Expected Effects of the MSR Act

List of the Expected Effects

1. Will restore to government the unique power of creating money;
2. Will give the Fed a more effective control of the money flow within the country;
3. Will all but eliminate the destructive business cycles;
4. Will provide a new and substantial source of revenues for federal and state governments;
5. Will extend government control of the US dollar abroad;
6. Will empower the US government to issue loans to foreign governments without impacting the fiscal budget;
7. Will create a secure savings vehicle for the people;
8. Will eliminate the burden of the public debt within few years, and retire it altogether very gradually;
9. Will supply government with all its investment needs, and free it from the need to borrow from the private sector;
10. Will restrain economically useless and dangerous financial activities;
11. Will begin to reverse the growing and dangerous economic inequality in the country;
12. Will promote economic growth, reduce unemployment and shrink the welfare state;
13. Will Reverse the US trade deficit and eliminate the dangerous overhang of US money abroad;
14. Will have a balancing effect on world trade, thus enabling the economic development of many poor countries;
15. Will initiate a movement towards reform of the economics discipline in the US and around the world.

DESCRIPTION OF THE EXPECTED EFFECTS

1. **Will restore to government the unique power to create money;**

The MSR Act will stop once and for all the egregious violation, by the private financial sector, of the Constitutional power of government to create money. By the exercise of such illegitimate power, the private financial sector have caused, and is causing, terrible and irreparable injury to the entire nation, only to satisfy the greed of a tiny minority and to give it the power to perpetuate its privileges and to influence government in its favor.

The MSR Act will first eliminate any private participation in the Federal Reserve System, which is currently in charge of the creation and control of the monetary flow of the nation. Then, it will take away from the private financial firms the power to create money, as it is properly understood. Since the power to create money is almost inseparable from that of lending newly created money, the Bill also limits the privilege of lending money with the requirement that such lending be made exclusively with funds borrowed from the Fed.

Many other transcendental benefits will accrue to the nation with this Act, but even regardless of them, Congress would have at long last recovered the supreme power of government: the power to create the money of the land.

2. **Will give the Fed a more effective control of the money Stock and of its flow within the country;**

Currently, since the private financial firms create most of the money that circulates in the economy, the Fed has almost no control of the stock of money or of its flow. The recent Great Recession, with the lingering high unemployment, is the object lesson.

The stock of money in the financial institutions, which now grows without limit, together its counterparts the total outstanding domestic debt (presently over $50 trillion), will then be stored at the Fed; and the accumulated assets of the financial firms will be balanced with debt to the Fed rather than with liabilities to the customers. In normal years, the Fed

will create about $3 trillion in net new credit money[1], which will add to the total stock of money of the nation.

The use of interest rates to restrict the flow of money is only effective to reduce it, whenever such flow is deemed by the Fed to be excessive; however, such action by the Fed tends to push the economy into a recession, resulting in a slowdown of the economy and the consequence increase in unemployment. When the Fed acquires control over the stock of money, it could restrict the flow of credit to the economy by either limiting such flow to the private sector, or to the public sector, without having to raise interest rates.

When the economy is in recession or slow growth as today, the Fed is impotent to re-establish the money flow and to normalize the economic activity and the employment level; that is what the nation is experiencing today, over four years after the start of Great Recession. After the MSR Act, recessions would be very rare; but were it to occur nevertheless, the Fed would not need to lower interest rates, it could just increase public lending, for new investment purposes, in order to get the economy moving again.

The MSR Act will restore to the Fed the sole power to create money and to direct and control its flow so that unnecessary and harmful fluctuations can be avoided. The Fed will be able to direct the monetary flow and determine its more effective split between public and private uses, while maintaining control of the total flow into the economy. The stock of money of the nation will accumulate at the Fed, while the assets as well as the matching debts to the Fed will accumulate at the financial firms.

3. Will all but eliminate the destructive business cycle;

Financial firms will operate on a more solid foundation, and even if they run into financial problems, the flow of credit, which is crucial to the economy's wellbeing, can be maintained at the level established by the Fed. Business cycles will cease to exist, and financial bubbles will no longer be possible.

[1] Net new credit is the difference between new credit issued and payments to principal made in the period.

