

MPRA

Munich Personal RePEc Archive

Central bank – the root cause of poverty, tax, and deficit

Subhendu, Das

27 December 2010

Online at <https://mpra.ub.uni-muenchen.de/27719/>
MPRA Paper No. 27719, posted 28 Dec 2010 06:41 UTC

Central Bank – the Root Cause of Poverty, Tax, and Deficit

Subhendu Das, CCSI, California, USA

ABSTRACT

In each country the central bank is a privately owned bank with no transparency and accountability to the government of that country. It is also the only bank that can print the money for that country and does it so out of thin air. At the same time this bank wants that the government returns the money with interest. Thus this structure creates deficit, introduces tax, and poverty around the globe. This paper shows how central banks control the economy by manipulating the financial system it has designed. The paper shows how easily the central banks can control the unemployment, generate recession, and transfer wealth from the lower economic group to higher economic group and perpetuate poverty. The paper also proposes three methods of eliminating central banks.

1. INTRODUCTION

At the heart of capitalism is the central bank, which is The Federal Reserve Bank in USA, commonly known as the Fed. The main purpose of the capitalism, which is aided by the central bank, is to transfer wealth as clearly stated by the US President (1861-1865) Abraham Lincoln - "I see in the near future a crisis approaching that unnerves me, and causes me to tremble for the safety of our country. Corporations have been enthroned, an era of corruption will follow, and the money power of the country will endeavor to prolong its reign by working upon the prejudices of the people, until the wealth is aggregated in a few hands, and the republic is destroyed (Grint, 2005)." Milton Friedman, the Nobel laureate in economics, said that the US recession of 1930s was created by the central bank (Skarica, 2011). The analysis of our data shows that the above conclusions are very legitimate and real.

Assume that I need some money now. Also assume that I have the machines to print the money and that I have the freedom to print them. Then I will not have any problem. I will be able to buy whatever I want, and whenever I want. Because I will not have to give the money back to any one, because I printed it. I will not have poverty any more.

The same is true for the US government. Suppose the government wants to build a high speed train from Los Angeles to New York. Let us say it will cost \$500 Billion. The US Government can print the money and give it to all the people, the contractors, and the corporations who will work for the project. The government will not have to give back the money to anyone. For, it has printed it out of nothing, out of thin air. Since the government will not have to give it back, so there will be no need for tax on the people. This printing method will eliminate deficit, tax, and poverty.

But ironically, the government cannot print it. This printing power has been taken away by the central banks (The Fed), a private bank. Therefore the government will have to borrow it from the Fed and return it with interest. There lie all the problems – deficit, tax, and poverty. Know that the Fed is printing just the way I would have printed it, out of thin air. Thus the central bank is the root cause of all our problems. The following presidential vision confirms the evils of our system.

US President (1801-1809) Thomas Jefferson wrote: "The Central Bank is an institution of the most deadly hostility existing against the principles and form of our Constitution...if the American people allow private banks to control the issuance of their currency, first by inflation and then by deflation, the banks and corporations that will grow up around them will deprive the people of all their property until their children will wake up homeless on the

continent their fathers conquered (Ritholtz, 2009, p. 15)." We can see this is happening exactly, recession after recession, in the United States even after so many years.

Assume that the total material wealth of a nation is equivalent to a pot of gold. That is, this gold represents all the automobiles, airplanes, missiles, roads, bridges etc., or in other words this is the GDP, the gross domestic product. This gold equivalent will be of very large in size, but we can still symbolically call it as a pot of gold. Similarly assume that the money value of this pot of gold is equivalent to a bag of dollar bills. This is the equivalent of various monetary aggregates that the economists use. This bag has an one to one relationship with this pot of gold. That is, this bag can buy only that pot, and no more.

By the law of conservation this pot of gold cannot grow. This law says that the mass cannot be created; it can only be transformed from one form to another form. We can build a car from the raw materials. We cannot create a car out of nothing. This money cannot grow either, because this is equivalent to that pot of gold and attached to it by the laws of conservation. Thus this bag of money can only buy that pot of gold.

Now the Fed can print another bag of money, out of thin air, but then these two bags will still be able to buy only that one pot of gold. But printing more money, out of nothing, has an advantage. The Fed can decide, using its monetary policy, who will get this money. If this money is allocated only to the top fifth of the population then their share of the pot of gold will increase, changing the wealth distribution. According to the laws of conservation, since gold cannot increase, the share of the bottom fifth will then naturally decrease. More money the Fed prints, the rich becomes richer and the poor becomes poorer. Thus when the income of bottom fifth decreases, then the income for the rest increases by the laws of conservation.

According to the laws of conservation there cannot exist a win-win situation. In every win-win situation, a detailed analysis will show, that there will always be a third party who will be a loser. This is the result of the laws of conservation. Printing money is not the only way to transfer wealth, the profiting and the interest charging are also ways of transferring wealth. The capitalism is precisely designed to make that happen. Wealth transfer happens only when you make money without contributing to the pot of gold or to the GDP. Thus stock market gain is a way to transfer wealth. In fact the entire financial system is a means to transfer wealth. That is because the financial system does not manufacture any product, but it can increase the money volume. GDP is the total amount of the product and services which cannot grow; it is fixed in every year. But the money is growing independent of the GDP.

In the next few sections we establish using the public data how the wealth transfer is carried out systematically by the central bank. First we describe how we modified the raw data to make it suitable for comparison. Then in the remaining sections we show how the federal fund rate (FFR) plays the key role in controlling the GDP, unemployment, and the income of the bottom fifth of the population. Finally we describe how we can change the world by removing the central banks.

