

National Emergency Employment Defense [NEED] Act - Introduction

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Researcher

3 things to know about the **NEED Act**

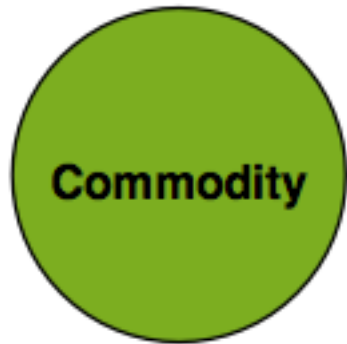
- **It's "conservative"**
 - **minimal change, non-disruptive**
- **It's not new and untried**
 - **each part already in use, or been tried**
- **It's ready to go**
 - **procedures, technology already in place**

How and Why the NEED Act Works

Simple Answer:

**Because it uses Money for Money,
not Debt for Money**

Money?



Money?



Money!



Ethos of the NEED Act

- **Minimum change**
- **Non-disruptive**
- **Seamless changeover**

Themes of the NEED Act

- **Constitutional**
- **Sustainable**
- **Balanced**

NEED Act in context

- **Overall authorizing and enabling legislation**
(followed by complementary, specific legislation)

NEED Act in context

- **NEED Act based on history and experience**
(inductive scientific methodology)

NEED Act in context

- **Formally establishes minimum necessary structural reforms of the monetary system**
(in a simple, minimal, non-disruptive way)
- **Each part is already in use, or has been tried before, at least to a limited extent**
(not new, just needs to be fully put together)
- **The principles, procedures, technology and infrastructure to do it are already in place**
(once ready, can start using it in a nano-second)

3 basic elements of the NEED Act

- **Fed put in Treasury, new Monetary Authority**
 - monetary policy truly accountable
- **Stop banks creating money**
 - simple, non-disruptive accounting change
- **Add money for the general welfare**
 - upgrade our infrastructure (= good jobs)
 - free education for all, pre-K → post-secondary
 - free health care for all, Congress

1st basic element of the NEED Act

- **Fed put in Treasury, new Monetary Authority**
 - monetary policy truly accountable

1st basic element of the NEED Act

- **Fed put in Treasury, new Monetary Authority**
 - monetary policy truly accountable

U.S. Mint and BEP already within Treasury

Fed Board already (ultimately) subject to Treasury

1st basic element of the NEED Act

Fed Board already (ultimately) subject to Treasury

“12 USC Chapter 3 - FEDERAL RESERVE SYSTEM
Powers of Secretary of the Treasury as affected by chapter
Nothing in this chapter contained shall be construed as
taking away any powers heretofore vested by law in the
Secretary of the Treasury which relate to the
supervision, management, and control of the Treasury
Department and bureaus under such department, and
wherever any power vested by this chapter in the Board
of Governors of the Federal Reserve System or the
Federal reserve agent appears to conflict with the
powers of the Secretary of the Treasury, such powers
shall be exercised subject to the supervision and control
of the Secretary.”

[United States Code, Title 12, Chapter 3, Subchapter II, Section 246]

1st basic element of the NEED Act

- **Fed put in Treasury, new Monetary Authority**
 - monetary policy truly accountable

Fed banks put in Treasury, as Bureau of the Fed
(like U.S. Mint and BEP)

Fed Board replaced by Monetary Authority

What the Constitution says

**“[The Congress shall have Power...]
To coin Money, regulate the Value thereof, and
of foreign Coin, and fix the Standard
of Weights and Measures;”**

(Article I; Section 8; Clause 5)

Note: coin means to create or originate.

What the Treasury says

“Seigniorage arises from the Federal Government exercising its sovereign power to create money.”

