

Economic Recovery Plan for the United States

Plan Summary

This paper recommends monetary reform as the best go forward economic recovery plan for the United States. The recommended monetary reform is to convert to a full reserve system based on a GDP index monetary standard with direct issuance of new money creation, known as seigniorage, to the people instead of Federal Reserve Member Banks. The monetary intermediation cost of the Federal Reserve System is at least 90% inefficient and is on the order of 2½% of GDP per year. It could be more efficiently handled by a full reserve credit banking system, development of 100% depositor owned institutions to exclusively hold demand deposits and direct issuance of new money creation to the people.

It is believed that with the discovery of the Modigliani-Miller Financial Theorem in 1958 of the irrelevance of capital structure that proof of the superiority of the full reserve system has existed because of its lower monetary intermediation cost. There is no credit intermediation loss with a full reserve system and there would be a more efficient allocation of economic returns reducing and/or eliminating the current wealth transfer disparity caused by the fractional reserve system. The improvement to the United States economy from conversion is expected to be the approximate amount of the reduced monetary intermediation cost, on the order of 2½% of GDP per year, improve the balance sheet of the United States on the order of \$8.4 trillion as of fiscal year 2011 and restore on the order of ten to twelve million jobs.

William Haugen
7175 Gaston Ave Apt 2225
Dallas, TX 75214
Telephone: 214-321-7494
Email: whaugen@flash.net
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To Jack Bogle, for his extensive writing on financial intermediation,
Milton Friedman, who wrote about the Federal Reserve System,
Robert de Fremery for his legacy of financial writing on money, and
To the people of the United States.

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1. Introduction

Economic recovery begins with conversion to a full reserve monetary system and direct issuance of new money creation, known as Seigniorage, to the people based on a GDP growth standard instead of Federal Reserve Member Banks.

The monetary intermediation cost of the Federal Reserve System is at least 90%¹ inefficient and is on the order of 2½% of GDP per year², compounded over 40% since 1984 and over 70% since 1960, that could be more efficiently handled by a full reserve credit banking system, development of 100% depositor owned institutions to exclusively hold demand deposits and direct issuance of new money creation to the people. As will be shown in Section 3 there is no credit intermediation loss with a full reserve system and there would be a more efficient allocation of economic returns reducing and/or eliminating the current wealth transfer disparity caused by the fractional reserve system.

I. Intermediation Cost using Current Federal Reserve Monetary System		
Federal Reserve Monetary Issuance System	\$ Amount	Efficiency of Monetary Increase
1. Federal Reserve acquires government issued debt	\$1,000,000	10.0%
2. Federal Reserve Bank Reserve Requirement (est.) ¹	10.0%	
3. Money Supply Increase via Federal Reserve Bank Loans	\$10,000,000	100.0%
4. Fed Reserve Banks net Increased Loans (Intermediation Cost)	\$9,000,000	90.0%

TABLE 1 DATA SOURCE: Federal Reserve Monetary Intermediation Cost Inefficiency Estimate, Attachment 1.

II. Direct Monetary Expansion System to People using Government Entity		
Direct Monetary Issuance System (Possible Commerce Dept)	\$ Amount	Beneficiaries of Monetary Increase
1. People issued bills directly from Government (Commerce Dept)	\$1,000,000	100.0%
2. People/Government Portion of issued bills	100.0%	
3. Money Supply Increase to People via Direct Government Issue	\$1,000,000	100.0%
4. Fed Reserve Banks net Increased Loans (Intermediation Cost)	\$0	0.0%

TABLE 2 DATA SOURCE: Federal Reserve Monetary Intermediation Cost Inefficiency Estimate, Attachment 1.

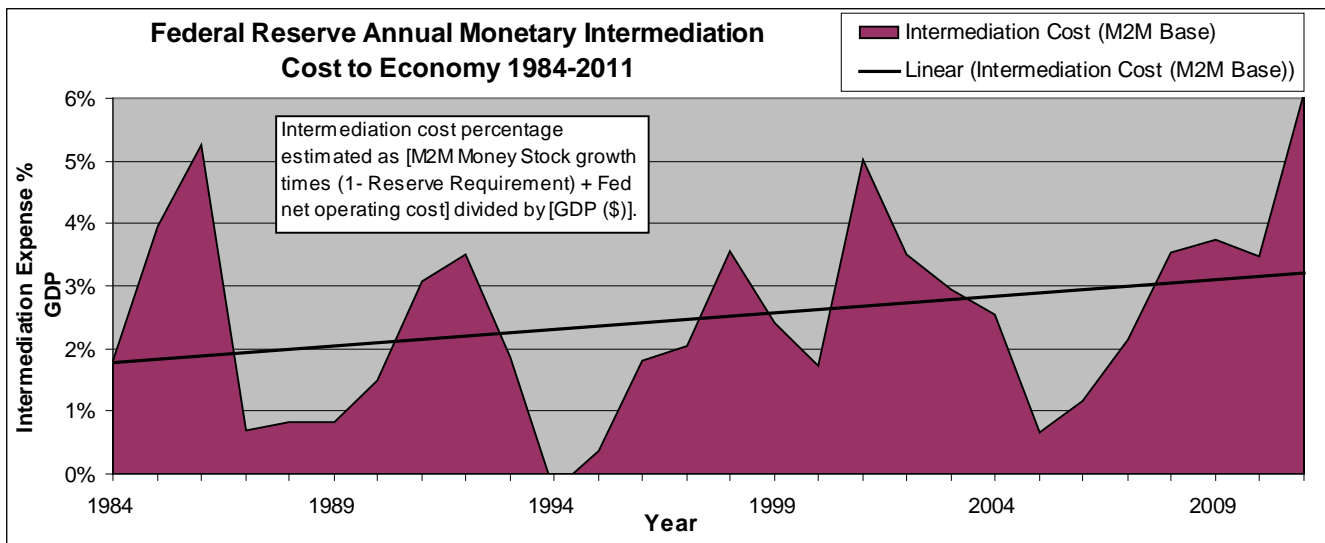


CHART 2 DATA SOURCE: Fed Annual Monetary Intermediation Cost 1984 to 2011 using M2M Money Stock, Attachment 4.

¹ Federal Reserve Monetary Intermediation Cost Inefficiency Estimate, Attachment 1.

² Federal Reserve Compounded Monetary Intermediation Cost since 1984 and 1960, Attachments 5 and 7.

Fed Monetary Intermediation Cost 1984-2011	\$ Billions	% Percent
Economic (GDP) earnings 2011 w/o Fed intermediation expense	\$15,321.0	100.0%
Economy earnings with Fed Intermediation expense deducted	\$7,853.9	51.3%
Fed Intermediation Expense from Non Bank Economy since 1984	\$7,467.1	48.7%

Fed Intermediation costs, primarily monetary expansion inflation, estimated to have wealth transferred approximately 48.7% of economic system returns to banking sector from 1984 to 2011.

TABLE 3 DATA SOURCE: Federal Reserve Compounded Monetary Intermediation Cost 1984 to 2011, Attachment 5.

It is believed that with the discovery of the Modigliani-Miller Financial Theorem³ in 1958 of the irrelevance of capital structure that proof of the superiority of the full reserve system has existed because of its lower monetary intermediation cost. The improvement to the American economy from conversion is expected to be the approximate amount of the reduced monetary intermediation cost, on the order of 2½% of GDP per year⁴, improve the balance sheet of the United States on the order of \$8.4 trillion⁵ as of fiscal year 2011 and restore on the order of ten to twelve million jobs⁵.

The chart below shows the impact of fractional reserve monetary leverage, which adds risk to the economic system in the form of increased variability of returns but does not change returns to the system, shown below as increased amplitudes of the business cycle. The compounding intermediation cost of the Federal Reserve debt based monetary system is also shown gradually increasing in size that is actually a reduction to system returns.

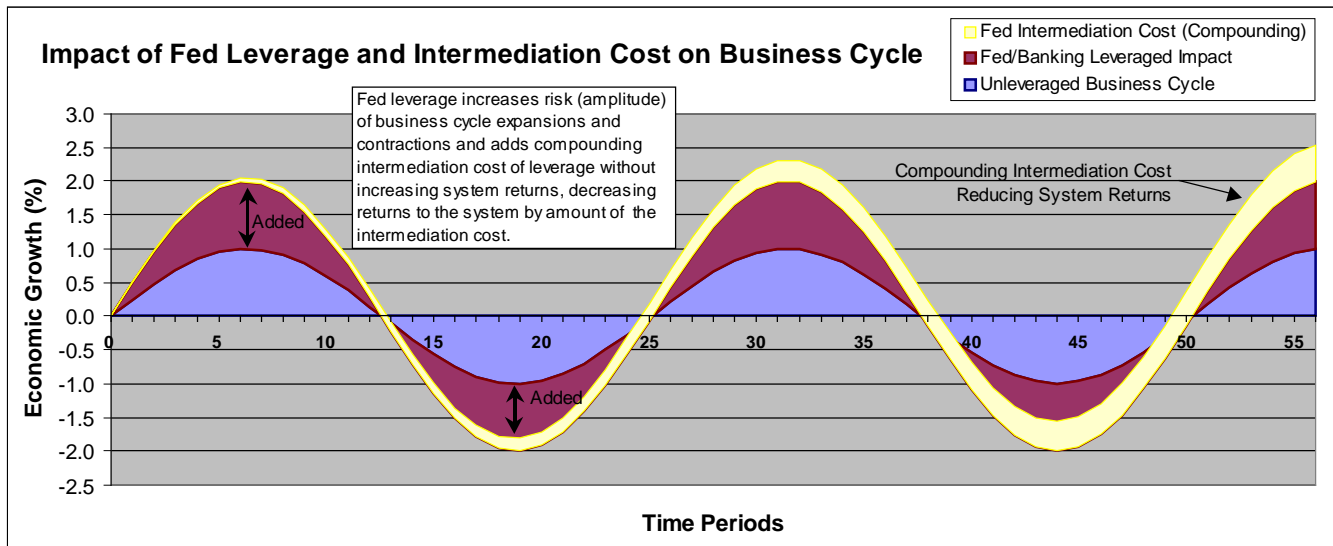


CHART 1 DATA SOURCE: Business Cycle with Leverage and Intermediation Added using Excel Sine Wave Graph.

