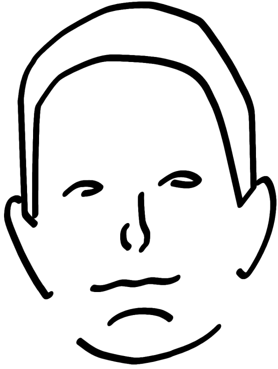

'Reality' Doug says:

The Bankster Money Rake and You

Given herein is an introductory, polemical, and nonnormative description of the U.S banking system. Suppose a group of business people pool money to start a federally chartered bank. While working Americans will create wealth and services, our new bankers will create private credit to take it. To understand their business model, you will need to understand the economic term 'inflation' and the three banking terms 'capital', 'surplus', and 'fractional reserve requirement'. The first and last terms are key to explaining how **bankers collectively are permitted to make more money upon which to charge interest than the Federal Reserve makes supposedly for us.** The biggest bankers, derisively called banksters, get the lion's share of something for nothing. Is it not the slave who gets nothing for something?

After our banking upstarts provide for the material bank property and labor, they still need millions in cash for capital. Capital as defined here does not include buildings, safes, desks, etc. Capital stock representing ownership of the (paid-in) capital is created and divvied among the owners of the new commercial bank. Additional funds amounting to 6 percent of the paid-in capital of the commercial bank are allocated to the local Federal Reserve Bank in return for capital stock issued by that Fed Bank. Half or 3 percent is actually paid in with the other 3 percent on call. By owning such stock the commercial bank is a member of the local Federal Reserve Bank and so is a federally chartered bank. The Fed Bank has made sure it will get paid for central banking services.

Each member bank must maintain a subscription of Fed Bank stock equal to 6 percent of its own capital plus surplus. Surplus represents profits not yet disbursed among bank owners. The Federal Reserve Banks also generate surpluses, enough to annually pay member banks 6-percent interest on their subscriptions and billions of dollars more to the U.S. Treasury (account 20–065000). There are twelve Federal Reserve Banks, lettered A through L as seen on one-dollar Federal Reserve notes. Federal Reserve notes are fiat money, imagination backed by government guns. Fiat money carries a severe potential for misuse no worse than what an ignorant public lets. Fed notes are being misused. This document is meant to dispel public ignorance. Your help is appreciated.

The paid-in capital of the new commercial bank is faith money. It is a risk commitment bankers make to creditors. Government regulators require some minimal amount. The bank will wish to attract customers and their deposits in exchange for account credits. The bank invests the deposit money as loans, but some deposit money is kept on hand to cover depositor withdrawals. Deposits will tend to cancel out withdrawals to a high degree if numerous customers (creditors) do not lose confidence in the bank's solvency and make a bank run. Banks' premises are architecturally imposing because they are facades for a shell game. If most Americans tried in concert to temporarily reduce their bank accounts to a penalty-free minimum by making cash withdrawals, the banking system would be immobilized. National Cash Withdrawal Week anyone?

The total like-money deposit liabilities of each member bank is subject to a fractional reserve requirement. The Fed uses a progressive three-tier system of 0%, 3%, and 10%. It's generous, to the bankers. In 2011, the first $10.7 million of deposits is exempt from a reserve requirement, the next $48.1 million is subject to the 3% rate, and any more follows the 10% rule. Banks may loan deposit money in excess of the required reserve. Because the restriction on bank credit is proportional to certain liability deposits, the limit to credit a bank may create is not absolute. Only the rate of credit creation is absolutely restricted. Given the wealth of government inexplicitness, it seems that personal banker liability without misconduct is tacitly limited to paid-in capital.

The new member bank is part of a network handling some money in the economy. When existent cash moves from bank to bank, the portion held in reserve moves around with it, but the reserve amount in the system is relatively stable. The finite nature of existent cash limits outstanding bank loans the same way. The drain pain that the general public might suffer for unproductive wealth consumption enabled by bankers is mitigated by the risk of default to bankers, unless Freddie Mac and Fannie Mae take that risk at taxpayers' expense. 'Toxic assets' are a fancy term for high default risks gladly sold by lenders. If we disallow the sale of loans, so far the banks only make interest money on loans from your deposits (old fiat money + bank credit), reserve accrual is nearly a

zero-sum game, personal risks are small to bankers who play well and by the rules, and startup barriers are high.