2. NOTES ON DATA PROCESSING

We have treated the economic data in somewhat different way than the conventional approaches used in economic literature. We have normalized all the data elements between -1 and +1 by dividing the data by the maximum of the absolute value of the data. Mathematically speaking this means:

$$ma = \max_i |d_i|, \quad d_i = \frac{d_i}{ma}, \quad i = 1..N, \quad N = \text{length of data}$$

The original data items d_i is replaced by the new normalized values. This has the effect of elimination of the scale factor of the data. Multiple data series now can be plotted against only one y-axis in the graph. Normally economics graphs are plotted with multiple y-axes on both sides of the graph. Our approach helps to compare the characteristics of the graph rather than the magnitude of the data. This approach of normalization is quite

common in the electrical power engineering and is known as per unit value. It is also used in the field of digital signal processing. We believe that this approach helped us to identify the visual correlations among various economic time variables.

We have also used the correlation as a measure to determine the relationship between two time functions. Closer this number is to 1 means the higher is their similarity. If we know that one variable is the cause and the other variable is the effect, then this higher correlation value will indicate better control of the economic policy. In all our cases we show that the fund rate is the main driver of the economy and it can control, with high accuracy, the unemployment rate, and hence the recession and the transfer of wealth.

To get proper correlation, we shifted left by 1 to 3 years, the affected target data. That is, we shifted left by certain amount, the graphs of gdp variations and the graphs of unemployment to match their characteristics with that of the fund rate data. It was not necessary to do so; the raw data shows the exact feature, even before what we can see after the shift and match. However it was necessary to get a numerical figure for correlation and to provide simpler visual inspection.

We used the following correlation formula:

$$cor = \frac{\sum_{i=1}^N f_i g_i}{\sqrt{(\sum_{i=1}^N f_i^2)(\sum_{i=1}^N g_i^2)}}$$

In the formula $\{f_i\}$ and $\{g_i\}$ are two time series data arrays. The above formula shows that the magnitude of correlation number, cor , cannot be greater than 1. It is also clear that if f and g are same then the correlation number will be 1. Thus closer the value to one, means better is the similarity between the two time functions.

It is always possible to manipulate data in many different ways. For example, we could consider the fund rate data as an input function to a set of simultaneous difference equations, similar to VAR, with multiple state variables representing various economic parameters. Then we could combine these state variables using another set of simultaneous algebraic equations to produce unemployment data. You can see such an approach in the paper (Bernanke, 1992).

There are actually infinitely many such possibilities for decomposition of data into states and then combinations of states by matrices. They really do not give any additional information, because of the infinite choices. In this paper we wanted to directly show the raw data and their effects on the human toll.

3. FEDERAL FUND RATE (FFR)

The Fed is a very secretive organization. This secrecy is in their DNA right from the day it was formed in 1913. It is a private bank, not controlled by US government, as former Fed chairman says (Greenspan, 2009). In fact in USA we have two governments one elected by the people and the other one is the central bank, a privately owned, permanent organization with enormous power in controlling the entire US economy with no transparency and accountability to government. The Fed also does not want to be transparent (King, 2010), a long held complaints from many economists.

All the banks are required by law to maintain a reserve deposit amount at the central bank. As of 2004, the total required reserve amount at Fed was \$11.0 Billion (TheFed, 2005, p. 32). The Fed does not pay any interest for this deposit amount (Hubbard, 2002, p. 436). Because of daily business activities the reserve amounts for all the banks vary continuously. At the end of each day, the banks having low reserves borrow money from the banks with higher reserves. The banks charge interest for this exchange. This interest rate is known as the federal funds rate (FFR). Federal Reserve uses many monetary policies to control and track this funds rate on the daily basis, which in turn controls the money supply, and hence the economy of the country. The Federal Reserve provides the

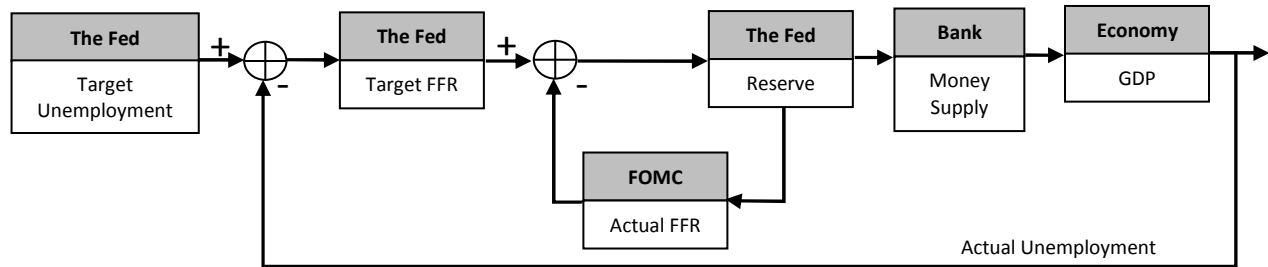


Fig. 1- FFR control policy

weighted average funds rate data at daily, weekly, monthly, and yearly frequencies at their website. All historical funds rate data are also provided by the Fed.

The FFR is an independent input variable to the economic system. The target value of this FFR is decided by the Federal Open Market Committee (FOMC) of the Fed. The minutes of FOMC (FOMC, 2010) confirms that - "In their discussion of the monetary policy for the period immediately ahead nearly all committee members agreed to keep the federal funds rate at its effective lower bound by maintain the target range for that rate at 0 to ¼ percent and to expand the Federal Reserve's holdings of longer-term securities." In the paper (Bernanke, 1992) the authors claim "In all cases we obtain plausible results which suggest that the Fed was purposefully manipulating the funds rate during the pre-1979 period – an observation that is consistent with what the Fed claims to have been doing." Thus we can see that the capitalism was never a free market economy, the FFR is not a market variable, it is set by the Fed.

