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...Also available: *The Dollar an Owners' Manual*

A monetary system marked by every act that benefits the few at the expense of the many...

Why Does the Federal Reserve Refuse to be Audited?

U.S. MONETARY LANDSCAPE

LAND, GOLD, the FED and the AUSTRIANS

.....is a system unfit for the service of a free people.

The Fed funds itself without budget oversight.

DEPICTonomics

The U.S. Dollar is used as **currency** not because it *is* accepted but because it *has been* accepted. Although reduced to **fiat** (1933) the 'Dollar' imprimatur assured its acceptance. Money originated not as **(C)**, but as **(E)** from commerce & custom per **von Mises'** Austrian subjective-dynamic **Money Regression Theorem**: It remains a barter good, its value known from recent exchange & so linked back in sequence to commodity past, & then to good in pre-barter state valued by marginal utility–not from timeless circularity of value.

Fiat Dollar (C) (after 1933) remained **Standard Money** using price arrays of its parent specie money. Legal tender status imparts no value floor, yet fiat money has fully retained its currency role even as it depreciates. **Gresham's Law:** *Bad money drives out good* holds for legally protected fiat money. So a specie-based (good) money contender is not used (not spent) & fails to supplant less sound (bad) fiat money which circulates. Yet 'brand' protection is required for fiat money. Hence use of partial conversion & name of dollar (e.g. *Liberty Dollar*), succeeded until recently prohibited. But if allowed, (seigniorage capturing) frenzy of partially convertible dollar replicates could unwind dollar denominated financial assets & unhinge the remnant emergent-money essence of the fiat dollar, just as would rampant counterfeiting.

Inflation of money stock with more money units 'bidding' for goods operates to raise prices (P). Unlike other goods to be used up, money is for exchange, more units impart no social welfare gain as each unit worth less; fewer units impart no loss of function. Declining (P) is normal in growth economy. Endemic over-issue & value erosion has led to prolonged **critical-state** with loss of trust for intermediation, credit, & value of currency. Risks chance of panic demand shift on chart to right from money & credit to (**M,N**) & defensive strategies. Then have explosive transaction need for more of the devalued money units & for gov't funds making (**QE**) irresistible, producing vicious (P) spiral. Such hyper-inflation can be stemmed by credible stabilizing policy capitulation to hard money but typically *after* collapse in credit & financial assets.

D E C R E A S I N G   L I Q U I D I T Y

COMMODITY MONEY

A DOLLAR DEFINED AS 20.67 TROY OZ. GOLD (1900)

B STANDARD MONEY: MEDIA OF EXCHANGE OR CURRENCY IN WHICH THE ARRAYS OF PRICES ARE EXPRESSED

E SPECIE: GOLD AND SILVER BULLION, COINS. CERTIFICATES, DEPOSITS. DE-MONETIZED 1934. Fed reports certificates for Treasury held gold of .26 *Bln oz.* = $.34 *trn* @$1300/oz.

$ U.S. MONEY STOCK $

C FIAT MONEY: STANDARD MONEY DECREED BY THE STATE TO BE LEGAL TENDER AND NO LONGER CONVERTIBLE. VALUE CARRIED OVER FROM CUSTOMARY USE

TREASURY FIAT GREENBACKS ISSUED MOSTLY IN 1860'S

CURRENCY IN CIRCULATION (FEDERAL RESERVE NOTES &TREAS. COINS--TOKENS)

Total **Fed** bal. sheet **$4.5** *trn.* in 2015 up from **$.8** *trn.* in 2006. Assets purchased (some above mkt. value) & monetized with credit entries add to **MB.**

It was usually considered especially important to shield the banks which had expanded circulation credit from the consequences of their conduct. One of the chief tasks of the central banks of issue was to jump into this breach. —Ludwig von Mises–1928.

D TRANSACTION DEPOSITS, NOW ACCTS. INCLUDES DEPOSITS NOT COVERED BY RESERVES (FIDUCIARY MEDIA)

F BANK RESERVE BALANCES AT FEDERAL RESERVE + VAULT CASH

G SAVINGS AND MMD ACCTS.