Enters inflation. Inflation is the devaluation of currency relative to wealth, or due to greater supply, or it is the additional currency itself. Semantics vary. Regardless, the U.S. Government has been fiscally broke since FDR seized Americans' gold in 1933. Monetary policy is manipulation of money supply, and it allows a government to function until its (political) currency is broke. The Federal Reserve System manipulates the rate of money supply expansion to control interest rates to exploit workers, but how is left to the reader as an exercise. New money added to the economy is called ‘high-powered money’ because none of it is yet held in reserve. The effective fractional requirement is something less than 1/10, but let's work with 1/10 even. For every dollar held in reserve, there may be up to 10 dollars in deposit liabilities. Do you understand what that means? For every dollar created by the Fed on behalf of the U.S. Government and supposedly us, bankers can theoretically make up to 9 dollars. With the lower rate tiers, a bit more slack is available. In practice a bank might leverage deposits at 3, 4, or 5 to 1. If private business credit were created in one comprehensible step worth trillions, people might take offense.

Here comes **the nefarious magic**, assuming a flat reserve ratio of 1/10. Imagine a new inflationary $100 first goes to bank A. Bank A gets a deposit of $100 dollars and makes a loan of $90. That $90 is spent and finds its way to bank B. Bank B adds a deposit of $90 and creates a loan of $81. So far only $10 + $9 = $19 of the $100 has been converted from high-test money to low-test, nominally worth $171 more. When the deposit size drops below two pennies, the loan chaining must stop. But loose pennies of high-test can eventually coalesce and be loaned. If we disregard the penny barrier and rounding, and entertain infinite subdivision, we bump up to a theoretical maximum we can calculate. The resulting formula is the amount of inflationary cash times the inverse of the reserve fraction. With private credit the banks turn $100 into $1,000, charging interest on the difference.

Economists typically like math, but if you don't, feel free to skip this paragraph. Let the amount of inflationary cash be M, and let the fractional requirement be 1/n. The stepwise consumption of all M dollars for the reserve follows the infinite series $M/n + (M/n)((n-1)/n) + (M/n)((n-1)/n)^2 + (M/n)((n-1)/n)^3 + \ldots$. Also, the loan amounts are (n-1) times every term, totaling (n-1) times the whole infinite series. That infinite series is an instance of the geometric series, one that solves to the exact value M as expected. M plus (n-1)*M is equal to M times n. Hurray.

Ever wonder why the U.S Government is addicted to deficit spending? It's because elite financiers can buy government policy if anyone can. Also, it's not hard to talk bureaucrats into career growth at the expense of your civil liberties. Without supply inflation bankers would earn little positive interest. With fiat money price inflation bankers don't borrow but conjure money for loan principal and charge interest on nearly all money stock.

Imagine an economy with $28 in fiat money and $72 bank credit where the government is broke, banks use 5 to 1 leverage at 4% annually and have $90 (90%) in deposits from non-bankers of which $18 is cash reserves, and bankers personally have $10 (10%). The government makes itself $1 and spends it, causing the bankers to conjure $4 and earn 16¢ more annually. Let's suppose instantaneous inflation. After a year bankers have $13.04 (12.4%), and non-bankers have $91.96 (87.6%). Then the broke government makes itself $2 to expand welfare, and bankers conjure another $8. After a second year bankers have $16.30 (14.2%) of all $115 in existence, and non-bankers have $98.70 (85.8%). Producers lose. That's how monetary corruption works. Technology used with respect pushes the economy in the growth direction. Corruption pushes toward decline. Is America in decline?

Federal Reserve Act, section 2a, as amended (12 USC 225a) is **the Congressional inflation directive:**

> The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.

Lies, lies, lies. Technology causes our economy to grow exponentially. Price stability claims all new wealth due Americans generally to inflation mooches. Price inflation further claims established wealth. Fiat bank interest and taxes take more. The Fed's inflation target is 2 percent. The slave is distinguished from the domesticated herd animal by a self-aware capacity for independence. Volition steeled by dependency proves no more standing than bred livestock. You are your friends. We are fellow citizens. Tell individuals but reach friends. Shake the chains.

To request an electronic copy of this circular or to contact ‘Reality’ Doug, send email to realitydoug@gmail.com.
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