determined by the Monetary Authority.

SEC. 503 MONETARY GRANTS TO STATES

Each year the Monetary Authority will instruct the U.S. Treasury to disperse per capita grants evenly over a 12 month period to the 50 states equal to 15% of the money created under TITLE V in the prior year. The states will use these funds in broadly designated areas of public infrastructure, education, health care and rehabilitation, and paying for unfunded Federal mandates. Per Capita and local cost factors will apply.

SEC. 504 FARMING PARITY PROGRAM

Not later than 120 days from the effective date of this section, the Secretary, in cooperation with the Secretary of Agriculture, shall propose to Congress a program to regulate the markets of farm commodities as in Title 7 USC Sect. 602, to establish a good parity base period and provide for 90% parity loans (for which the crop shall be the sole security) on basic storable commodities; callable at a market price of 100% parity, not a date certain.

SEC. 505 EDUCATION FUNDING PROGRAM

Not later than 120 days from the effective date of this section, the Secretary, in cooperation with the Secretary of Education, shall provide recommendations to Congress for a program to

Sec. 504 helps assure that smaller scale family farming operations will continue and avoid losing their lands to financial operators; and improves our food security situation. It will also test how a multiplier effect based on farming finance could assist the Monetary Authority in its decision making processes.

Sec. 505 recognizes the need for very substantial federal funding of education. Presently a little federal help goes mainly for Special Ed for kids with special problems. Broader assistance could include expanding pre-kindergarten programs, and creating community centers, including apprenticeship programs, a program to reimburse for higher education and drug treatment and counseling programs.

We shouldn't rely on local property taxes to solve a problem that has for so long been a national short-coming. This is about the future of our culture.

Section 506 establishes a one time monetary dividend payment to all citizens in the U.S. of all ages and income levels. It makes needed money available from consumers before the infrastructure parts of the Act get into gear. The effects on production, prices, worker morale and other economic factors will be carefully noted, where it could provide evidence regarding laws to establish such a dividend as a more permanent, repeatable feature.

Section 507 will be written in consultation with specialists in this area, perhaps complimentary to legislation for universal health care.

Sections 507-509 ...

You get the idea; and no it won't be inflationary. See below.

Here we thank some of the people who have helped in big or little ways to get the American Monetary Act developed to this point.

help fund our educational system that will *at least* put the United States on par with other highly developed nations, and create a learning environment so that every child has an opportunity to reach their full educational potential

SEC. 506 INITIAL MONETARY DIVIDEND TO CITIZENS
Not later than 60 days from the effective date of this section, the Secretary, in cooperation with the Monetary Authority shall provide recommendations to Congress for payment of a Citizens Dividend as a tax-free grant to all U.S. citizens residing in the U.S. in order to provide liquidity to the banking system at the commencement of this Act, before governmental infrastructure expenditures have had a chance to work into circulation. The Secretary will maintain a thorough study of the effects of this Dividend observing its effects on production, prices, morale and other economic and fiscal factors.

SEC. 507 UNIVERSAL HEALTH CARE

[This section will be written following consultation with people in the medical field who are working on this problem.]

SEC. 508 RESOLVING THE MORTGAGE CRISIS

Specific congressional proposals for resolving aspects of the current mortgage crisis shall be inserted here. (alternatively these could be presented in a TITLE VI of this Act.

SEC. 509 RECOVERING THE STOLEN FUNDS

The Monetary Authority in consultation with the U.S. Attorney General will move to recover funds obtained through systemic financial fraud, from 2000 thru 2012, before, during and after the crisis; as determined by Congressional investigation. Triple penalties may apply, where fraud doers are not cooperative, and criminal penalties will also be recommended.

END OF THE ACT.

The American Monetary Institute thanks several persons in developing the drafts of this Act: Richard Distlehorst; Robert Poteat; Jamie Walton; Prof. Nic Tideman; Charles Walters; David Hershey; Randy Cook; Ben Gisin; Prof. Glen Martin; Ken Bohnsack; Prof. Michael Hudson; and James Robertson, Alistair McConnachie and Ben Dyson of the UK; and Prof. Joseph Huber of Germany. We especially thank the public spirited Civil Servant Richard Cook for applying his decades of experience within the U.S. Treasury in Washington, DC, to help in formulating Chapter 24 of The Lost Science of Money book into developing this Act. Responsibility for the program as a whole rests with the American Monetary Institute Charitable Trust, a 501(c)3 organization founded in 1996 for the independent study of monetary history, theory and reform.