The question naturally comes – how does one single number FFR, can control such a huge economy so effectively. The paper (Modeste, 2002) gives the straight forward Keynesian logic – "an increase in the federal funds rate is expected to lead an increase in short-term interest rates as the cost of funds to lenders increases. With businesses and consumers responding to the higher interest rate by reducing their expenditures, economic activity is expected to fall, thereby, leading to an increase in the unemployment rate". Our graphs will confirm this conclusion.

The entire financial system has been designed by the Fed, very much like a simple single input single output (SISO) control system as shown in Figure 1. So, it can be easily controlled by only one input variable, the FFR. Its output is the unemployment rate from the economy. The Figure 1 shows two loops, the inner loop is the faster loop controlled on a daily basis, whereas the outer loop is a very slow loop controlled and monitored at weekly or monthly rate. The inner loop tracks the target FFR by open market operation for trading government securities, which controls the reserve. This operation guided by FOMC, generates the actual FFR. When the actual FFR becomes equal to or very close to the target FFR the open market operation can stop. This inner loop defines the FFR and the Reserve amount. The reserve in turn will define the money supply to the economy. The unemployment rate produced by the economy is compared with the target unemployment in the outer loop. The error in this outer loop is used to set the target FFR. All other financial interest rates are eventually dictated by this FFR. Note that in the above control system, both target employment and the target FFR are set by the Fed, independent of market conditions.

We show in a later section that the inflation control and the inflation data may not be meaningful. Although a similar control loop can be used there too.

The amount of reserve that each bank keeps at the Fed is controlled by a number called the reserve ratio. The amount of loan that a bank can give to its customers is also controlled by the same reserve ratio (its reciprocal, called money multiplier). This is a predefined parameter of the control system and is rarely changed. It can be used to fine tune the responses of the economic shocks. Thus how much loan and at what interest rate one can get from any bank, are controlled by the Fed on daily basis, giving the Fed enormous power over the economy.

One important factor, for precise control of the financial system, requires that the money multiplier be well defined. However this factor depends on the number existing of banks. One goal of the central bank therefore is to reduce the number of banks. Thus during all major recessions we see the purging of many banks. In general capitalism and the central banks try to increase bank monopoly.

The government mandate for the Fed has few major flaws. The Fed is not required to maintain full employment (Bernanke, 2010). The law now says that the Fed will maintain maximum possible employment. This maximum number has not been defined either. The average salary of the bottom fifth has also not been defined. The Fed is also not mandated by the government to follow the free market economy. It can fix the FFR the way it wants to without any concern of the market.

The unemployment rate is a good measure of economy. It should be the main objective of the government to maintain 100% employment. However the recession data is generated from the GDP data, and not from unemployment data, thus hiding the real well being of the citizens. The growth of GDP does not necessarily indicate reduction of unemployment. When GDP starts going down from its peak the recession is considered to start and it ends when the GDP turns back up.

The government does not include the Wall Street gains in the GDP computation. The sales of stocks and bonds at the Wall Street are not counted in the GDP (Case, 1999, p. 135). These sales are exchange of paper assets and do not correspond to current production. However the brokerage fees are counted in GDP as services performed. Thus the Wall Street does not reflect unemployment or GDP. Yet our government seems to feel very happy when the Wall Street is happy, ignoring the concern of millions of unemployed citizens.

4. FUND RATE, GDP, AND RECESSIONS

The Figure 2 shows the GDP graph from 1930 to 2009, and the data was taken from (NEA, 2010). This data represents the annual percentage change in the GDP value from the previous year. This is also based on 2005 dollars. As mentioned before we have further normalized the data to per unit value, accordingly, the maximum is always 1.0 in the graph.

The GDP graph is superimposed on the recession bands. The width of the bands defines the length of the recession period. The data was collected from (NBER, 2010). This band data gives the month and the year for start and end of the recession periods. We can see that many recessions happened over the years and therefore there is no guarantee that many more will not happen in the future.

Figure 2 does not show the business cycles, which is related to the total GDP graph. Our graph shows how the GDP changes over the years and with respect to the recession bands. We can see that the growth rate goes negative before every recession period. The graph matches with many books and publications, for example (Desjardins, 2008).

The Federal Fund Rate data is taken from the Fed database (Fed, 2010). This is the yearly percent interest rate

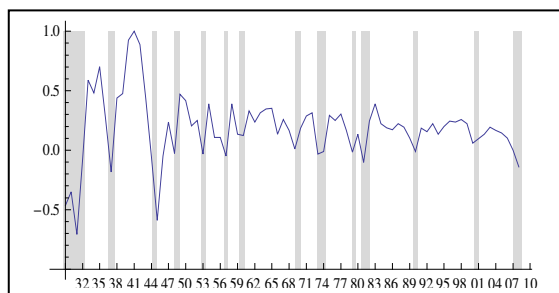


Fig.2 - GDP and Recession 1929-2009

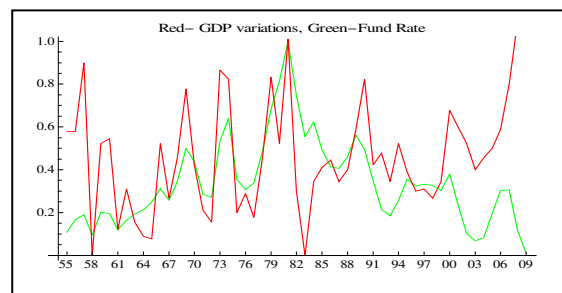


Fig.3 - GDP and Fund Rate 1955-2009

that banks charge when they borrow money from other banks to maintain the desired level of reserve with the Fed. In Figure 3 we have plotted the normalized data of FFR and GDP variations. The GDP data was shifted left by two years to make the peaks match. This shows that there is a lag in the GDP effect, that is, the effect of fund rate shows up on the GDP after two years. We have also scaled the data using the following relation $0.8*(1-gdp)$ to graphically highlight the correlation. This formula basically flips the graph along a horizontal axis and then lifts up within the graph window. The multiplying factor 0.8 helps to adjust graph along the vertical axis. A delay or lag of 2 years in the GDP data produced a correlation of 0.8306.

