

Presenting The American Monetary Act and the Monetary Transparency Act

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Introduction

Dear Friends,

The American Monetary Act (the “Act”) is a comprehensive reform of the present United States monetary system. “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, with little 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 – a work in progress – has been in preparation since December 2004 and was placed on our web site for public criticism in February 2006, concurrently released in Philadelphia at the Eastern Economic Association Conference, for general comment. It draws substantially from 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. The Act also draws on some infrastructure concepts advanced in the Sovereignty Proposal of Mr. Kenneth Bohnsack, supported by 3391 local governmental bodies from school boards to states.

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 theoretically based concept but has a long history of successful implementation in major societies around the world, including the American Colonies and the United States. These concepts enabled us first to establish the U.S. and then to maintain it as one nation.

The current text of the Act 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 of the act. Then the next Title is considered.

This brief form of the Act is a structural summary, which will be detailed and fleshed out as the legislation develops 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 adventure for monetary reform!

Sincerely,

Stephen Zarlenga
Director, AMI

* Please see *The Lost Science of Money* book for the case histories that demonstrate in detail, with historical examples, 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 nuclear disaster, away from a future dominated by fraud 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 or 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 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** to protect major cities? Or will it go into warfare or real estate loans, creating asset price inflation - the real estate bubble.

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 Feds fractional reserve process the system creates purchasing media when banks make loans into checking accounts, so most of our money is issued as interest-bearing debt.

We are borrowing this money system from private banks when instead we should own the system, not rent it. 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 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. 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.

Unhappily, mankind's experience with private money creation has undeniably been a long history of fraud, mismanagement and even villainy. Banking abuses are pervasive and self-evident. Major banks and companies focus on misusing the money system instead of production. For example, in June 2005, Citibank and Merrill Lynch paid over \$1.2 Billion to Enron pensioners to settle fraud charges.

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 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 estimates that \$1.6 trillion is needed to bring it to acceptable levels.

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 known that the government can directly create the money needed and spend it into circulation for such projects, without inflationary results.

Monetary reform is achieved in three parts which *must* be enacted together for it to work. Any one or any two of them alone won't do it, but could actually further harm the monetary system.

First, incorporate the Federal Reserve System into the U.S. Treasury where all new money could be created by government as money, not interest-bearing debt, and 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.

Third, spend new money into circulation on infrastructure, including the education and healthcare needed for a growing society, starting with the \$1.6 trillion that the American Society of Civil Engineers estimates is needed for infrastructure repair. This would create good jobs across our nation, re-invigorating local economies and re-funding 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 better record issuing and controlling money than the private issuers have.* Inflation is avoided because real material wealth has been created in the process.

This press release from the 2005 AMI Monetary Reform Conference in Chicago, highlights the beneficial effects of the plan both in terms of savings on interest and in avoiding such disasters in the first place:

Money Reform Plan Would Save Taxpayers \$ Billions Per Year in Katrina Cleanup

"An alteration in the way money is introduced into our economy would save at least \$10 billion dollars per year in the cleanup and rebuilding aftermath of Hurricanes Katrina and Rita. If the clean-up loans last the normal 30 years, the savings will be over \$250 billion," says Stephen Zarlenga, Director of the Institute. The plan, known as The American Monetary Act was discussed at the American Monetary Institute 2005 Monetary Reform Conference.... The proposed three part reform of our currency system would have the U.S. Government directly spend the money into circulation rather than the present method of allowing the banking system to create the money and then the government borrowing the money. Funding such infrastructure expenses through bonds generally doubles to triples their final cost.

The reform avoids this expense by removing the fractional reserve provision of the present system, which in effect allows the banking system to create the much needed new money that must be continually introduced into the economy as population and economic activity expands; or when emergencies such as Katrina, or warfare require great expenditures. Under the reform only the U.S. government, not the private banking system, would be allowed to create money.

"What we're proposing is very similar to 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," said Zarlenga.

Under the plan the government spends the new money into circulation on necessary infrastructure, including education. A presentation at the conference by the American Society of Civil Engineers pointed out the deteriorating condition of American infrastructure, which currently receives an overall grade of D, and is predicted to reach D- soon.

