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

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U.S. MONETARY LANDSCAPE

LAND, GOLD, the FED and the AUSTRIANS

A monetary system marked by every act that benefits the few at the expense of the many........is a system unfit for the service of a free people.

How can the Federal Reserve Decline to be Audited?
It funds itself with its "printed money" –hence needs no Congressional funding.

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 and custom per **von Mises'** Austrian subjective-dynamic **Money Regression Theorem**: It remains a barter good, its value known from recent exchange and so linked back in sequence to commod-ity past, and 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) and fails to supplant less sound (bad) fiat money which circulates. Yet 'brand' protection is required for fiat money. Hence use of partial conversion and 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 and 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 and value erosion has led to prolonged **critical-state** with loss of trust for intermediation, credit, and value of currency. Risks chance of panic demand shift on chart to right from money and credit to (**M,N**) and defensive strategies. Then have explosive transaction need for more of the devalued money units and 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 and financial assets.

ALLOCATIONS — DECREASING LIQUIDITY

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. = $.5 *trn* @$1950/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 GREENBACK DOLLAR ISSUED MOSTLY IN 1860'S

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

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.

RETAIL M.M. MUTUAL FUND SHARES

J TREASURY DEPOSITS @ FED. RES. BANKS

Q Small Time-Deposits

Bankers achieve exemption from market discipline:

It was usually considered especially important to shield the banks which 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.

Total **Fed** bal. sheet $8.9 *trn.* in 2023 up from $.8 *trn.* in 2006. Assets purchased (some above mkt. value) & monetized with credit entries add to **MB**.

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

bank lending Total set by

Public treats as money

CREDIT

Bank Lines of Credit

Innovative 'shadow' banking

COMMERCIAL CREDIT

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

Institutional MM Funds

REAL BILLS

3-MO. T-BILLS

I CLEARING-HOUSE OR MEDIA SUBSTITUTES FOR STANDARD MONEY

CREDIT CARD ACCTS.

MORTGAGE BACKED SECURITIES

CORP. BONDS

TREASURY BONDS

CRYPTO ACCOUNTS (BITCOIN) & Payment accounts

FUTURES CONTRACTS

EQUITY SHARES

PRECIOUS METALS

P CREDIT DEFAULT SWAPS

INVENTORIES

Commodities

INVESTMENT ASSETS

K

L FINANCIAL

M REAL

Personal & Human Capital

Land, Site, Resources

Small Business Working Capital

Other Capital

Real Estate Improve-ments

CONSUMPTION

N

DURABLE CONSUMER GOODS

EPHEMERAL GOODS & SERVICES

Saving-consumption ratio underlies interest rate (Austrian)

Land:
"..the building cycle averages between 17 and 18 years..."—Alvin Hansen-1951. The 2006 crash ended an 18-yr cycle fueled by Freddie, Fannie, FHA, SEC, real estate collateral, tax deductions and the **Fed**.
A fee on *imputed* **ground rent** (not improvements such as houses, buildings. It would incentivise building on now sequestered vacant or underutilized sites, reduce urban blight, lower rental costs, damp speculative land cycles, spur renovation and urban infilling lessening geographic sprawl, and reduce impetus for zoning as even parcel shift to site value tax off of improvements has proven in several Pennsylvanian cities.
Income tax incidence entirely **on** original factors–land and/or labor-"...*an income tax cannot be shifted.*"–Rothbard-1962.
VAT or consumption tax likewise falls on productive land and labor.
Since the start of the industrial revolution until recent decades, free enterprise has increased productivity of land and labor, and so kept land rent from gaining an increasing share through its command of a limited supply of land as a factor of production. But now share is rising. Yet **private land ownership** is best stewardship, and is open to every investor, but public utilities give windfall valuations, and government granted privilege for privately purposed eminent domain, or outright state ownership (rented to users), leads to crony capture usurping power over right of place, a prerequisite to all individual rights.
In tune with the aristocratic defeat of **1776**–the (Art.VIII) ***Articles of Confederation*** **(1777)** strictly confined national revenue source to landed estates tax, levied by states. Never repealed, but supplanted by new elite in **1789.** Original intent of (ill-conceived) **16th. amend.** was to soften proprietary class crony capture of rental and resource income.
These considerations not to weigh against no-tax, ultimate neighborhood fee-based solutions.

The Interest Rate

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

Other Wealth

Loan Market

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

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

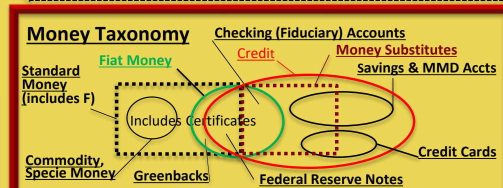
The visible (nominal) loan rate is the basic rate plus anticipated risk and price inflation premiums. The Basic rate sets extent of round-about investment and prices of capital goods (capitalizes productive returns).
Time preferences capitalize all wealth to form a price structure antecedent to loan market rate. (Austrian capitalization theory of interest—Frank A. Fetter)

The result of more saving, and less consumption (reduced time-preference) is enhanced investment, a non-Keynesian *general* outcome. In stymied **Keynesian case** fear overtakes trust, so some saving not invested. But this is after crises-downturn–unexplained by Keynes' theory. The operational rule is **Austrian**: that economic stimulus follows from more saving, less consuming and 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 and production, not the propensity to consume. Production enables consumption–(**Say's Law**).

