The TEXAS Dollar

01 May 2014

16 Comments

As a change in pace from the Q&A format, The Committee has urged me to write articles/essays on current events, including their suggestions for consideration or to put into practice. A good portion of this is channeled. Texas as the example naturally uses the US economic system; apologies for perceived insularity, none intended.

There's a 50/50 chance readers won't like this, will disagree and point out where it's wrong. Boy, oh boy, do I hope you're right.

Preface

Despite the title, this isn't about a state; it only uses one as an example. Suggestions the ideas create likely won't be followed; economic habits don't change easily, often forcibly. The outcome and preferences people want money to achieve will encounter resistance impossible to overcome before changes force their way into practice.
This article describes the forces of change collectively created, which seem imposed against our will, and should help dispel the notion economic changes are not our own decisions. It asks and answers, what's money? What's happening? What will happen? What can be done about it and when? Why?

What's Money?

It's a voucher or a coupon; it is given for goods and services with the idea it can be used to get goods and services someplace else.

Trade and barter, where service or material goods are given for same received, don't usually require money. Swaps are not popular with tax collectors; how does a mechanic give away part of the trim he got for fixing the hairstylist's car? A business making a lot of swaps could pay low taxes.

A long time ago, somebody decided it would be better to delay getting something after collecting from a sale; money achieved this. Using coupons to get services or products has been around ever since; it doesn't have to be, there’s no general requirement for it. Its efficiency and ease, coupled with the habit, make it seem like a necessary, even permanent requirement. The system seems solid and forever; does anybody anywhere do things differently?

The process is a large agreement; a game the players make serious.

Imagine every dollar suddenly created another one; every bill suddenly gave birth to an identical twin. Every bank account’s balance doubled; every investment, annuity, bond, a share of stock or mutual fund suddenly doubled; how long would it take for sellers of anything to take notice? Remember, all the dollars every seller has suffer the same terrible fate, a corrosive, damaging and instant doubling of their their money. Anybody who has ever dreamed – most of us – can imagine falling asleep with twenty and waking up with forty. Envision it for everybody.

It would also be efficient to simultaneously double prices; why should retailers waste effort for those frantic few minutes after discovering customer money has just been doubled? Some sellers might not increase prices 100% and get hurt; others might get greedy and increase more. The event should be fair and efficient; double all money and prices at once.

Everybody would have more money; it wouldn’t change the economy. Isn’t that what everybody wants, more money? Well, not always; nobody owing one hundred wants to owe twice as much. Better if debt stays at one hundred as our wallets and bank accounts swell to twice their size. Remember though, a lender considers debts assets; accounting rules agree.

Amounts of money lose importance by themselves; differences matter. Expectation of continued differences gives money value. Remove expectations of differences and money drops out of use.

The question "what's money?" is answered; money = expectation.

What’s happening?

From where does money come? Paper banknotes from a printing press but the vast majority exists as computer data; in other words, electrical charges.

Computer data is an arrangement of ionized atoms, positive or negative, one way or the other, this way or that. Technology allows a more permanent charge imprinted on iron compounds and chemicals that coat plastic tape, this technology having barely lasted several decades. It's been replaced with microscopic circuits on ever smaller chips, the same thing in a smaller space. Easier and faster to recall, copy, change and more safely stored, this is where most money exists.

If creating money is as easy as running the printing press or pushing computer buttons, why not just solve all the money problems that way?

We do.

Return to the last two words and math symbol of chapter 1.

Thought about it a little? If not, go back and give it five more seconds; the article will wait right here.

Do the printing presses and money computers work upon request? Obviously and somebody commands the equipment.

Who?

Have you asked the operators of the money computers and printing presses to do it for you? If not, why not? The worst answer would be refusal; this could reduce your money in what way? Ask politely and it shouldn’t. Why not try? I doubt a charge will be required. Consider doing it; today!

The title of this article mentions a state, forty nine others and associated territories which operate a scheme of dollar creation and use. It adheres to agreements, formal and otherwise, that form the beliefs thus expectations of the vast majority of dollar holders.

