

Attachment 10

Economic Recovery Plan for the United States

Federal Reserve Monetary Intermediation Cost Impact on Economy and Jobs (Estimated)

Step 1. Estimate Federal Reserve Intermediation Cost

Step 2. Estimate Intermediation Cost Impact on Jobs

I. Historical Average (1984-2011, 28-years)	
	(\$ Billions)
1. Fed Operations (2011 Actual Net) ¹	\$3.40
2. New Money Issued times (1 - reserve requirement) ^{2,d}	\$243.51
Total Annual Intermediation	\$246.91
Intermediation Capitalized ^c	\$6,172.70

II. 2011 Actual	
	(\$ Billions)
(2011 had larger than average monetary increase)	
1. Fed Operations (2011 Actual Net) ¹	\$3.40
2. New Money Issued times (1 - reserve requirement) ^{2,d}	\$927.63
Total Annual Intermediation	\$931.03
Intermediation Capitalized ^c	\$23,275.70

III. Debt Impact (as of 10/26/2011)	
	(\$ Billions)
Commercial Bank Note to U.S. Government Created ³	\$5,003.10
Commercial Banks Treasury Holdings Retired ³	\$1,689.80
Federal Reserve Treasury Holdings Retired ³	\$1,664.66
Intermediation Capitalized	\$8,357.56
Total Annual Intermediation Est. (Value x Cap Rate (c))	\$334.30

There is no economic reward for monetary leverage from M&M Theorem. (Corollary, risk free rate should be GDP growth rate, not gov't debt rate.)

Estimation Basis	(A)	(B)	Federal Reserve System Net Jobs Impact	
	Intermediation Cost Estimate		(\$1 million value/job) (= (B) / \$1million)	NYT Estimate ⁴ (= (A) / \$31,169)
	Annual (\$ Billions)	Capitalized (\$ Billions)		
Historical Average	\$246.91	\$6,172.70	6,172,703	7,921,592
2011 Actual Est.	\$931.03	\$23,275.70	23,275,703	29,870,323
Debt Impact Est.	\$334.30	\$8,357.56	8,357,560	10,725,477
Average	\$504.08	\$12,601.99	12,601,988	16,172,464

Federal Reserve Intermediation Cost Estimated Impact on Jobs
 The Federal Reserve System has a 90% (1 - RR) intermediation cost (wealth transfer effect) of new money creation. This is a loss of capital to the other sectors of the economy. Assuming a one million dollar of capital value per job creation, the average \$12.6 Trillion capitalized cost represents an estimated 12,602,000 private sector jobs. Per NY Times estimate the \$504.1 Billion annual cost would be approximately 16,172,000 jobs. The estimates indicate the approximate cost of Fed intermediation is on the order of 10 million or more jobs.

Notes/Assumptions

Million	1,000,000
Billion	1,000,000,000
Trillion	1,000,000,000,000
Capital Value per Job Est. (Adjustable)	\$1,000,000
4-New York Times Estimate Job Creation Cost (Adjustable)	\$31,169
a-Risk Free Base Rate (r _f) (Attach 5 (a)-Net GDP Productivity Growth Rate '84-'11)	2.74%
Monetary Conversion Bank Note Premium over Risk Free Rate (r _i) (Estimated)	0.25%
b-Bank Note Interest Rate Est. (Risk Free GDP Growth Rate(a)+Risk Premium)	2.99%
c-Economic Growth Rate (Est.) for Cap Rate	4.00%
d-Bank Reserve Requirement (From Attachment 1)	10.00%

SOURCES

a-Treasury 2011 weighted average interest rate from Attachment 9, Federal Debt Securities Held by the Public.

1-FRS actual budget data from Publications Annual Reports Table 2 at

<http://www.federalreserve.gov/publications/budget-review/default.htm>

2-Monetary increases estimated using M2M Money Stock data from St. Louis Fed at

<http://research.stlouisfed.org/fred2/series/M2MNS>

3-Bank Note and Treasuries Retired from attachment 8(d) United States Consolidated Balance Sheet.

4-New York Times 7-6-2009 article "The Costs of Entrepreneurial Job Creation" at

<http://boss.blogs.nytimes.com/2009/07/06/how-much-does-it-cost-to-create-a-job-by-encouraging-entrepreneurship/>.

Treasury Rates

Date	10/18/2012
30-Year	3.02%
20-Year	2.63%
10-Year	1.86%
5-Year	0.79%
2-Year	0.29%

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