The two graphs in Figure 3 show fairly similar pattern. We also observe that both graphs have some trends. This trend causes the lower value of the correlation. It can be eliminated to show higher correlation. But that is not necessary, because a simple visual observation will show high co-movements. Since we know from Section 3 that the fund rate is the driver, we can see how it causes the GDP variations. Every time the fund rate goes high, the GDP goes low; this in turn causes the recession to begin as we can see from Figure 2.

The Figure 4 is another way to show the relationship of the fund rate and the recessions. Here we superimpose the variations in the FFR over the recession bands. The graphs show that every recession is created by high value of the FFR values. The Fed keeps increasing the fund rate until the recession begins as shown by the control system diagram in Figure 1. In (Dimitrov, 2006) the authors say that the funds rate graph shows how onset of two recessions during 1979-82 coincides with tight monetary policy. In (Belonga, n.d) the authors comment that the conventional wisdom is that funds rate goes up before recession and goes down after, with data between 1985 and 2009.

The Figure 4 shows the underlying control method of FFR by the Fed. Thus using FFR the Federal Reserve can control the recession whenever they want and they can maintain it to control the duration of the recessions. But a sustained increase of fund rate will eventually cause the recession. During 80-82 it was necessary to increase the fund rate to a high value to cause the recession. On the other hand a small increase in fund rate caused a long recession during 08-09 period. There are other non-financial factors in the economy that determine when the recession will start with respect to the FFR and how long the recession will continue.

5. FEDERAL FUNDS RATE AND UNEMPLOYMENT

In this section we show with the data and their graphs that the central bank is systematically controlling the unemployment rate. In the graphs all quantities are normalized to per unit value, that is, between -1.0 to +1.0. This helps to compare the results without any concern of units and dimensions related variables. The unemployment data is taken from Bureau of labor statics of the US department of labor (DOL, 2010). The details of this data are given in the document (DOL, 2009). This yearly data represent percents of labor force that is unemployed. It considers non-institutional people, meaning those who are not in institutions, like in correctional facilities or mental health care facilities etc.

The graphs in Figure 5 show the data from 1955 to 2009. It is clear from the graphs that there is high correlation

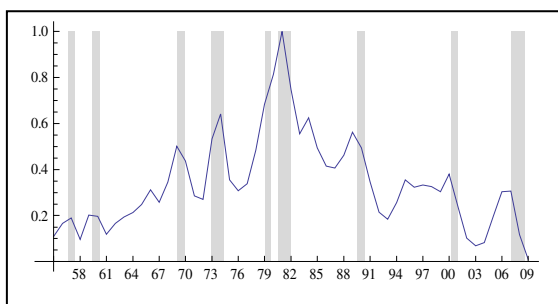


Fig.4 – Fund rate and Recession bands 1955-2009



Fig.5 – Fund rate and Unemployment

between the two time series. Both graphs have some underlying trend functions. But we do not want to take that out, because that may be dependent on the characteristics of the economy at that time. The economic system is significantly more complex than the financial system shown by the block diagram in Figure 1. From the graphs in Figure 5 we see that during the earlier period unemployment rate was very sensitive to the fund rate. A small variation in fund rate causes a small variation in the unemployment. During the second half, the economy changed and became more robust to the change in fund rate. But the central bank was still able to control the unemployment by changing the fund rate.

The graphs in Figure 5 show that the economic channel has a filtering capability to smooth out the finer variations in the fund rate. The delay or lag was determined by trial and error method. We found that a left shift of three years for the unemployment data is ideal for these graphs, which gives a correlation coefficient of 0.92701. It is seen from the graphs, that a different delay after 1988 will give better synchronization and hence higher correlation. This has happened because of the change in technology in the economy and not related to financial factors. The looks of the two graphs are sufficient to show how the funds rate is affecting the unemployment and is serving the purpose of the central bank as shown in Figure 1. Again, it is quite surprising that this relationship, Figure 5, was never explicitly pointed out, as far as we know, by any publications.

Probably (Bernanke, 1992) was the first paper to show a graph similar to our Figure 4. The paper (Balke, 1994) says that, using data before 1979, and using vector auto regression (VAR) method, it has been shown that the funds rate has “important predictive content for unemployment”. The paper (Thorbecke, 2000) explains that the Fed can control unemployment by manipulating federal funds rate. As the funds rate increases other interest rates also increase and thus the nations’ spending decrease. As spending declines employment declines as well. Thus when the Fed seeks to increase unemployment it increases the target funds rate. However, Thorbecke does not provide any numeric validation. The paper (Modeste, 2002) uses mathematical models to show that “there is a long run relationship between the federal funds rate and the unemployment rate”. Our results show directly from the data that a very high correlation (0.92701) with consistency over the entire data length. The similarity in their relationship is quite visible in the graphs of Figure 5.

6. TRANSFER OF WEALTH

The recession is the best way to transfer wealth from the poor to the rich. And also it helps to keep the salaries at low rate for the bottom fifth. More you beat them lower will be their salaries. Note that it is the lowest rank people who create the wealth. It is they who transform actual physical material to a product. The main objective is to keep the salary of bottom fifth at the bottom most level and to transfer the wealth they create during their working life. This is a complete violation of the laws of conservation. All other employees, like system engineering, algorithm developers, managers, CEOs only provide services. They only take wealth out from the lowest rank. It can be shown that the corporations can be designed without the service people and the money.