See <http://www.monetary.org> to e-mail suggestions on this proposed legislation as well as donations to assist in its continued development at: ami@taconic.net

Background: The actual history of government control over money shows a far superior record to private control. There is a mythology – *a reigning error* – that government issued money has been irresponsible, and inflationary. But this is the result of decades, even centuries of relentless propaganda, and is contradicted by the historical facts. The Continental Currency is attacked, without discussion that while our government authorized \$200 million and issued \$200 million (plus replacement notes), the Brits successfully counterfeited untold \$billions. They did the same for the French Assignats – the details became public when the counterfeiters sued each other in the English courts.

The American Greenbacks are smeared as worthless inflation money when in fact our government authorized \$450 million and printed exactly \$450 million; and every greenback eventually exchanged one for one with gold coinage – but very few people bothered to exchange them!

The German hyperinflation is cited by the private money gang without pointing out that the German Reichsbank was privately owned and controlled, or that the hyperinflation began the month that all governmental influence over the Reichsbank was removed on the insistence of the allied occupiers. These and other cases are described in *The Lost Science of Money* book.

The specter of inflation will be raised against any proposal that our government fulfill its responsibility to provide the nation's currency. But again this is a knee-jerk reaction resulting from the same propaganda. The reason that inflation is avoided is that real wealth is created with the money spent into circulation on infrastructure, and education and health care. It results in the provision of real goods and vital services and the existence of these serves to control inflation. It is mainly expenditures for warfare that are inflationary, because not only is the money not directed to creating values for life, it actually destroys those values, while increasing the money supply, and *THAT* will always be inflationary.

It will be argued that the banks must have the money creation privilege in order to survive, and removing it would destroy banking. But that is absurd. Banking has already destroyed itself! The Savings and Loan industry operated for many decades on principles close to what this Act advocates. We are not out to destroy banking – it's a necessary part of modern society. However, the folly of our present system is self evident. There's nothing in the dominant financier's background, training or philosophy that qualifies them to be above our constitutional system of checks & balances. Look at the mess they have created around the World!

This comprehensive Act has its best chance for passage in the great crisis created by the criminal element within the banking system. Our strategy is to stay focused on the full American Monetary Act as the minimum solution. Implementing only parts of it would be a dereliction of duty. Such compromise would give the criminal financiers the opportunity to re-group and re-assert their power over all banking, as they have mercilessly done in at least four major historical cases over the past 150 years, here and in other countries. That's what a wealthy organized gang with a single objective can do, especially *against a population that only coalesces under severe crisis conditions as at present*. Though the crisis means suffering, we must at least use it to solve the problem.

Lawmakers at the national level must be made to understand how this crisis is within their power to solve. Perhaps even more importantly, at the state and local levels, lawmakers must be made aware how solving this problem nationally, opens the way for real world solutions of most of the "insoluble" local problems they face.

Therefore in conjunction with the national approach, a state focused campaign needs to be organized.

None of this is easy, but take heart when you consider that what we are proposing would be immensely beneficial to 99.5% of the population. Even those presently gaining unearned riches from the present faulty system, would benefit from the improved quality and security of life in general.

The American Monetary Institute is organizing local chapters around the country to help educate our fellow citizens and representatives in the area of monetary history, theory and reform. We do this in a way that is understandable to the average newspaper reporter. The *Lost Science of Money* book is written in highly readable form – *we intend to be understood!* We invite you now to join with us in this adventure to achieve a just money system – to right this wrong that has plagued our nation for so long.

Here is how you can help the AMI do this:

*Purchase and read *The Lost Science of Money* book.

*Become a supporting member of the AMI, by pledging to donate \$48 or \$75 (or more) per year.

*Attend the next annual AMI Monetary Reform Conference in Chicago.

*Join or help set up a local chapter of the American Monetary Institute in your area.

*Order and help distribute additional copies of this pamphlet, and stay in touch!

The American Monetary Act (AMA)
“Twenty Questions” Frequently Asked – FAQs (August 22, 2009)
For more background, see *The Lost Science of Money (LSM)*
by Stephen Zarlenga, available at our website.

1) Won't the government creating new money for infrastructure and other expenses cause inflation?

No. While this is an important concern, some of it is anti-governmental propaganda and it need not cause inflation, depending on where the new money goes, for example:

When new money is used to create real wealth, such as goods and services and the \$2.2 trillion worth of public infrastructure building and repair the engineers tell us is needed over the next 5 years, there need not be inflation because real things of real value are being created at the same time as the money, and the existence of those real values for living, keeps prices down.

