Presenting The American Monetary Act (as of April 6, 2008)

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"Whoever controls the money system controls the nation."
Stephen Zarlenga, Director

Introduction

Dear Friends,

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

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

This Act – a work in progress – has been in preparation since December 2004 and was placed on our web site for public criticism in February 2006, and concurrently released in Philadelphia at the Eastern Economic Association Conference for general comment. It draws from 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 incorporates some infrastructure concepts advanced in the old Sovereignty Proposal of Mr. Kenneth Bohnsack.

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 (see the LSM).

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 five page form of the Act is a structural summary, which will be detailed and fleshed out as the legislation develops. With continued refinements it wouldn't be surprising to reach 20 or 30 pages, when ready 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, 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, ugliness and warfare, toward a world of justice and beauty.

The power to create money is an awesome power – at times stronger than the Executive, Legislative 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 and Minneapolis bridges 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.

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, periodically causing one crisis after another. Our lawmakers must now reclaim that power!

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

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, and billions more to others.

Private money creation through fractional reserve banking fosters an unprecedented concentration of wealth which destroys the democratic process and ultimately promotes military imperialism. Less than 1% of the population now claims ownership of almost 50% of the wealth, but vital infrastructure is ignored. The American Society of Civil Engineers gives a D grade to our infrastructure and estimates that it will soon be a D- and 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 enough 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. ***The reform has its best chance of passage in a severe monetary crisis periodically created by the privatized money 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 crucial "human infrastructure" of 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 vast 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 Purpose and Short Title of the Act are given.

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

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

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

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

THE AMERICAN MONETARY ACT

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

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

SEC 1. SHORT TITLE

This Act may be cited as the American Monetary Act

SEC 2. FINDINGS

The Congress finds that –

(1) The Federal Reserve Act of 1913 effectively ceded the sovereign power to create Money delegated to Congress by the Constitution to the private financial industry.

(2) This cession of Constitutional power has resulted in a multitude of monetary and financial afflictions, including a growing and unreasonable concentration of wealth, an uncontrollable national debt, excessive taxation of citizens, inflation of the currency, drastic increases in the cost of public infrastructure investments, excessive un- and under-employment, and erosion of the ability of Congress to exercise its Constitutional responsibilities to provide for the common defense and general welfare.

(3) The issue of means of exchange by private financial institutions as interest-bearing debts should cease once and for all.

(4) The power of Government to create Money and spend or loan it into circulation as needed is similar but different in nature from the power to create and market instruments of indebtedness; it eliminates the need to pay interest charges on the nation's money supply, to financial institutions and removes their undue influence over public policy.

(5) 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 concentrates great power and transfers tremendous wealth to the financial sector.

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

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

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

SEC. 104 FORECASTING OF DISBURSEMENT REQUIREMENTS

The Secretary shall:

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

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

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

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

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

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

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

A crucial feature of section105 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 in 2007 was $465 billion; which was 17% of the U.S. federal budget that year. At present, the interest cost that is paid on infrastructure construction generally doubles to triples the cost of construction. Saving the interest will make it much easier to bring our crucial infrastructure up to acceptable 21st century safety levels. The American Society of Civil Engineers gives our present infrastructure an embarrassing grade of "D" and estimates that $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 destructive 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: When banks make loans, they simply credit the borrower's accounts at the bank, in exchange for the borrower signing over his finances to the bank as collateral. It's essentially all credit. Under a fractional reserve of 10%, a bank can loan about ten times its deposits, adding to the money supply. In other words creating money, or the credit which functions as money in our system.

We call the interest banks charge on such credit "money" creation, seigniorage, which is estimated at over $100 billion annually. We are seeking an authoritative estimate of that amount from the Federal Reserve itself.

TITLE II – RETIREMENT OF INSTRUMENTS OF INDEBTEDNESS

SEC. 201 COMMENCEMENT OF RETIREMENT

Not later than one 180 days from the effective date of this section, the Secretary shall commence to retire all outstanding instruments of indebtedness of the United States by payment in full of the amount legally due the bearer in United States Money, as such amounts become due.

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 rules and procedures for converting outstanding Federal Reserve Notes to United States Money of equal face value.
(2) Not later than 150 days from the effective date of this section, as Federal Reserve Notes are converted to U.S. Money the Secretary shall provide a sufficient quantity of United States Money to the domestic banking system to allow for conversion of all cash-on-hand;
(3) Not later than 180 days from the effective date of this section, all financial institutions within the United States shall disburse funds only in United States Money;
(4) The Secretary shall promptly dispose of all Federal Reserve Notes as they are returned in exchange for U.S. Money.

