

A Contingency Plan for an Alternative Kansas "Currency"

by

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Narrative: It is an essential task for those in government to plan, not only for growth and expansion, but also for contraction and disaster. In most cases, adequate, if not exemplary, plans have been made for sudden physical disasters in restricted areas such as tornados, less though has been given to the development of contingency planning for longer term and more pervasive disasters such as extended droughts, and none at all appear to have been made for financial/economic spasms which occurred in the 1930s, and very nearly occurred again as the result of the 2007/2008 collapse of the intertwined and synergistic housing and the RMBCDO [Residential Mortgage Backed Collateralized Debt Obligation] bubbles. **Most unfortunately, no lessons seem to have been learned**, and new asset bubbles such as speculation in stocks and commodities, fueled by the FRB's ZIP [Zero Interest Rate] policy and yet another proliferation of novel securities of doubtful value, other than as tax evasion vehicles [e.g. Exchange Traded Notes¹], are again inflating. From media reports, it is clear the two major regulatory agencies, the SEC and CFTC, have in large part been "captured" by those they were intend to regulate, and not only have no new restrictions on asset bubble formation been imposed, many of the old restrictions such as position limits and margin requirements have been eliminated or evaded. Thus the only questions about a recurrence of a financial/economic spasm are "when will it occur?", "how bad will it be?", and "how long will it last."

From the records of several unfortunate countries which have suffered severe financial/economic contractions and dislocations within the last generation, it appears there are two main dangers **which can be addressed by a state such as Kansas**.

Specifically:

- 1 The national currency disappears from circulation because of hoarding; or
- 2 The national currency is perceived as worthless and is no longer accepted.

In either case, economic activity quickly grinds to a halt (other than barter) because of the lack of a medium of exchange (not to mention a measure and store of value) resulting in very negative socioeconomic/cultural feedback and rapidly worsening conditions. This also has a very serious impact on state revenue, because if there are no (cash) sales, there is no sales or VAT tax collected, nor is there any cash income to be taxed.

One ameliorative feature of the economic collapse of several of the Latin American countries was the existence of an alternate currency, specifically the U.S. dollar, which circulated on formal or informal [black market] basis. This will not be possible in the U.S., as there is no alternate or parallel currency in circulation, nor is there likely to be.

¹ <http://www.nytimes.com/2013/02/15/business/congressmans-plan-is-first-step-to-a-tax-overhaul.html?pagewanted=all&r=0>

Five states² are already investigating the possibility of issuing their own money, however this is prohibited by the U.S. Constitution.

Article I Section. 10.

No State shall enter into any Treaty, Alliance, or Confederation; grant Letters of Marque and Reprisal; coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts; ...

However this prohibition is easily circumvented, as it has been well established the states have the right to issue **bonds**, which can be zero coupon³ bearer bonds⁴, that happen, by a strange coincidence, to measure 2.61 inches wide by 6.14 inches long and are printed on 0.0043 inches thick high grade paper, in denominations of 1, 5, 10, 20, 50, 100, and possibly 500, and 1000 dollars.

The key to public acceptance and use of this "currency" is the acceptance, and indeed the requirement, by the government of these notes in the payment of taxes, and implicitly, the reputation of the government. Indeed, the government of England (not yet the U.K.) operated for centuries on "tally sticks"⁵ which the King issued instead of metal [gold/silver] coins in payment for goods and services, which were then accepted, *indeed required*, in payment of taxes.

What is suggested is legislation authorizing issuance of State of Kansas bearer bonds, if the national currency becomes either unavailable in sufficient quantities or becomes worthless. There will be considerable discussion about the design, which individuals should appear on what denominations, colors, denominations, etc. which is contentious and time consuming, and ***time is the one thing which will not be available in a crisis***. Therefore, this necessary but time consuming phase should be completed, while there is no emergency, and the finished "package" including all bond designs, denominations, production planning, printing contracts, etc. should be prearranged, requiring only the stroke of the governor's pen and legislative consent for activation. Based on the history of other economic implosions, it will critical for the government of the state of Kansas to *avoid the trap of sending good [taxpayer] money and assets after bad*, in a vain attempt to meet impossible conditions/requirements. In far too many cases the economy was stripped of capital, and the state/public assets sold at fire sale prices in a futile attempt to stop a financial deluge, which for the most part was not of their own making, but the result of excessively complex and arcane financial manipulation and/or natural disasters beyond the control of the government. **Thus the conditions to trigger activation of this program should be agreed on in advance, in a rational and calm environment.**

As Johnny Cash observed in "The Gambler"⁶:
You gotta know when to hold em,
You gotta know when to fold em,
You gotta know when to walk away, and know when to run...