Most of Katrina's Damage on New Orleans Was Avoidable

"This method of introducing new money through infrastructure creation and repair would actually have stopped most of the damage and loss of life in New Orleans, because the money would have been available to repair the levees, and they would have probably held" said Zarlenga.

"Under the present private control, money goes largely into speculative bubbles, including Wall Street games and real estate" he said, "Under societal control it would go much more to promoting the general welfare. Inflation is avoided because real material wealth has been created in the process, and catastrophic loss including loss of life is prevented." – End of press release.

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 instead of properly placing it in a fourth, monetary branch of government. History shows that the money power will be 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 financial crisis requires us to re-evaluate and focus on it now. Lets fulfill our responsibility to get a real understanding of this problem and the solution.

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."

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 privately issue money (3) in the form of interest-bearing debt.

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 Wall Street games, or into crucially needed infrastructure, such as levees protecting major American cities.

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 “To promote the general welfare” (quoting the preamble to our United States Constitution)

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 to financial institutions and removes their undue influence over public policy.
- (5) Direct disbursement of United States Money can be readily and easily implemented, including replacement of Federal Reserve Notes and retirement of debt.
- (6) The Federal Reserve System shall be retained as a central bank of issue, a national fund processing clearinghouse, and a fiscal agent for the Government and should be incorporated within the US Treasury. It should no longer be utilized to introduce liquidity into the currency system through interest-bearing debts.
- (7) Government policy with regard to monetary supply should be based on the principle of furnishing sufficient liquidity to support the reasoned sustainable expansion of the physical economy, providing for the common defense and general welfare of the United States, and full employment of the nation’s working population

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 has concentrated great power and transferred 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 a *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 dictated ideologically.

Sec 103: “Negative Fund Balances” is the Treasury term for how much money the government needs to come up with to balance it’s 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 UNITED STATES 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 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.

A crucial feature of 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, sec. 105 of the Act establishes a 9 member Monetary Control Board, appointed by the President and confirmed by the Senate, to establish the monetary targets needed to realize this important policy.

Any substantial discrepancies between monetary 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.

SEC. 105 MONETARY CONTROL

- (1) The Secretary shall pursue the policy that the supply of money in circulation should not become inflationary nor deflationary in and of itself.
- (2) Monetary supply targets shall be established by a Monetary Control Board consisting of nine public members appointed for staggered six-year terms by the President with the advice and consent of the Senate and reporting for administrative purposes to the Secretary.
- (3) Responsibility to regulate the monetary supply in reasonable accordance with targets established by the Monetary Control Board 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.

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 presently amount to many \$billion per year, and a substantial % of the annual budget. At present, the interest cost 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 safety levels. The American Society of Civil Engineers gives our present infrastructure an embarrassing grade of "D" and estimates that \$1.6 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 Wall St. games as banker control over money creation has traditionally misdirected society's money power.

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 continually rolling over more debt. This will be a gradual process as the debts extend several decades into the future.

Section 301 describes how Federal Reserve notes will be replaced by U.S. money certificates. We won't call them notes because that indicates debt, and they are not debt. Some Greenbackers of the last century understood this and used the term "certificates of value." That's the best description we've heard, except for our own term – we just call it "money."

Federal Reserve notes and credits in accounts will be replaced by U.S. money on a one for one basis. Their values at the time of replacement shall be identical. All of the Federal Reserve notes will be destroyed. Some reasonable time limits will be established for all such notes to be exchanged.

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. Here is how it works: When banks take dollars from a depositor's checking account and lend them to a borrower, both the depositor and borrower now "have" those funds, increasing the circulation, adding to the money supply. In other words, creating money. The interest banks charge on such money creation is called seigniorage, which is estimated at L40 billion per year in the United Kingdom and may well be over \$100 billion annually for the United States. We are seeking an authoritative estimate of that amount from the Federal Reserve.

TITLE II – RETIREMENT OF INSTRUMENTS OF INDEBTEDNESS

SEC. 201 COMMENCEMENT OF RETIREMENT

Not later than one year 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.

