Lack of Money in Circulation Causes Unemployment and Poverty
Byron A. Ellis - June 13, 2015

The Jethro Project - As far back as President Johnson, politicians and economists discussed poverty in abstract terms, seldom defining the true causes of poverty. Today, like President Johnson, President Obama and others talk about inequality without identifying root causes.

Poverty, and hence inequality, results from lack of money in circulation to purchase necessities. In general, most individuals earn money from jobs by exchanging labor for income. Thus, when individuals have well-paying jobs they can overcome poverty and purchase the necessities. So, it is lack of money (jobs) that causes poverty.

Investments in physical capital generate jobs and income. However, investment depends on actual and potential demand or the amount of money circulating within communities.

Therefore, it is money circulating within communities that creates demand and hence jobs; when community members have money, they purchase goods and services.

Money flows into communities through the financial system, such as, bank loans for expanding physical capital. However, in rural and central city communities bank loans are seldom available. Often, financial institutions redline these communities.

The Encyclopedia of Chicago notes that redlining is the practice of arbitrarily denying or limiting financial services to specific neighborhoods, generally because its residents are people of color or poor.

Nonetheless, politicians and some economists often argue that joblessness is due to lack, or mismatch, of skill sets.

Such narratives, deliberately disassociate lack of money in circulation as the root cause of joblessness and poverty.

However, most manufacturing and service processes are unique, requiring employers to train new employees to adopt to the organization's unique procedural requirements. Therefore, the hiring organization trains new hires to meet specific work requirements.

In terms of money, if we look at the economy it is evident that when the central bank, the Federal Reserve (Fed), removes money from the economy recessions and unemployment occurs, see the Federal Funds Rate graph below.

The federal funds rate is the overnight "interest rate" at which depository institutions actively trade balances held at the Fed with each other.

When the Fed, increases the federal funds rate, it removes money from the economy causing the federal funds rate to rise. The graph clearly shows that when the Fed drains money from the economy, reflected by a rise in interest rates, recessions (vertical blue lines) occur and that should be so because there is less money available to purchase goods and services.

Likewise, when the banking system refuses to provide loans to distress rural and central city communities, it prevents economic growth of the redlined communities.

Thus, it is the quantity of money circulating within communities that creates effective demand and jobs.