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 and deposits (E,D). So governing of money and accounts wrested from puplic. The two laws centralized and dissolved society's distributed monetary system granting the Federal-Financial Complex legal powers to which no King or despot could aspire before central banks and fiat money.

- Reform: Bank deposits on demand are a maturity mismatch for bank loans. Fix: banks to offer accounts with reserve balances determined by competition and depositor trust after phasing out FDIC and Fed under-writing of fiduciary deposits. Unleash market regulation, undo legislated dysregulation.

Free Market: Future unknown and 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 and 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 crypto accounts (**Bitcoin**). However, money creation is coveted as a hidden tax, and **QE** engendered deposits (**D**) are a windfall for banks that lend the new deposits at interest. Hence, widespread use of such accounts encroaches on seigniorage benefit to banks and Treasury.

2.3							M0	2.3	2.0	.7
2.3	3.2						MB	5..5	4.9	.8
2.3		4.9	11.2				M1	18.4	N.A.	N.A.
2.3		4.9	11.2	1.5	.5	.9	M2	21.3		
2.3		4.9	11.2		.5		OMS	18.9	17.4	5.0
Set by Fed & by Banks		Varies with Economy's liquidity Preference choices					Monetary Aggregate Strn.	8/2023	2020	2006

2023 components $trillion

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

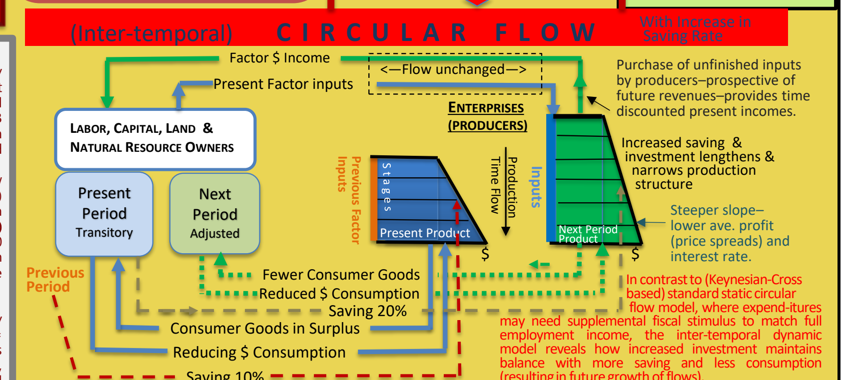
M0: Cash–currency in circulation.
MB: Monetary Base. Level set by monetary policy. **(F)** is confined to bank reserves at Fed, not held by public+ vault cash and currency outstanding. Note increase in MB as Fed buys toxic debt, U.S. Bonds etc. with its created credit. **MB** constitutes Standard Money.
M1: Revised 2021 Includes expaned new series. Under 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).
MZM discontinued.
OMS: (our own) Operational Money Supply, similar to Mises..org True Money = (M1+J+Q), includes financial assets such as savings accts. instantly convertible to cash, excludes other credit, (economic, not legal criteria).

The Federal Reserve (Fed), acquires financial assets paid for (monetized) with its mandate to produce credit. As the monetary agency of **Congress** its 8/2023 $**5.0** *trn.* balance of acquired **U.S. Securities** reduces genuine net Federal debt by that amount in budget. However, its other assets (at mkt. value) also reduce that debt. So, in 2023 debt of $**33** *trn.* drops to $**28** *trn*. The official $**8.5** *trn*. de jure 'debt' of the **Fed** is no *economic* or de-facto debt–any more than are acquisitions held by a *successful* counterfeiter paid for with his printed money. **Fed** 'printed' money price increases have already 'inflation-taxed' non-recipients especially those on fixed incomes. **Fed "debt"** not limited; **Fed** not legally subject to bankruptcy, nor to tangible note redemption--returns only its net profits to Treasury.

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

Diagram Dynamics: Investments less liquid, more levered in boom (risk-on); portfolio preferences and spending shift to right–over-valuing aggregate wealth, in equities, land, etc. with more intermediation and consumption; rising prices cause phantom profits, as costs incurred earlier than revenues (false wealth effect)–capital depletion unnoticed. But then reverses to more liquid, less levered in recession (flight to quality and risk-off). An asset (e.g. real estate) may seem liquid in expansion and illiquid afterward. Crash is endgame of expansion–shift is to left with disintermediation. Move again to right as memory of last crises fades and next policy enabled boom begins, typically with bank lending on real estate collateral for another round of over-valuation and 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), and over-levered credit–adding to demand collapse. Did Treasury assumption of risk in 2008 prevent crash of fiduciary money (**D**) while cementing past decades of the public's loss to bank seigniorage gains? TARP is proof of croney capitalism.



Capital formation extends (not necessarily prolongs) production structure or process, without Marxian or Keynesian 'glut'.

Must see: Time and Money dynamic Power Points by Roger Garrison: http://www.auburn.edu/~garriro/tam.htm

ABCT (Austrian Business Cycle Theory **ABCT**): 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 and inventories deemed as more liquid assets. Depressed interest rates (r) favored longest revenue streams–land and 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 and so the need for **QE** and 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 prices or lower short-run GDP with sustained employment. In cycle recovery, producers need lower input prices, meaning greater 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**) and 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 and M. N. Rothbard: *America's Great Depression*).

Design & content: *James Alexander Webb*. Monetary economics consult: *David Ross Webb*. Information not for investment purposes. Accuracy not guaranteed.