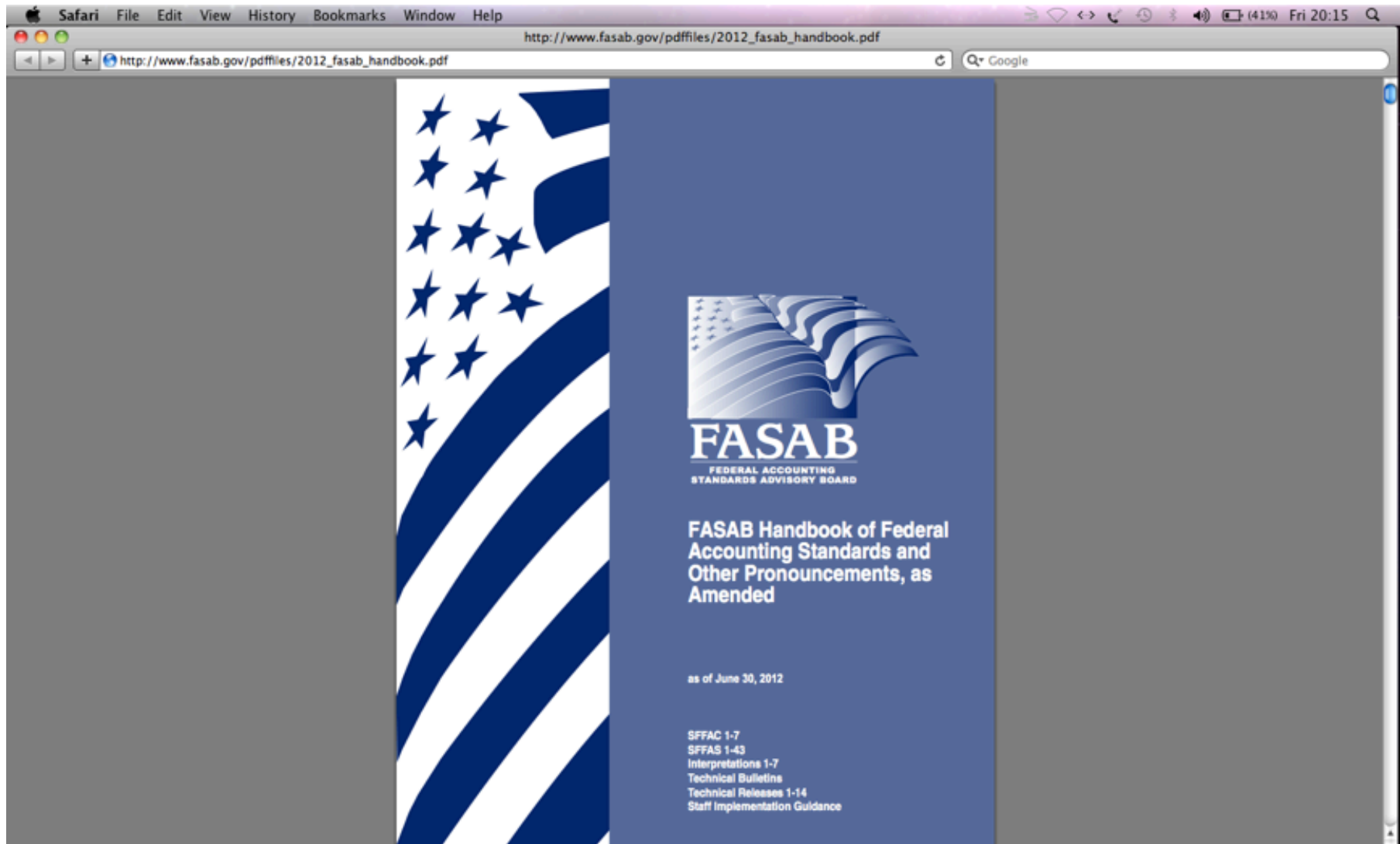
(US Mint: 2010 Annual Report)

What the Treasury says

“Seigniorage adds to the government’s cash balance, but unlike the payment of taxes or other receipts, it does not involve a transfer of financial assets from the public. Instead, it arises from the exercise of the government’s sovereign power to create money.”

(US Mint: 2011 Annual Report)

What the Federal Accounting Standards Advisory Board says



What the Federal Accounting Standards Advisory Board says

Other financing sources from the public

305. Seigniorage.—Seigniorage is the face value of newly minted coins less the cost of production (which includes the cost of the metal, manufacturing, and transportation). It results from the sovereign power of the Government to directly create money and, although not an inflow of resources from the public, does increase the Government's net position in the same manner as an inflow of resources. Because it is not demanded, earned, or donated, it is an other financing source rather than revenue. It should be recognized as an other financing source when coins are delivered to the Federal Reserve Banks in return for deposits.

What the Federal Accounting Standards Advisory Board says

“Seigniorage... results from the sovereign power of the Government to directly create money and, although not an inflow of resources from the public, does increase the Government’s **net position in the same manner as an inflow of resources.”**

(Federal Accounting Standards Advisory Board, June 30, 2012: Statement of Federal Financial Accounting Standards 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, page 89)

(i.e., money created as equity, not debt)

What looks like on a balance sheet

“Debit”	“Credit”
Assets	Liabilities
	Equity

What looks like on a balance sheet

“Debit”	“Credit”
Δ Assets (Cash)	Liabilities
Assets	Δ Equity (Net Position)
	Equity

What it means on a balance sheet

“Money is therefore properly treated as government equity rather than government debt, which is exactly how treasury coin is currently treated under U.S. accounting conventions.”

Kumhof and Benes (2012), p. 6

“government-issued money, which represents equity in the commonwealth rather than debt, the central liquid asset of the economy”

Kumhof and Benes (2012), p. 6

What it means for the economy

“The nominal growth rate of money π_m is set equal to the real growth rate of output x , which ensures zero inflation in steady state.”