These sovereign, associated territories participate in a jointly created arrangement which borrows, pays back, creates new and extinguishes money. The operation is controlled, managers use it to borrow and collect from and for the citizens of participating members.

The system creates as it carefully avoids a “double the money” scenario Chapter 1 describes. Since doubling cash and prices simultaneously leaves everything pretty much in the same place, that isn't useful. Creating more money is very important as a population grows; new people need it, too. How's this done?

Borrowing.

There are two entities involved, the federal reserve and the treasury. Think of them as the bank and its lone customer. The customer borrows and pays back with interest. The borrower and bank are closely related and ultimately under the same control, and the bank has a printing press – so there is no risk of non-payment.

Is there any risk at all? Of course…what if the buying power of money paid back – a loan plus interest – can't buy as much as when it was lent? That's the risk, prices go up.

None of this borrowing and lending uses cash or checks; counting takes too long at both ends, writing and delivering checks takes time. It's all done electrically.

What will happen?

Money is created through the process of lending, economics long ago detecting and measuring the effect. Monetary authorities and their printing presses enable it in a much larger way. The Great Depression of the 1930s was partially caused by hoarding of money, and soon there wasn't enough to go around. The electrical creation of money not possible at that time has provided a tool to avoid this problem.

In a financial nutshell: inside the open market borrowing and repayment of US government loans, through treasury securities, the customer's bank does it also. The federal reserve creates money by the push of a button or running the presses and "buys" a treasury bill, note or bond. The open market investor also buys these securities, lending to the treasury which in turn spends the money. The treasury collects taxes also, and uses both tax and borrowed money to pay the bills. As all of this happens, the total amount of money in circulation is monitored; as older, worn out banknotes are returned and replaced, as new ones are sent to banks to be put into circulation and as treasury securities are traded, it's a straightforward process keeping track of totals. Banks are also regulated, and their investments, cash reserves and general balance sheets are monitored.

When the amounts of cash in circulation are considered low, the treasury "injects" more money by paying back lenders ahead of time. Lenders like this; interest is received faster than agreed, making the effective interest rate higher. Anybody expecting five percent after one year is happy to be repaid after only six or nine months. Where and how does the treasury get the money? They borrow it from the federal reserve, "selling" a treasury bill, note or bond.

There is an active secondary market trading in all of this debt; every time interest rates rise or fall – a constant process – some holders decide to sell and some, to buy. Like stocks and bonds, the dynamic of complex economics creates ongoing activity.

Commercial banks make money lending and are required to have minimum capital to loans. For any insufficiency, the bank regulator - you guessed it, the federal reserve - lends the shortfall. The interest rate charged becomes one cost a bank encounters to do business, just as does a manufacturer with raw material. This effectively controls interest rates to both consumer and commercial borrower.

How much debt does the treasury have? In other words, at any moment, how much is the "credit card" or the "charge card" balance? It doesn't really matter; the federal reserve can simply buy up any amount of new treasury debt – bills, notes and bonds – and the treasury can use it to pay off every single lender, and in as much time as it takes to wire transfer the money; pretty quickly, no government debt.

Is this really that easy?

No, there is a large legislative body in the USA called Congress that must approve the total debt. They are not controlled by the treasury or the federal reserve. This arrangement of a central bank or monetary authority, a government treasury and taxes and parliamentary legislative body that controls them, exists in every nation or group of nations, such as the Eurozone, that issues currency.

If the amount of debt any treasury held were paid off in one fell swoop through a massive and instantaneous printing, immediately every holder would see value diluted; debts wouldn't change and lenders would realize immediately the one hundred owed to them will buy less than expected before new money flowed all over; prices would rise.

Refer back to the instantaneous doubling of all money and debt in the first part of the article.

If taxes remain below spending and borrowing continues, debt will increase unless spending falls below collection to enable debts be paid.

There will always be government debt, as a mechanism to manage cash liquidity. Risk free government debt is attractive; money lent can always be recovered selling the debt, and eventually by expiration date.