Imagine that we arrange all the people in USA in the increasing order of their income. Then we divide all these ordered people in five groups of equal number of people in each group. The lowest average salary group is the bottom fifth and the highest average salary group is the top fifth. To the best of our knowledge, there is no good historical data for top 1% of American people. We have taken our data from US Census Bureau (USCB, 2010). The data is available in many formats. Again, we normalized the data to lie between 0 and 1.

We now show using graphs how the income of the bottom fifth of the population lost their wealth over the recessions. Every time recessions happen their income goes down. It has gone down almost consistently over the years. By the laws of conservation this wealth has to be transferred to the upper economic classes. The Figure 6 shows the income of the bottom fifth of the population. The graph clearly shows that their income is consistently going downwards since 1976. The graph occasionally went up for short period of time, like in 1967, '73, '94 etc. But it has an overall downward trend and every recession has a visible impact on the income. The recessions beat them up with unemployment, causing homelessness, and subsequent lower income in their next jobs. It is a systematic way to keep them at low salary over the years.

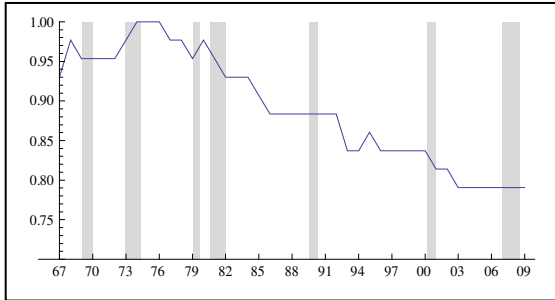


Fig.6 – Income of bottom fifth and Recession

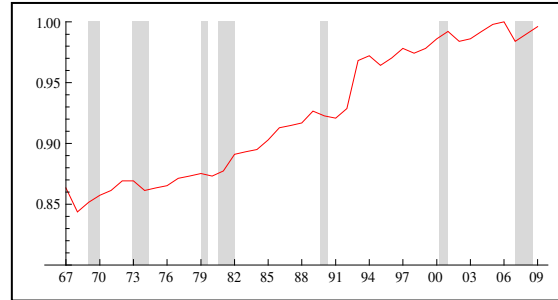


Fig.7 – Income of top fifth and Recession

We do the same thing to illegal immigrants from Mexico. Every now and then people go with guns near the Mexican border and scare them to death. This keeps all the Mexican people in US scared. This helps the capitalism to get cheap labor force. It is important to get cheap labor from India, China. But for many services it is necessary to get them locally from Mexico also.

The banks have used the same policies, over the centuries, for the nations also. First it was Spain. Spain collected all the resources from its colonies, and then when the work was done, the banks kicked them out and gave the job to England. After England got all the wealth from its colonies it was time for them to go. The banks moved the money from the Europe to USA and it became richer in terms of the material wealth. Now when the saturation appeared in USA, the banks opened the world market to India and china. The process is repeating until all the wealth from the all the people are taken by the top fifth of world. The data for top 1% is not available. The wealth will actually go towards that smaller group. A very small secret and select group of them owns the central banks and the International Monetary Fund, the IMF.

The next graph, Figure 7, shows the income of the top fifth of the population. It is clear that despite the recessions their income is growing persistently over all the years. Thus there is some truth in the statement that the rich is getting richer and the poor is getting poorer. In the graph we do see that some recessions affect the growth of income, but otherwise the trend is fairly in the upward direction. This has to be true also because of the laws of conservation. When bottom fifth loses the upper 95% must gain that. There cannot be any win-win situation. For every win-win situation you will always find a third party who will be the loser. This third party is always the bottom fifth; even though, they are the wealth creator.

It should be pointed out that many people in the top fifth got hit very hard during the last recessions. Many large banks failed, many financial institutions failed. It happened because they were not aware of the effects of recessions and the power of central banks. Those who monitored how and when the recessions happened, and took care of their financial plans, they survived. But this is a short term survival only. A system that violates the laws of conservation cannot survive. It will take all of us down at some point. Just like the Kings have gone, banks have gone; the central banks and the IMF will also have to go. The only question is when and after how much carnage. There was a saying that, you can fool some people all the time, all people for some time, but not all people for all the time. Unfortunately this has not happened with money. Money fooled all the people all the time, so far, since it got rid of gold standard.

Profiting and interest charging are two other common ways to transfer wealth. If the credit card companies can charge 30 percent interest rate, then the poor man can become homeless very soon. And another rich person from the same bank will become the new owner of that home thus transferring wealth. The wealth cannot be destroyed by the laws of conservation, it can only be transferred. This is what precisely was said by the Lincoln. Large number of banks and businesses were forced to fail by the policies of the central banks during the two great recessions of 1930s and 2008. Millions of people were made unemployed and homeless. And exactly the same amount (Bates, 2003) of wealth was transferred to the rest of the population.

These recessions are not natural laws of capitalism. The economics books will tell you otherwise about the business cycles. Most of the books on economics cannot go against capitalism and the central banks. Every economics professor hopes (Krizner, 2010) to get Nobel Prize. Dr. Larry Bates, a banker and economists says (Bates, 2003) these recessions are precisely controlled, monitored, and can be predicted. We have explained that by Figure 1. The company (ECRI, 2004) has mastered the prediction of business cycles. Many world governments consult ECRI to create their indices for predications of their recessions. ECRI can do so with an accuracy of two or three weeks. Thus there are techniques to predict how central banks are manipulating our economy, yet no one wants to control it.