Kumhof and Benes (2012), p. 48

3 key words to understand NEED Act

- **Equity**
- **Bailment**
- **Fiduciary**

3 key words to understand NEED Act

- **Equity**

equity - the **residual** of assets after all liabilities are deducted from all assets, and **represents** the remaining **right** to the remaining assets; **assets – liabilities = equity**, e.g., the **legal** monetary value of money, less the **actual** monetary cost to produce the money, equals **seigniorage**; **equals equity**; **equity represents** the **residual value** that **remains** (e.g., on a balance sheet)

Note: for electronic (digital) money, cost is ≈ 0 ; seigniorage $\approx 100\%$ of legal value

3 key words to understand NEED Act

- **Equity**

Note: "equity" has complementary meanings in law and sociology:

a) in law, "equity" means a set of legal principles allowing for the application of **justice** in accordance with natural law, determined by reference to **moral** principles, and, in **common** with virtue **ethics**, provides for the application of first principles **ethics** in analytic philosophy (Aristotle again);

b) in sociology, "equity" means a sense of **justice** (fairness) in relationships between people and satisfaction in the treatment of people and the **balance** between their respective qualities of **contributions** (inputs) and **consequences** (outcomes);

A's quality of outcomes / quality of inputs = B's quality of outcomes / quality of inputs

(i.e., the relative values of each should balance on a balance sheet)

3 key words to understand NEED Act

- **Bailment**

bailment - a legal relationship where *possession* of personal (movable) **property** is **transferred** from one person (the “bailor”) to another person (the “bailee”) for **safekeeping** but *ownership* of the property remains with the “bailor” and the “bailee” is (generally) not **entitled** to the *use* of the property while it is in their possession, e.g., in the warehousing and/or carriage of goods (personal property)

Note: H.R. 2990 makes all money the property (asset) of the holder (owner)

3 key words to understand NEED Act

- **Fiduciary**

fiduciary - a legal/ethical relationship of trust between two or more parties, e.g., typically, for one party (the “fiduciary”) to prudently **take care of money for another person**, and to act in a fiduciary capacity to the person who has **entrusted** the funds **for safekeeping or investment**, and be **legally obligated** (under trust law) **to act for** the good of the person (or their beneficiaries)

3 key words to understand NEED Act

- **Equity**

what remains after liabilities deducted from assets

- **Bailment**

entrusting your property for safekeeping by another

- **Fiduciary**

entrusting someone to act for your good and benefit

With H.R. 2990, money is equity, owned by holders and entrusted to banks as a bailment, with banks acting in a fiduciary capacity for their customers

Key features of the NEED Act

Preliminary and General

Definitions (Sec. 3):

Money = legal expression of sovereign power that confers upon its bearer an unconditional means of payment (Sec. 3/Sec. 101)

Deposit = same as defined in FDIC + NCUA law

State = 50 States + D.C. + Puerto Rico + all U.S. territories

Coordination with other law (Sec. 4):

- replaces any law inconsistent with it, phased-in sensibly

Key features of the NEED Act

Title I

- Federal Government only authority to create U.S. Money
- Unlawful for any person to create U.S. Money
- Fed notes replaced with U.S. Money
- **Subject to limits**, Treasury originates U.S. Money instead of borrowing, no borrowing (unless authorized by Congress)
- U.S. Government debt retired, as it comes due
- Accountability; published reports, GAO audits

Key features of the NEED Act

Title II

- U.S. Money entered into circulation by Treasury via:
 1. funding expenditures appropriated by Congress
 2. retiring U.S. Government debt, as it comes due
 3. funding via the Revolving Fund (temporary lending)
 4. financing transition activities (e.g., settling net claims)
 5. lending in an emergency (drawn from Revolving Fund)
 6. purchasing Fed bank stock (banks made whole)
 7. any other means, for any purpose authorized by Congress

Key features of the NEED Act

Title III

- Fed acquired by Treasury, banks' reserves = banks' money
 - **no reserves, all money**
 - banks hold their money at Fed or with other banks (as now)
- Monetary Authority established to conduct monetary policy
 - autonomous and independent from Treasury
 - governing principle: neither inflation nor deflation

Key features of the NEED Act

Title III

- Monetary Authority - governing principle:

3 (5) GOVERNING PRINCIPLE OF MONETARY POL-
4 ICY.—The Monetary Authority shall pursue a mone-
5 tary policy based on the governing principle that the
6 supply of money in circulation should not become in-
7 flationary nor deflationary in and of itself, but will
8 be sufficient to allow goods and services to move
9 freely in trade in a balanced manner. The Monetary
10 Authority shall maintain long run growth of the
11 monetary and credit aggregates commensurate with
12 the economy's long run potential to increase produc-
13 tion, so as to promote effectively the goals of max-
14 imum employment, stable prices, and moderate long-
15 term interest rates.

Key features of the NEED Act

Title III cont.

- Bureau of the Fed established to execute monetary policy
 - Fed Board dissolved, staff transfer to Monetary Authority
- Treasury forecasts disbursement requirements
- 80% of Revolving Fund available for national emergency

2nd basic element of the NEED Act

- **Stop banks creating money**
 - simple, non-disruptive accounting change
 - banks can still make loans
 - banks make loans same as finance companies

Key features of the NEED Act

Title IV

- Fed notes converted into U.S. Money, in any form
- Accounts covered by U.S. insurance treated as U.S. Money
 - held in trust (custody) in transaction accounts (“bailment”)

The conversion process

Bank balance sheet rearrangement:

Before:

Bank Balance Sheet	
“Debit”	“Credit”
Loan Assets (incl. mortgages, securities, etc.)	Deposit Liabilities (incl. savings and time deposits)
Other Assets (incl. “cash”)	Other Liabilities (incl. borrowings)
Fixed Assets	Equity
Memo Items:	
Custodial assets (incl. safe boxes)	
Other off-balance sheet items	