It is not believed the added risk from the fractional reserve lending or leveraged credit system can show that it adds real return to the economic system based on the M&M Theorem of capital structure irrelevance and therefore the United States should replace it with a more efficient full reserve system that can be operated at a much lower intermediation cost.

³ Modigliani-Miller Theorem from "The Cost of Capital, Corporation Finance and the Theory of Investment", *American Economic Review*, 48: 261-297, June 1958 and Merton H. Miller "Do the M&M propositions apply to banks?", *Journal of Banking & Finance* 1995. References 16 and 17.

⁴ Federal Reserve Compounded Monetary Intermediation Cost since 1984 and 1960, Attachments 5 and 7.

⁵ Federal Reserve Monetary Intermediation Cost Impact on Economy and Jobs Estimate, Attachment 10.

A banking business model based on full reserve financial intermediation, time matched funding spread lending, is not a new concept. It has had historical support from at least five previous Nobel Prize winners, Milton Friedman, James Tobin, Maurice Allais, Merton Miller and Frederick Soddy, a former Secretary of Agriculture and Vice President of the United States, Henry Wallace, at least one former prominent member of the federal reserve system, Lauchlin Currie, and numerous distinguished economists and financial writers listed in Attachment 12 including Mervyn King⁶, current governor of the Bank of England and Irving Fisher, one of the foremost economists of the first half of the 20th Century.⁷

Economic recovery with a 100% reserve system and GDP based monetary standard would result in 90%⁸ lower monetary intermediation cost, less structural leverage risk, a more stable economy, more efficient allocation of capital and a higher standard of living for all Americans. The economy would still be subject to the business cycle with a full reserve system but overall the amplitude of the cycle would be reduced and the reduced monetary intermediation cost would improve United States economic performance on the order of 2½% of GDP per year.

⁶ “Banking: From Bagehot to Basel, and Back Again”, Buttonwood Gathering Speech, Section 7. More radical reforms, October 25, 2010, Reference 14.

⁷ Allen, William R., "Irving Fisher and the 100 Percent Reserve Proposal", *Journal of Law and Economics* vol. XXXVI (October 1993), Reference 1.

⁸ Federal Reserve Monetary Intermediation Cost Inefficiency Estimate, Attachment 1.

2. Inflation Monetary Intermediation Cost Issue

When the Federal Reserve creates new money there is a general belief that it is made out of "nothing" or "thin air". This is not true; money is a medium of exchange and represents value in trade. The aggregate value of money equals total wealth divided by the total stock of money, assuming the money is accepted as a medium of exchange. If new money is created the total wealth has not changed so the value of the money must be reduced BUT first use and control of the new money is directly vested in the Fed indicating a transfer of wealth to the Fed every time new money is created.

The economic system is constantly losing and transferring wealth to the Fed to sustain it, not "thin air" or the government as is widely believed. In this process not only does the Fed dilute and transfer wealth to itself from the other sectors of the economy but charges the economy additional interest from which the wealth was diluted and taken. The economy has no benefit from this structure, which is exclusively a transfer of wealth within the system without adding value to the system as a whole.

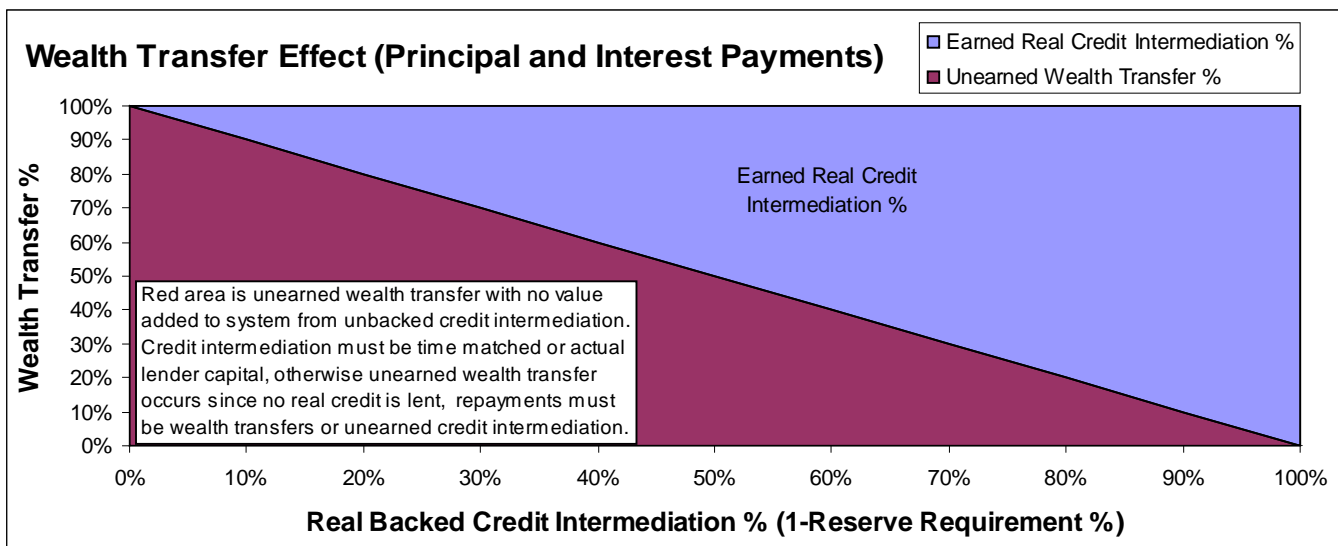


CHART 3 DATA SOURCE: Fractional Reserve Monetary Wealth Transfer and Earned Intermediation Schedules, Attachment 2.

Federal Reserve member banks utilizing a 10% reserve requirement⁹ are 90% (1 - applicable reserve requirement) beneficiaries of inflation by virtue of their first use of the new money created with the people and their elected government involuntarily having their wealth transferred to the banking sector by the same amount since no new wealth has been created. The primary driver of wealth inequality in the United States is the constant fractional reserve wealth transfer to the monetary issuing source.

Fed intermediation in the monetary creation process is unnecessary and reduces the overall return to the economic system by the amount of its intermediation cost, estimated at approximately 2½% of GDP per year¹⁰.

⁹ Reserve Requirement for Federal Reserve Member Banks is 10% over \$71.0 Million, Reference 6.

¹⁰ Federal Reserve Compounded Monetary Intermediation Cost since 1984 and 1960, Attachments 5 and 7.

3. Confounding the Fractional Reserve System with Credit Intermediation

The fractional reserve banking system has been confounded with credit intermediation with material adverse effects on the economy because fractional reserve lending is unearned wealth transfer whereas full reserve lending is earned credit intermediation. The confounding is that these two things appear so closely associated that they are assumed causally related or the same thing.

If fractional reserve lending and credit intermediation were causally related or the same thing increasing fractional reserve lending would increase credit available to the system and for temporary periods this can appear to be the case but it is known from the M&M Theorem that leverage does not change the value of the system so the credit of the system cannot be increasing and must be limited and return to the base wealth of the system itself.

Fractional reserve lending has never added value to the system. The entire history of fractional reserve lending will never be able to show that it added value without wealth transfer outside of the lending process to sustain it. It is virtually impossible to see the confounding defect of the system mixing the appearance of true credit lending with the fractional reserve system of lending unbacked credit, effectively nothing. The only thing happening is wealth transfer via inflation and direct bailout from the rest of the system to the money creation fractional reserve lending source with no increase in system value. **Since the fractional reserve lending source appears to add value via profits it is assumed to add value to the economic system under the profit motive theory. The profit is 90%+ inflationary wealth transfer from first use of new money creation. The only profit fractional reserve lending has ever made is inflationary wealth transfer from first use of new money creation during expansions, foreclosure wealth transfer during credit contractions and direct bailout wealth transfer and has reduced the returns to the economic system by the amount of its intermediation cost.** To the extent commercial banks may have used time matched funding and lending of their own capital some true credit intermediation was added to the system, but it is small on a relative basis at approximately 10% (1 – Bank Reserve Requirement).

In the fractional reserve lending system wealth transfer is $(\text{Loan Principal} + \text{Interest}) \times (1 - \text{Reserve Requirement})$. Inflation is the Principal portion of wealth transfer. In a 10% reserve system, 90% of the initial loan is inflation wealth transfer with interest repayment as 90% direct wealth transfer without added inflation. In a 100% reserve system there is no inflationary wealth transfer and 100% of the interest earned is true credit intermediation.

An example of direct lending compared to fractional reserve and full reserve lending follows to show the impact of fractional reserve wealth transfer and true credit intermediation. It is composed of Farmer A with a field that a crop is grown on, Farmer B with a Tractor that is rented to Farmer A and a Financial Intermediary that can lend Farmer A the amount of the tractor rent.

