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Financial  
Architecture  
Fundamentals

# Public Purpose

- National security
- National legal system
  - Health care
  - Education
  - Public works

# Optimal Resource Utilization

- Full employment
- Sustainable resource consumption
- Environmental protection

# Fiscal Responsibility

- If the government doesn't spend enough to
- satisfy the need to pay taxes and to
  - net save
- the evidence is unemployment and excess capacity in general.

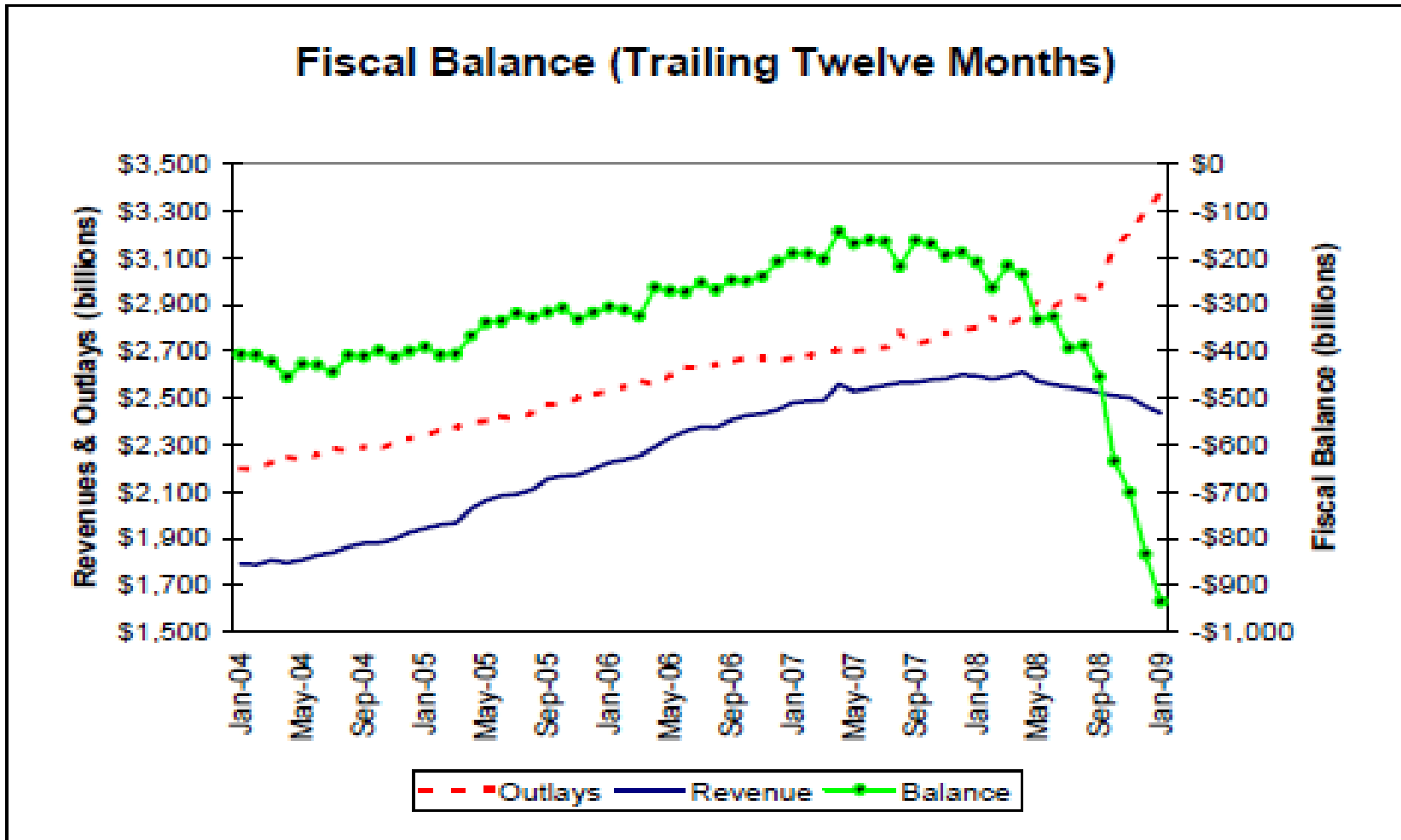
# Proposal for Immediately Restoring Aggregate Demand

- A full payroll tax holiday where the Treasury makes all the contributions for employees and employers.
- \$300 billion of PER CAPITA State revenue sharing.
- Federally funded \$8/hr job for anyone willing and able to work that includes health care benefits.

# Caveat!

- Restoring aggregate demand empowers OPEC to set ever higher crude oil prices
- unless US demand for motor fuel is at least cut in half.
- OPEC price hikes will again cause US real terms of trade and standard of living to deteriorate.

# Automatic Stabilizers to the Rescue



# Proposals for the Banking System

The liability side of banking is not the place for market discipline.

Therefore regulation is directed towards assets and capital.



# Proposals for the Banking System

- Banks only originate to hold.
- Banks prohibited from secondary markets.

# Proposals for the Banking System

- Banks mark to FDIC approved credit models.
- Banks prohibited from lending on financial assets.
- Prohibit banks from using LIBOR.

# Proposals for the Banking System

- Use the FDIC as designed to
  - take over
  - and dispose of
  - or otherwise modify
- banks it deems insolvent.

# Proposals for the Fed

- Banks are the Fed's designated agents
- Banks are public/private partnerships
- Banks are the appropriate instrument of monetary policy for targeting the risk adjusted term structure of interest rates.

# Proposals for the Fed

- Unlimited unsecured lending to member banks

The FDIC already insures bank deposits.

Demanding collateral is disruptive.

Eliminates the need for interbank markets.

- Sell credit default insurance on US Treasury securities

# Proposals for the Fed

- Lend to member banks at zero, permanently.
- This minimizes cost pressures on output, including investment.
  - It also minimizes rentier incomes, thereby encouraging higher labor force participation and increased real output.

# Proposals for the Treasury

- Cease all issuance of Treasury securities.
- Cease all Treasury purchases of financial assets.

# Trade and Energy Proposals

- Unilaterally drop all import restrictions.
- Exports are real costs, imports are real benefits.
- Implement a policy to immediately cut imported crude oil consumption in half.



# Obamanations

- “The US has already run out of money.”
- The US must fix its credit markets to get the economy going.
  - The US must not saddle the next generation with government debt.
  - The Government can't go it alone- it needs private capital
- The US needs China to buy its debt to facilitate deficit spending.