The conversion process

Bank balance sheet rearrangement:

During:

Bank Balance Sheet	
“Debit”	“Credit”
Loan Assets (incl. mortgages, securities, etc.)	
Other Assets (incl. “cash”) Fixed Assets	Other Liabilities (incl. borrowings) Equity
<u>Memo Items:</u> Custodial assets (incl. safe boxes) Other off-balance sheet items	



Deposit Liabilities
(incl. savings and
time deposits)



The conversion process

Bank balance sheet rearrangement:

During:

Bank Balance Sheet	
“Debit”	“Credit”
Loan Assets (incl. mortgages, securities, etc.)	
Other Assets (incl. “cash”) Fixed Assets	Other Liabilities (incl. borrowings) Equity
Memo Items:	
Custodial assets (incl. safe boxes) Other items	



Deposits (incl. savings and time deposits)

The conversion process

Bank balance sheet rearrangement:

During:

Bank Balance Sheet	
“Debit”	“Credit”
Loan Assets (incl. mortgages, securities, etc.)	Pass principal payments to U.S. as received
Other Assets (incl. “cash”) Fixed Assets	Other Liabilities (incl. borrowings) Equity
Memo Items:	
Deposits Other custodial assets (safe boxes) Other items	

Key features of the NEED Act

Title IV cont.

- Depository institutions are transaction customers' **fiduciaries**



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Schedule RC-T - Fiduciary and Related Services

Dollar amounts in thousands

1. Managed assets held in fiduciary accounts:

- a. Noninterest-bearing deposits.....
- b. Interest-bearing deposits.....
- c. U.S. Treasury and U.S. Government agency obligations.....
- d. State, county, and municipal obligations.....
- e. Money market mutual funds.....
- f. Equity mutual funds.....
- g. Other mutual funds.....
- h. Common trust funds and collective investment funds.....
- i. Other short-term obligations.....
- j. Other notes and bonds.....

(Column A) Personal Trust and Agency and Investment Management Agency Accounts	(Column B) Employee Benefit and Retirement-Related Trust and Agency Accounts	(Column C) All Other Accounts
RCONJ263	RCONJ264	RCONJ265
NR	NR	NR
RCONJ266	RCONJ267	RCONJ268
NR	NR	NR
RCONJ269	RCONJ270	RCONJ271
NR	NR	NR
RCONJ272	RCONJ273	RCONJ274
NR	NR	NR
RCONJ275	RCONJ276	RCONJ277
NR	NR	NR
RCONJ278	RCONJ279	RCONJ280
NR	NR	NR
RCONJ281	RCONJ282	RCONJ283
NR	NR	NR
RCONJ284	RCONJ285	RCONJ286
NR	NR	NR
RCONJ287	RCONJ288	RCONJ289
NR	NR	NR
RCONJ290	RCONJ291	RCONJ292
NR	NR	NR

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**Federal Deposit
Insurance Corporation**

Each depositor insured to at least \$250,000 per insured bank



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Trust Institutions Information

**Table 1.
Trust Services, All FDIC-Insured Institutions and Federally Chartered Trust Companies**

	All Insured Institutions & Trust Companies						
	Dec 31 2005	Dec 31 2004	Dec 31 2003	Dec 31 2002	% Change 2004 - 05	% Change 2003 - 04	% Change 2002 - 03
<i>(dollar figures in millions)</i>							
Number of institutions reporting	8,832	8,976	9,181	9,354	-1.6%	-2.2%	-1.8%
Number of institutions with fiduciary powers	2,600	2,661	2,723	2,785	-2.3%	-2.3%	-2.2%
Number of institutions exercising fiduciary powers	1,950	1,981	2,039	2,109	-1.6%	-2.8%	-3.3%
Number of institutions reporting fiduciary activity	1,873	1,903	1,962	2,009	-1.6%	-3.0%	-2.3%
Fiduciary and related assets -- managed assets							
Personal trust and agency accounts:	799,854	805,500	795,779	709,983	-0.7%	1.2%	12.1%
Noninterest-bearing deposits	498	662	321	-141	-24.8%	106.2%	-328.4%
Interest-bearing deposits	8,529	8,000	16,445	8,998	6.6%	-51.4%	82.8%
U.S. Treasury and U.S. Government agency obligations	39,100	38,783	39,652	42,035	0.8%	-2.2%	-5.7%
State, county and municipal obligations	78,059	82,748	84,597	88,125	-5.7%	-2.2%	-4.0%
Money market mutual funds	35,796	35,595	38,266	43,864	0.6%	-7.0%	-12.8%
Other short-term obligations	9,617	7,963	9,152	9,253	20.8%	-13.0%	-1.1%
Other notes and bonds	30,405	34,644	36,969	32,680	-12.2%	-6.3%	13.1%
Common and preferred stocks	527,259	531,775	509,294	434,668	-0.8%	4.4%	17.2%
Real estate mortgages	1,580	1,630	1,523	1,840	-3.1%	7.1%	-17.2%
Real estate	31,132	28,113	27,495	26,167	10.7%	2.2%	5.1%
Miscellaneous assets	37,676	35,588	32,066	22,381	5.9%	11.0%	43.3%
Retirement related trust and agency accounts:							
Employee benefit -- defined contribution	382,437	341,900	321,344	326,022	11.9%	6.4%	-1.4%
Employee benefit -- defined benefit	1,506,632	1,487,869	1,353,510	1,015,362	1.3%	9.9%	33.3%
Other retirement accounts	358,755	357,935	303,750	141,501	0.2%	17.8%	114.7%