If it goes into warfare or bubbles (real estate/Wall Street/etc.) it would create inflationary bubbles with no real production of goods and services. That is the history of private control over money creation. It must end now. Government tends to direct resources more into areas of concern for the whole nation, such as infrastructure, health care, education, etc. The AMA Title 5 specifies infrastructure items including human infrastructure of health care and education to focus on.

Also remember, the American Monetary Act eliminates ‘fractional reserve banking’ *which has been one of the main causes of inflation*. And remember new money must be introduced into circulation as the population and economy grow or is improved, or we'd have deflation.

2) How can we trust government with the power to create money? – Won't they go wild (and again cause inflation)? Don't you know that government can't do anything right?

Two Points:

A. The U.S. Constitution binds government to represent the interests of the American people – “to promote the General Welfare” and empowers our Federal Government to create, issue and regulate our money (Article I, Section 8, Clause 5). We must hold our officeholders responsible to the laws. Do you want us to deny the Constitution? In favor of who? Enron? Bear Stearns? J.P. Morgan? Goldman Sachs? Lehman Brothers? Please get real! **Our choice is to let those pirates continue to control our money system or to intelligently constitute the MONEY POWER within our government.**

Under the American Monetary Act, the Congress, the President and the Board of the Monetary Authority will all be responsible if any inflation or deflation takes place, and the people will know that they are responsible. They are specifically directed to avoid policies that are either inflationary or deflationary.

Do you really trust the “ENRONS” to dominate our money? Look how they have abused that power! And Yes Damn it! Enron was on the Board of the Dallas Federal Reserve Bank!

B. Finally and most importantly, an examination of history, despite the current prejudice and massive propaganda waged against government, shows that government control of money has a far superior historical record to private control over money systems. See the AMA brochure, and the LSM, Chapter 16. History shows that government has a far superior record in controlling the money system than private money creators have. And **Yes**, that includes the Continental Currency, The Greenbacks, and even the German hyperinflation; which by the way took place under a completely privatized German central bank! The German hyperinflation is really an example of a private money disaster.

The *Lost Science of Money* book, chapter 12, uncovers the beginnings of the attack on government and found it started with Adam Smith himself in an attempt to block moves to take back the monetary power from the then private Bank of England, and put it back into government, which had done a good job in monarchical management of the money system, with only one exception under Henry VIII.

3) Why should we give the government even more power?

Because *our money system belongs to society as a whole*. It is too important to trust to unrepresentative and unaccountable private hands, preoccupied with private gain, with little regard for the detrimental consequences of their actions on the country, and outside our system of checks and balances. Just look what they have done!

4) How can we prevent government from abusing its power once it can create money directly?

The same way we prevent it from abusing any power, by upholding the rule of law and by participating in democratic political processes; and through reasonable structural limits.

5) Should we let private banks keep some part of the money creation privilege?

Absolutely not! History shows that the private interests, if given any privileged power over money, eventually undermine the public interest, and take over the whole thing. We know this from historical case studies in at least 4 major historical situations – the U.S. “Greenbacks”, The nationalization of the Bank of England, and the Canadian and New Zealand monetary experience. Anyone who proposes allowing the banks to keep any part of the power to create money are either ignorant of monetary history or are shilling for the banks.

Under the American Monetary Act we do have the best of both worlds. We keep the benefits of having the professionalism and expertise of a competitive banking system in the private sector, but we take away the dangers of having them dominate our monetary and public policies with their narrow short term profit focus, by removing their privilege to create money. Ultimately this is a question of morality. No such special privileges can be allowed to particular groups; especially the monetary privilege, which confers power and wealth on them at the expense of the rest of society.

6) Well then, should we nationalize all the banking business?

What kind of “Kool Aid” are you drinking and who gave it to you? The banking business is obviously not a proper function of government; but providing, controlling and overseeing the monetary system is definitely a function of government. No private party can do that properly. Markets have utterly failed to do that. They have concentrated wealth, have harmed the average American and now broken down entirely, except for assistance from our government. Who would keep money in banks today, except for the FDIC guarantees?

But banks should remain privately owned, because when reasonably structured, they perform very necessary functions, and can do it professionally and conveniently. Who within government would run the banking business? Bankers however, have nothing in their training, experience or their souls that qualifies them as masters of the universe – to control our society as the money power confers upon them.