Initial Conditions

<u>Item</u>	<u>Value (Initial Condition)</u>
Crop Value	\$ 1,500
Tractor Rent (Farmer B)	\$ 500
Loan, if applicable	\$ 500
Loan Interest to Rent Tractor (5%)	\$ 25

I. Direct Lending (100% Full Reserve Lending - Farmer B is Lender of Real Credit - Tractor)

I. No Financial Intermediary (Real Asset Tractor Lending)				
	Farmer A	Farmer B	Intermediary	Total
Start (Cash)	\$475	\$475	\$50	\$1,000
Tractor Rent	(\$500)	\$500		\$0
Sell Crop	\$1,500			\$1,500
End (Cash)	\$1,475	\$975	\$50	\$2,500
Direct Net Earnings	\$1,000	\$500	\$0	\$1,500
% Earnings	66.67%	33.33%	0.00%	100.0%

TABLE 4 DATA SOURCE: Fractional Reserve Analysis with 10% Reserve Requirement, Attachment 3(a).

II. Fractional Reserve Lending (10% Reserve Requirement Financial Intermediation)

II. With 10% Reserve Financial Intermediation Added (10% Real Backing)				
	Farmer A	Farmer B	Intermediary	Total
Start (Cash)	\$475	\$475	\$50	\$1,000
Direct Net Earnings(Above)	\$1,000	\$500	\$0	\$1,500
Loan	\$500		\$500	\$500
Loan Interest	(\$25)		\$25	\$0
Pay Back Loan	(\$500)		\$500	\$0
End (Cash)	\$1,450	\$975	\$525	\$2,950
Net Earnings	\$975	\$500	\$475	\$1,950
% Earnings	50.00%	25.64%	24.36%	100.0%
Wealth Transfer=(Principal+Interest) x (1- RR). Inflation is Principal portion wealth transfer.				18.0%

TABLE 5 DATA SOURCE: Fractional Reserve Analysis with 10% Reserve Requirement, Attachment 3(a).

10% Fractional Reserve Requirement Financial Intermediation/Wealth Transfer Impact						
	(A)=(a) x (1-RR)	(B)= Item x (1-RR)	= (1 - RR)	(C)=Item x RR	(D) = (B) + (C)	
Item	Item \$ Amount	Inflation	\$ Unearned	% Unearned	\$ Earned	Total Return
Loan Principal (a)	\$500.0	\$450.0	\$450.00	90.0%		\$450.0
Interest (Loan(a) x (c))	\$25.0		\$22.50	90.0%	\$2.50	\$25.0
Total	\$525.0	\$450.0	\$472.50	90.0%	\$2.50	\$475.0
Wealth Transfer (Unearned Return = Σ(B))						\$472.50
Financial Intermediation Unearned Return % (Unearned Return/Total Return = Σ(B)/Σ(D))						99.5%
Intermediary Return on \$50 Required Reserve Investment (Total Return/Start Cash)						950.0%
Earned Financial Intermediation (Interest x Reserve Requirement = Σ(C))						\$2.50
Earned Financial Intermediation % of Total Return of \$475 (Earned Return/Total Return)						0.5%

TABLE 6 DATA SOURCE: Fractional Reserve Analysis with 10% Reserve Requirement, Attachment 3(a).

III. Full Reserve Lending (100% Reserve Financial Intermediation)

II. With 100% Reserve Financial Intermediation Added (100% Real Backing)				
	Farmer A	Farmer B	Intermediary	Total
Start (Cash)	\$250	\$250	\$500	\$1,000
Direct Net Earnings(Above)	\$1,000	\$500	\$0	\$1,500
Loan	\$500		\$500	\$500
Loan Interest	(\$25)		\$25	\$0
<u>Pay Back Loan</u>	(\$500)		\$500	\$0
End (Cash)	\$1,225	\$750	\$525	\$2,500
Net Earnings	\$975	\$500	\$25	\$1,500
% Earnings	65.00%	33.33%	1.67%	100.0%
Wealth Transfer=(Principal+Interest) x (1- RR). Inflation is Principal portion wealth transfer.				0.0%

TABLE 7 DATA SOURCE: Fractional Reserve Analysis with 100% Reserve Requirement, Attachment 3(b).

100% Fractional Reserve Requirement Financial Intermediation/Wealth Transfer Impact						
	(A)=(a) x (1-RR)	(B)= Item x (1-RR)	(C)= (1 - RR)	(D)= Item x RR	(E) = (B) + (C)	
Item	Item \$ Amount	Inflation	\$ Unearned	% Unearned	\$ Earned	Total Return
Loan Principal (a)	\$500.0	\$0.0	\$0.00	0.0%		\$0.0
Interest (Loan(a) x (c))	\$25.0		\$0.00	0.0%	\$25.00	\$25.0
Total	\$525.0	\$0.0	\$0.00	0.0%	\$25.00	\$25.0
Wealth Transfer (Unearned Return = Σ(B))						\$0.00
Financial Intermediation Unearned Return % (Unearned Return/Total Return = Σ(B)/Σ(D))						0.0%
Intermediary Return on \$500 Required Reserve Investment (Total Return/Start Cash)						5.0%
Earned Financial Intermediation (Interest x Reserve Requirement = Σ(C))						\$25.00
Earned Financial Intermediation % of Total Return of \$25 (Earned Return/Total Return)						100.0%

TABLE 8 DATA SOURCE: Fractional Reserve Analysis with 100% Reserve Requirement, Attachment 3(b).

The intermediary does not add value to this system and only has earned income to the extent lending was backed by actual reserves. It is known from the M&M Theorem that leverage does not add value to the system so leveraging credit does not add value and the appearance of profit must be wealth transfer.

In the real world Farmer A would not borrow money this way unless he thought he was getting something. Farmer A cannot tell the difference between real credit of Tractor lending and 90% unbacked, 10% reserve financial intermediation.

Fractional Reserve Wealth Transfer and Earned Intermediation Schedules – Attachment 2						
Reserve Requirement	Wealth Transfer	Wealth Transfer (Unearned)		Earned Intermediation		
		Principal	Interest	Principal	Interest	
0.0%	100.0%	100.0%	100.0%		0.0%	
10.0%	90.0%	90.0%	90.0%		10.0%	
20.0%	80.0%	80.0%	80.0%		20.0%	
30.0%	70.0%	70.0%	70.0%		30.0%	
40.0%	60.0%	60.0%	60.0%		40.0%	
50.0%	50.0%	50.0%	50.0%		50.0%	
60.0%	40.0%	40.0%	40.0%		60.0%	
70.0%	30.0%	30.0%	30.0%		70.0%	
80.0%	20.0%	20.0%	20.0%		80.0%	
90.0%	10.0%	10.0%	10.0%		90.0%	
100.0%	0.0%	0.0%	0.0%		100.0%	

4. Inability of Fed policy makers to forecast better than markets or GDP Index

The Federal Reserve team of economic forecasters is essentially equivalent to active management of mutual funds in the stock market that have been shown to have overwhelming odds against being able to keep pace with an index of the entire stock market.

The monetary intermediation cost of the Federal Reserve System is estimated to be on the order of 2½% of GDP per year¹¹, primarily through member bank creation and first use of new money instead of a direct issue system to the people. It is not believed Federal Reserve monetary policy management is adding value to the economy according to the M&M Theorem of capital structure irrelevance so the monetary intermediation cost of the Fed must be approximately a 90% (1 - applicable reserve requirement) reduction of returns and transfer of wealth to the Fed member banks.

In order for active monetary management to justify itself it would need to add economic performance to the economy by at least the amount of its intermediation cost, which it is not believed it is able to do. It should therefore be replaced with a GDP index based monetary system with a risk free rate of return or interest rate (r_f), that could be operated at much lower intermediation cost and would increase returns to the economic system by the amount of the reduced intermediation cost, on the order of 2½% of GDP per year from the improved efficiency of the monetary system.

Jack Bogle, who has written extensively on financial intermediation, has developed a Cost Matters Hypothesis (CMH) that is material to our national monetary policy:

“Gross return in the financial markets, minus the costs of financial intermediation, equals the net return actually delivered to investors. While truly staggering amounts of investment literature have been devoted to the EMH (the Efficient Market Hypothesis), precious little has been devoted to what I call the CMH - the Cost Matters Hypothesis. However, to explain the dire odds that investors face in their quest to beat the market we don't need the EMH. We need only the CMH. Whether markets are efficient or inefficient, investors as a group must fall short of the market return by precisely the amount of the aggregate costs they incur. It is the central fact of investing.”

John C. Bogle, Founder of the Vanguard Group, excerpted from his book "Don't Count on It!", 2010, Part One Investment Illusions, Chapter 2 The Relentless Rules of Humble Arithmetic, page 26.

Intermediation Cost Federal Reserve System (Est. using M2M)			
Year (End 12/31)	GDP (% Growth)	Intermediation (% GDP Cost)	GDP-Intermediation Net (% GDP)
1983			
1984	9.379%	1.795%	7.583%
1985	7.058%	3.948%	3.110%
1986	5.201%	5.267%	-0.066%
1987	7.479%	0.698%	6.781%
1988	7.534%	0.823%	6.711%
1989	6.298%	0.836%	5.462%
1990	4.735%	1.481%	3.255%
1991	4.217%	3.082%	1.134%
1992	6.584%	3.493%	3.090%
1993	4.931%	1.856%	3.075%
1994	6.375%	-0.266%	6.641%
1995	4.060%	0.370%	3.690%
1996	6.371%	1.806%	4.564%
1997	6.016%	2.055%	3.961%
1998	6.135%	3.567%	2.567%
1999	6.427%	2.426%	4.001%
2000	5.434%	1.736%	3.698%
2001	2.402%	5.024%	-2.622%
2002	3.796%	3.495%	0.301%
2003	6.018%	2.941%	3.076%
2004	6.212%	2.539%	3.673%
2005	6.413%	0.673%	5.740%
2006	5.292%	1.175%	4.118%
2007	4.925%	2.152%	2.773%
2008	-1.203%	3.522%	-4.725%
2009	0.369%	3.733%	-3.364%
2010	4.261%	3.490%	0.771%
2011	3.971%	6.077%	-2.106%
AVERAGES	5.22%	2.48%	2.70%
Count(Years)	28	28	28

TABLE 9 DATA SOURCE: Fed Annual Monetary Intermediation Cost 1984 to 2011 Est. using M2M Money Stock, Attachment 4.