Safekeeping

In addition to items held as collateral for loans, banks occasionally hold customers' valuables for short periods of time. Although the bank's commercial department may administer safekeeping services, most banks choose to offer these services through a separate trust department. Regardless of the way in which such customer services are offered, management should establish a specific fee schedule for safekeeping services. In exchange for payment of the fee, customers receive assurance that their assets will be protected. Customers may also use safekeeping services to hold assets under escrow.

Controls over items placed in safekeeping generally should be the same as those for handling collateral. Two employees should work together to inventory items the bank will store. They should then keep the items under dual control in the bank's vault. They should also prepare safekeeping receipts with a full description of the items accepted. The bank should never accept sealed packages with contents unknown for safekeeping.

If the items held for safekeeping are U.S. government securities, 17 CFR 450 requires special handling, record keeping, and auditing procedures.

Custody Accounts

Banks may act as custodians for customers' investments, such as stocks, bonds, or precious metals such as gold or silver. This involves merely holding the investments and recording sales and purchases, and collecting dividend and interest payments. A bank offering custody accounts should use signed agreements that clearly define the functions it will perform, in order to limit its potential liability. If the bank offers any additional service, such as managing the customer's assets or providing investment advice, it has established a fiduciary relationship, which requires the bank to have the authority to engage in fiduciary activities.

All national banks that hold or safekeep U.S. government securities for customers must comply with 17 CFR 450. These regulations apply when a national bank holds the customers' securities directly or maintains the customers' securities through another institution.

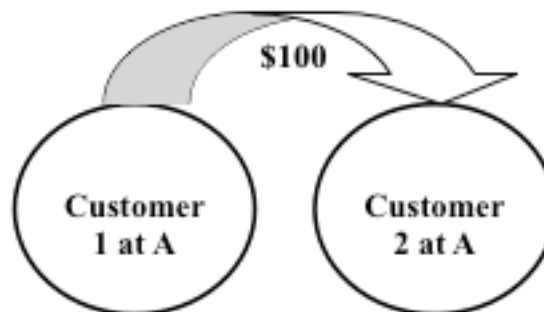
The Treasury Department has determined that the rules and standards of the OCC that otherwise apply to government securities held in a fiduciary capacity are adequate to meet the requirements of 17 CFR 450. Thus, a national bank will be exempt from 17 CFR 450 requirements provided two conditions are met. First, the bank must adopt policies and procedures that subject its custodial holdings to all the requirements of 12 CFR 9. Second, the bank's custodial holdings must be subject to examination by the OCC for compliance with these fiduciary requirements. (See 17 CFR 450.3(a).) For more information on the requirements relating to the custodial holding of government securities, see the section on bank dealer and brokerage activities in the *Comptroller's Handbook*.

Post-conversion

Payments activity continues (completely safe):

Transaction between two bank customers at the same bank:

Bank A Balance Sheet	
“Debit”	“Credit”
Assets:	Liabilities:
	Equity:
<u>Memo Item:</u>	
Customer 1	– \$100
Customer 2	+ \$100



Post-conversion

Payments activity continues (completely safe):

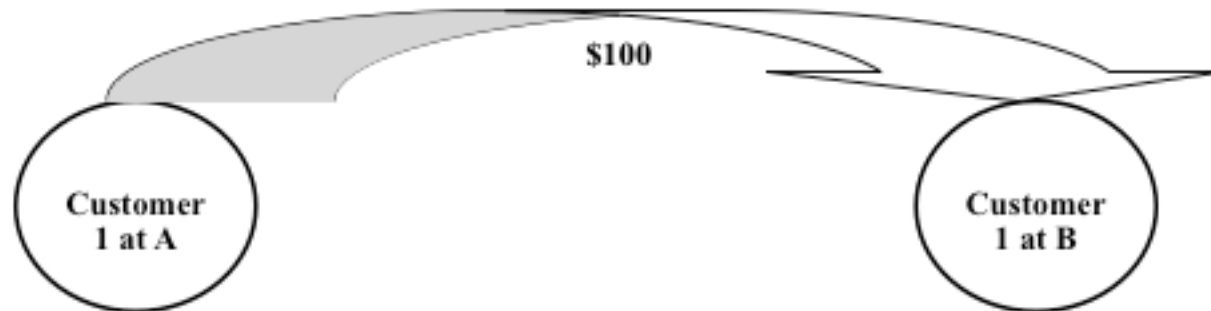
Transaction between two bank customers at two different banks:

Bank A Balance Sheet	
“Debit”	“Credit”
Assets:	Liabilities:
	Equity:
<u>Memo Item:</u>	
Customer 1	- \$100

