MONEY, DO YOU KNOW WHAT IT IS?

By Alan Myers

Before I get into the topic of Money, I want to take a tour of what some people are saying when it comes to this topic.

For example, the following question was recently the title of an article I read. “Why Does the Government Borrow When It Can Print?” I am amazed that this question is still being asked. I will deal with this later.

The article spends some time discussing the national debt, which I wrote about in detail for the December 2022 edition of The Flame. Check it out. As I write this article, the current federal government debt is now more than $34.8 Trillion. As a complete number that amount would be $34,835,000,000,000. That’s a lot of zeros. I like to express 1 trillion in what I call understandable units, which are seconds, inches and miles. 1 trillion seconds equals 31,709 years. 1 trillion inches equals 633 time around the Earth at the equator. 1 trillion miles equals 107 round trips from Earth to Pluto and back. How is $34.8 Trillion in debt looking now?

The article mentioned an organization I had never heard of before, The Committee for a Responsible Budget. I looked up the organization and learned that the official name of the organization is Committee for a Responsible Federal Budget (CRFB) and was incorporated on June 10, 1981. A statement attributed to this Committee is as follows: “Without reforms to reduce the debt and interest, interest costs will keep rising, crowd out spending on other priorities, and burden future generations.”

Surprise, we are the future generation and bad news is loudly pounding on our door. One specific area this group does not seem to deal with in speaking about “spending on other priorities”, is answering this very important question. Is the spending on these other priorities actually Constitutional? CRFB, please answer this question before we worry about allocating and spending the funds that are borrowed.

Another question posed in the article was, “Why Does the Government Borrow Its Own Currency?” The answer is, of course, It Doesn’t. Our money, the currency, or a Federal Reserve Note does not belong to the federal government. The legal owner of all physical Federal Reserve Notes is the Fed, or the Federal Reserve Banks. The Bureau of Engraving and Printing is a government agency within the United States Department of the Treasury. The Bureau is the printer of the federal reserve notes and the Bureau charges the Fed a per note printing charge that ranges from 2.8 to 8.6 cents per note, depending on denomination. The Fed owns the Federal Reserve Notes, not the government, not the U.S. Treasury and not the banks.

Apparently, the above question was asked of economist Martin Armstrong, who responded: “The theory was that if you borrowed rather than printed money, you were NOT increasing the existing money supply, and therefore, in theory, it would not be inflationary". Economists are such fun people, they just love to live in the land of theory and not be bothered by facts.

My response to the above. According to the Fed, all the cash, coin and electronic digits in all the checking accounts held by the U.S. Treasury and all the commercial banks are not include in the M1 Money supply. This means, all these forms of money, cash, coin and electronic digits ARE NOT M1 MONEY, therefore, NONE OF IT IS MONEY. What the U.S. Treasury and banks have are called reserves. Reserves and money are not in the same supply. All reserves are created and are extinguished as nothing more than electronic digits in an entity's computerized accounting system, its general ledger. The Fed Banks have neither money or reserves and they have no need for either because the Fed Banks simply create all the reserves they need. Which means, by creating reserves, the Fed Banks can acquire any assets and satisfy any expense with nothing more than fingertips on a keyboard, hit enter. I learned this from Ben Bernanke back in 2012.

It has been written that Thomas Edison made the following observation in 1921: "If our nation can issue a dollar bond, it can issue a dollar bill. The element that makes the bond good, makes the bill good, also. The difference between the bond and the bill is that the bond lets money brokers collect twice the amount of the bond and an additional 20%, whereas the currency pays nobody but those who contribute directly in some useful way".

Thank you Mr. Edison for the incandescent light bulb, the phonograph, and the motion picture camera. Let's leave the money thing to me. Back in the day, before the Federal Reserve Act of 1913, the authority governing this topic was the U.S. Constitution, Article I, Section 8. Clause 2 tells us that only Congress was granted the Power to borrow Money on the credit of the United States and Clause 5 tells us that only Congress was granted the Power to coin Money, regulate the Value thereof. However, on December 23, 1913, Woodrow Wilson signed the Federal Reserve Act and un-Constitutionally transferred the Power to create money from Congress to the private commercial banks of the Federal Reserve System. If you want full details on why the Fed is private and not part of the government, see my January 2023 article in The Flame.

One person noted that it is absurd to say that our country can issue $30 million in bonds and not $30 million in currency because both are promises to pay. I do not agree. Issuing a bond is selling a "security" which is a form of borrowing that is to be repaid, over time, with interest. Issuing currency is not a promise to pay, it is the payment. Because to become a receiver of the "payment" you had to sell a good or provide a service. You can them become a buyer and use the "payment" to acquire a good or service. Bonds are a promise to pay, currency is not a promise to pay. Bonds represent debt owed. Money or currency, are non-barter transaction facilitators.

Scott Smith, a Wall Street veteran wrote a book in 2023, A Tale of Two Economies: A New Financial Operating System for the American Economy. It has been written that Mr. Smith takes the specific position that there are two different economies at work in our Country There is the material economy which allows for the taxing of income and physical sales. The other economy is the monetary economy that involves the trading of financial assets such as stocks and bonds. This monetary economy does not result in the production of any new good or service, like the material economy does.

Mr. Smith proposes a financial transaction tax (FTT) based on the understanding that the monetary economy is hundreds of times greater than the physical economy. His sources of information comes from the Fed and Bank for International Settlements. Mr. Smith takes the position that a FTT, at perhaps 0.25%, would stimulate growth in the real economy, bring about free healthcare for all, provide the source for a universal basic income and even allow the national debt to be paid off in 10 years.

Man, this FTT sounds great! Oh wait a minute. What are some of the underlying assumptions being made in the FTT calculation that have not been discussed? Let's have a look shall we? I will accept the 0.25% amount. But to be this massive source of funding, the first question that comes to my mind is what is the dollar amount of financial transactions, over what specific amount of time, is this de minimis tax percentage being applied to? I don't know. But I need to if I am to truly understand whether this source of taxation is viable or not.

One way to begin to analyze this option would be to make the calculation as of the market activity today. Then make another calculation based on a level of market activity that would mirror what the market looked like during the Great Depression. Then compare the two FTT amounts to see how this source of fantastic funding might be effected, or not, if our Country was to experience a market downturn or crash.

No, I haven't forgotten the amazing question I opened this article with, which is, "Why Does the Government Borrow When It Can Print?" The federal government borrows because the U.S. Constitution granted Congress the Power to do such a thing. Which begs the question, why does the government not just print money? I will tell you. Money, the indirect, non-barter transaction facilitator, is created in our Federal Reserve Act banking system by only one source, banks. The Fed does not create money, the U.S. Treasury does not create money. Only banks do.

Money is not created out of thin air. Money is not printed into existence. There is only one way money comes into existence, meaning the money supply is increased, and only one way money is extinguished, meaning the money supply is decreased, and that is, banks create money by posting journal entries into their accounting system. Finger tips on a keyboard, hit enter. That is it. It is a four step process from the printing of a federal reserve note to that very federal reserve note being included in the money supply. Printing is step 1. You want more information on this, please go to my website, feded.us, and consider acquiring a copy of my pamphlet, Fed Ed.