7. INFLATION AND CAPITALISM

It is said that the Fed controls both inflation and unemployment in an optimal way that is good for the economy. In reality that is not the case, as we have shown with the data. Its main objective is to transfer wealth to a very small number of people. In the process it makes people unemployed, makes businesses including banks to fail, and controls the election results. The capitalism is not designed for democracy as pointed out by one CEO in a TV interview. It is based on transfer and accumulation of wealth.

Our emphasis in this paper is the laws of conservation or the sigma law, which says that the sigma of everything is constant. We also use the thought process based on the pot-of-gold and the bag-of-dollar-bills concept. We said that this bag of dollar bills can buy only that pot of gold. If we increase the bag of bills then we will violate the sigma law. The economic objective of central bank is to transfer wealth from poor to rich by doing all of the following things (1) profiting (2) interest charging (3) printing money and (4) creating unemployment.

To clarify, let us examine how profiting transfers wealth. Consider a company that manufactures writing pens at a total cost of \$5 per pen. This \$5 includes, salaries of all employees, cost of marketing, sales, and advertising, cost of water, electricity, gas, and the rent of the office building, cost of insurance and health care etc. That is, \$5 includes all cost of producing a pen. Now assume that the company sells it at \$15 per pen making a profit of \$10 per pen. All these numbers are hypothetical and for illustration only. Thus the cost of the pen for the CEO of the company is \$5 but for you and me it is \$15. Thus every pen is taking away an extra \$10 from all of us. This process of profiting helps to take money away from the people and to accumulate to the hands of very small group of people. Thus profiting does not create a win-win situation, it is always a win-loss situation, and always is a violation of sigma law.

Inflation is not just higher prices, supply and demand. Inflation is a process of increasing money supply (Hubbard, 2002, p. 744), violating the sigma law. If you provide more money than the GDP required, then we have inflation. This increases the size of the bag of dollar bills. This process helps to transfer wealth, by increasing the share of the pot of gold. Keynes (Keynes, 1920, p. 235-236) says – “By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate arbitrarily; and while the process impoverishes many, it actually enriches some. ... The process engages all the hidden forces of economic law on the side of destruction and it does it in a manner which not one man in a million is able to diagnose”. You can see this is essentially the same as what Abraham Lincoln said. We should recognize that profiting is inflation in disguise.

How much money the Fed is printing is never known and will never be known. This is because it is a very secret and private organization, which plays the central role in capitalism and its policy of transferring wealth. It is the only body that can print money and control unemployment. The Bloomberg news claims (Pittman, 2009) in a law suit against the Fed, that the Fed spent \$12.8 trillion as bailout money. The GDP during 2008 was \$14.2 trillion. Thus we have a very high hidden inflation. If you do not know the amount of money present in the economy then you cannot compute the real inflation. All the inflation data presented by the government are therefore fictitious. All our theories on economics, like Phillips curve, supply-demand, etc., will be wrong.

In the absence of transparency, as seen by the Fed’s refusal to provide information to Bloomberg, no free market economy can exist. Roger (Garrison, 2009) writes – “Of all the losses suffered during the current recession

[of 2008], one of the most notable (and well deserved) is the loss in reputation suffered by today's macroeconomics textbooks". This is indeed true as we have also pointed out earlier that the Fed controls the fund rate completely independently, destroying the concept of free market theory. If the Fed violates it then why do you think other banks and the CEOs will not do the same? Corruptions of Enron, WorldCom, and Arthur Anderson etc. are only recent examples that confirm what Abraham Lincoln feared so many years back.

Dr. Larry Bates, a banker and an economist writes (Bates, 2003, p. 8) – "The peaks and valleys, booms and busts in the economy ... all those opportunities to profit ... are actually the result of deliberate policy actions by policy makers in the government and the Federal Reserve. Simply put, there is a small group of people in this country and around the world who have the resources and the power to determine the direction our economy will take. They can choose which investments will prosper and which will fail. That's how they transfer wealth out of your pocket, while knowing where the next profits will occur enables them to put that same money in their pockets".

In the following section we will see if this problem of transferring wealth by capitalism can be solved. The result definitely is negative because capitalism is very powerful and does not care for the society. However, we present three approaches; all of them will eventually provide the same result.

8. MONEYLESS ECONOMY

There is a group of researchers on moneyless economy, like in (Nicolas, 2007), which proposes economic policies without consideration of monetary aggregates. But our subject in this section is different. In the paper Ross (Starr, ND) discusses a moneyless economy, without any price attached to any product or labor, and shows how an existing style market can be implemented. In the following section we present a moneyless economy, similar to Ross, but with a different philosophy. We show that the structure and the management of the economy will change in a moneyless system. We discuss three approaches to create a moneyless economy.

In the present economy a product is created jointly by an entrepreneur and a financier and then imposed on the people. The cell phone, face book, cigarette, airbags for automobiles etc. are such technologies. This kind of technology creates an environmental pollution on human behavior. People become smokers and create health hazards. Face book and cell phone produced a new generation that is constantly talking, lost all capabilities of attention, focus, tenacity, dedication etc. These new generations do not even understand what these human qualities are. They get frustrated if someone does not tweet, or does not get any email. As result we are getting low quality education. Students are running away from math, science, and engineering. They do not think, want to think, does not know what thinking is.

If we can remove money then it will be possible to create an economy where product will be created by people and will not be imposed on them to make money. Greed will be removed from humanity. We will come back to ourselves, we will learn to think again, find ourselves within ourselves, and decide what are our desire, our work, and our need. Nobody will impose anything on us. A true democracy will be created. Environmental pollution will be eliminated both from nature and from human character. So the first approach is based on the following concept.