It is easy to see that without business cycles, and with the new power to control the flow of credit, the Fed can maintain interest rates without change from what it considers an optimal level. Gone will be the near zero Fed-rates that create the wrong investment incentives, and set the stage for the next financial bubble.

4. **Will provide a new and substantial source of revenues for Federal and State governments;**

As soon as this Bill is enacted, the Fed will create and supply the lending funds required by the private financial sector, and naturally, earn interests on those funds. Currently, interests collected by the Fed, $30 billion or so, go to the federal government as ordinary revenue. The new flow of interests, about 30 times larger, will be shared with the States, and will constitute a substantial addition to the ordinary revenues of government.

Every year, after the Bill's enactment, the Fed will lend to the financial sector, funds for the net new loans, about $3 trillion, plus a growing fraction of the total outstanding debt in the nation, which is repaid yearly and lent out again—but this time with Fed funds. The total Fed loans to the private financial sector, in the first years, would amount to about $10 trillion[2], growing to about $30 trillion in five years. The total interest collected in a ten year period would amount to about $7 trillion—about $1 trillion per year. Not counting the savings in the interests on the national debt, to be described later. That money, just part of the enormous benefits that will accrue to the nation from the enactment of this Bill, will go a long way towards solving the fiscal deficit problem.

5. **Will extend government control over the US dollar abroad;**

The United States International Reserve Bank (USIRD) will have offices in the main cities of all our trading partners, and will be able to hold reserves, and to supply the foreign branches of US banks with the necessary lending funds to assure a stable flow of US currency abroad.

All US dollar deposits abroad will be held in reserve with USIRB, thus providing the depositor with a full guarantee of the safety of their money.

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[2] These are very rough estimates.

The USIRB will then, naturally, supply the depository institutions with the lending funds required.

The USIRD will also be able to maintain a stable exchange rate for the US dollar, thus contributing to the economic stability of the entire world.

The revenues from the USIRB operations will constitute yet another source of revenues for the federal and state governments.

The power to control the flow of US currency abroad could be used to restrain all manners of illegal activities; from terrorism, to slave trade; and from arms trade to drug traffic.

6. **Will empower the US government to issue loans to foreign governments, without impacting the fiscal budget;**

The new monetary restrictions will eliminate private lending—at least by US firms—to foreign governments. The new financial power of the US government will enable it to render direct and effective financial assistance to the many countries struggling to develop their economies. It will also help many countries with their currency stabilization programs, whenever it is required.

Loans to foreign governments will certainly result in increased exports for the US, as well as in another source of revenue for the Federal government—from the interests collected. But the impact on world economic growth will certainly exceed whatever benefit those loans may have on the US Treasury.

7. **Will create a secure savings vehicle for the people**

To replace government securities as means of savings for the people, the Fed will create Federal Savings Certificates, paying interests equal to the official rate of inflation; thus providing a means to preserve wealth. The FSCs will replace the savings bonds as savings vehicle, and will be made inflation adjusted. The revenue from the sale of FSCs cannot be predicted at this time; but since they will constitute, together with savings accounts, the only means of protected savings allowed in the country, they may eventually absorb most of the private financial assets owned by the nation.

8. **Will eliminate the burden of the national debt within few years, and retire it altogether very gradually;**

The national debt, which includes both, the federal debt and the total states' debt, will be retired in two steps: first, the Fed will purchase all outstanding government securities; and second, federal and state governments will gradually retire those securities using funds from their own revenues. After the first step, when the securities are in the Fed's vaults, they will not accrue any interests, thus reducing government's outlays on interest obligations.

The new federal savings certificates (FSCs) will be Fed's liabilities to be carried at perpetuity, at zero or negative real interest. They will be non-negotiable, non-expiring, and easily redeemable after one year of purchase. The funds received in exchange for the FSCs will be used by the Fed to purchase the high yield government securities.

Once the Fed becomes the owner of the entire national debt, the Federal Government will be relieved from the interest burden on the fiscal budget, which currently amounts to about $300 billion. Also, there would be no real urgency to retire such debt, that is, for the federal its securities. States will also benefit from interest relief on their own securities, but only to the extent that their outstanding debt is disproportionally large relative to that of other states, because the total interests paid by the States will be returned to them but only in proportion to their own revenues. Those public securities could be cancelled by periodic installments in a very long period of time—perhaps fifty years.