Banks should act as intermediaries for their clients who want to get a return on a deposit or similar investment; and their clients who are willing to pay for the use of that money. But banks must not create the money. The money system belongs to the Nation and our Federal Government must be the only entity with the power to issue and regulate our money as the U.S. Constitution already mandates. We nationalize the monetary system, but don’t nationalize the individual banks. That would be a dangerous step towards fascism. Private enterprise is a powerful mechanism that can produce excellent results when properly structured and regulated. That is an important American “theme!” The AMA does not throw out the baby with the bathwater! But it most certainly gets rid of the bathwater, which is private money creation. That acts like a private tax on the rest of us!

We regard such nationalization proposals (nationalize all banking) either as an inability to understand the difference between nationalizing the money system and nationalizing the private banking business, OR as possibly attempts to actually block proper monetary reform, because you’d have to change the essence of

America in order to do it. So it distracts from real reform. The AMA reform that we advocate actually puts into place the system that most people think we have now! People think our money is provided by government. They erroneously believe that the Federal Reserve is already a part of our government. They think the banks are lending money which has been deposited with them, not that they are creating that money when they make loans. Under the AMA many of those things people already believe about money and banking actually become true! It's a natural fit with already existing attitudes.

7) Doesn't your AMA proposal merely continue with a fiat money system? Shouldn't we be using gold and silver instead? Wouldn't that provide a more stable money?

Our system is absolutely a fiat money system. But that's a good thing, not a bad one. In reaction to the many problems caused by our privatized fiat money system over the decades, many Americans have blamed fiat money for our troubles, and they support using valuable commodities for money.

But Folks! The problem is not fiat money, because all advanced money is a fiat of the Law! **The problem is privately issued fiat money. Then that is like a private tax on all of us** imposed by those with the privilege to privately issue fiat money. Private fiat money must now stop forever!

Aristotle gave us the science of money in the 4th century B.C. which he summarized as: **"Money exists not by nature but by law!"** So Aristotle accurately defines money as a legal fiat.

As for gold, most systems pretending to be gold systems have been frauds which never had the gold to back up their promises. And remember if you are still in a stage of trading things (such as gold) for other things, you are still operating in some form of barter system, not a real money system, and therefore not having the potential advantages as are available through the American Monetary Act!

And finally as regards gold and silver: Please ***do not confuse a good investment with a good money system.*** From time to time gold and silver are good investments. However you want very different results from an investment than you want from a ***money***. Obviously you want an investment to go up and keep going up. But you want money to remain fairly stable. Rising money would mean that you'd end up paying your debts in much more valuable money. For example the mortgage on your house would keep rising if the value of money kept rising.

Also, contrary to prevailing prejudice, gold and silver have both been very volatile and not stable at all. Just check out the long term gold chart.

8) How can a bank lend money if they have to keep 100% reserves?

The 100% reserve provision applies only to checking accounts. This question results from economists classifying our AMA as a "100% reserve" plan, as the Chicago Plan was known. But our plan fundamentally reforms the ***private credit system***, replacing it with a ***government money system.*** ***The accounting rules are changed.***

Banks will be encouraged to continue their loan activities by lending ***money*** that has been deposited with them in savings and time deposit accounts; or lending their capital that has been invested with them. It is in the checking account departments that the banks presently create money when they make loans in a fractional reserve system. This will be stopped by new bank accounting rules. Making loans from savings account is a different matter, because real money, not credit will have been transferred into such accounts, and loaning that out does not create new money or give the bank any seigniorage, that belongs to our society. Some money loaned out of a savings type account might later get re-deposited into another savings account and again be re-loaned, but it's the same money, not any newly created money, and will reflect that way on the bank's books. This is sufficient to solve the problem of banks creating "purchasing media" by loaning their credit which then functions as money in the present system. (for details see the wording on pages 8, and 9 of the American Monetary Act at page 17 and 18 of this brochure.

Various types of accounts will have differing requirements: e.g. matching time deposits to loan durations, lessening the "borrowing short term and lending long term" problem. Money market and mutual fund type accounts can be very flexible. ***The principle applied will be to encourage good intermediation of***

money between clients who want a return on their money and those willing to pay for using it; but will prohibit money creation. Checking accounts will become a warehousing service, for which fees are charged. Good accountancy can achieve these results. (Please see # 9 below)

9) If banks are no longer allowed to create money, where will banks get enough money to fill client's needs for money under the American Monetary Act?