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

(1) Not later than 180 days from the effective date of this section, The Secretary shall establish the rules, pricing and processes for crediting through an accounting process, to all banks a sufficient amount of United States Money to each bank to back all deposit liabilities dollar for dollar with United States Money. This shall include rules for determining the acceptability of bank portfolios of institutions seeking such borrowing from the U.S. under this section. United States debt instruments held by banks will be credited to their positions in calculating the amounts necessary to back the deposit liabilities;
(2) Time deposits shall be so backed in a manner determined by the Monetary Control Board, to be as rapid as possible, (perhaps immediate) while maintaining a solid monetary system;
(3) Not later than 180 days from the effective date of this section, lending by banks will be accomplished only by
a) the lending of actual United States Money that is owned

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. 303(1) establishes a rule used by several ancient money systems (Hammurabi, Hindustan, Rome and others) that the amount of interest shall never exceed the 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!

by the bank from earnings and or capital contributions by investors or borrowed at interest from the government;
b) specific business arrangements made between banks and their depositors for the use of their depositor's United States money for lending purposes; according to accounting rules and procedures to be specified by the Monetary Control Board and the Secretary.

(4) Not later than 120 days from the effective date of this section the Secretary shall publish new lending and accounting regulations for various types of accounts including:
a) Checking type accounts (i.e. demand deposit accts) which becomes a warehousing and transferring service for which banks charge fees.
b) Savings and Time Deposit type accounts, whereby loans can be made with maturities related to the duration of deposits.
c) Money Market and Mutual Fund type investment accounts.

(5) The Secretary's regulations and actions will encourage private, profit making lending activity by banks, but prohibit private money creation.

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.

SEC. 303 INTEREST CEILINGS

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

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

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

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

It will administer the U.S. monetary policy to the banking system, assuring that banks are in compliance. But the Federal Reserve will no longer determine monetary policy. That will be guided by the new Monetary 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.

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

SEC. 401 RECONSTITUTION OF THE FEDERAL RESERVE

(1) No later than 90 days from the effective date of this section, the Secretary shall purchase on behalf of the United States all 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 as described in TITLE III of this act to assure that money creation is a function of the United States and fractional reserves lending is ended.

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

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

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

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

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

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

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

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

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

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

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 very substantial intrinsic ecological sustainability and quality of life considerations.

This program shall promote throughout the U.S. a harmonious and balanced development of economic activities, sustainable and non-inflationary 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 and 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 disperse 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 for in broadly designated areas of public infrastructure, education, health care and rehabilitation, and paying for unfunded Federal mandates.

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

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

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

Section 506 establishes a one time Monetary Dividend payment to all citizens residing in the U.S. This should not be confused with a Basic Income Guarantee (BIG) or an ongoing program, and 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 parts of the Act are getting into gear.

Section 507 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, in co-operation with the Secretary shall propose to Congress a program to regulate the markets of farm commodities as in Title 7 USC Sect. 602, to establish a good parity base period and provide for 90% parity loans (for which the crop shall be the sole security) on basic storable commodities; callable at a market price of 100% parity, not a date certain.

SEC. 505 EDUCATION FUNDING PROGRAM
Not later than 120 days from the effective date of this section, the Secretary, in cooperation with the Secretary of Education, shall provide recommendations to Congress for a program to help fund our educational system that will *at least* put the United States on par with other highly developed nations, and create a learning environment so that every child has an opportunity to reach their full educational potential

SEC. 506 INITIAL MONETARY DIVIDEND TO CITIZENS
Not later than 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. The Secretary will maintain a thorough study of the effects of this Dividend observing its effects on production, prices, morale and other economic and fiscal factors.

SEC. 507 UNIVERSAL HEALTH CARE
[This section will be written following consultation with people in the medical field who are working on this problem.]

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

Please see http://www.monetary.org where you may email your suggestions on this proposed legislation as well as donations to assist in its continued development at: ami@taconic.net

Background: The actual history of government control over money shows a far superior record to private control. There is a mythology – ***a reigning error*** – that government issued money has been irresponsible, and inflationary. But this is the result of decades, even centuries of relentless propaganda, and is contradicted by the historical facts. The Continental Currency is attacked, without discussion that while our government authorized $200 million and issued $200 million (plus replacement notes), the Brits successfully counterfeited untold $billions. They did the same for the French Assignats – the details became public when the counterfeiters sued each other in the English courts.
The American Greenbacks are smeared as worthless inflation money when in fact our government authorized $450 million and printed exactly $450 million; and every greenback eventually exchanged one for one with gold coinage – but very few people bothered to exchange them!
The German hyperinflation is cited by the private money gang without pointing out that the German Reichsbank was privately owned and controlled, or that the hyperinflation began the month that all governmental influence over the Reichsbank was removed on the insistence of the allied occupiers. These and other cases are described in ***The Lost Science of Money*** book.