TITLE III – CONVERSION TO UNITED STATES MONEY

SEC. 301 CONVERSION OF FEDERAL RESERVE NOTES

- (1) Not later than 120 days from the effective date of this section, the Secretary shall establish the capability of converting outstanding Federal Reserve Notes to United States Money of equal face value upon presentation to any domestic national or state financial institution by the bearer;
- (2) Not later than 150 days from the effective date of this section, the Secretary shall provide a sufficient quantity of United States Money to the domestic banking system to allow for conversion of all book entries and 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) Not later than 180 days from the effective date of this section, all fund accounts within United States financial institutions shall be denominated only in United States Money;
- (5) The Secretary shall promptly dispose of all Federal Reserve Notes upon receipt.

SEC. 302 RESERVE REQUIREMENTS AND INTEREST CEILINGS

- (1) Not later than 180 days from the effective date of this section, financial institutions authorized to operate within the United States under any Federal or state charter may only lend money as a deposit institution without fractional reserve banking;
- (2) In order to initially bring reserves to a level equivalent to outstanding loans, financial institutions may at inception of this act, borrow United States Money from the Treasury;
- (3) In ending fractional reserve banking, the Secretary is authorized to initially lend United States Money at interest to financial institutions for reserve purposes subject to regulations established by the Secretary.

Banks will be encouraged to continue their loan activities by re-lending money that has been deposited with them. What they will not be allowed to do is to re-lend credit that has been deposited with them.

This will be done by computer tagging credit, so that when it gets deposited into a bank account it is recorded as a deposit of credit, not a deposit of money. Only deposits of money will be loan able. The process will be similar to the way Swiss banks computer tag accounts as denominated in \$, Francs, Euros or Yen, etc.

Where will such dollar money come from? From all types of payments by our government, and from the government money that has replaced the old Federal Reserve notes and deposits.

Sect. 302(5) establishes a rule used by several ancient money systems (Hammurabi, Hindustan, Rome and others) that the amount of interest shall never exceed the principle 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!

- (4) Not later than 120 days from the effective date of this section, the Secretary shall publish regulations for:
 - a) criteria to determine interest charges for utilization by financial institutions of public funds, procedures for determining and declaring insolvency of reserve borrowing portfolios, and policies and procedures for disposition of forfeited financial institution assets.
 - b) Checking type accounts; that implement a system of what is generally known as one-hundred percent reserve banking on all checking type accounts. Effectively, checking accounts become a warehousing and transferring service for which fees are charged. This regulation will take effect over a one year period.
 - c) Savings Type accounts and Time Deposits; to establish reserve and other requirements for the continued lending of money at interest by banks.
 - d) other accounts; establishing appropriate regulations, to encourage private lending activity, but prohibit private money creation in the form of credit.
 - e) the computer accounting segregation of deposits of money, from the deposits of loans – i.e. from credit deposited in the system, with the intent to allow money, but not credit, to be loaned out.

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 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.

- (5) 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.
- (6) United States debt instruments held by banks will be credited to their reserve positions in calculating the amounts necessary to borrow to upgrade their reserves.
- (7) The maximum interest rate of 8% per year will apply throughout the U.S. inclusive of all fees.
- (8) Interest payments by the U.S. to foreign central banks or their intermediaries will be reduced pro-rated over 15 years to 1 %.

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**. The failure to think concisely on this and to use language accurately has had extremely negative effects on economic thought and allowed the financial sector to override our democratic processes.

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

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 Control Board, which will establish monetary target levels, and manage the system for practical results rather than for theoretical ideological reasons. To "promote the general welfare" will become the guiding light of monetary policy.

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 net assets in the Federal Reserve System at current market value denominated in United States Money.
- (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 Control Board and shall administer lending of United States Money to authorized financial institutions in order to assure one-hundred percent reserve banking, also known as deposit banking, within the United States.

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, its 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 into the English 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 England, 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.

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, social, 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 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 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 growth 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.

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 180 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 or other criteria to assure equity as determined by the Monetary Control Board.