SWEEPS INTO MMD ACCTS.

CREDIT MONEY

RETAIL M.M. MUTUAL FUND SHARES

Bank Lines of Credit

H LARGE: TIME DEPOSITS, C. D.'S

Institutional MM Funds

I CLEARING-HOUSE OR MEDIA SUBSTI-TUTES FOR STANDARD MONEY

J SMALL T.D.

CREDIT

Innovative 'shadow' banking

COMMERCIAL CREDIT

REAL BILLS

3-MO. T-BILLS

CREDIT CARD ACCTS.

K INVESTMENT ASSETS

L FINANCIAL

M REAL

MORTGAGE BACKED SECURITIES

CORP. BONDS

TREASURY BONDS

CYBER ACCOUNTS (BITCOIN) & Payment accounts

FUTURES CONTRACTS

STOCK SHARES

PRECIOUS METALS

P CREDIT DEFAULT SWAPS

INVENTORIES

Commodities

Personal & Human Capital

Land, Site, Resources

Capital

Small Business Working Capital

Real Estate Improve -ments

N CONSUMPTION

DURABLE CONSUMER GOODS

EPHEMERAL GOODS & SERVICES

Saving-consumption ratio affects interest rate (Austrian theory)

Fed can de-base Dollar by increasing monetary base (quasi counterfeiting).

Total set by bank lending

Public treats as money

Low interest rates discourage saving.

Note decrease.

Land: The 2006 real estate crash ended an 18-yr land bull-market bubble. Freddie, Fannie, FHA & tax policy fueling boom with toxic bank loan collateral on top of Fed credit.

Heirarchies need land. Wars were for control of land by elite. Ancient commoner land-use customs usurped by royalty in Rome, then Europe with estate grants & *Commons Enclosure Acts*. We've had chartered corporations, plantations & the *Indian Removal Act* of 1830.

Geo-economists see current unaccounted land value windfall from roads, public works, policing, commerce etc. Hence favor site & resource user fees & **land value tax** (LVT) on imputed ground rent to incentivize efficient land use & so reduce urban blight & need for zoning & to force vacant, underused land to market, which lowers lot purchase costs, damps real estate cycles, spurs renovation & urban infilling, slows geographic sprawl, helps untax goods, housing, labor & trade; could reduce income tax by added exemptions. Ref: http://commonground-usa.net/

Historical note—(Art.VIII) *Articles of Confederation* (1777) confined national revenue source to tax on property values levied by states. Never repealed, only replaced.

From 1918 to 1929 the 18-year cycle of land booms and crashes was broken only once, in 1911, 18 years after the crash of 1893. That was the only time before or after when the nation's treasuries depended mainly on the property tax, and there was no big run-up of land values. —Mason Gaffney

The Interest Rate

Production Market
Price Spreads in Production Structure–see **Circular Flow.**

Other Wealth

Loan Market

FACTOR OWNERS: Labor, resources, unfinished goods & services.

INVESTOR-SAVERS, includes gross savings of whole capital structure.

The visible (nominal) loan rate is the basic rate plus anticipated risk & price inflation premiums. The Basic rate sets extent of round-about investment & prices of capital goods (capitalizes productive returns).

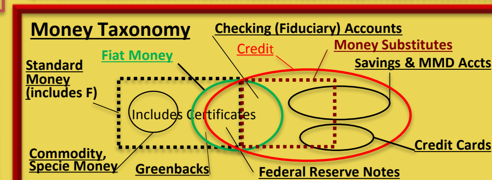
Time preferences capitalize all wealth to form a price structure antecedent to loan market rate. (Austrian capitalization theory of interest—Frank A. Fetter)

The result of more saving, less consumption (reduced time-preference) is enhanced investment, a non-Keynesian *general* outcome. In rare **Keynesian case** fear overtakes trust, so some savings not invested. But this is after crises-downturn–unexplained by Keynes' theory. The general rule is **Austrian**: That economic stimulus follows from more saving, less consuming & more productive effort. With lower consumption, resources are diverted to capital deepening with lower interest rates, producing a higher growth path with higher long-run consumption. The striving to consume drives all economies, but not the act of consuming, nor more current consuming with less saving. Poorer economies lack capital & production, not the propensity to consume.

