POST #1 by Sue and REPLY by Joe Firestone

Issue 34

Message: 11
Date: Tue, 10 Jul 2018 12:34:46 -0400
From: "Sue" <peters.s@startmail.com>
To: natlcomvotes@green.gpus.org, "Sue Peters" <peters.s@startmail.com>
Subject: [usgp-nc] Discussion Has Begun on GP-US Proposal: ID 918
??????? - 2018 Platform Amendment - Fair Taxation
Message-ID: <9b06f381f7a6146a8ad67c4083fe7d4f.startmail@startmail.com>
Content-Type: text/plain; charset="utf-8"; format="flowed"

Dear Jared,

I would like to respond to your questions.

First, I support voting NO to the NB proposal #918 to change FAIR TAXATION.

Second, I support the current platform on money reform for many reasons. The current platform represents public control of debt-free money issuance. It represents the removal of the bank-run system (called Fractional Reserve Banking). As long as the private banks have the legal power to create what we all use as money, our government will be under the banks’ influence.

Third, this morning I was thinking about your questions (taxes vanish or are destroyed when they are received? all money spent by Congress is created as it is spent?), and I had a moment of clarity about the MMT descriptions.

My thoughts:

MMT is attempting to describe, in layman’s terms, the bookkeeping of the Treasury’s account at the central bank (NY Federal Reserve Bank). I believe, however, that MMT does not understand this bookkeeping, and that is why MMT says taxes disappear and money is created when spent. These statements, of course, don’t make sense.

To understand this bookkeeping you could listen to Professor Joseph Huber, who is extremely knowledgeable about how the current bank system operates. <https://www.youtube.com/watch?v=AsN3ZTZA7yY&t=1703s>. However, I will try to simplify Professor Huber. This might be difficult since the system was designed by central bankers in 1910 and meant to confuse the public. And they have succeeded!  But, believe me, the bankers at the top know how to manipulate this system to put all of us into debt!

Here I go.

First, the Treasury’s account at the NY Fed can ONLY contain reserves. Think of ‘reserves’ as central bank money. Only central bank money is found in accounts at the 12 Federal Reserve banks.

Second, the money you and I use is called bankmoney, and can NEVER be found in the accounts of the central bank. Our bankmoney can only be found in accounts in banks – checking, saving, etc.

Are you still with me?

Given this separation of the two kinds of money, how can I pay my taxes in April with a check from my bank to the IRS which DEPOSITS it into the Treasury account? Given this separation of the two kinds of money, how can the IRS WITHDRAW money from the Treasury account and pay me my tax refund by doing a direct deposit into my bank? Simply. It goes on all the time between the banks and the central bank.

Rule #1. When the IRS DEPOSITS my tax payment check into the Treasury account, my bank MUST SEND its own reserves, in the exact amount of my check, to the Treasury account. Of course, my bank reduces my checking account balance by the exact amount of my check! Darn.

Rule #2. When the IRS withdraws my tax refund from the Treasury account and deposits it into my bank account, my bank MUST RECEIVE reserves, in the exact amount of the refund check, from the Treasury account. Of course, my bank must increase my checking account balance by the exact amount of my check! Yay.

So there is nothing vanishing, when I pay my taxes. There is nothing created, when I receive my tax refund. My bankmoney is represented by reserves being moved between my bank and the Treasury account at the central bank.

Rule #3. The central bank is the only institution that can create central bank money (reserves). And BY LAW, the central bank is prohibited from creating reserves and putting these reserves into the Treasury’s account. The bankers put that into the law, because they always want the Treasury to BORROW money from them.

 MMT just does not understand the bookkeeping between the banks and the central bank. I hope this is not too confusing, but the top bankers want it to be.