9. **Will supply government with all its investment needs, and free it from the need to borrow money from the private sector.**

There are only two ways to undertake an investment project: one, stop spending for a lengthy period; or two, borrow the money and repay it long term. Regardless of the size of the investing unit, option one is detrimental to the economy, for it reduces the flow of money; thus borrowing, when possible, is the option of choice. Government had been borrowing from the private sector since centuries ago, forced by the scarcity of money prevalent during the gold standard regime. But even though we are now in

a fiat money regime, in which government, through its central bank—the Fed in the US—have the power to create unlimited amounts of money, the Fed had been prevented from using that power by the private privilege of creating new money through lending.

With the enactment of this Bill, the Fed has now the sole power to supply the primary lending funds to the financial sector, and also to supply federal and state governments with the investment funds they require.

Governments will no longer be burdened by the payment of interests on those investment funds, thus reducing substantially the cost of those investments and allowing government to create and maintain the national infrastructure, necessary to sustain a vibrant and growing prosperity in the nation.

The newfound financial power will enable government to create not just new jobs, but also new industries, as had done before, with the information and computer technology, with the transportation network, with space exploration—limited as it was— and many other transformative initiatives. For example, the controversy regarding global warming, once government investment power is enhanced by the new Bill, will be seem more as a job creating opportunity rather than a burden on private industry.

10. **Will restrain the economically useless but dangerous financial activities;**

The private financial sector had the purpose of gathering the savings of ordinary people and making them available to the investors, thus contributing mightily to the flow of money and to the economic growth of the nation. As we find out periodically, that purpose is being badly abused by the financial community, getting into dangerous excesses—financial bubbles and collapses—that the national economy had suffered without compensation.

With this Bill, financial transactions, especially financial markets activities, will be subject to a small tax which will render unprofitable most of the speculative activities. For example, it is known that the daily transaction volume just in the foreign exchange market has crossed the one trillion dollar mark many years ago, even though world trade volume was

hundreds of times smaller. It is obvious that even a small tax on those transactions will severely limit them to just those legitimately required.

The small tax, even if the targeted financial activities decrease, would produce a sizeable revenue flow for the government; perhaps a minimum of around one hundred billion dollar per year would be a conservative estimate.

As this is written, about a dozen European countries, member of the European Union, have decided to impose just such tax. Of course, big financial centers are bound to oppose it, arguing that it will affect negatively the economy of their financial sectors; and so it might; but the benefits to the rest of the country will greatly outweigh those losses. For example, London, the undisputed world financial center, has not made much difference in the U.K.'s per capita GDP: It is now lower than that of many of its peers in the European continent.

11. Will begin to reverse the growing and dangerous economic inequality in the country;

Inequality, the growing concentration of wealth in fewer and fewer hands, is the most sociality divisive problem of our time. Inequality is the natural outcome of unrestrained competition: people who are successful in business become wealthy, and their children inherit their wealth; those who fail, become poor, and their children inherit their poverty. The wealthy cannot spend enough of their money, which allows them to become lenders and increase their wealth even more; the poor cannot earn enough money to spend on their living needs and become borrowers, which impoverish them further.

The free economy is a blind machine that produces few rich people and much too many poor ones; and government lacks the means and the knowledge to alleviate this growing iniquity.

This Bill will give government those necessary means, and also create favorable conditions, by:

- stopping the wealthy sector from earning high interests on their savings;
- stopping the private financial sector from lending the money it creates;

- stopping the wealthy class from profiting by lending to government;

- taxing their financial wealth and their socially useless financial transactions.

12. Will promote economic growth, reduce unemployment, and shrink the welfare state;

The new investment power of government at all levels will attract the creation of new businesses and even new industries, with the consequent increase in employment. The resulting economic growth together with the reduction in inequality will gradually reduce unemployment and with it cause both, an increase in government revenues and a simultaneous decrease in social expenditure.

13. Will reverse the US trade deficit and eliminate the dangerous overhang of US money abroad;

The large and continuous trade deficits of the last decade have exacerbated the dangerous overhang of US dollars abroad. Experts estimate that the amount of US currency circulating abroad is even larger than what circulates within the country. The amount of US money in foreign hands is now several trillion dollars—most of it in government reserves—and growing at the rate of half a trillion per year; the possibility of a US monetary collapse constitutes a 'clear and present danger' for the nation.