¹¹ Federal Reserve Compounded Monetary Intermediation Cost To Economy since 1984 and 1960, Attachments 5 and 7.

5. Federal Reserve monetary intermediation cost impact on economy & jobs

Restoring the monetary intermediation cost of the Fed back to the economy is expected to improve economic performance by the amount of the reduced intermediation cost, on the order of 2½% of GDP per year¹² from the improved efficiency of the monetary system.

The Federal Reserve System has a 90% (1 - Reserve Requirement¹³) intermediation cost (wealth transfer effect) of new money creation. This is a transfer loss of purchasing power from 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 12,600,000 private sector jobs. Per NY Times estimate the \$504.1 Billion annual cost would be approximately 16,170,000 jobs. These estimates indicate the approximate cost of Fed intermediation is on the order of ten to twelve million or more 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

TABLE 10 DATA SOURCE: Fed Intermediation Cost Impact on Economy, Attachment 10.

Estimation Basis	(A)	(B)	Federal Reserve System Net Jobs Impact	
	Annual (\$ Billions)	Capitalized (\$ Billions)	(\$1 million value/job) (= (B) / \$1million)	NYT Estimate ⁴ (= (A) / \$31,169)
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

TABLE 11 DATA SOURCE: Fed Intermediation Cost Impact on Economy and Jobs, Attachment 10.

¹² Federal Reserve Compounded Monetary Intermediation Cost since 1984 and 1960, Attachments 5 and 7.

¹³ Reserve Requirement for Federal Reserve Member Banks is 10% over \$71.0 Million, Reference 6.

6. Optimal Quantity of Money and GDP Standard for Go Forward Monetary System

It is assumed the optimal quantity of money is the existing amount since it would have the least intermediation cost to change it to in a new system. The optimal quantity of money for the go forward monetary system is therefore the amount currently in use.

GDP Based Standard Quantity of Money

It is believed a GDP based monetary standard would be the most efficient and be easy to implement and maintain. It could be implemented by taking the current amount of money in circulation, dividing it by the current GDP and make that the standard quantity of money per unit of GDP. Increases in GDP would increase the money stock by a matching amount, which would be the risk free rate of return or interest rate (r_f), based on a money quantity per unit of GDP standard.

Population Based Standard Quantity of Money

Robert de Fremery makes a strong case in his 1955 book *Money and Freedom* that markets would function most efficiently utilizing a fixed standard measure of money and suggests a population based standard¹⁴, which would simply be to take the current amount of money in circulation and divide it by the current population and make that the standard quantity of money per person. Increases in population would increase the money stock by a matching amount of money based on the money quantity per person standard.

A fixed quantity of money per person standard was not proposed at this time because a GDP growth standard provides a revenue source, the risk free rate of return or interest rate (r_f), to fund the non-lending 100% depositor owned depositories proposed in section 8.

¹⁴ *Money and Freedom*, Robert de Fremery, 1955, Ch. 1 "Some Basic Economic Theory Concerning Money", Reference 5.

7. Why Gold is not the Answer for the Monetary System

Gold backing is unnecessary for the monetary system to work efficiently and adds intermediation expense to maintain it in storage.

It is believed a unit of GDP standard would provide better results than a gold standard because it would be easier to maintain and would provide an easily measurable standard for money stock determination. The primary reason gold has been desirable for usage as money was that it had limited availability and was difficult to counterfeit making it a good medium of exchange. The supply of gold is not fixed, nor is any commodity and therefore the price of the commodity backing the currency will fluctuate in value. Gold also has a history of being debased and because it is a commodity it can have wide value shifts making it unsuitable as a measure of value for medium of exchange use. The feature in its favor is its limited availability, however history has shown that gold based currencies have been debased over time and it is not useful as a standard of value.

With a fractional reserve system the right to convert currency to gold would decrease the money stock by more than the amount of the currency converted. The relationship between gold and the money stock is not one to one but one divided by the fractional reserve requirement percentage. At a 10% reserve requirement, converting \$1 to gold would reduce the money stock by \$10, a ten to one relationship that is not sustainable so gold offers no currency/money stock/credit availability security at all without a 100% reserve standard.

The observed fact of history is that prices are based on the medium of exchange actually used, not the commodity backing it as evidenced by the historic periodic monetary devaluations of the dollar in terms of gold, which did not result in a matching increase in prices in the U.S. economy.¹⁵

A 100% reserve system does not need any underlying commodity backing the currency as long as there is a standard to determine the amount of currency in circulation, which a GDP monetary unit standard would provide.

¹⁵ *Money and Freedom*, Robert de Fremery, 1955, Ch. 7 "Shall We Return to a Gold Standard--Now", Reference 5.

8. Economic Recovery Transition Process to Full Reserve Monetary System

Economic recovery begins with conversion to a full reserve monetary system and direct issuance of new money creation, known as Seigniorage, to the people based on a GDP monetary standard instead of Federal Reserve Member Banks. The improvement to the United States economy is expected to be the approximate amount of the reduced monetary intermediation cost, on the order of 2½% of GDP per year¹⁶ and restore on the order of ten to twelve million jobs¹⁷.

Currency

It is anticipated the 100% reserve system would be implemented using existing currency and coinage in circulation since the conversion process between the existing and new monetary system would be done at par to minimize the cost of transition. Existing Federal Reserve Notes would be allowed to continue in circulation and be exchanged with new issue U.S. Bills "backed by the people of the United States" as part of routine currency replacement maintenance.

The conversion process is described below with before and after balance sheets included in Attachments 8(a) to (d).

I. Commercial Banking System	Consolidated Commercial Banks 10/19/11 Balance Sheet-Attachment 8(a)
A. Full Reserve Banks	Sample Bank (BofA) 12/31/2011 Balance Sheet - Attachment 8(b)
B. Deposit Only Institutions	Sample Bank (BofA) 12/31/2011 Balance Sheet - Attachment 8(b)
II. Federal Reserve System	Federal Reserve 10/26/2011 Consolidated Balance Sheet - Attachment 8(c)
III. U.S. Government	U.S. Government Fiscal 2011 Balance Sheet - Attachment 8(d)
A. Commerce	
B. Treasury	

I. Commercial Banking System

Commercial banks would be required to divide themselves into two entities, one being a 100% reserve cash only demand depository¹⁸ that would not make any loans and the other being everything else that the bank does.

Commercial banks and other full reserve institutions would handle lending activity based on a 100% time matched maturity positive spread funding/lending business model utilizing certificates of deposit, funds raised in the bond market and from what ever other alternative sources of capital that were available to them including lending their own capital. The ability of banks to leverage themselves would still be available as in theory a CD could be up to 100% loaned out. Market experience would be expected to determine the level of leverage banks would stabilize around after conversion. As shown in Section 3 there is no credit intermediation loss with a full reserve system.

The existing fractional reserve mismatched maturity banking business model is a variation of a market timing strategy of buy low and sell high with demand deposits being buy low assets and loans being sell high assets as opposed to a matched maturity buy and hold strategy, which is the prevailing view in investment theory today. It is believed financial laws of investing are universally applicable and apply to deposit investments within economic systems. Traditional finance, which in a nut shell is to match the duration of liabilities to assets - long to long and short to short, indicates that financing long-term assets

¹⁶ Federal Reserve Compounded Monetary Intermediation Cost since 1984 and 1960, Attachments 5 and 7.

¹⁷ Fed Intermediation Cost Impact on Economy and Jobs, Attachment 10.

¹⁸ Suggested by among others David Hume in "Of Money", 1752, Reference 11.

with short term liabilities creates non-systematic business risk that can be diversified away by matched funding.

Major financial institutions IndyMac, Washington Mutual, Bears Sterns and Lehman Brothers all failed in 2008 utilizing mismatched maturity business models. These are business model risks, not systematic risks that the American economic system can diversify away with matched maturity funding at zero credit intermediation loss to the system. There is no downside to conversion from a systematic point of view and the stability and profitability of the banking sector would also be expected to improve from an improved matched funding business model.

A. Full Reserve Commercial Banks

Commercial banks would transfer, at no charge or fee, their demand deposit accounts to new independent depositor owned 100% reserve institutions. The accounts would be funded with existing bank held cash plus bank holdings of United States government securities that would be credited to the demand deposit accounts and retired as obligations of the U.S. government. Commercial banks would also receive a one-time monetary conversion loan from the U.S. government in the approximate amount of \$5.0 trillion to cover their remaining fractional reserve shortage in demand deposit funds as detailed below.