SEC. 503 MONETARY GRANTS TO STATES

Each year the Monetary Control Board will instruct the U.S. Treasury to disburse per capita grants evenly over a 12 month period to the 50 states equal to 25% 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 be partially re-directed for use by county, city, village and school board administrations.

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.

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 governmental bodies from states to School boards more discretion to borrow newly created money interest free to create or 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 exercised in making such locally determined decisions.

Sec. 503 Provides much needed state funding and adds a powerful local empowerment feature to the act. Starving local governments of funds will be a thing of the past.

Sec. 504 helps assure that small scale family farming operations will continue into the future, helping farmers avoid losing their lands to financial operators, and improving the U.S. food security situation.

Sec. 505 recognizes the need for substantial federal funding of education. Presently a little federal help goes mainly for Special Ed for kids with special problems.

Broader assistance might include a child development expert in each classroom, more Pre-kindergarten programs, and creating community centers, and drug treatment and counseling programs.

We should not 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 residing in the U.S. This should not be confused with a Basic Income Guarantee (BIG) or an ongoing program. It is not a welfare payment. It goes to all citizens, of whatever age, and income level and its purpose is to prime the monetary situation and make liquidity available to the banking system as the other features of the Act are kicking into gear.

Section 506 will be written when we meet medical people who are focused on this area.

*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.*

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 provide recommendations to Congress for a program of farm parity payments of United States Money to family farmers in order to assure diversity of quality domestic food sources and products and maintain the socially beneficial existence of family farming operations within the United States.

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 help fund an educational system that will 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 while feeling safe in their school and community.

SEC. 506 INITIAL MONETARY DIVIDEND TO CITIZENS

Not later than 90 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.

SEC. 507 UNIVERSAL HEALTH CARE

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

The American Monetary Institute thanks several persons in developing these drafts of the Act: Mr. Ken Bohnsack; Prof. Robert Blain; Mr. Richard Distlehorst; Mr. Ben Gisin; Mr. Greg Mihalich; Prof. Nic Tideman; Mr. Randy Cook; Mr. Charles Walters; Mr. David Hershey; Prof. Glen Martin; Mr. Byron Dale; Mr. Greg Young; Dr. Lewis Coleman; Prof. Lucille Eckrich and Mr. James Robertson and Alistair McConnachie of the UK. We thank public spirited friends with decades of experience within the U.S. Treasury in Washington, DC, whose contribution to this process has been invaluable. 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.

Please see <http://www.monetary.org> where you are encouraged to email your observations on this proposed legislation as well as your donations to assist in its continual development and in educating our citizenry on these important questions. After comments lead to further refinements, the Act will be prepared for introduction as a bill into the House of Representatives and the Senate of the United States of America. Further comment on the Act is invited by email to 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 exactly \$200 million, 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. 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, we see the folly of making bankers the rulers of the universe. There is nothing in their background, training or philosophy that qualifies them for that. Look at the mess that has created around the World!

This comprehensive Act has its best chance for passage in the next financial crisis our unethical banking system is in process of creating. Because so much power exists in control of the money system, it is not possible to predict just when that will happen, but the warning signs have been visible for years. Our strategy is to educate as many citizens and lawmakers as we can on the monetary problem and its solution, and have the American Monetary Act ready, so that when the next crisis hits (or the *next* one), there is a chance for passage.

Lawmakers at the national level must be made to understand how this problem is within their power to solve. 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