The 1913 Federal Reserve Act created a national bank–Federal Reserve System (**Fed**). Former specie defined dollar (**A,E**) issuance was governed by limited gold reserves. Restraint removed by 1934 Gold Reserve Act that ended dollar note convertibility–banks required to hand over vault gold to Treasury in exchange for credit (**F**) at the Fed thereby abrogating citizens' titles to gold certificates & deposits (**E,D**). So governing of money & accounts wrested from puplic. The two laws centralized & dissolved society's distributed monetary system granting the *Federal-Financial Complex* legal powers to which no King or despot could aspire before central banks & fiat money.

Reform: Bank deposits on demand are a maturity mismatch for bank loans. To fix: banks must offer accounts with reserve balances determined by competition and depositor trust after phasing out of FDIC & Fed under-writing of fiduciary deposits. Unleash market regulation, delegislate disregulation.

Free Market: Future unknown & changing, so market process in flux yet self-limiting; market has stabilizers. Net effect of arbitrage-speculation aids adjustment. Derivatives market, e.g. (**P**), emerged after end of gold standard to insure against global currency & interest rate volatility endemic to a fiat world.



(**I**) reduces demand for (**MB**). Clearing systems match income flows to expenditures, reducing need for money balances as would cyber accounts (e.g. **Bitcoin**). But money creation is coveted as a hidden tax, & **QE** engendered deposits (**D**) are a windfall for banks that lend the new deposits at interest. Hence, widespread use of cyber accounts threatens seigniorage benefit to banks & Treasury.

The Federal Reserve (Fed), acquires financial assets paid for (monetized) with its mandate to produce credit. As the monetary agency of **Congress** its balance of acquired **U.S. T-Bonds** reduces genuine net Federal debt. Moreover, its other assets (at mkt. value) also reduce that debt. So, in 2015 debt of $18*trn*. drops to $13-14*trn*. The official $4.5*trn*. 'debt' of the **Fed** is no economic debt–any more than are acquisitions held by a *successful* counterfeiter paid for with his printed money. **Fed** 'printed' money price-increases have already 'taxed' non-recipients especially of fixed income. **Fed "debt"** not limited; **Fed** not legally subject to bankruptcy, nor to tangible note redemption, returns only its net profits to Treasury.

.7	<.1	.65	3.6	.7	1	1.2	⟵	2006	$Trn
1.2	2.9	1.7	7.7	.6	.5	1.8	⟵	2015	2006
								M0	1.2	.7
								MB	4.1	.8
								M1	2.9	1.4
								AMS	10.6	5.0
								M2	11.7	6.6
								MZM	13.0	6.9
Set by Fed & by Banks			These vary with Liquidity Preference Can be independent of MB or M1					Monetary Aggregate	

Monetary Aggregates rounded to $.1 trn. Jan 2015 (Source: Federal Reserve Bank of St. Louis.)

MB: Monetary Base. Level set by monetary policy. **(F)** is confined to banks, not held by public. Note explosion in MB as Fed buys toxic debt, U.S. Bonds etc. with its created credit. **MB** constitutes Standard Money.

M0: Cash–currency in circulation.

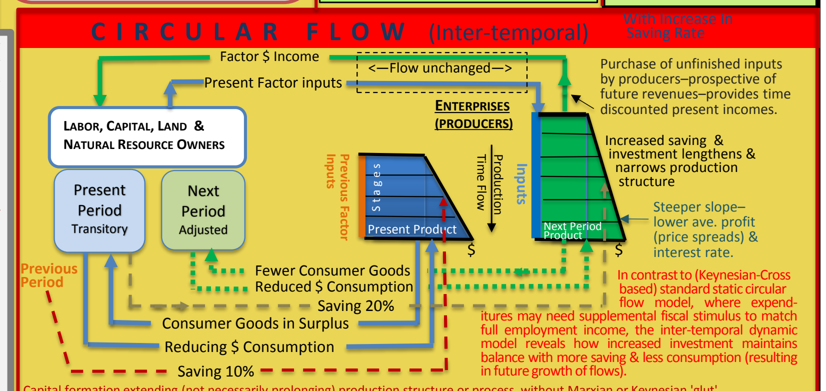
M1: Under a fractional (rather than 100%) reserve regime the banking system can produce **M1** volatility through deposit **(D)** money expansion. This was true from 1880 to 1914 (before Federal Reserve which further amplified the extent of possible expansion).