Commercial Bank Debt to U.S. Government from conversion to 100% Reserve Demand Deposits³	
	For Week Ending 10/19/2011
Commercial Bank Deposits (Assumed all Demand) - Liability 31	\$8,349.1
Less: Cash on Hand - Assets 25	(\$1,656.2)
<u>Less: Treasury and Agency Securities Holding - Assets 3</u>	<u>(\$1,689.8)</u>
Bonded Debt to U.S. Government from Funding 100% Demand Deposit Conversion	\$5,003.1
Source: H.8; Pages 4 & 5 Assets and Liabilities of Commercial Banks in United States (Not Seasonally Adjusted), FRB	

TABLE 12 DATA SOURCE: United States Government Consolidated Fiscal 2011 Balance Sheet, Attachment 8(d).

The monetary conversion loan from the United States would be at a market rate for equivalent debt such as Fannie Mae and/or Freddie Mac issues at an estimated 25 basis points (0.25%) premium over Treasuries. A premium over the new risk free rate of return or interest rate (r_f), which would match the risk free seigniorage rate at the new depositories, could also be used. The monetary conversion loan would have a laddered maturity structure to match existing loan and/or other asset repayment dates bringing systematic maturities into balance with no anticipated monetary inflation from the conversion process. The banks would also receive a one-time monetary conversion release of liability due to their fractional reserve demand deposit shortage of funds. Government receipts from repayment of the \$5.0 trillion monetary loan would be used to retire outstanding Treasury debt.

Savings & Loan institutions and any other financial institutions that take material demand deposits and/or issue credit would have up to three months or an agreed to time period to convert their accounts to time matched full reserve accounts or transfer them to a new depositor owned depository and be eligible for a monetary conversion loan.

All government sponsored deposit insurance programs would end at the completion of bank, Savings & Loan and credit provider conversion to full 100% reserve institutions. Placing funds with a commercial bank or S&L would be expected to have a premium return over the risk free deposit only institutions. Any public insurance of commercial bank or S&L CD type deposits would be a wealth transfer public credit substitution subsidy and is not needed since risk free interest paying depositor owned accounts would be available at the new deposit only institutions.

B. Deposit Only 100% Reserve Institutions

The new deposit only institutions would be created out of existing commercial banks and exclusively hold all of the cash demand deposits used in the United States. As mentioned in the Commercial banks section, fractional reserve lenders would do this in exchange for a monetary conversion loan of approximately \$5.0 trillion to fund demand deposits 100% and a one-time release of liability due to being technically bankrupt from their fractional reserve shortage of funds. Bank holdings of U.S. Government securities would be credited to the demand deposit accounts at the new depositor owned 100% reserve institutions and retired.

The new deposit only institutions would be 100% owned by their depositors and would operate under a Board of Directors composed of elected deposit account holders. The deposit institutions would be expected to generate revenue by developing a debit card network similar to VISA and MasterCard that would have a minimal intermediary charge to cover system costs. A second source of revenue and expected to be the main source would be new money issued, known as Seigniorage, by the Department of Commerce direct deposited on a pro rata basis to demand deposit account holders in accordance with the GDP growth standard. Protection of the depositor's accounts would be provided by the deposit owners themselves, utilizing a Vanguard type mutual fund model, with regular annual public audits. There would be no government provided deposit insurance such as the FDIC because all deposits would be depositor owned and backed 100%.

Cash demand deposit holding institutions will face overwhelming temptation to lend deposits based on the apparently 100% universal indication that that is what has happened in history. Probably the most well known case is the Bank of Amsterdam, which started as a 100% reserve institution in 1609 that went for years without audit and failed in 1790¹⁹ after undisclosed lending activity was revealed requiring governmental/public support, effectively the public bailing itself out with added intermediation costs to boot, and from then on the bank declined and was closed in 1819. Therefore any institution maintaining depositor owned cash accounts must be chartered to never lend money or credit under any circumstances including even overnight lending. Commercial banks and other full reserve institutions will exclusively handle lending activity.

Expansions of the money stock, based on a GDP Growth Standard, would be voted on by Congress and signed into law by the President. It is anticipated 2% to 4% or more annual increases to the money stock would be made based on the GDP growth standard. The increase would be paid directly to cash demand deposit holders, as Seigniorage, on a pro-rata basis by amount of cash held at the new depositor owned institutions. The payments would be anticipated to be made payable quarterly in arrears if the economy was expanding and could be called the risk free rate of return or interest (r_f) or a "Labor Dividend" to reflect that both labor and capital had combined to increase the productivity of the economy during the previous quarter. In the event of a GDP decline no interest or "Labor Dividend" would be paid until the economy had returned to net positive growth from the last dividend payment.

Direct issue would be at least a 90%²⁰ improvement in the intermediation process of adding money to the system and should save on the order of 2½% of GDP per year²¹ from the reduced monetary intermediation cost to the system.

¹⁹ *Money and Freedom*, Robert de Fremery, 1955, Ch. 3 "Origin of Banking", Reference 5.

²⁰ Federal Reserve Monetary Intermediation Cost Inefficiency Estimate, Attachment 1.

²¹ Federal Reserve Compounded Monetary Intermediation Cost since 1984 and 1960, Attachments 5 and 7.

A sample of how the system would have operated for the last ten years along with a comparison showing actual M2M (M₂ Less Small Time Deposits) Money Stock growth is included in the two charts below along with a table showing the source numbers. M2M was selected for this example, any actual system would have to have an agreed upon measure of the money stock such as M₁, M₂, M2M (M₂ Less Small Time Deposits), MZM (Money Zero Maturity), TMS (True Money Stock) or some other well defined monetary measure. GDP is assumed to be the measure for economic performance. The sum total of demand deposits held at the demand depositories could serve as the new go forward monetary standard.

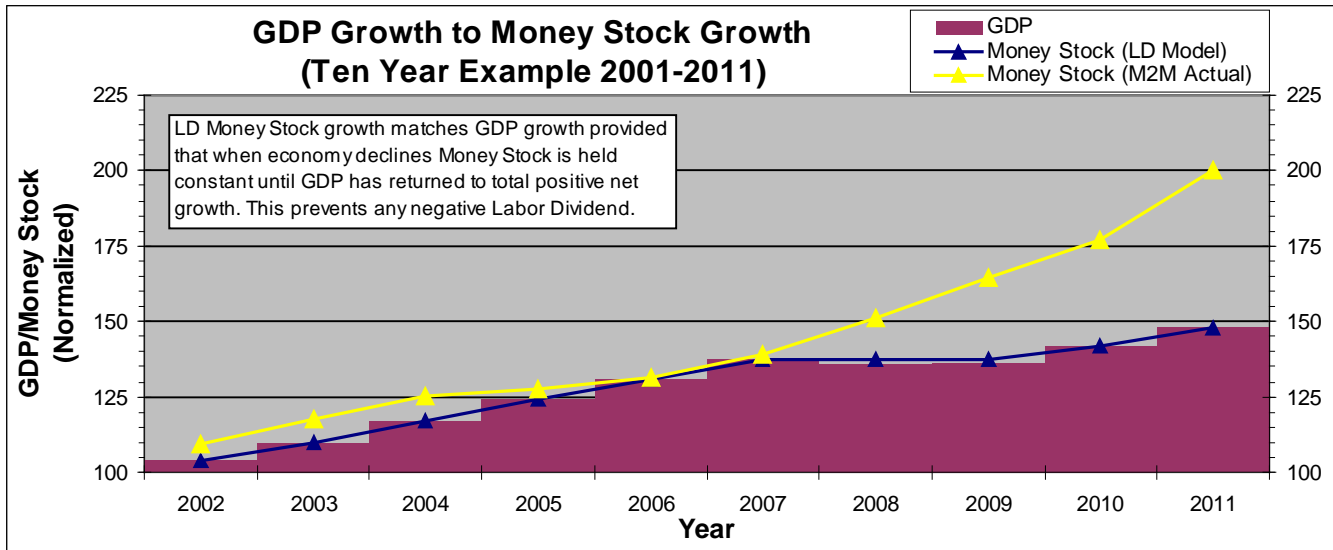


CHART 4 DATA SOURCE: Direct Issuance and First Use (Seigniorage) Money Supply, Attachment 11.

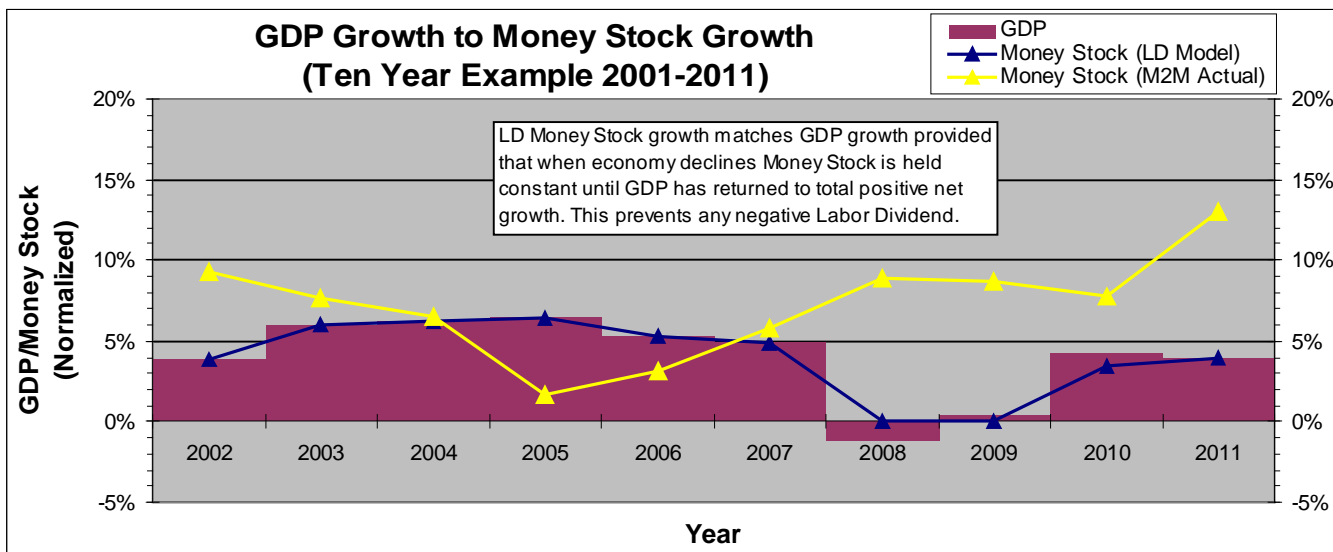


CHART 5 DATA SOURCE: Direct Issuance and First Use (Seigniorage) Money Supply, Attachment 11.