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

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

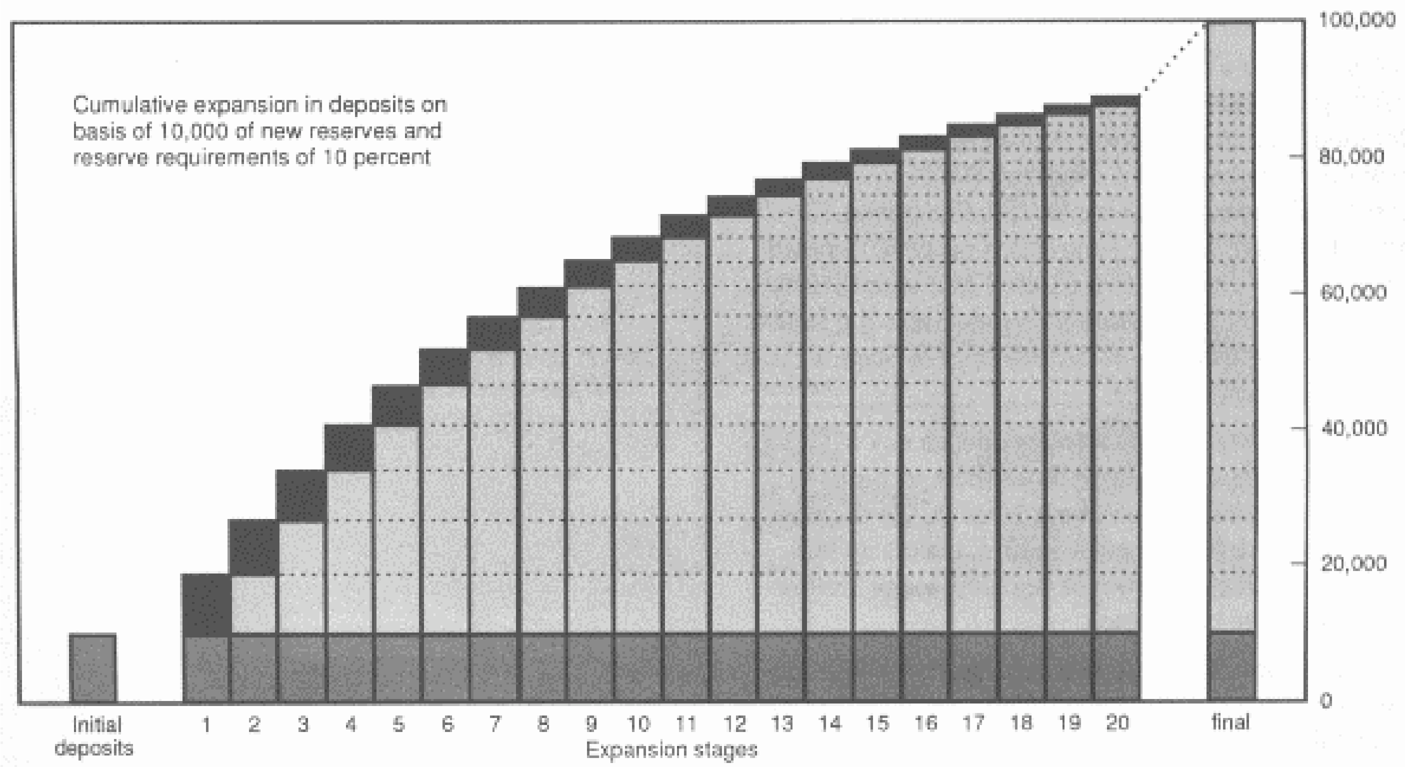
Lawmakers at the national level must be made to understand how this problem is within their power to solve. Perhaps even more importantly, at the state and local levels, lawmakers must be made aware how solving this problem nationally opens the way for real world solutions of most of the "insoluble" local problems they face. **Therefore in conjunction with the national approach, a state focused campaign needs to be organized**. None of this is easy, but take heart when you consider that what we are proposing would be immensely beneficial to 99.5% of the population. Even those presently gaining unearned riches from the present faulty system, would benefit from the improved quality and security of life in general.

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

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

(Please see the donation/registration form on the next page)

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



This Chart from the Chicago Fed depicts how an initial deposit of $10,000 gets magnified into $100,000 assuming a fractional reserve requirement of 10%. The first bank can lend $9,000 keeping a 10% reserve. This gets spent and deposited into other banks which can 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 new bank loans, 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 creates new loans up to 90% of that amount! But system-wide, new money is being created. Fractional reserves constitute a special money creation privilege to the banking system and causes an undue concentration of wealth (This is a summary; the full process is more complex including different reserve requirements for different types of banks and accounts).

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Signature__________________________________ email____

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

The Monetary Transparency Act of 2007 (draft April 6, 2008)

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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