Assume that I need some money now. Also assume that I have the machines and I have the freedom to print them. Then I will not have any money problem. I will be able to buy whatever I want, and whenever I want. Because I will not have to give the money back to any one, because I printed it. I will not have poverty any more.

The same will be true for the US government. Suppose the government wants to build a high speed train, from Los Angeles to New York. Let us say it will cost 500 billion dollars. The US Government can print the money and give it to all the people, the contractors, and the corporations who will work for the project. The government will not have to give back the money to anyone. For, it has printed it, out of nothing, out of thin air. Since the government will not have to give it back, so there will be no need for tax on the people. This printing method will eliminate deficit, tax, and poverty.

But ironically, the government cannot print it. This printing power has been taken away by the central bank (The Fed), a private bank. Therefore the government will have to borrow it from the Fed and return it with interest. There lie all the problems – deficit, tax, and poverty. Know that the Fed is printing just the way I would have printed it, out of thin air. There is no gold standard now.

Thus you can see that the root cause of deficit is the central bank. If we take that power back from the Fed, then we will not have any deficit. The deficit is completely artificial, and is imposed on us by some people who tricked the government in 1913 when the Fed was established. In the absence of central bank there will be no poverty anywhere in the world, there will be no deficit and therefore no taxes. So the whole world has been taken hostage by few people, who are the owners of the central banks.

Thus if the governments had the power to print money, then clearly it becomes a money less economy. It is just paper, we can print any time and any amount to keep all of us happy. Let us examine what is money now. We are all dealing with electronic money these days. Our employment checks are deposited electronically by our employers in our banks. We have credit cards, which are electronic money; we use them to buy our things. We pay the credit cards from the website using our own home computers. We rarely see any dollar bills any more. It is not necessary to have them anymore. Very soon we will authorize our credit card companies to directly deduct their money from our accounts automatically, without even asking them to tell us what is happening. Thus the money is just a number in some database on some computers. That number will go up and down and will control our fate and expenditure. Now we ask do we need that number to control us. Why do we need such a number?

The main reason for having this number is that some people want to control all of us, deprive us from equal share of wealth. Consider the second approach now. Suppose we decide to ignore that number and create a system where we all start working free like slaves. That is, we all become slaves of our country. We do what we are doing now, but only for free. I go to my work every day, work sincerely and carefully for full eight hours, and come back home. Only difference is that we work free. I go to the grocery store, buy whatever I need, and get out without paying any money. I want to travel somewhere; I book the flight, if it is available, free of charge, and fly. I want to live in a big house, I ask a contractor, he builds the house free of charge and I live there, no money is involved anywhere. All I have to ensure is that I work somewhere for eight hours, free of charge, every day, five days a week. We use the hours as money and not use any multiplier of hours as a number or salary as we do now. We will still have unequal wealth if we want, but now our views about wealth will change because it is free.

One possible contradiction may rise, because the above model ignores the value of education and knowledge. The answer to this problem is pretty simple. All the great people who changed our society by bringing new technology, like Thomas Edison, Benjamin Franklin, Wright Brothers, Bill Gates, and Steve Jobs etc. were not formally educated. Thus education is not necessary to create a new technology. If we observe our work carefully you will see that we are not using our education in building our technology. Capitalism is using our education as a factor for discrimination.

One may conclude also that people will stop working because money power forces the people to work. But that may change once people get the freedom. People will be able to do their own thing in their own way. Human life may completely get transformed once freedom is achieved from money. Now we do not have that, we are forced to work in defense companies, being fully aware that we are making war machines that will kill people; we are forced to work in cigarette companies knowing that it causes cancer, we are being highly paid in Wall Street to create various schemes to transfer wealth. All these will change, and a much cleaner, spiritual society may eventually evolve. Another advantage is that money based economy violates the sigma law thus causing environmental pollution. A moneyless system, which inherently adheres to sigma law, will eliminate all kinds of physical and psychological pollution.

The third option is the following. If you can install a voting system with secret ballot in the US house of congress and senate, then you will have a perfect democracy. You probably know that we do not have a secret ballot system in Washington DC now. And that is why we do not have democracy in USA. Capitalism does not like democracy. If

you try to implement such a system, then you will be destroyed. This true democracy will eventually eliminate capitalism and the central bank.

So, how we can be saved? How do we implement a moneyless system? There is no alternative, and an external catastrophe is needed. It may be possible to destroy the computer database of the banking system. That is in the hands of hackers. Very soon that will happen. We have seen this happening in a James Bond movie. But the database can be recreated. So it is not a solution.

Essentially all the approaches are going against central banks. They are all powerful, they will kill you. President Abraham Lincoln wanted to print money (Donald, 1995, p. 352) to finance the civil war. President Kennedy created an executive order (Woolley, ND) to print money. Many say they were assassinated because they went against the central bank. If the central bank senses that you are threatening them then you will be gone too. They have the guns, and we do not. Note that we have central banks in almost all countries now.

The war in Afghanistan started on October 7, 2001. In the middle of this war the central bank planned a meeting in Bonn, Germany, started printing new currency, and by Jan 2, 2002 replaced all old Afghan currencies. The PBS news reporter Margaret Warner asked (PBS, 2003) the advisor to the new central bank why it was so important to change the currency at this critical war time. The Iraq war started on March 20, 2003. By January 15, 2004 all Iraqi currencies were replaced by new currency and the central bank (CBI, 2010) was installed on March 6, 2004.

These events should indicate why we went to war in Muslim countries. We can see that the war drum is beating against Iran and North Korea because they do not have central banks. Thus we can see that the central banks are not focused in running the economy and in the well being of citizens, but in acquiring control of financial systems of all countries and is willing to do so at any cost. Observe that the installation of central banks was carried out in the middle of turmoil, before even people, politicians, and governments realize what they are going to lose.