The risk free rate of return or interest (r_f) or "Labor Dividend" could be taxed, if necessary, at the time of issuance or taxed as a regular dividend or exempted as the increased money in circulation would be expected to increase revenues to the government by the same approximate percentage as the increase of the "Labor Dividend".

The size of these new 100% reserve demand deposit institutions should be limited so that none are able to grow large enough to present any systematic risk. A preliminary estimate is that no deposit institution should be allowed to grow larger than 1% to 1½% of total system monetary assets and that would be a factor to consider at the time of creation of the depositor owned institutions.

Insurance Companies Operating on the Fractional Reserve Business Model

Insurance providers are not part of the monetary system but do also operate utilizing the fractional reserve business model, usually 10% to 12%, meaning that a large loss all at once can result in losses of more than available reserves such as occurred to AIG, one of the world's largest insurance companies, in 2008. Insurance based on the fractional reserve model operates on the same principle as fractional reserve banking and does not add any systematic value in excess of reserves as shown in section 3. Therefore there should be no public insurance of private insurance companies because it is exclusively a wealth transfer with no value added to the economic system. All policy non-payment risk should be assumed by the policyholder as part of the due diligence process of purchasing insurance. Alternatively, insurance companies could be required to have the same full reserve capital requirement since the same fractional reserve wealth transfer principle applies. Writing a \$1 million policy would require \$1 million of matching at risk capital. The insurance company business model risk should be limited to the insurance industry and their customers and not continue as a systematic risk for the whole economy.

II. Federal Reserve System

The Federal Reserve System would be divided into two parts in the same manner as commercial banks. The deposit only portion of the Fed would be assigned to the Department of Treasury and assist with the financial operations of the federal government.

The remaining operations of the Federal Reserve System would sunset or be assigned to Department of Commerce. The ability of the Fed to purchase additional securities to increase the money stock and lender of last resort would be ended. Loan payoffs and investment sales would be credited to the U.S. government and retired. The Department of Commerce would maintain bank regulatory activity going forward.

Federal Reserve Notes would be converted at par with new debt free U.S. Bill currency issued and backed by the people of the United States. Existing Federal Reserve Notes would be allowed to continue in circulation and replaced as part of routine currency maintenance.

Federal Reserve Consolidated Statement Change from conversion to 100% Demand Deposits³		
	(\$ Millions)	For Week Ending
		10/26/2011
Federal Reserve Notes, net of F.R. Bank holdings Retired & Replaced with US Bills		\$1,001,574
Plus: Cash Equivalents Needed to cover U.S. Gov't Demand Deposits		\$36,604
Less: Treasury and Agency Securities Holdings Retired		(\$1,038,178)
Bonded Debt to U.S. Government from Funding 100% Demand Deposit Conversion		(\$0)

Source: Federal Reserve Statistical Release H.4.1 Table 8. Consolidated Statement of all Federal Reserve Banks

TABLE 13 DATA SOURCE: Federal Reserve Banks Consolidated Balance Sheet, Attachment 8(c).

The check processing function of the Federal Reserve System would be assigned to the new system of demand depositor owned institutions which would be expected to develop a network for processing checks and debit card transactions to finance their operations.

III. U.S. Government

Monetary policy would be transferred to the Legislative Branch to be signed into law and administered by the Executive Branch, believed to be most naturally a function of the Department of Commerce. Increases in the money stock based on the GDP standard would to be handled in traditional legislative manner.

A. Department of Commerce

The Department of Commerce would maintain the money stock and increase it by the net positive GDP growth of the economy. Currency and coinage related activities would be assigned to the Department of Commerce. The Department of Commerce would also maintain bank regulatory activity going forward and assume the sunseting non-demand deposit operations of the Federal Reserve System.

The Office of the Comptroller of Currency (OCC) would become an independent bureau within the Department of Commerce.

B. Department of Treasury

The mission statement of the Treasury would be redefined to manage the U.S. Government's finances and resources effectively. Managing government accounts, public debt, revenue collection and tax policy would remain functions of the Treasury Department. The deposit only portion of the Fed would be assigned to the Department of Treasury and assist with the financial operation of the federal government.

9. How Financial Emergencies Would Be Handled

The same way they are handled now. What would change is the intermediation cost of introducing new money into the financial system. With a full reserve system there would no longer be deposit bank failures so the financial system would no longer be at risk. Much financial regulation could be retired since it would no longer be applicable, which should also improve economic system performance.

The government would handle emergencies by getting legislative approval signed into law by the President in the following estimated order priority:

- 1) Traditional taxation,
- 2) Issue debt to the general market in the form of bonds, and
- 3) Taxing GDP monetary seigniorage payments issued to the people.

It is believed that virtually all emergencies would be covered by traditional taxation and debt issuance. Once new money seigniorage is issued directly to the people in item 3) it could be taxed in an emergency situation.

10. Conclusion

Economic recovery begins with conversion to a full reserve monetary system and direct issuance of new money creation, known as Seigniorage, to the people based on a GDP growth standard instead of Federal Reserve Member Banks. The improvement to the United States economy is expected to be the approximate amount of the reduced monetary intermediation cost, on the order of 2½% of GDP per year²². Conversion to a full reserve monetary system is also estimated to improve the balance sheet of the United States on the order of \$8.4 trillion²³ as of fiscal year 2011 and restore on the order of ten to twelve million jobs²³.

Replacing the Federal Reserve System with a 100% reserve system and GDP based monetary standard would result in 90%²⁴ lower monetary intermediation cost, less structural leverage risk, a more stable economy, more efficient allocation of capital and a higher standard of living for all Americans. Returning control of monetary policy to the people would also restore transparency and accountability to the taxpayers and voters of our nation that is not possible with the current system. Unfair and unequal discretionary bailouts of some companies and not others would be eliminated²⁵ and critically involuntary wealth transfers to the banking sector from the other sectors of the economy would also be eliminated.²⁶

A primary reason cited for 100% full reserve banking legislation not passing with the Banking Act of 1935 (H.R. 7617) was that it was not possible to demonstrate the economic superiority of a 100% reserve system to the existing fractional reserve system²⁷. It is believed that with the discovery of the Modigliani-Miller Financial Theorem in 1958 of the irrelevance of capital structure that proof of the superiority of the full reserve system has existed since that time because of its lower monetary intermediation cost.

Full Reserve System Will Work Better Than The Current Fractional Reserve System

The key to a highly efficient, well functioning growth-oriented economy is that commerce, routine on-going transactions, proceed independent of any financial institution that might fail. Failure of any financial institution, up to and including all financial institutions, would not affect the daily routine of commerce with a depositor owned full reserve monetary system and therefore financial risk would be removed as a systematic risk for the United States economic system. As shown in Section 3 there is no credit intermediation loss with a full reserve system and there would be a more efficient allocation of economic returns reducing and/or eliminating the current wealth transfer disparity caused by the fractional reserve system.

²² Federal Reserve Compounded Monetary Intermediation Cost since 1984 and 1960, Attachments 5 and 7.

²³ Federal Reserve Monetary Intermediation Cost Impact on Economy and Jobs Estimate, Attachment 10.

²⁴ Federal Reserve Monetary Intermediation Cost Inefficiency Estimate, Attachment 1.

²⁵ "Wall Street Aristocracy Got \$1.2 Trillion in Secret Fed Loans", Bloomberg 8/22/2011, Reference 13.

²⁶ "Financial Rescue Nears GDP as Pledges top \$12.8 Trillion" Cost Summary as of March 31, 2009, Attachment 14.

²⁷ Allen, William R., "Irving Fisher and the 100 Percent Reserve Proposal", *Journal of Law and Economics* vol. XXXVI (October 1993) p. 716, Reference 1.

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Attachment 1
Economic Recovery Plan for the United States
Monetary Intermediation Cost Inefficiency Estimate
(with Wealth Transfer Effect)

I. Intermediation Cost using Current Federal Reserve Monetary System		
Federal Reserve Monetary Issuance System	\$ Amount	Efficiency of Monetary Increase
1. Federal Reserve acquires government issued debt	\$1,000,000	10.0%
2. Federal Reserve Bank Reserve Requirement (est.) ¹	10.0%	
3. Money Supply Increase via Federal Reserve Bank Loans	\$10,000,000	100.0%
4. Fed Reserve Banks net Increased Loans (Intermediation Cost)	\$9,000,000	90.0%

People/Gov't Benefit

Intermediation Cost

Intermediation Cost Inefficiency Utilizing Federal Reserve Banking Monetary System

With the Federal Reserve System's approximate 10% fractional reserve lending requirement, 90% of the money supply increase is in the form of new Fed Reserve member bank loans with 10% of the increase to the government from new debt issuance indicating that the cost of using the Federal Reserve System as an intermediary to increase the money supply is 90%. The money supply increase dilutes the existing money stock and transfers wealth from the other sectors of the economy to the banking sector by the amount of the money supply increase. Money creation and first use, known as seigniorage, by the Fed is equivalent to 90% direct wealth transfer.