Bank A

Bank B Balance Sheet	
“Debit”	“Credit”
Assets:	Liabilities:
	Equity:
<u>Memo Item:</u>	
Customer 1	+ \$100

Bank B



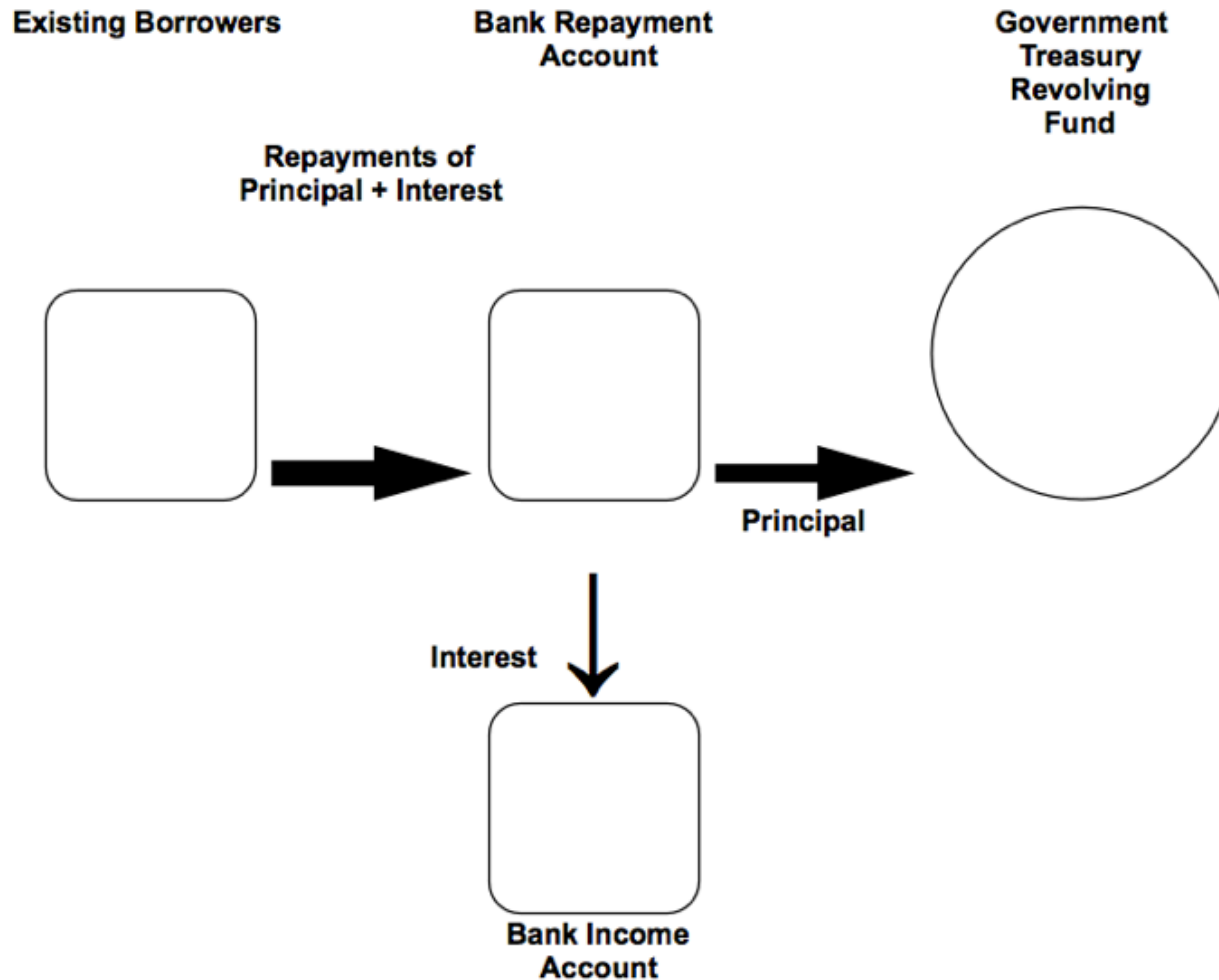
Key features of the NEED Act

Title IV cont.

- Deposit amounts previously “owed” to depositors become owed to U.S. Government
 - as outstanding bank loans are paid off by borrowers:
 - principal paid over to U.S. Government (→Revolving Fund)
 - banks keep interest as income (same as now)

Transition process

Repayments pass through banks to Government:

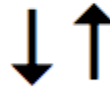
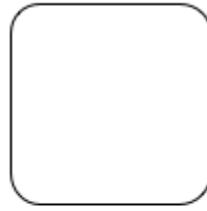


Key features of the NEED Act

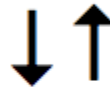
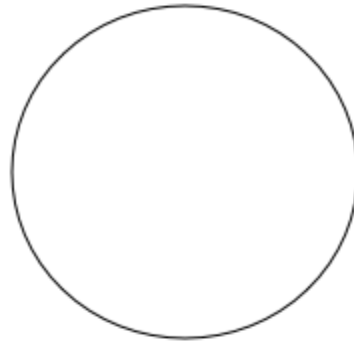
Title IV cont.