When was the last time the US government had excess collections? 2003; it sent each taxpayer a check.

How much debt exists now, in the northern hemisphere spring of 2014? The US government owes more than 100% of the nation's annual economy; in 2003 it was about half. Bear in mind, there are also debts and obligations owed by states, counties and cities, none of which have a printing press.

If the economy were suddenly flooded with new funds equivalent to the annual value of all goods and services, this would have several immediate effects.

Interest rates would come under pressure to drop, as scarcity would vanish with money deposited into banks. Risk free investments would likewise go away – no treasury debt – so how would banks earn a profit from interest above costs? A more immediate effect would be lower confidence in the dollar; suddenly everything a person worked for could be diluted, prices for everything would shoot up overnight and even though debts could be repaid, would this new money end up in the hands of consumers or institutional investors? You can see financial, even social, chaos.

As long as federal debt continues a steady increase, as it has for ten years now, and more local government obligations remain, it is easy to foresee the bottom falling out. Massive printing to eliminate the money printer's debts won't help states and cities as it also sets off massive inflation. Most consumers will see little reach their pockets as prices climb yet will understand purchasing power cut back, in many cases, significantly.

If massive, one time printing is avoided and debt continues its climb, how much tax supports ever higher payment of interest? Right now the US federal government already borrows forty to forty five percent of spending; it will borrow more. Institutional investors will see the effects coming and do three things; sell off debt, lend less and raise prices. More printing to maintain interest payments will likely bring about federal reserve purchases and shredding of debt. As the federal reserve forgives debt amounts of one third, one half or three quarters of the annual US economy, how will the economy react?

It will drive off lenders, economic activity falls, tax collections drop and the economy enters a death spiral. Everyone from bank presidents, to mega corporation chief executives and the wo/man on the street will understand the voucher printing and at that point, the US dollar will have the value of store coupons clipped from the paper.

What can be done about it and when?

Abandon the US dollar.

How? The large agreement among the people any currency represents first requires agreement on many things not financial, such as borders, sovereign jurisdiction and self confidence to not deflate or inflate currency unnaturally.

Recall the definition of money in the first part, a voucher to get in return for giving, after any delay chosen.

Required are knowledge and confidence in and of the sovereign territory, that for such agreement there is wherewithal to supply desired goods, material and service. Understanding that currency and its debts will strictly respect limits, avoiding deflation of activity from too little – as can happen with hoarding – or the opposite, rampant printing and expansion until collapse, will restore health to commerce.

To enact this requires a place not indebted now, with a history of not exceeding its means. A place with sufficient resources to supply basic services, such as transportation, food, shelter, clothing and so forth within its delineations, its rules and borders.

This can begin tomorrow, if enough players in any such place foresee the maelstrom and initiate what the final part of this article suggests.

Is there a place like this in the USA?

How?

"Greetings our friends, readers and observers for we rejoice at your having read though this summary of economics already well known on your Earth, a science of behavior you study and measure with accuracy and precision. Forgiveness we beg of detail you might have found laborious, containing tedium in a subject seen by many yet favored by fewer. Long ago your humble scribe and writer of our words here agreed to the study of this science of human society, to one day enable transcription of these concepts, through words we use not, and the moment has come to issue them. We welcome and greet you as the first but not final readers of our suggestions and ideas, seen as important and vital to humanity's well being.

We trust you have all observed, through your participation in the currency voucher agreement, the effects in practice of beliefs applied and we do, through this, hope to make an example of your mind, its power and your collective ability to control your lives far beyond what is seen possible.

An option is to begin barter trade based on expected values of current dollars; a seller of fruit chooses an equivalent quantity of milk, at a price both grower and dairy agree appropriate. Goods are exchanged without money. This arrangement establishes values yet costs for services of transport and storage, requiring of vehicles, fuel, electricity and so forth, also require retail payment to enable the purchase of services, until these can likewise be bartered. Less cash is necessary as this expands.