II. Direct Monetary Expansion System to People using Government Entity		
Direct Monetary Issuance System (Possible Commerce Dept)	\$ Amount	Beneficiaries of Monetary Increase
1. People issued bills directly from Government (Commerce Dept)	\$1,000,000	100.0%
2. People/Government Portion of issued bills	100.0%	
3. Money Supply Increase to People via Direct Government Issue	\$1,000,000	100.0%
4. Fed Reserve Banks net Increased Loans (Intermediation Cost)	\$0	0.0%

People/Gov't Benefit

Intermediation Cost

Intermediation Efficiency Increase with Direct Issuance of Currency

With direct issuance of money supply increases to the American people and/or people holding dollar denominated demand deposit accounts, anticipated to most naturally be voted on by Congress and administered by the Department of Commerce, 100% of the increase in the money supply goes direct to the American people with no intermediation loss. Direct issuance of money supply increases eliminating the intermediation cost of the Federal Reserve System would be at least 90% more efficient than the current system and eliminate the wealth transfer to the banking sector issue. The government could tax the new money seigniorage at issuance to the people if necessary or as a regular part of the income tax collection process.

Prepared By

William Haugen
 1715 Gaston Ave Apt 2225
 Dallas, TX 75214
 214-321-7494
whaugen@flash.net
 October 19, 2012

SOURCES:

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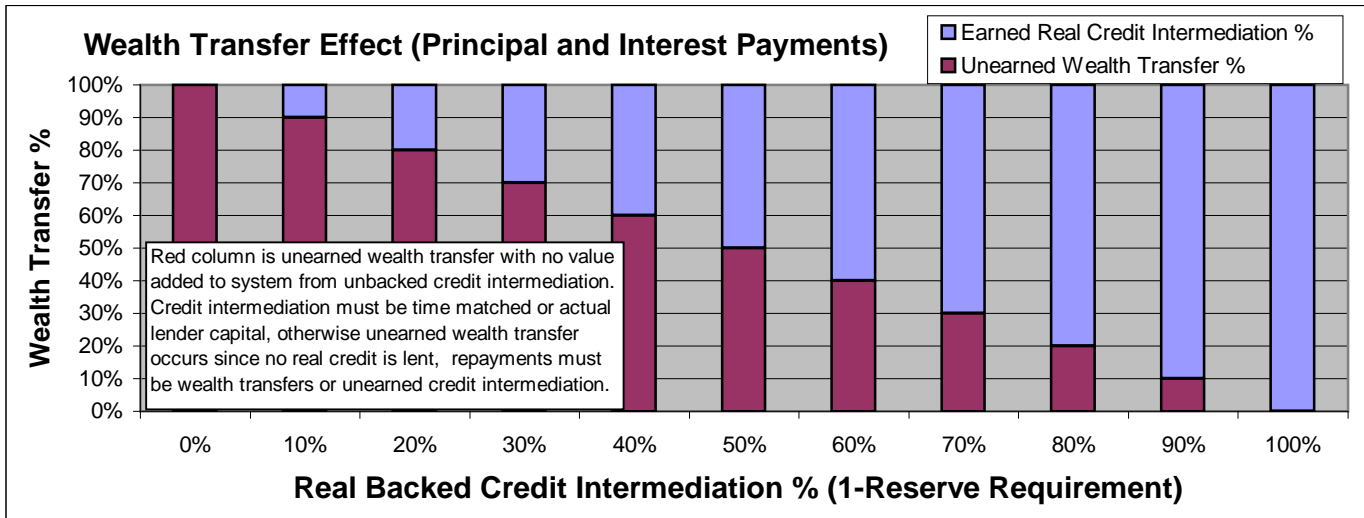
Attachment 2

Economic Recovery Plan for the United States

Fractional Reserve Monetary Intermediation Impact Schedules

Fractional Reserve Monetary Wealth Transfer and Earned Intermediation Schedules

Reserve Requirement	Wealth Transfer	Wealth Transfer (Unearned)		Earned Intermediation	
		Principal	Interest	Principal	Interest
0.0%	100.0%	100.0%	100.0%		0.0%
10.0%	90.0%	90.0%	90.0%		10.0%
20.0%	80.0%	80.0%	80.0%		20.0%
30.0%	70.0%	70.0%	70.0%		30.0%
40.0%	60.0%	60.0%	60.0%		40.0%
50.0%	50.0%	50.0%	50.0%		50.0%
60.0%	40.0%	40.0%	40.0%		60.0%
70.0%	30.0%	30.0%	30.0%		70.0%
80.0%	20.0%	20.0%	20.0%		80.0%
90.0%	10.0%	10.0%	10.0%		90.0%
100.0%	0.0%	0.0%	0.0%		100.0%



Notes:

- 1-A 100% reserve requirement does not mean a credit intermediary would not be able to lend, it means the intermediated credit, say a 5-year loan, would need to be 100% time matched with 5-year funds such as a 5-year certificate of deposit with the credit intermediary making a spread profit. Credit intermediary would also be able to lend their own capital without restriction.
- 3-It is not possible to have credit intermediation on demand deposits, even overnight funds lending, because the funds can be withdrawn at any time and must be 100% available. Any and all lending of third party demand deposits is 0% credit intermediation and 100% wealth transfer to the lender system from the borrower system.
- 4-To avoid the temptation to loan demand deposits, checking accounts and accounts subject to debit card withdrawals, it is believed new deposit only institutions should be created that are 100% owned by the depositors themselves so that if deposits are ever lent resulting in a loss, the depository owners would experience 100% of the loss without impacting the rest of the deposit only system. There would be no insurance for this type of loss, it would be up to the deposit owners to operate their depositories to protect their own money. Protection would come from a depositor owned board of directors and regular public audits. It is expected depository only institutions would be able to cover their costs through development of a debit card network and direct deposit of money supply expansions on a pro rata basis from "Labor Dividends" otherwise known as seigniorage.

Prepared By

William Haugen
 7175 Gaston Ave Apt 2225
 Dallas, TX 75214
 214-321-7494
whaugen@flash.net
 October 19, 2012

Economic Recovery Plan for the United States

Fractional Reserve Analysis with 10% Reserve Requirement (Example)

No Financial Intermediary Analysis

When no financial intermediary is involved, intermediation must be real direct asset lending. In this example, Farmer B as Intermediary lends Farmer A a tractor to use for \$500. Farmer A rents the tractor from Farmer B and grows a crop which is sold. In this system \$1,500 of wealth is created from crop sale split \$1,000 to Farmer A and \$500 to Farmer B for use of the tractor with financial intermediary not participating at \$0.

I. No Financial Intermediary (Real Asset Tractor Lending)					
	Farmer A	Farmer B	Intermediary	Total	
Start (Cash)	\$475	\$475	\$50	\$1,000	Begin Cash
Tractor Rent	(\$500)	\$500		\$0	
Sell Crop	\$1,500			\$1,500	
End (Cash)	\$1,475	\$975	\$50	\$2,500	End Cash
Direct Net Earnings	\$1,000	\$500	\$0	\$1,500	Earnings (\$)
% Earnings	66.67%	33.33%	0.00%	100.0%	Earnings (%)

II. With 10% Reserve Financial Intermediation Added (10% Real Backing)					
	Farmer A	Farmer B	Intermediary	Total	
Start (Cash)	\$475	\$475	\$50	\$1,000	Begin Cash
Direct Net Earnings(Above)	\$1,000	\$500	\$0	\$1,500	
Loan	\$500		\$500	\$500	
Loan Interest	(\$25)		\$25	\$0	
Pay Back Loan	(\$500)		\$500	\$0	
End (Cash)	\$1,450	\$975	\$525	\$2,950	End Cash
Net Earnings	\$975	\$500	\$475	\$1,950	Earnings (\$)
% Earnings	50.00%	25.64%	24.36%	100.0%	Earnings (%)
Wealth Transfer=(Principal+Interest) x (1- RR). Inflation is Principal portion wealth transfer.				18.0%	Inflation Cash

10% Fractional Reserve Requirement Financial Intermediation/Wealth Transfer Impact						
	(A)=(a) x (1-RR)	(B)= Item x (1-RR)	= (1 - RR)	(C)=Item x RR	(D) = (B) + (C)	
Item	Item \$ Amount	Inflation	\$ Unearned	% Unearned	\$ Earned	Total Return
Loan Principal (a)	\$500.0	\$450.0	\$450.00	90.0%		\$450.0
Interest (Loan(a) x (c))	\$25.0		\$22.50	90.0%	\$2.50	\$25.0
Total	\$525.0	\$450.0	\$472.50	90.0%	\$2.50	\$475.0
Wealth Transfer (Unearned Return = Σ(B))						\$472.50
Financial Intermediation Unearned Return % (Unearned Return/Total Return = Σ(B)/Σ(D))						99.5%
Intermediary Return on \$50 Required Reserve Investment (Total Return/Start Cash)						950.0%
Earned Financial Intermediation (Interest x Reserve Requirement = Σ(C))						\$2.50
Earned Financial Intermediation % of Total Return of \$475 (Earned Return/Total Return)						0.5%

10% Fractional Reserve Financial Intermediation Analysis

In this 10% fractional reserve system the Financial Intermediary adds a \$500 loan into the system 90% (1-reserve requirement) backed by no real or financial assets, increasing fractional reserve returns by \$450 to \$1,950 from the sale of the exact same crop now split \$975 to Farmer A, \$500 to Farmer B and \$475 to the intermediary that added 10% real credit. Farmer A pays back a \$500 loan and pays interest of \$25 for 10% (\$50) of true credit intermediation. In the real world Farmer A would not borrow money this way unless he thought he was getting something, in this case Farmer A might take this type of loan to maintain some liquidity during the growing period before crop harvest. The Financial Intermediary loan captures 24.36% of the system earnings in the form of inflation and interest in a 90% direct transfer of wealth since the same crop is produced.