AMS: Austrian Money Supply = (M1+G), includes financial assets such as savings accts. instantly convertible to cash, excludes other credit, (economic, not legal criteria).

M2 = AMS + MMM fund shares +small T.D.'s.

M3 = M2+ (H), discontinued in 2006. (2006.= $7.8 Trillion.)

MZM: Money of zero maturity. = **M2** less Small Time Deposits + Inst. MM Funds.



Federal deficit is less than reported when net of Fed T-bond purchases. Fed as quasi-counterfeiter debases dollar with monetized debt jeopardizing global currency status. Monetized deficits enable politically untenable & unwise funding (for wars etc.). New **M1** or **M2** result in asset price rise trends & lower initial (r) unbalanced by underlying savings–skews K formation, hence procyclical. **Gov't. Debt** diverts working capital away from small businesses that turn over capital rapidly with high employment to capital mix. So borrowing depletes usable funds for present generation. Harm not shifted to future generations as commonly supposed. (Ref. Mason Gaffney)

Diagram Dynamics: Investments less liquid, more levered in boom (risk on); portfolio preferences & spending shift to right—over-valuing aggregate wealth, in equities, land, etc. with more intermediation & consumption; rising prices cause phantom profits, as costs incurred earlier than revenues (false wealth effect)—capital depletion unnoticed.

But then more liquid, less levered in recession (flight to quality & risk off). An asset (e.g. real estate) may seem liquid in expansion & illiquid afterward. Crash is endgame of expansion—shift is to left with disintermediation. Move to right as memory of last crises fades & next policy enabled boom begins, typically with bank lending on real estate collateral for another round of over-valuation & distorted capital formation.

Free market & Common Law superseded by statutory supremacy (i.e. legislation) allowing banks to suspend specie payments (as early as 1700's) reducing corrective individual bank-run discipline. Just as small fire supression increased flammable forest debris, rescue & lack of public's concern allowed accumulated toxic assets, financial risk (moral hazard), & over-levered credit–adding to demand collapse. Treasury assumption of risk in 2008 prevented complete crash of fiduciary money (**D**) cementing past decades of the public's loss to bank seigniorage gains.

ABCT (Austrian Business Cycle Theory): 1920's boom economy had overinvesting (**K**) in higher (earlier) stages, underinvesting in lower (later), but net capital depletion. With **QE** cash balances less desired as borrowing is easier & inventories deemed more liquid. Depressed interest rates (r) favored longest revenue streams–land & capital intensive production due to less discounting with lower (r). Mainstream model is one-dimensional in (**K**), missing micro-economic skewing of (**K**) prices. Has boom as normal, recessions as only lacking effective demand & so the need for **QE** & deficits. But inflated credit at first overrides future/present preferences, so economy lacks increased saving needed to sustain the lengthened production structure. Growth economy, with prices softened by increased production, can have lower **GDP** in short run with sustained employment. In cycle recovery, producers need lower input prices, meaning higher price spreads producing higher (r). Low (r) policies stymie or misdirect recovery. Central bank enabled 1920's leveraged expansion (**D,F**), implicated in **Mises-Hayek ABCT** for skewing (**K**) & price structure & asset bubbles setting up **Great Depression.** Price disparities (1920's) not detected in average price indexes. **ABCT** explains observed greater cyclicality in producers' goods than in final goods. (Ref: Mises.org & M.N. Rothbard: *America's Great Depression*).

First Edition: Design & content—*James Alexander Webb*. Monetary economics consult— *David Ross Webb.*