UNRIG THE ECONOMY: Cancel the Bankers' Credit Card

Background:

Perhaps the most currently salient way that the economy is rigged is inflation, defined as more dollars chasing fewer goods and represented by increased prices at the store. Short-term or product and industry-specific inflation occurs regularly, showing most significantly with the supply chain shocks caused by mass economic shutdowns during the pandemic. While some long-term inflation is natural with population growth[1], as population growth fuels growth in demand, massive credit creation and lending by the federal reserve, both pre-2008 but then in the extremes with post-2008 quantitative easing, has contributed to the majority of long-term inflation over the past 100 years.

Depending on who you talk to, government-created inflation has reduced the value of the U.S. Dollar by anywhere from 75-97% since the creation of the federal reserve in 1913[2].

Prior to the COVID pandemic, the "I" word was used almost purely in wonky circles of monetary policy and among libertarians. However, with massive increases in prices since 2021, including on key goods like gasoline at the pump and groceries, many Americans have been forced to make impossible choices such as deciding whether to buy groceries or medicine for their children. The official Consumer Price Index[3], a prime measure of inflation, shows that prices have increased by nearly 20% in just the past 3 years. While wages do usually catch up with inflation[4], they are "sticky", meaning much slower to change, leaving the American worker consistently behind on his or her bills and unable to catch up.

Because inflation has been such a hot issue, numerous candidates, particularly libertarians, have picked up on the issue, proposing we "end the fed." However, few have actually described the specific process by which they would do it, how it wouldn't blow up an economy so heavily dependent on the Federal Reserve to juice it, and specified how they would protect consumers if the system refused to change.

Key Impacts and Statistics:

- 20% of all money in existence was created in 2020[5].
- The average cost of groceries for a family has gone up nearly 25% since the pandemic (Oct 2019[6]) (Oct 2023[7]).
- Housing prices are up over 30%[8]. The average home is now nearly $450,000, nearly 10x the yearly salary of the average American worker.
- Rent prices have gone up by nearly 20%[9], and an estimated 8 million Americans are behind on their rent[10].
- The Federal Reserve paid member banks approximately $55 billion in interest last year[11], providing a giant subsidy for the American financial system.

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[1] https://seekingalpha.com/article/4454279-demographics-are-driving-inflation-not-central-banks
[2] https://www.visualcapitalist.com/purchasing-power-of-the-u-s-dollar-over-time/
[3] https://www.bls.gov/data/inflation_calculator.htm
[4] https://sgp.fas.org/crs/misc/R45090.pdf
[5] https://www.visualcapitalist.com/purchasing-power-of-the-u-s-dollar-over-time/
[6] https://fns-prod.azureedge.us/sites/default/files/media/file/CostofFoodOct2019.pdf
[7] https://fns-prod.azureedge.us/sites/default/files/resource-files/Cost_Of_Food_Low_Moderate_Liberal_Food_Plans_October_2023.pdf
[8] https://thehill.com/business/3478213-rising-home-prices-a-timeline/ and https://fred.stlouisfed.org/series/MSPUS
[9] https://fred.stlouisfed.org/series/CUUR0000SEHA
[10] https://www.lendingtree.com/home/mortgage/rent-status-study/
[11] https://www.federalreserve.gov/newsevents/pressreleases/other20230113a.htm

✓ **Our Policies:** Our proposal is to cut at the root of the issue by ending federally-created credit[12], merge the remaining Fed functions into the Federal Deposit Insurance Corporation, and legally recognizing Bitcoin and similar large alternative currencies to provide pressure on the monetary system to control inflation and allow consumers out of the US Dollar.

1. BAN THE FEDERAL CREATION OF CREDIT AND UNDO 2008

Unwinding federally-created inflation ultimately requires 3 steps - Banning the creation of new credit, eliminating IORB interest funding, and requiring reserve requirements. First, at the core of the issue is government-created credit, injected into the economy. While exact numbers aren't known, it is estimated that approximately 85% of the monetary base is federally-created credit. While reducing this would be both impractical and nearly impossible, putting a stop to future creation of credit will cut at the heart of the issue and stop the continual bleeding. This permanently unrigs the system.

However, that will not be enough. In fact, given the sheer amount of credit created by the Federal Reserve through quantitative easing, there is a near-infinite amount of credit in the economy and the practical effect of the above would be nil at first. To create an immediate effect on inflation and thus consumer prices, the second step is to eliminate the Fed's Interest on Reserve Balances (IORB) program[13]. Since the Federal Reserve created so much credit post 2008, to avoid hyperinflation it has paid banks to keep that credit at the fed. As of 2018, the Federal Reserve had paid $3.2 Trillion to banks in interest just to keep that money at the Fed.

After banning the federal government from creating credit then, we must drawdown the IORB interest program. We propose that it be drawn down over one year, 10% reduction in interest per month. Banks will then be allowed to utilize up to 90% of that money in the economy, with 10% remaining on reserve with the Fed. Combined with the elimination of new credit creation, this will end the Federal government's direct funding of bank operations and corporations and level the playing field for the average American.

✓ **Cancel the banks' unlimited federal credit card.**
Article 1 Section 10 explicitly banned individual states from emitting bills of credit. We seek to use this same language, "No State shall...emit Bills of Credit" to apply a ban on the Federal Government and subsidiaries (such as the Fed) on creating credit. Then, the Federal Reserve will stop paying interest on all IORB funds[14]. This will begin within 10 business days of signing and conclude within 1 year. This rate will drop by 8.33% per month of the current rate, for one year. Banks can put any funds left at the Fed into the economy over the next year.

[12] Conversation with Dr. Pakko.
[13] https://fee.org/articles/how-does-the-federal-reserve-create-money/
[14] https://www.federalreserve.gov/monetarypolicy/reserve-balances.htm and https://fred.stlouisfed.org/series/IORB

2. MERGE REMAINING FUNCTIONS OF THE FED INTO THE FDIC

The Federal Reserve also performs some nonessential but useful functions for the American economy, including some regulatory and statistical activities. We will roll these remaining activities into the Federal Deposit Insurance Corporation.

✓ **Merge remaining activities into the FDIC.**
We will merge the Federal Reserve's main statistics gathering functions, such as the Federal Reserve Economic Data tools and some financial regulatory components into the Federal Deposit Insurance Corporation.

3. RECOGNIZE TRANSPARENT AND COMPETITIVE CURRENCY

The final task is to encourage competition to the U.S. Dollar in the United States to enable consumers to choose multiple alternate vehicles to trust with their money. Currently, Bitcoin is the only alternate currency that doesn't pass the Howey test for a security, and is currently misclassified by the IRS as a collectible and subject to capital gains tax, keeping consumers from using the currency as a currency.

✓ **Pass the Voluntary Legal Tender Act**
Our solution to this would be the Voluntary Legal Tender act. This act would designate Bitcoin as "Voluntary Legal Tender" similar to what Utah's legal tender act did for gold and silver[15]. This means 3 things:

- There will be no capital gains tax on transactions between USD and bitcoin and vice versa.
- Federal agencies will accept it for transactions and the Treasury will accept it for fines and tax payments. The Federal Reserve can accept these currencies as reserves or Treasury-note payments.
- The Treasury will present a report on a pathway for other qualifying competing currencies to become voluntary legal tender in the US.

[15] https://le.utah.gov/xcode/Title59/Chapter1/C59-1-P15_1800010118000101.pdf