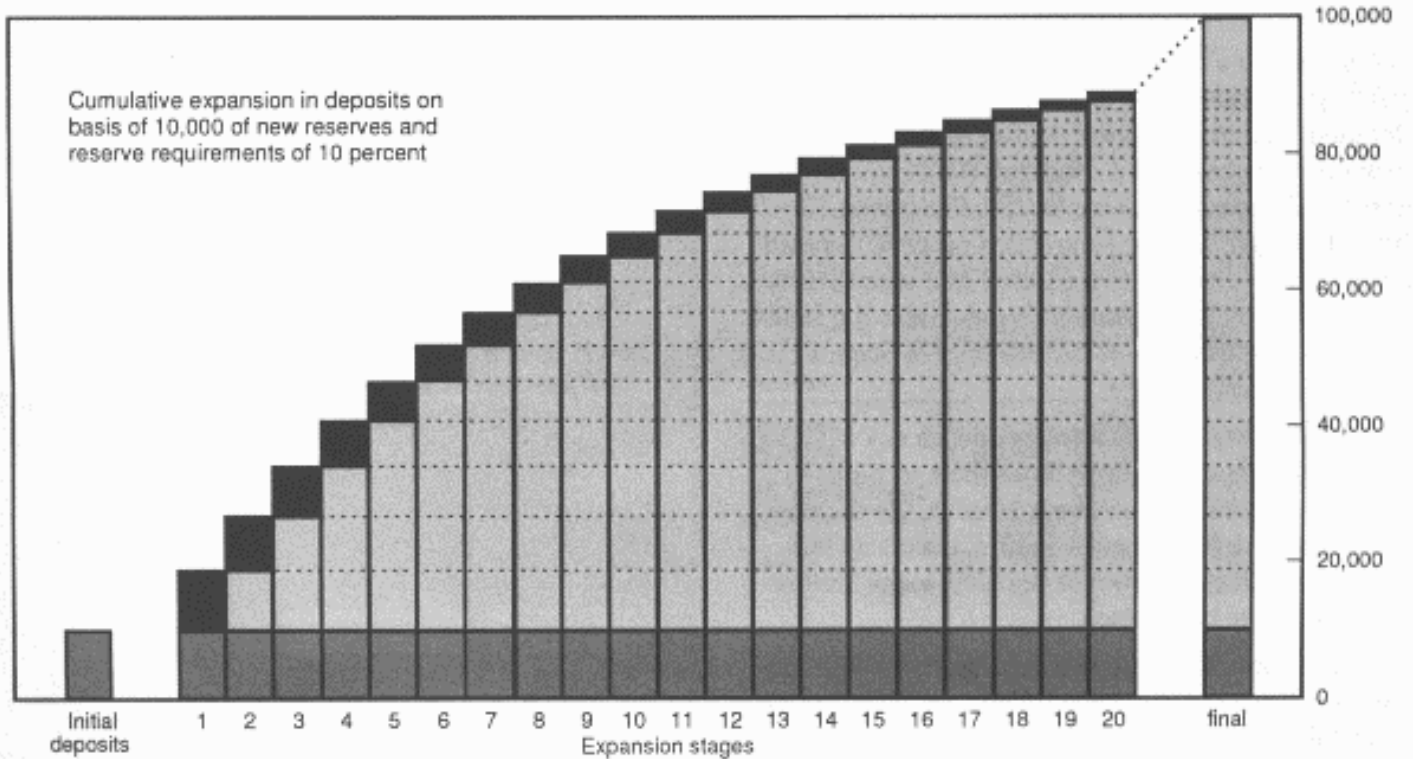
*Attend the next annual AMI Monetary Reform Conference in Chicago

*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!

(Please see the donation/registration form on page 14 below)

How the fractional reserve banking system creates “money” from the pamphlet *Modern Money Mechanics* published by the Federal Reserve Bank of Chicago, (1961, revised 1968; 1971; 1975; 1982; 1992; 1994)



The Chart shows how an initial deposit of \$10,000 gets magnified into \$100,000 assuming a fractional reserve requirement of 10%. The first bank lends \$9,000 keeping a 10% reserve. This gets spent and deposited into other banks which then loan out \$8,100 keeping a 10% reserve. This gets spent and deposited into the banking system which then loans out \$7,290 keeping a 10% reserve, etc, etc. Eventually \$100,000 of checkbook “money” goes into circulation; \$90,000 of it as bank loans, or debt, on which interest payments are required. An individual banker might not see it this way and might say he does not create money - he gets a “deposit,”(of credit) and only loans out 90% if it! But system-wide, new money is being created. Fractional reserves constitute a special money creation privilege to the banking system. Its at the base of the undue concentration of wealth in America (this is a summary portrayal. The full process is more complex including different reserve requirements for different types of banks).

Please stay in touch form.

