GREAT PUZZLE

Have people and resources but can’t get them used.

New Opportunities?

Institutional Alternatives:

1. Command and threat
   Warlord
2. Status
   Chief, priest
3. Market hire
   Entrepreneur with $
   How get $?

● Physical System
  Labor, Resources, Capital Goods

● Symbolic System
  Property Rights
  $ Financial Capital

Banking as Property Rights
Unused resources are IUG

● Factor Ownership:
● Who is entrepreneur?
   1. Stick-- State owned firms.
   2. Totem (status)
   3. Dollars-- Mkt. via bank loan.
      – Loan to private party.
      – Loan to govt.
      – Zero-interest public debt.

● All structures select who is entrepreneur.
● Full Employment
  Savings is only way to get investment.
Not Full Employment
  Savings is unnecessary.
Create new symbols so people can organize unused resources.

◆ Money - Symbol for what is and what can be.
◆ Money Creation - Make a loan by writing numbers (an electrical charge) after people’s name. All money is debt.
◆ Banker - Creator of a property right for a fee. Seller of the right to hire unused resources. Creates new symbols so people can organize unused resources.
◆ Central Bank - Creates the right of banks to create money. Regulates money supply. Gives banks standards for what constitutes a good portfolio of loans (including what is good collateral). Creates rights as much as any legislature or court.

How Banks Create Money

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100 Cash</td>
<td>Charles deposits $100</td>
</tr>
<tr>
<td>100 Reserves</td>
<td>Celia 80</td>
</tr>
<tr>
<td>80 Loan</td>
<td>Total $180</td>
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By writing numbers after people’s names.
No printing press or gold needed.

Unemployment = $400 of potential goods
 Alternatives
1. Tax
   Charles consumes less, so Celia can consume more.
   Same GNP. Lose $400 potential.
2. Govt. creates new money. Fed Res. Bank
   Private Bank Reserves
   Private Bank Loans
   Fed. Bank Loan (No interest)
   Create new money
   Loans to inds. 300
   & govt. 100
   “IOM” 100 Govt.
   Taxpayers pay interest to Banks for new money.
   Zero Interest Public Debt.

Period 29, New Institutions-Money
1. An Economy does not have to save to increase output if resources are unemployed.

2. An Economy does not have to tax Charles to put Celia to work.

3. Money is a right to command resources.

4. Money is an electrical charge on a computer (a number beside someone’s name). Cheap to make.

5. If Congress can give private banks the right to create money, it can surely give the Federal Reserve Bank the right to create money for the government.

6. Paying the banks to create money so that the government can make the unemployed productive is the largest welfare program we have.

The problem with the government deficit is not that we are living beyond our means.

The problem is that we have chosen an expensive way to energize wasted resources—to live up to our means, i.e., capacity.

Without interest, the budget would be balanced.

One last SSP Chart!

**Good = Unused resources, e.g. labor. IUG**

- Factor ownership:
  - 1. Stick (command)
  - 2. Status (totem)
  - 3. Dollars (market via bank loan).
    - a. Loan to private party
    - b. Loan to government
    - c. Zero-interest govt. debt.
- All structures select who gets to be the “entrepreneur.” Banks create rights in unrealized potential.
  - a. Limited in recession
  - b. Interest liability
  - c. No redistribution via paying interest.