2 http://www.washingtonpost.com/business/economy/virginia-coin-moves-closer-to-reality/2013/02/05/9bcd532-6fa4-11e2-ac36-3d8d9dcaa2e2_story.html

3 <http://www.sec.gov/answers/zero.htm>

4 http://www.investopedia.com/terms/b/bearer_bond.asp#axzz2L6fxe1oV

5 http://en.wikipedia.org/wiki/Tally_stick

6 http://en.wikipedia.org/wiki/The_Gambler_%28album%29

Some suggestions for successfully implementing a program to substitute State of Kansas bearer bonds for the U.S. dollar in a crisis:

- 1 The program should be kept entirely separate from the existing banking and quasi/shadow banking/financial systems as these are likely to be in very poor condition and a major part of the problem.
- 2 Milestones or trigger points for the activation of the program should be decided on in advance, in an atmosphere of calm deliberation, to avoid the insidious trap of "wait and see," until it is too late. Most likely there should be three trigger points, which most likely will involve several factors from diverse economic sectors such as the supply of money on hand at the local banks, lending activity of local banks, ATM activity, perceived local inflation rate, levels of state/regional economic activity, unemployment rates, grain shipments, food and fuel prices/availability, etc.
 - 2.1 The first point would be a warning or alert to the legislature, administration, law enforcement, state department of revenue, and selected business sectors of a looming problem, with increased surveillance of the economic situation and enhanced data collection.
 - 2.2 The second point would be when the bearer bond program **COULD** be activated, given the conditions and circumstances, requiring both legislative consent and approval by the governor. This could also trigger other standby provisions, before triggering the bearer bond program, such as limits on the amount of money that can be withdrawn daily from ATM machines, restrictions on ATM hours of operation, etc.
 - 2.3 Point three would be where the program **would** be activated, and legislation could provide that it would be, unless the legislature and/or governor both decided otherwise.
- 3 Part of the program must be the requirement that the state, and its agencies, must accept the bearer bonds at full face value in payment of taxes, fees, etc. It may be necessary to require payment of fees and taxes in bearer bonds, although this may be in violation of the Constitution (see above)
- 4 The bearer bonds should be directly injected into the economy by the state, bypassing the banks, by using them to pay wages, for goods and services, etc. The bonds should be issued at a discount (which may need to be adjusted). As an example, assume a 5% discount. Thus a person who is owed \$1,250 for a week's work would receive \$1,250/.95 or \$1,316 (rounded up to the nearest dollar) in bearer bonds. The bearer would receive their interest when the bonds were redeemed at face value in payment of taxes/fees. It may also be desirable to have a 30 to 90/120 day maturity period after issuing before the bonds could be redeemed, to encourage their circulation before redemption.
- 5 History indicates that counterfeiting or "unauthorized production," is frequently a major problem with alternative currencies. Therefore it will be critical to include as many anti-counterfeiting measures as practicable in the design and printing of the bearer bonds, given that this will be done in a crisis situation and environment.

- 5.1 Only high quality bank note or bond/check paper should be used.
- 5.2 If possible only intaglio⁷ printing should be required. Common offset and news print printing presses should be avoided.
- 5.3 Not only should the bonds be serial numbered, the serial number in bar code format should be included to allow easy/automatic tracking and verification of authenticity, e.g. cancellation of the bonds when redeemed, with notification if a duplicate serial number bond is presented for redemption/payment of taxes, or if the same (large denomination) bond is authenticated in two widely separated locations in a short time (via the internet).
- 5.4 Convenience features such as Braille embossing of the bond denomination will be helpful to the users, as well as acting as an anti-counterfeiting measure.
- 5.5 Restraint in the amount of bearer bonds issued by the state will be critical to maintaining their value/acceptance, and "business as usual" will not be possible. The principle must be *an austerity economy is better than no economy at all*.
- 5.6 The acceptance of these barer bonds outside the state may be limited, but this can be seen as an advantage as it avoids stripping the state of "cash," requiring the state to issue even more [too many] bearer bonds to maintain a minimum tolerable level of intrastate economic activity.

⁷ http://en.wikipedia.org/wiki/Intaglio_%28printmaking%29