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Also in preparation is a bill to require greater transparency and monetary information from the Federal Reserve:

The Monetary Transparency Act of 2007 (draft Dec. 21, 2006)

1) The purpose of the bill is to increase the quality, completeness and public accessibility of Federal Reserve research on the effects of monetary policy on the distribution of wealth in the United States, and its effect on the proportion of newly created monetary resources directed into various sectors of the economy. The bill consists of the following:

2) New estimate of the overall money supply

The bill requires the Federal Reserve to devise, calculate and publish a suitable replacement for the discontinued M3 monetary statistic, in order to provide a transparent estimate of the nation's total money supply.

3) New Statistical analysis of the distribution of wealth in the U.S.

The bill requires the Federal Reserve to tabulate and publish a statistical description of the current distribution of wealth in the U.S. by quintile, including a further examination of the uppermost 1% sections by .1% each.

4) New credit institution seigniorage calculation for report to Congress

The bill requires that the Federal Reserve calculate and report the total annual seigniorage interest income received by financial institutions as a result of their being allowed to create money in the form of the credit they extend above their own cash deposits or reserves prior to extending the loans. This credit becomes new purchasing media which serves as money in our system. We must know the value of this vast privilege, which borders on the creation of an aristocracy.

5) New calculations for the semi-annual Humphrey-Hawkins testimony

The bill requires that the Federal Reserve calculate and publish semi-annually the loss or gain in economic output due to the deviation of the previous year's actual unemployment rate from the 4% level required by 15 USC 3101 et seq., known as the Humphrey Hawkins Full Employment and Balanced Growth Act of 1978, including such loss or gain, in income by quintile.

6) New accessible statistical comparisons of where credit is being directed

The bill requires the Federal Reserve to tabulate and publish data showing the amount of credit and the percentage of credit now being created and directed into:

Public infrastructure; Primary residences; Secondary residences;

Stock, bond, commodity, foreign currency and derivatives trading;

Mergers and acquisitions;

Education;

Plant and equipment

Data analyzing the relation between credit extended to corporations and jobs created to measure whether the corporations receiving the lion's share of new credit are pulling their weight in job creation.

Military expenditures,

Each category will be further analyzed by type, and location if applicable. Please consider whether it is appropriate to also analyze these directions of credit by gender, race, religion, and wealth status.

7) New land value calculation for the Flow of Funds Report

The bill requires that the Federal Reserve develop a market-based estimate of the value of residential, corporate and publicly owned land and report figures

8) New foreign debt calculation

The bill requires that the Federal Reserve make projections in 10 year increments of the net foreign debt, and that it estimate and report on the location of Federal Reserve notes, by country and type of holder; including an estimate of lost notes.

9) New GAO audit requirement

The bill requires the GAO to conduct a full audit of the Federal Reserve in every year before a Presidential election year

10) Improvements to the Survey of Consumer Finances

The bill requires that the Federal Reserve undertake the Survey of Consumer Finances every year.

12) New summaries of Total Credit Market Debt and Economic Growth

The bill requires the Federal Reserve to publish a summary of Total Credit Market Debt, quarterly and annually.

13) New public notification requirement

The bill requires the Federal Reserve to release these statistics at a quarterly news conference and the Survey of Consumer Finances and the total credit market debt report at an annual news conference.

The American Monetary Act is in part based on what is known as the “Chicago Plan” of the 1930s. The genius behind that was economics Professor Henry Simons, who made this grand observation which still afflicts us today:

“The mistake...lies in fearing money and trusting debt. Money itself is highly amenable to democratic, legislative control, for no community wants a markedly appreciating or depreciating currency...but money is not easily manageable alongside a mass of private debt and private near-moneys...or alongside a mountain of public debt.”
(P. 199, Economic Policy for a Free Society)

The next AMI Monetary Reform Conference takes place at Roosevelt University in Chicago, September 27-30, 2007. The conference will especially focus on how our private money and banking system causes unnecessary warfare by creating a financial motive for war.

Please see the order form to obtain more copies of this brochure or to register for the conference and to order your copy of The Lost Science of Money book.

Now in our 11th year.

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