This option will be resisted, requiring much re-arrangement and measurement of value not done now. As you understand also, better to engage in such trade before confidence in existing arrangements plummets and it might, as society's collective decisions accumulate. The logjam of debt breaks free in a great crashing as water supports it and flows. As it does.

Abandonment of a currency is already contemplated in Europe; political pressures exist as an obstacle . No lack of pressure is there in America, the setting for our suggestion. Political controversy attaches to this subject in great and large ways, as to many things.

Need for abandonment of a system and creation of its replacement become forced as the current path continues; desire for endurance of perceived value shall cause the value's erosion, along the course now followed.

Implication of a national rupture looms in America as in Europe it does not, where sovereignty has been maintained before the recent, brief period of currency convenience. The disconnection from the dollar and creation of a replacement presents obstacles worth overcoming against the ignorance of circumstances leading to collapse.

Each of you individually shall see yourselves subject to forces that control you, as you have learned habits of money. There is much merit to the individual view, yet it is like so much of your existence, an illusion as chosen. Unlike the subset of your soul and true self, an illusion you will never discard, as your return home will demonstrate clearly and instantly, the illusion of money and wealth is an Earth creation indeed able to be discarded or modified. We suggest modification.

Established a system of valuation minus cash, trading can lead to establishment of a new or several currencies, as you prefer. The formation agreement does not prohibit states from creation of currency as it allows the central authority to do; also this formation agreement says powers not specifically delegated are reserved to states and citizens.

If money you value is controlled beyond yourself, you understand resistance those controllers will offer to reduction. If foreseen is the control beyond you as detrimental to your interest, for how long will you participate?

Values as a new currency bears to the existing national unit are determined outside the new currency's creators, so pay it little attention, as your trade within borders crosses them not, your formation agreement prohibiting interference by the national authority; it may not lay taxes between states and also prohibits the states.

Shall a remaining majority of states agree to amend the formation agreement and allow taxation, interference and control of a new state currency? This brings about a new collective choice; independence from the central authority will be considered.

We bid you a good outcome and fair course through these events, as you choose to stabilize a national currency, create a new one or separate from national agreements to maintain new media of exchange.

Truly, these are choices not yet made; we have seen various outcomes played forth, in the parallelity of events not seen from Earth's timeline; we eagerly await your collective decision and outcomes; we do say, these events will present a great understanding and learning to all, whether creation of the Texas Dollar is pursued or discarded.

Good day we bid you all."

Comments

Kees *29/04/2014 6:07pm*
Hi Patrick
Another great post from the Committee.
They are always capable of explaining these economic subjects in simple terms.
Can't wait to see the next post.

Mike *30/04/2014 8:11am*
Patrick,

This will make for an interesting addition: http://en.wikipedia.org/wiki/Tax_protester

Mike

PS I'd like to see some wildlife pictures in the banner photo. Something like Dolphins would be nice. :)

Ajh *30/04/2014 10:45am*
If Remove money, then poverty goes with it?

> ***Patrick*** *30/04/2014 12:51pm*
> If poverty is defined as less money, yes. Having little requires others to have more, so that by comparison, some have less. It's still around; differences remain.
>
> Removal means no poverty - defined as less compared to more - and poverty disappears along with the money. There isn't any to make comparisons.
>
> For the notion of poverty to continue, a new definition must be agreed.

Cheryl *01/05/2014 1:04pm*
Patrick...LOL, Love the dolphins in your banner! :)

I look forward to the continuation of this 'article/essay' on money, it is quite interesting!

> ***Patrick*** *01/05/2014 2:45pm*
> Could be the name of a good pub, The Flying Dolphin.
>
> I don't think Mike had this in mind, but airborne sea mammals over Arizona would be the tourist attraction of the month, wouldn't it?
>
>> ***Mike*** *01/05/2014 4:18pm*
>> Hmmm not quite what I had in mind but knew this would be the outcome. Touché lol
>
> ***AD*** *01/05/2014 2:52pm*
> i concur on both points!!!!!

steve w. *02/05/2014 5:47am*
Hi Patrick, very interesting post indeed, also, dolphins actually distracted me from noticing the seven mountain goats for quite a while !!!