This Bill establishes a new type of trade control mechanism, the country specific tariff (CST) which in a gradual and safe manner will balance not just our overall trade, but possibly also the entire world's trade.

The CST will gradually reverse the existing trade deficit with our largest exporting partners, such as China, Japan, and Germany, as well as with energy exporters such as Saudi Arabia and Venezuela. One can estimate that in about ten to twenty years, most of the accumulated deficit with those countries would have been reversed as our government recovers its power to regulate the flow of US currency in the world.

Two things are bound to occur on account of CST: one, the targeted exporter countries will drop their least profitable exports and will strive to increase their US imports; and two, their excess producers will leave for

other less industrialized countries and help to increase not only their exports to the US but also their imports, thus promoting their economic development at the same time that world trade increases in a balanced manner.

In contrast to conventional tariffs, CST will balance US trade without causing much of a permanent rise in import goods prices, because other countries will gradually fill the supply gap. In addition, the consequent increase in US exports will signal a return to the high growth rate that the country enjoyed in decades past.

There is at present no known way to get a net exporter country to balance its trade. The CST is a new device which, if properly implemented, can achieve just that, and in the process perhaps balance world trade, with enormous implications for poor and developing countries. But at the very least, CST will not only balance but also reverse the US trade deficits, so that in about two decades, all the purchasing power that Americans have lost to foreign producers shall return to us, together with all the American jobs lost to the trade deficits. And perhaps more important of all, the threat of a monetary collapse for the US dollar would have been averted, and the US government shall have recovered its power to control the flow of its own currency, wherever it is being used.

14. **Will have a balancing effect on world trade, thus enabling the economic development of many poor countries;**

One little understood effect of the existing world trade imbalance is that it provides efficiency and technological advantages to the net exporters at the expense of the net importer countries of the world. Even the US, the biggest trade deficit country in the world, no longer produces many of the high technologies products of the times. For example, the ubiquitous and expensive flat screen TV sets are produced abroad; the personal computers, lap-tops, electronic pads, cell-phones, are all manufactured abroad; foreign cars makers control the largest share of the US market; and crucial military components are produced by foreign countries.

Under the CST regime, an export-surplus country can balance its trade in only two ways: increase its imports; and/or lose some production to net-

importer countries—which now include the US, but also all the poor, and most of the developing, countries. In due time, the latter countries will increase their exports, which would allow them to pay for more imports, thus increasing overall world trade, as well as employment worldwide.

Once the US program for trade balancing takes effect, most of the hi-tech industry will move out of net exporter countries, into countries that have more balanced trade, or back to the US. The influx of industrial investment into countries with more balanced trade will allow their economies to grow, thus increasing their import capacity as their exports grow.

Foreign trade will become an economic equalizer, and cease to be the destabilizing factor it is today.

15. **Will initiate a movement towards reform of the economics discipline in the US and around the world.**

It can be demonstrated, beyond a reasonable doubt, that most of the economic problems affecting our world today exist only because of the failure of the economics profession. That the accumulated wisdom and expertise in this most crucial area of understanding for our world have turned out to be no more than a collection of dangerous and conflicting fallacies is particularly unique in human history and truly devastating to our civilization.

The establishment of a set of coherent, logically connected, and testable standard economic principles, will allow our legislators to agree on the economic effects of different policy proposals. The Commission for Economic Science will monitor the application and effects of relevant legislation in order to ensure the validity of the standard economic principles.

Policy disagreements, such as the ones paralyzing legislation in Congress at present (Dec, 2012), will be unlikely to recur, once the set of standard principles have been agreed upon. For example, the standard principles will specify the expected economic effects of raising the tax rate on the top income earners, thus reducing either the opposition or the support for such policy. If it happens that, the actual economic effects are different from

what was expected, the CES will investigate the reasons for such differences and reexamine the standard economic principles involved.

It is expected that the CES will elicit the testimony of as many experts, on the different subjects that are relevant to the observations, as necessary.

In general any economic disturbance, financial crisis, or bubble that occurs in the future will be investigate by the CES, which will determine whether the standard principles provide adequate explanations for those phenomena or not.

The new economic principles could also serve as foundation for a more realistic economics education in all the public institutions of the nation.