We devote substantial space to this question because economists so used to confusing credit and money have to get used to the idea of money instead of credit. Usually they want to know how the AMA creates money within the present bank accounting framework. Well it does not! The AMA will change the accounting rules to deal with *money not credit*.

There will be several substantial sources of *money* for banks to satisfy their clients money needs:

a) Title III of the AMA converts through an accounting procedure, the existing credit the banks have circulated through loans (about \$6 to 7 trillion, roughly the existing "money" supply) into US money, no longer bank credit. That process will indebt the banks to the government for the amount converted over and above their capital. At present when bank loans are repaid to the banks by their customers, those credits/debts go out of circulation/out of existence and the credit money supply contracts as loans are repaid, until they make new loans. But under the American Monetary Act, since it's now money, those monies will not go out of circulation the way the credits did. They are repaid to the government in satisfaction of the debt the banks incurred in converting them from credit to money. That goes into a pool which can be used by Congress for the items in Title V of the AMA (as described on pages 8 and 9), or it can even be re-lent to the banks at an adjusted interest rate. **Note: this action de-leverages the banks, but does not reduce the money supply.**

b) Probably the most important source of funds for bank lending will be the continuing government expenditures, over and above tax receipts, such as social security and other payments by government on the items in Title V. Also the engineers tell us that \$2.2 trillion is now necessary to make our infrastructure safe over the next 5 years. That's \$440 billion new money per year. Also the health care and education provisions, and grants to states in Title V can be introduced as new money. **ALL** these will eventually be deposited into various types of bank accounts where provisions of the Act will allow this money to be lent or invested. The banks will be lending and placing this money that has been deposited with them; not lending credit they create, masquerading as money. They will have to compete to attract such deposits from citizens and companies.

c) Title II of the AMA specifies the repayment of US instruments of indebtedness (bonds/notes/etc) instead of being rolled over as at present, new US monies will be paid to the bondholders as they become due. Those people/institutions will be looking for places to invest that money. One place would be in bank stock, which is a source of lending funds for banks. Of the \$5 to 7 trillion in US bonds and notes privately held, about 3.5 trillion is due within 1 to 5 years; .72 trillion is due in 5 to 10 years; .35 trillion is due in 10 to 20 years. All these amounts will represent newly created US money and will eventually find their way to becoming new lend-able or investable bank deposits and even investments in banks.

d) Finally the AMA does not allow the banks to decide their own leverage situations. The Act essentially eliminates most leverage from the banking system in a healthy, non deflationary way. That will be good. They will no longer be able to pretend they were "banking" when they made bad loans overextending their positions and creating bubbles, in order to grab huge bonuses on imaginary profits. In other words ***banks will no longer be able to make loans in a bubble creation process.*** That is a good thing!

10) How will the U.S. Treasury create the money?"

The same way the Federal Reserve does now, as simple account entries, but as income, without the accompanying debt obligations. It's described in the AMA, Sec. 103 **NEGATIVE FUND BALANCES:** The Secretary of the Treasury shall directly issue United States Money to account for any differences

between Government appropriations authorized by Congress under law and available Government receipts.

11) Is there any chance the AMA could eliminate the federal income tax?

It “could,” and though that’s not likely in the near future, it is the direction the AMA goes in. Thanks to the immense savings our government will experience through control over its money system taxation should decline substantially for middle and lower income groups.

In addition the AMA should directly lead to substantial reductions in interest rates, because as the US pays off its national debt in money rather than rolling it over, those receiving those payments will be looking for places to loan and invest those funds. Interest rates should drop substantially.

12) Why does the American Monetary Act have an 8% maximum interest rate, including all fees?

Because before 1980/1981, forty nine States had “anti-usury” laws which limited normal interest rates to a maximum of between 6% and 10% p.a. (one state had 12%). The American Monetary Act takes the middle of this range to represent a restoration of the interest rate limits prevailing across the country prior to 1980/1981. See page 9 of the AMA.

13) Won’t you be breaking the sanctity of contracts when you convert the existing bank credit already in circulation, into U.S. Money?

No. First of all a contract requires understanding of the terms by all parties to it, and that certainly did not exist. But more likely it will be viewed as very acceptable by the banks, considering the security it confers on banking, especially when the alternative is going broke. There would be no reason to extend the legal tender privilege (acceptance for taxes) to the credits of any disagreeing banks.

14) How would the ACT affect our position with China?

