

## 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) <sup>1</sup>	\$3.40
2. New Money Issued times ( 1 - reserve requirement) <sup>2,d</sup>	\$243.51
Total Annual Intermediation	\$246.91
Intermediation Capitalized <sup>c</sup>	\$6,172.70

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

III. Debt Impact (as of 10/26/2011)	
	(\$ Billions)
Commercial Bank Note to U.S. Government Created <sup>3</sup>	\$5,003.10
Commercial Banks Treasury Holdings Retired <sup>3</sup>	\$1,689.80
Federal Reserve Treasury Holdings Retired <sup>3</sup>	\$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 <sup>4</sup> ( = (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	<b>12,601,988</b>	<b>16,172,464</b>

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 ( $r_f$ ) (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/>.

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## 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%