9. CONCLUSIONS

In this paper we have shown how the central bank manipulates the economy using the single variable, federal funds rate, to create recessions and unemployment thereby helping to transfer wealth and accumulate in few hands. We have also shown how the all powerful central bank is spreading all over the world country by country and gaining the world domination. We have proposed three approaches to implement the moneyless economy. However we have not been able to show how the transition of money power will or can happen. That is, we haven't answered the question of the Nobel Laureate Milton Freidman asked - "One unsolved economic problem of the day is how to get rid of the Federal Reserve".

10. REFERENCES

- BEA, (2010), BEA 10-54, Bureau of economic analysis, News release, November 23, US Dept. of Comm.
- Belonga, M.T., & Hinich, M. J., (N.D), The evolving role and definition of the federal funds rate in the conduct of US monetary policy, Unv. Of Mississippi and Texas at Austin.
- Balke, N. S., & Emery, K. M., (1994), The federal funds rate as an indicator of monetary policy: evidence from the 1980, Federal reserve bank of Dallas. Economic review, First quarter.
- Bates, L., (2003), The new economic disorder, Charisma House, 2003.
- Bernanke, B. S., (2010), Monetary policy objectives and tools in a low-inflation environment, conference, federal reserve bank of Boston, Boston, Massachusetts.

- Bernanke, B. S., & Blinder, A. S., (1992), The federal funds rate and the channels of monetary transmission, Am. Econ. Rev., Vol 82, No. 4, pp. 901-921
- CBI, (2010), History of the central bank of Iraq, <http://www.cbi.iq/index.php?pid=History>
- Desjardins, (2008), Where are we with the US recessions? Economic Viewpoint, May 14, Desjardins.com
- Dimitrov, V., & Tice, S., (2006), Corporate diversification and credit constraints: real affects across the business cycle, Rev. Fin. Studies, Vol. 19, No. 4, pp. 1465-1498.
- DOL ,(2010), US Department of Labor, Bureau of labor statistics, employment status of the civilian noninstitutional population, 1940 to date (2009), percent of labor force, from: <http://www.bls.gov/cps/>
- DOL, (2009), US Department of Labor, Bureau of labor statistics, How the government measures the unemployment, can be obtained from: http://www.bls.gov/cps/cps_htgm.pdf
- Donald, D. H., (1995), Lincoln, Simon & Schuster paperbacks, NY
- ECRI, (2004), Beating the business cycle, Lakshman Achuthan and Anirvan Nanerji, Random House, 2004.
- Fed, (2010), Federal Reserve Statistical Release, H15, Selected Interest Rates, Historical data, Federal Funds (effective), Annual, available at: http://www.federalreserve.gov/releases/h15/data/Annual/H15_FF_O.txt
- FOMC, (2010), Minutes of the federal open market committee, November 2-3, Washington, DC, USA
- Greenspan, A., (2009), Video, Let Greenspan tell you what fed is, Sept 06, watch free at http://www.youtube.com/watch?v=qlQTu7kOT_8&NR=1
- Gutierrez, C., (2007), Measuring the economy, A primer on GDP and the national income and products accounts, Bureau of economic analysis (BEA), US Dept. of comm., September.
- Garrison, R., (2009), Mainstream macro in an Austrian nutshell, Auburn University,
- Hubbard, R. G., (2002), Money, the financial system, and the economy, fourth edition, Addison Wesley, Boston, Massachusetts, USA
- Keynes, M. J., (1920), The economic consequences of the peace, Harcourt, Brace and Howe, New York.
- King, A., (2010), The case for auditing the fed is obvious, Cato institute, Briefing papers, April 27
- Krizner, I., (2010), The history of Austrian economics, watch at: <http://www.youtube.com/watch?v=uhdNmHONY-E&feature=channel>
- Modeste, N. C., & Mustafa, M., (2002), Do changes in the federal funds rate cause changes in the unemployment rate? Southwestern economic review, South Carolina State University.
- NBER, (2010), US Business cycles expansions and contractions, Business cycle dating committee, September.
- NEA, (2010), National economic accounts, Bureau of economic analysis, Gross domestic product (GDP), Percent change from preceding period (Excel), www.bea.gov/national/xls/gdpchg.xls
- Nicolas, B., (2007), Wicksell and Woodford: a cashless economy or moneyless economy?, History of economic society, annual conference, Fairfax, Virginia.

PBS, (2003), Rebuilding Afghanistan, Margaret Warner, January 14, available at:
http://www.pbs.org/newshour/bb/asia/jan-june03/rebuild_01-14.html

Pittman, M., & Ivry, B., (2009), Financial Rescue Nears GDP as Pledges Top \$12.8 Trillion (Update1), Bloomberg, March 31

Ritholtz, B., (2009) Bailout nation, John Wiley.

Starr, R. M., (ND), Money: in transactions and finance, Dept. of Economics, University of California, San Diego.

Thorbecke, W., (2000), A dual mandate for the federal reserve, Public policy brief highlights, No. 60A.

TheFed, (2005), The federal reserve system, purposes & functions, 9 th edition, June 2005, Washington, DC, USA.

USCB, (2010), US Census Bureau, Income statics, Historical tables, Income inequality, Share of aggregate income received by each fifth and top 5 percent of households (All races)
<http://www.census.gov/hhes/www/income/data/historical/inequality/index.html>

Wooley, J. T., & Peters, G., (ND), The American Presidency Project [online]. Santa Barbara, CA. Available from <http://www.presidency.ucsb.edu/ws/?pid=59049>.