The ACT would have a number of positive effects on Chinese - American Trade. Particularly it would encourage the Chinese to use more of their dollar earnings to really trade with us rather than just sell to us, and then invest their earnings in US bonds as at present. More details forthcoming!

15) What about other countries, and international systems such as the IMF (International Monetary Fund) and the BIS (Bank for International Settlements)?

We’d expect other countries to follow quickly in our footsteps to each obtain the advantages of issuing their own national monies. The United Nations is already putting forward suggestions that member states shift now to nationally created, debt free; interest free moneys. They are way ahead of the US Congress just now. A much reformed IMF, already organized under United Nations Article 57; #3, will see a greatly expanded role for the SDR and more responsibility for international accounts clearing as well as real assistance to member states, rather than acting as a destructive collection agent for the big banks. The role and importance of the BIS should be rapidly reduced, and perhaps eliminated. Just look at the mess created under their guidance and rules. Some job they did!

16) The latest craze “question” making the rounds in the organized disinformation campaign; attacking our national psychology is not a question at all, but a vicious assertion:

“Government is so corrupt and so much in the hands of the worst people and they won’t ever let you do this reform! Or any good thing”

This popped up simultaneously from LA to Seattle. I’ve told friends to put that stupidity out of their minds. This assertion, designed to discourage, is a variant of the Sun Tzu method of winning the battle by convincing the opposition not to fight because they can’t win. It reminds me of the cyborg Borg wars line **“Resistance is futile”** from the Star Trek New Generation series. **Don’t fall for it!**

As our people suffer more deeply from the unfortunate monetary/banking system, any remaining bad elements in government can be cleansed. That's what we'll do instead of whining about it. Become a part of the solution not a cry-baby! Get up and fight for your family and nation!

“Put a stone in your stomach!” is an old phrase of Zulu warriors when summoning courage. Earlier tonight I saw an electric message on a local banks billboard:

“If you think you can, you can. If you think you can't, you can't!”

Yeah! We never said all bankers are evil, but there's a very bad controlling element among them.

17) Why didn't nationalized money systems work in the former Soviet countries?

Because their monetary systems were still controlled from within their banking systems, using the same faulty methods. The 1966 Federal Reserve publication *Money, Banking, and Credit in Eastern Europe* states:

“In the communist countries, money is created in the same way as in capitalist countries – through the extension of bank credit. This fact is not generally recognized or accepted in the various countries of Eastern Europe. The result is that a good deal of confusion emerges from their economic literature with regard to the nature of money and the role of the monetary process and the function of the banking system.... Since Marx identified money with gold, the official theory holds paper money to be merely a substitute for gold and ignores deposit money.” (p. 42-43)

Sound familiar? Their politicians and economists were as dumb as ours!

18) Won't we get hyper-inflation like Zimbabwe?

No. For governments or anyone to issue money, there has to be a functioning society with enough rule of law and physical and social infrastructure to support the creation of values for living. Zimbabwe unfortunately does not have those pre-requisites; thus their society is falling apart.

19) What about having the individual 50 states go into the banking business?

More Kool-Aid and distractions....Look folks the objective is to get the banks out of the Money creation field, not to get the government into banking!! It's a distracting idea that does not in any way accomplish any necessary reform. Instead it endorses and sanctions the vicious fractional reserve system. See the AMI website, bulletin # 5 for details. Mind boggling that any progressive can ignore morality and justice and fall for this diversion.

20) How about local currencies?

Local currency movements can help people to understand the money problem but it would be an illusion to think that local currencies would stop a mismanaged unjust national system from unfairly concentrating wealth; from being a motivating factor for warfare; from financing harmful polluting activities even when saner alternatives exist. Understand also that a national currency properly placed under governmental control gives much greater local control than the present national currency under private control, because locally, our voting power *can* exert influence on national policy.

And remember the principle of subsidiarity put forward by E.F. Schumacher. His slogan *was not* “small is beautiful.” What E.F. Shumacher actually said is what the AMI is saying: Use an ***“Appropriate scale”- do things on an appropriate scale.*** That dominant scale in the currency area is national and will continue to be for the foreseeable future. The appropriateness of acting on the national level must be recognized.

21) Have another question? We'll try to answer. Please do forward it to us by email (ami@taconic.net) or at our blog at <http://moneyreform.wordpress.com/>

You Can Help Enact Monetary Reform at the National Level

There *Will* Be a National Currency – we’d better fix it!