- Depository institutions may keep money at Fed (as now)
- Depository institutions act as true lending **intermediaries**:
 - only on-lending money received for that purpose
 - cannot create new money

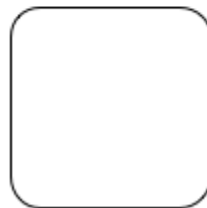
Savers and Investors



Banks' Savings and Investment Funds



Borrowers

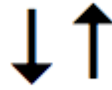
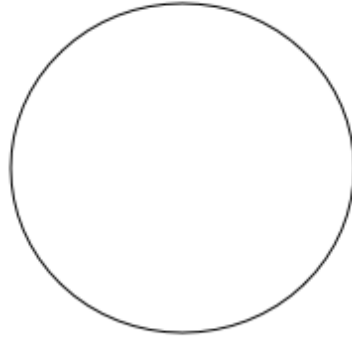


Key features of the NEED Act

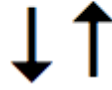
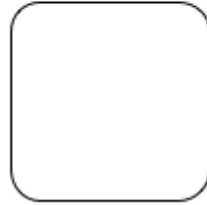
Title IV cont.

- Revolving Fund, receives and lends out money
 - “seeded” with initial appropriation by Congress
 - administered by Bureau of the Fed (like SOMA now)
- Depository institutions may borrow from Revolving Fund

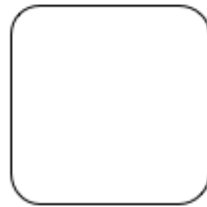
Revolving Fund



Banks



Borrowers



Post-conversion

Bank balance sheet rearrangement:

After:

Bank A Balance Sheet	
“Debit”	“Credit”
Loan Assets (incl. mortgages, securities, etc.)	Pass principal payments to U.S. as received
New loans, mortgages, securities, etc.	New savings and time deposit investments
Other Assets (incl. “cash”)	Other Liabilities (incl. borrowings)
Fixed Assets	Equity
Memo Items:	
Deposits	
Other custodial assets (safe boxes)	
Other items	

Post-conversion

Sources of funds for investment:

1. **Maturing pre-existing savings and investments**
2. **Redeemed Treasury securities**
3. **Banks' own funds (previous reserves)**
4. **Revolving Fund (administered by Fed)**
5. **Additional temporary seigniorage origination**
 - **To achieve governing principle of Monetary Authority**
 - **Replaced with public purpose investment as needed**

3rd basic element of the NEED Act

- **Add money for the general welfare**

(e.g., improve infrastructure = good jobs)

Rebuild our infrastructure fit for the 21st Century

Fully fund education and R & D

Promote balanced trade

Revive domestic manufacturing

Energy independence and sustainability

Reinvigorate State and local communities

Key features of the NEED Act

Title V

- Direct funding for infrastructure, per capita basis
- Direct funding for education, pre-K through post-secondary
- Grants to States, 25% of annual seigniorage
- Interest-free lending to local government, per capita basis
- Initial dividend to citizens, effects studied
 - immediately reduces inequality and poverty
 - improves workers' bargaining position
- Social Security assured, any shortfalls funded

Key features of the NEED Act

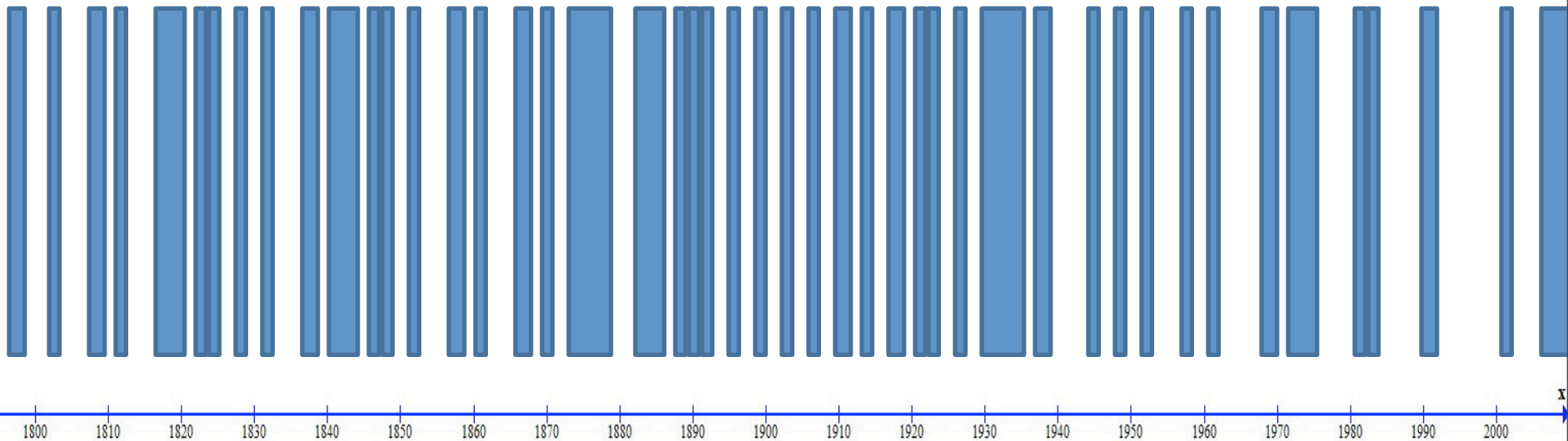
Title V cont.

