"The Public Banking Act " Should Allow for Individual Federal Reserve CBDC Bank Accounts (“FedAccounts”) To Transform Monetary Policy

Adjusting interest rates on Wall Street is ineffective in stimulating and too brutal in slowing the economy, but injecting stimulus money and adjusting interest rates on small individual consumer Federal Reserve bank accounts could impact consumer demand more effectively and more immediately. Note the author’s proposal for stopping inflation using “FedAccounts” at: https://www.youtube.com/watch?v=nnMT7DVyK0g

This follows from the *money flow paradigm* in the author's book "Optimal Money Flow" which is summarized on YouTube at: https://www.youtube.com/watch?v=-hqBD3ZEhIM

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Digital Currency Threat

Will Central Banks lose control of money?

Banks creating their own money caused bank panics that continued even after adopting a common currency (dollars).

Wide use of **private digital currencies** could cause excessive volatility, tax avoidance, and criminal activities.

Central Banks need to create their own digital currencies.

STOP INFLATION without causing a RECESSION

The **supply-side tool** of raising interest rates in New York financial markets causes layoffs as businesses cut back.

Don’t trash the economy to stop inflation.

A **demand-side tool** can be created to stop inflation more effectively and more efficiently.

Watch YouTube video: https://www.youtube.com/watch?v=nnMT7DVyK0g&t=1s

Control demand to avoid economic downturns

NYC financial markets already have more money than can be put to work.

Lowering interest rates further and supplying more money is just "pushing on a string."

A **demand-side tool** can be created to stimulate economy more directly using much less money.

Watch YouTube video: https://www.youtube.com/watch?v=eqp8JIob6Tk

Velocity of Money Falls

Milton Friedman M V = P Q inflation always a monetary phenomenon with V constant, and P constant only if M rises at same rate as Q rises.

But V falls as population ages.
And V falls as economic inequality increases.

To keep Q growing at full employment, M must rise faster than V is falling so P can be constant.

Adam Smith => Two Invisible Hands:

1. Economic competition (lower prices).
2. Economic concentration (higher prices).

USA economy has become less competitive with greater oligopoly and monopoly (as well as oligopsony and monopsony) power.

See Jonathan Tepper's book: "The Myth of Capitalism" about the dramatic drop in competition in the USA economy.

Pure Profits at Zero Marginal Cost

The explosion of information on the Internet has produced a commodity with essentially zero marginal cost. For example, with premium access you can gain access to extra information that already exists but only requires changing a zero to a one in computer code for you to access, which is done automatically when you make your payment for premium access.

Rifkin, Jeremy. *The Zero Marginal Cost Society*. New York: St. Martin’s Press, 1014.

Profits rise as labor, capital shares fall

Barkai (2020) calculated the capital costs for the U.S. non-financial corporate sector over the period 1984 to 2014 and found that while labor's share has dropped by 11 percent, the share of real capital has declined 22 percent with a corresponding increase in pure profits.

Barkai, Simcha. "Declining Labor and Capital Shares." *The Journal of Finance*, 75(5), pp. 2421-2463. 2020. https://doi.org/10.1111/jofi.12909

Distorted Money Flow

=> extreme wealth inequality leads to instability

Most of the money flows to the already wealthy who put it into the New York financial markets (stocks and bonds).

The money flow has become so distorted the middle class can no longer afford to buy back the value they create.

Individuals go deep into debt while the government runs large deficits to keep the economy from sliding into recession.

Disequilibrium Economics

Hyman Minsky explained that while most markets for well-defined goods and services move toward equilibrium, the economy as a whole and especially the financial markets are prone to swing between an upward irrational exuberance and a downward recessionary spiral.

Keynes' quote that in the long run we are all dead.

Darwinian Natural Selection Paradox

As countries reach about $6,000 per capita, birth rates drop like a rock, eventually falling below the 2.1 replacement rate.
Wealthy and well-educated countries and families have fewer and fewer children in recent decades.
Instead of success in education and wealth breeding bigger populations, human populations fall dramatically. As world population shrinks to zero, last one remember to “turn off the lights.”

Private and Public Debt

Decline of unions and Citizens United's one dollar = one vote cuts workers' real pay.

Middle-class unable to buy back the value of the goods and services they produce.

Low pay and low interest rates drive people on Main Street deep into debt as more and more money flows to Wall Street.

Government debt needed to fill in for the money flow going to Wall Street to maintain full employment.

financial vs. real economy

Money flow to wealthy goes mainly into stock and bond markets on Wall Street driving down interest rates and inflating stock prices.

Large amount of money not used for real investment (physical and intellectual) but goes into financial investments (dividends and stock buybacks).

Middle-class unable to buy back the value of the goods and services they produce.

Money Flow Paradigm

George Cooper in “Fixing Economics” identified key problem of too much money flowing to Wall Street and not enough money flowing to Main Street.

Government sets the rules and regulations, and provides the money for free enterprise system.

Government investment in common property resources is key to economic efficiency and growth.

See Mariana Mazzucato’s 3 books: The Enterpreneurial State, The Value of Everything, and Mission Economy.

The Age of Oversupply

Globalization and the collapse of communism.

Cheap labor makes large quantities of high quality products available at very low prices and leads to deflation in prices of goods and services when demand is inadequate relative to enormous global supply.

Read Daniel Alpert’s book: “The Age of Oversupply.”

Policy Driven Excess Supply

Chinese take resources and work hard to make products for USA in return for pieces of paper with George Washington’s picture on it.

To keep Chinese products inexpensive for USA and Chinese workers employed, China collects USA dollars and buys U.S. Treasury securities in New York financial markets instead of driving down value of dollar in foreign exchange markets.

Antithesis of Say's Law

population growth > food supply reversed!!!

Global supply exceeds demand
when too much money flows to Wall Street
and too little money left on Main Street.

Supply-side economics replaced
with demand-side economics.

"Supply creates its own demand" replaced
with "Demand creates it own supply."

Distorted Money Flow

=> extreme wealth inequality leads to instability

To understand how “Distorted Money Flow” can become “Optimal Money Flow” visit the following website:
https://optimal-money-flow.website/

For more information on the author
visit the author’s public website at:
https://sites.nd.edu/lawrence-c-marsh/home/