Money is a national matter in America. We enjoy being able to interact economically with Americans in other communities – to buy and sell to them without exchanging California money into Illinois or Dallas money, etc. The problem arises when the citizenship has not paid enough attention and that national money system has been privatized, corrupted and abused as it is now — even turned against humanity.

Our present viciously structured monetary system came about over nearly a century, through the granting of uncalled for privileges to corrupt interests through bad Federal laws. It’s not the result of laws of nature or “economics.” Its theories and justifications are not supported by evidence or our historical experience. Therefore the situation can be corrected by an awareness of history, and thoughtful activity in replacing those poorly conceived laws with good statutes that affirm our democratic system of equal rights. That means educating voters and representatives and pressuring them through the ballot box to re-structure our money system and place it under our constitutional system of checks and balances.

Since this process must involve Federal laws, legislative activity at the national level is necessary. Lawmakers at the national level must be made to understand how this crisis is within their power to solve through monetary reform. This is achieved at the national level when enough of our 535 Representatives and Senators support it, for example by passing the American Monetary Act.

But Much of our Reform Activity Must be Directed Also at the Local Level

As important as it is to reach Congress, it is just as crucial to reach state and local lawmakers. We must make them aware how national monetary reform, opens the way for real world solutions to the “insoluble” local money problems they face each day, operating at their respective level of government.

Local governmental bodies are in deep fiscal trouble at every level from School Board, to Village, to Town and City, to County, to State.

Therefore in conjunction with the national approach, state focused campaigns must be organized and focused at each of these levels. None of this is easy, but take heart when you consider that what we are proposing would be immensely beneficial to 99.5% of the population. Even those presently gaining unearned riches from the present faulty system, would benefit from the improved quality and security of life.

How You Can Help Achieve Reform

Local elected officials are much more reachable and open to citizen input. You probably know some now. You also know people who are active in public spirited groups. Make up a list of such contacts you now have or of your friends who have such contacts. Become familiar with this pamphlet. If you need more info, read *The Lost Science of Money* book. Talk with your contacts about monetary reform, and give them a copy of this brochure. They’re available at discounts – 5 for \$20; ten for \$35, postpaid. With all such orders we’ll send a detailed suggestion kit on how to proceed. An order form is on the back cover.

Local representatives can and will put much pressure on the Congress to act, once they know it’s the only way to solve their local fiscal problems.

The AMI will help you organize a free seminar in your area, and provide expert speakers. The AMI is organizing local chapters around the country to help educate our fellow citizens and representatives in the area of monetary history and reform. We do this in a way that’s understandable to the average newspaper reporter. *The Lost Science of Money* book is written in highly readable form – *we intend to be understood!* We invite you now to join with us in this drive to achieve a just money system – to right this wrong that has plagued our nation and humanity for so long.

Here is how you can help to do this:

- *Order and help distribute additional copies of this 32 page pamphlet (same as a 96 page book!)
- *Purchase and read *The Lost Science of Money* book.
- *Join or help set up a local chapter of the American Monetary Institute in your area.
- *Become a supporting member of the AMI, by pledging to donate \$48 or \$75 (or more) per year.
- *Attend the next annual AMI Monetary Reform Conference in Chicago and stay in touch!

Friends, We can Make this happen – lets do it

Attend the AMI Monetary Reform Conference, Each September

Make your plans now to attend The American Monetary Institute's 6th Annual Monetary Reform Conference at Roosevelt University in Chicago, Sept. 23-26th in beautiful downtown Chicago. True monetary reform, not mere regulation, is needed to secure justice and peace; to fix our economy and move humanity away from a World dominated by fraud, warfare and ugliness towards a World of justice and beauty. The conference presents the minimum initial steps to begin this process and put time on the side of justice instead of against it. Join with us to achieve positive results for America and the World.

A Different Kind of Monetary Conference

The situation knowledgeable monetary reformers find ourselves in is that after years of studying monetary reform, *we already know* most of the broad shapes that monetary reform must take. We know from experience that these views have stood the test of history, and the many challenges from those with less experience or operating under misconceptions or pursuing non-reform agendas. Rather than continual arguing over these main themes, it is time for those of us who understand to move forward to implement the elements we know must be part of any good reform.