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Issue 27

Message: 3
Date: Tue, 10 Jul 2018 23:28:51 -0400 (EDT)
From: Joe Firestone <eisai@comcast.net>
To: National Committee Votes and GP-US Work
<natlcomvotes@green.gpus.org>
Subject: Re: [usgp-nc] Discussion Has Begun on GP-US Proposal: ID 918
??????? - 2018 Platform Amendment - Fair Taxation
Message-ID: <1439606398.610946.1531279732136@connect.xfinity.com>
Content-Type: text/plain; charset=UTF-8

Delegate Peters,

You may be surprised about how closely MMT economists agree with you about what happens when taxes are paid by you, and what happens when the Treasury sends you a refund.

Where they and you disagree is about the interpretation of the facts you're expressing. Let's look at your rule #1:

Rule #1. When the IRS DEPOSITS my tax payment check into the Treasury
account, my bank MUST SEND its own reserves, in the exact amount of my
check, to the Treasury account. Of course, my bank reduces my checking
account balance by the exact amount of my check! Darn.

From the MMT point of view, when the IRS deposits your check into its account the check must be cleared and the transaction settled before the Treasury spending account is credited. The settlement requires the Fed to mark down the amount of the central bank reserves in M1, as well as the member bank-issued reserves (the account balance) in your private account. When the Fed marks down the central banks reserves it is destroying reserves in the private sector account of your bank at the Fed. Those reserves were part of M1, but when the mark down occurs they are no more. So they can't be transferred or sent or received into the Treasury spending account.

Professor Kelton is arguing that to credit the Treasury spending account, the Fed must then create entirely new high-powered reserves, which as you say, only the central bank can create, using the authority it has received from the Congress. So, the argument proceeds. How can the tax money "fund" the Treasury spending account when neither the private bank reserves in your account, nor the Central Bank reserves in your banks' account at the Fed, make it into the Treasury spending account?

The implication is that what actually "funds" the spending is first the Congressional appropriation providing for the spending and the Fed using its delegated authority to augment (mark-up) the Treasury spending account with  entirely new reserves.

Why is this important? Because the neoliberal austerity mongers insist that Federal spending requires either taxing or borrowing to implement and it is that "fact" they use to create all the doomsday projections they use to justify deficit reduction, entitlement  cutting and elimination scenarios, and their refusal even to consider the massive programs we need to implement to meet the climate crisis. It is that "fact" that underlies the whole deficit terrorism scenario in Washington that gets every one in the progressive caucus playing the deficit reduction game along with them.

So, to go further, the most important thing about the "taxes do not fund spending meme" is to turn one's attention to the question "What does fund spending?" As I've said, the answer is Congressional appropriations coupled with triggers requiring the Fed to use its delegated authority to create reserves in Treasury accounts. The tax and bond revenue collections are such triggers for the Fed.

But there are other triggers that are currently legal. I have a list of these in my kindle e-book here: [https://www.amazon.com/Fixing-without-Breaking-America-ebook/dp/B00BNWB5HQ/ref=sr\_1\_1?s=digital-text&ie=UTF8&qid=1362316113&sr=1-1&keywords=Joseph+M.+Firestone](https://www.amazon.com/Fixing-without-Breaking-America-ebook/dp/B00BNWB5HQ/ref%3Dsr_1_1?s=digital-text&ie=UTF8&qid=1362316113&sr=1-1&keywords=Joseph+M.+Firestone) which is primarily about potentially the most important one, deposits of high value 1 oz. platinum coins in the US Mint's Public Enterprise Fund (PEF) account.

Apart from these triggers however, a simple addition to all Federal money bills by Congress would institutionalize orders to the Fed to fill the Treasury account with appropriations upon passage of appropriations and other money bills. The method for doing this is briefly outlined in this short post: <http://www.josephmfirestone.com/2018/05/28/how-will-you-pay-for-it/> The method is called Overt Congressional Financing (OCF). I proposed it first in this longer post: <http://www.josephmfirestone.com/2018/01/02/the-national-debt-is-congresss-fault-revisited/>

Adoption of the method would make it transparent that Federal funding of Treasury spending is provided by Congressional Appropriations supplemented by Fed creation of reserves in response to triggers.

Best Regards,

Joseph M. Firestone, Ph.D.
Adviser, GPUS National Platform Committee