> ***Patrick*** *02/05/2014 1:52pm*
> LOL good spot! The invisible ones, right? At least to us mere mortals.

Linda *02/05/2014 12:14pm*
Thank you. Is there a rough timeframe for this? Do physical earth changes precipitate this?

Patrick *02/05/2014 1:51pm*
I'd guesstimate five to twenty years, and possibly never. It depends on decisions. Government debt where money can't be printed to cover it is already at a breaking point; the printing press debt can go on until lenders believe prices will increase above interest. That slope will turn sharply upwards; treasury debt is sold at auction, investor lenders decide the interest rates, and the secondary market does the same.
At some point buyers of government debt will insist on much higher interest; this is likely to happen when total outstanding debt reaches double the nation's GDP, maybe sooner, maybe later.
The size of the money supply, which has ballooned over the last six or seven years, puts pressure on prices, in other words inflation. More dollars per person means eventually higher prices; it's simple math.
What would spark inflation and an economic death spiral would be a sharp increase in crude oil prices; transportation affects nearly everything. Crude oil is traded in US dollars, and if oil production were to fall, the now larger money supply would come streaking out of hiding to invest, seeking the higher returns. This would affect food prices almost immediately and with something like 2 out of 5 American citizens already getting food coupons now from the federal government, you can see the effect.
As lenders to government - buyers of treasury securities - see better possible returns by investing in oil and fuel, higher interest will be immediately necessary to keep up enough cash to maintain spending supported by 40-45% of it now borrowed on a regular basis.
The problem flares when the US federal government can't afford to meet interest payments without outright, open printing of money to do it. At that point investors will stay away in droves, and then US dollars will be seen as coupons. Without an alternative medium of exchange, sellers will demand ever higher prices, because their own costs are shooting up from the oil price increase and inflation is ignited. Soon confidence in the US dollar drops.
Most large oil producing regions of the world are in ever greater turmoil and all remain significant enough to cause a spike in oil prices if war broke out.
Even without a war, the mounting debt could do it; at some point it won't be possible to create and/or extinguish enough debt and money to manage things. The only reason it works now is because it operates inside a legitimate, functioning market for US dollar government debt. Once that market diminishes and exposes the outright printing of money, the precipice is approached.
It's our choice and the problem with a solution is that political word wars erupt every time any comment, suggestion or criticism is seen to make a certain political party or group look less than ideal. Instead of aiming at a solution, bitter, vitriolic name calling erupts as the Repulicrats, Conserverals, Libatives and Democans all blame each other.

Physical changes and events could cut oil supply but I will say, physical Earth changes and financial turmoil will be essentially simultaneous and ongoing.

Denis *02/05/2014 2:39pm*
I like the different perspective on the canyon, it is now much easier to see those 7 goats.
Really appreciate the explanation of the possible financial collapse and the timeline you suggest. Always great posts

Robert Martinez *02/05/2014 3:26pm*
This barter idea is kind of perplexing. How many chickens will it cost for a heart transplant? Or gallons of milk to get a nice guitar? Or weeks of housecleaning for an acre of land? And what will happen to all those lovely real estate rights where someone can build a small oil rig in your cornfield? In fact, how will that whole ownership of real estate fare, and how will that be respected? I can't visualize it yet.

Patrick *03/05/2014 9:43am*
An accurate assessment which identifies why money is used; outstanding.

When money is seen to be coupons where value decreases quickly and steadily, will there be new money, barter or no trade at all?

Then money will be understood for what it is, a game chip, its value no greater or lesser than faith in the game's players and rule makers.

Will there be new rule makers? Will we collectively understand differently why, how and who we appoint to run the game?

ajh *03/05/2014 2:27pm*
a vegetarian (no chickens) may not need a heart transplant.
or maybe better tech and health will redundancise it.
milk is disgusting but one needs an operation, would the anti lactose surgeon refuse it?.
why the need for so much land when less may suffice.