What are these broad national parameters supported by over 3,000 years of history? Our money system must shift away from private control and be under governmental control. Away from commodity money notions and from fractional reserve banking – monetizing private credits and loaning them into circulation at interest. ***It must establish money issued interest free by government and spent into circulation for the common good and must be morally grounded in fairness.***

Not seeking blind trust, we'll continue explaining why the proposals are beneficial and moral, and present the historical evidence for that. We'll answer any serious challenges, and those arising from plain misunderstanding. We may invite selected spokesmen from differing reforms to present their case. But we'll do it within a context of advancing the reform agenda, making necessary adjustments as we proceed. Dissenters don't have to join in the reform phase; but neither need we procrastinate, waiting for all to experience their monetary epiphanies, before moving forward.

The Conference Focuses on Three Themes:

The Monetary Reforms: Researchers will describe the reforms advocated, presenting both the logical and historical basis for them, and the mechanics of implementing them. Question and answer periods and panel discussions can air any doubts about the desirability of the reforms and suggest refinements and discuss **research and thinking methodology**.

Achieving the Reforms - What we can do now: Political and Monetary Activists give the benefit of their experience in educating, raising public awareness, organizing and motivating people to enact public policy decisions. The American Monetary Act will be analyzed including strategies for getting it supported.

Using the Reforms: How a properly constituted money power in government will "promote the general welfare," focusing on **Infrastructure** which the American Society of Civil Engineers tells us is needed over the next 5 years to make our public infrastructure safe. This includes the "**Human Infrastructure**" of **Health Care** and **Education**. Proper monetary reform will allow creation of energy efficient, eco-friendly cities of the future; well within the reach of today's technology. Food supplies can be improved through Farming Parity proposals to maintain family controlled environmental farming. And Yes, the opportunity for a dividend for every citizen!

Each area identifies another constituency to support monetary reform.

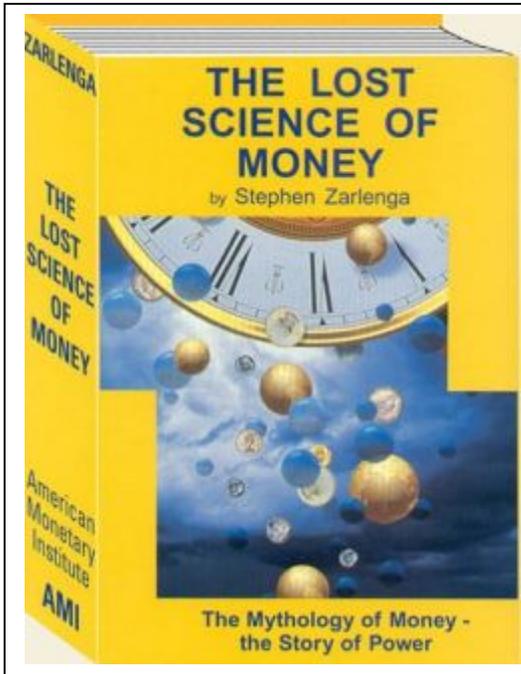
This conference is open to the public*, and to properly organize it the AMI requires a minimum donation of \$395 per attendee; Discounts for early registrations. This includes substantial conference materials and aids, daily coffee breaks, a Get Acquainted Reception and a Celebration Dinner and Beach Barbecue. Hotel costs are separate and available at group discounts. We say minimum donation because affluent persons who want to help out with larger donations are strongly encouraged to do so. It enables us to extend attendance scholarships to students. Discounts for students at \$175. Looking forward very much to seeing you and advancing monetary reform to the next level.

Please visit AMI's website for latest conference info at <http://www.monetary.org>

Speakers included: Congressman Dennis Kucinich; Prof. William Black (S& L crisis resolver); Dr. Ed Chambers (trained Barack Obama in community organizing); Prof. Nic Tideman (White House Economic Advisor); Dr. Michael Hudson (author. Super Imperialism); Richard C. Cook (former Treasury Analyst, NASA whistleblower); William Bergman (former Federal Reserve officer and whistleblower); Dr. Cay Hehner (Director, N.Y. Henry George School); William Hixson (author, Triumph of the Bankers); Dick Distelhorst and Robert Poteat (veteran money reformers); James Gibb Stuart ("Godfather" of Brit money reform); Chris Lindstrom (great great grandson of John D. Rockefeller and Senator Nelson Aldrich); Prof. Paul Davidson (editor, Journal of Post Keynesian Economics); the late Charles Walters (founder of Acres, USA); and many, many more.

*The American Monetary Institute as part of its responsibility in sponsoring the Conference reserves the right at its sole discretion and without public or private explanation, to restrict attendance at this Conference to persons it considers will enhance the purposes of the meeting, as detailed above.

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