- Subject to Congress, funding for universal health care
- Subject to Congress, funding to resolve mortgage crisis
- Study to enhance roles of FDIC
- Interest rate ceilings
 - total interest max. 100% of principal, except on mortgages
 - interest rate max. 8% p.a., including all fees

Key features of the NEED Act - Summary

- **Puts money system in the hands of the people**
- **Makes monetary policy truly accountable**
- **Conserves existing money supply**
- **Safeguards payments system**
 - no more Too-Big-To-Fail/Jail
- **Adds new money for public purpose**
 - no inflation/deflation
 - no more boom-bust
 - no more recessions/depressions

47 RECESSIONS 1791-2010



Recessions indicated by shaded bars

What the NEED Act does

- ***End unemployment crisis***

millions of good jobs

- ***End debt crisis***

pay off national debt, as it comes due

- ***End fiscal crisis***

Federal, State and local

- ***End the financial crisis***

stabilize economy demand and banks

- ***U.S. dollar a stable currency***

maintain purchasing power over time

People-Friendly Cities



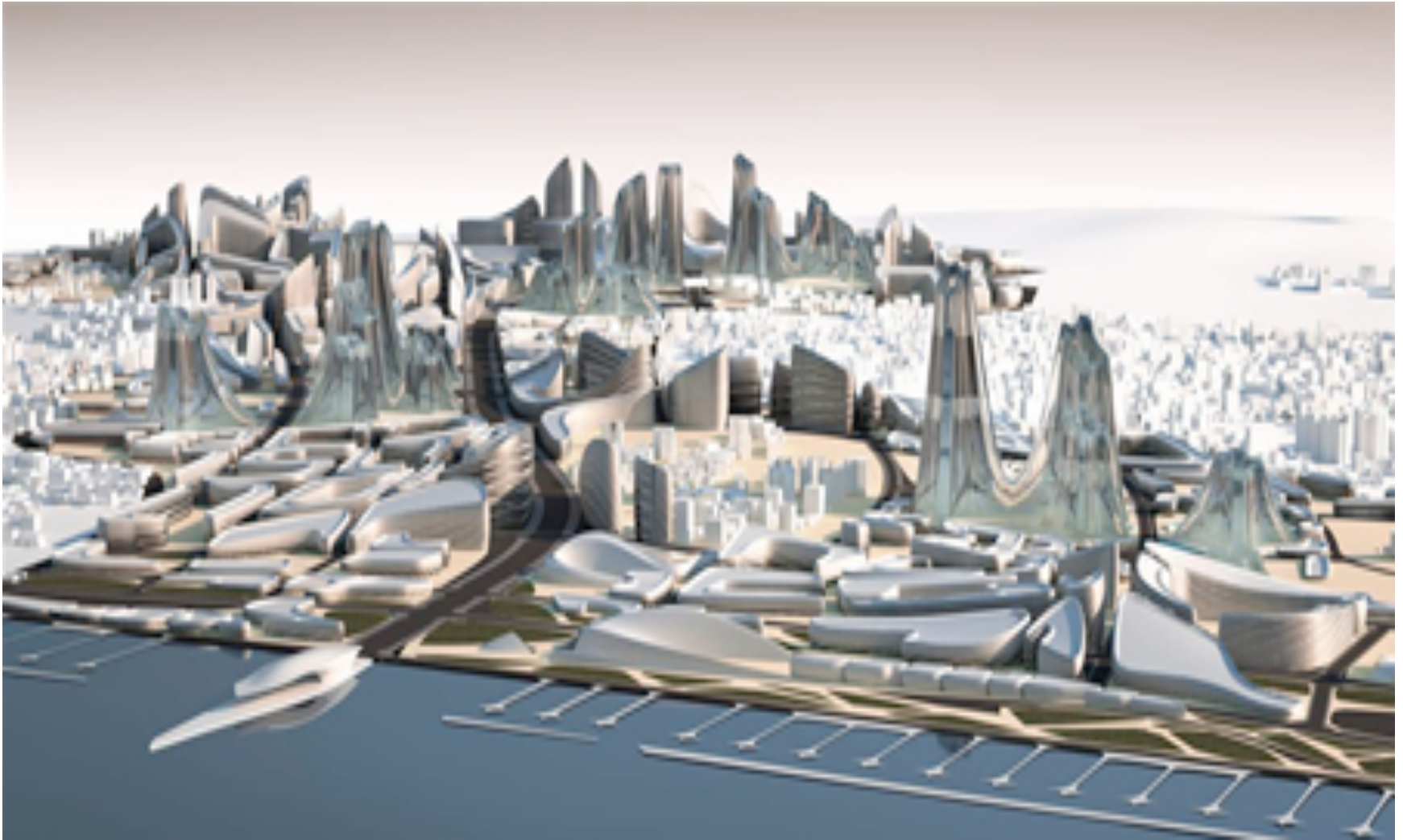
Greenhouse Buildings



Vegetecture



Urban Regeneration



Organic Cities