Prepared By

William Haugen
7175 Gaston Ave Apt 2225
Dallas, TX 75214
214-321-7494
whaugen@flash.net
October 19, 2012

Fractional Reserve Intermediation Analysis

In this system Wealth Transfer is (Loan Principal + Interest) x (1- Reserve Requirement)). Inflation is Principal portion of wealth transfer. In a 0% reserve system 100% of the loan repayment results in inflation with interest payments as direct wealth transfer without added inflation. In a 100% reserve system there is no inflationary wealth transfer and 100% of the interest earned is true credit intermediation.

Assumptions

Initial System Cash	\$1,000
Tractor Rent \$	\$500
Crop Sale Price	\$1,500
(a)-Loan Amount \$	\$500
(b)-Reserve Requirement (RR)	10.00%
(c)-Interest Rate	5.00%

Economic Recovery Plan for the United States

Fractional Reserve Analysis with 100% Reserve Requirement (Example)

No Financial Intermediary Analysis

When no financial intermediary is involved, intermediation must be real direct asset lending. In this example, Farmer B as Intermediary lends Farmer A a tractor to use for \$500. Farmer A rents the tractor from Farmer B and grows a crop which is sold. In this system \$1,500 of wealth is created from crop sale split \$1,000 to Farmer A and \$500 to Farmer B for use of the tractor with financial intermediary not participating at \$0.

I. No Financial Intermediary (Real Asset Tractor Lending)					
	Farmer A	Farmer B	Intermediary	Total	
Start (Cash)	\$250	\$250	\$500	\$1,000	Begin Cash
Tractor Rent	(\$500)	\$500		\$0	
Sell Crop	\$1,500			\$1,500	
End (Cash)	\$1,250	\$750	\$500	\$2,500	End Cash
Direct Net Earnings	\$1,000	\$500	\$0	\$1,500	Earnings (\$)
% Earnings	66.67%	33.33%	0.00%	100.0%	Earnings (%)

II. With 100% Reserve Financial Intermediation Added (100% Real Backing)					
	Farmer A	Farmer B	Intermediary	Total	
Start (Cash)	\$250	\$250	\$500	\$1,000	Begin Cash
Direct Net Earnings(Above)	\$1,000	\$500	\$0	\$1,500	
Loan	\$500		\$500	\$500	
Loan Interest	(\$25)		\$25	\$0	
Pay Back Loan	(\$500)		\$500	\$0	
End (Cash)	\$1,225	\$750	\$525	\$2,500	End Cash
Net Earnings	\$975	\$500	\$25	\$1,500	Earnings (\$)
% Earnings	65.00%	33.33%	1.67%	100.0%	Earnings (%)
Wealth Transfer=(Principal+Interest) x (1- RR). Inflation is Principal portion wealth transfer.				0.0%	Inflation Cash

100% Fractional Reserve Requirement Financial Intermediation/Wealth Transfer Impact						
	(A)=(a) x (1-RR)	(B)= Item x (1-RR)	= (1 - RR)	(C)=Item x RR	(D) = (B) + (C)	
Item	Item \$ Amount	Inflation	\$ Unearned	% Unearned	\$ Earned	Total Return
Loan Principal (a)	\$500.0	\$0.0	\$0.00	0.0%		\$0.0
Interest (Loan(a) x (c))	\$25.0		\$0.00	0.0%	\$25.00	\$25.0
Total	\$525.0	\$0.0	\$0.00	0.0%	\$25.00	\$25.0
Wealth Transfer (Unearned Return = Σ(B))						\$0.00
Financial Intermediation Unearned Return % (Unearned Return/Total Return = Σ(B)/Σ(D))						0.0%
Intermediary Return on \$500 Required Reserve Investment (Total Return/Start Cash)						5.0%
Earned Financial Intermediation (Interest x Reserve Requirement = Σ(C))						\$25.00
Earned Financial Intermediation % of Total Return of \$25 (Earned Return/Total Return)						100.0%

100% Fractional Reserve Financial Intermediation Analysis

In this 100% fractional reserve system the Financial Intermediary adds a \$500 loan into the system 100% backed by real financial assets (intermediary start cash), increasing fractional reserve returns by \$0 to the same \$1,500 from the sale of the exact same crop now split \$975 to Farmer A, \$500 to Farmer B and \$25 to the intermediary that added 100% real credit. Farmer A pays back a \$500 loan and pays interest of \$25 for 100% (\$500) of true credit intermediation. In the real world Farmer A would take this type of loan to maintain some liquidity during the growing period before crop harvest. The Financial Intermediary loan captures 1.67% of the system earnings in the form of interest with no unearned transfer of wealth in the form of fractional reserve lending inflation since the same crop is produced with no cash added to the system.

Prepared By

William Haugen
7175 Gaston Ave Apt 2225
Dallas, TX 75214
214-321-7494
whaugen@flash.net
October 19, 2012

Fractional Reserve Intermediation Analysis

In this system Wealth Transfer is (Loan Principal + Interest) x (1- Reserve Requirement)). Inflation is Principal portion of wealth transfer. In a 0% reserve system 100% of the loan repayment results in inflation with interest payments as direct wealth transfer without added inflation. In a 100% reserve system there is no inflationary wealth transfer and 100% of the interest earned is true credit intermediation.

Assumptions

Initial System Cash	\$1,000
Tractor Rent \$	\$500
Crop Sale Price	\$1,500
(a)-Loan Amount \$	\$500
(b)-Reserve Requirement (RR)	100.00%
(c)-Interest Rate	5.00%

Economic Recovery Plan for the United States

Fractional Reserve Analysis with 10% Reserve Requirement (Example)

Recession (25% Crop Failure from \$1,500 to \$1,125)

No Financial Intermediary Analysis

When no financial intermediary is involved, intermediation must be real direct asset lending. In this example, Farmer B as Intermediary lends Farmer A a tractor to use for \$500. Farmer A rents the tractor from Farmer B and grows a crop which is sold. In this system \$1,500 of wealth is created from crop sale split \$1,000 to Farmer A and \$500 to Farmer B for use of the tractor with financial intermediary not participating at \$0.

I. No Financial Intermediary (Real Asset Tractor Lending)					
	Farmer A	Farmer B	Intermediary	Total	
Start (Cash)	\$475	\$475	\$50	\$1,000	Begin Cash
Tractor Rent	(\$500)	\$500		\$0	
Sell Crop	\$1,125			\$1,125	
End (Cash)	\$1,100	\$975	\$50	\$2,125	End Cash
Direct Net Earnings	\$625	\$500	\$0	\$1,125	Earnings (\$)
% Earnings	55.56%	44.44%	0.00%	100.0%	Earnings (%)

II. With 10% Reserve Financial Intermediation Added (10% Real Backing)					
	Farmer A	Farmer B	Intermediary	Total	
Start (Cash)	\$475	\$475	\$50	\$1,000	Begin Cash
Direct Net Earnings(Above)	\$625	\$500	\$0	\$1,125	
Loan	\$500		\$500	\$500	
Loan Interest	(\$25)		\$25	\$0	
Pay Back Loan	(\$500)		\$500	\$0	
End (Cash)	\$1,075	\$975	\$525	\$2,575	End Cash
Net Earnings	\$600	\$500	\$475	\$1,575	Earnings (\$)
% Earnings	38.10%	31.75%	30.16%	100.0%	Earnings (%)
Wealth Transfer=(Principal+Interest) x (1- RR). Inflation is Principal portion wealth transfer.				21.2%	Inflation Cash

10% Fractional Reserve Requirement Financial Intermediation/Wealth Transfer Impact						
	(A)=(a) x (1-RR)	(B)= Item x (1-RR)	= (1 - RR)	(C)=Item x RR	(D) = (B) + (C)	
Item	Item \$ Amount	Inflation	\$ Unearned	% Unearned	\$ Earned	Total Return
Loan Principal (a)	\$500.0	\$450.0	\$450.00	90.0%		\$450.0
Interest (Loan(a) x (c))	\$25.0		\$22.50	90.0%	\$2.50	\$25.0
Total	\$525.0	\$450.0	\$472.50	90.0%	\$2.50	\$475.0
Wealth Transfer (Unearned Return = Σ(B))						\$472.50
Financial Intermediation Unearned Return % (Unearned Return/Total Return = Σ(B)/Σ(D))						99.5%
Intermediary Return on \$50 Required Reserve Investment (Total Return/Start Cash)						950.0%
Earned Financial Intermediation (Interest x Reserve Requirement = Σ(C))						\$2.50
Earned Financial Intermediation % of Total Return of \$475 (Earned Return/Total Return)						0.5%

10% Fractional Reserve Financial Intermediation Analysis

In this 10% fractional reserve system the Financial Intermediary adds a \$500 loan into the system 90% (1-reserve requirement) backed by no real or financial assets, increasing fractional reserve returns by \$450 to \$1,575 from the sale of the exact same crop now split \$600 to Farmer A, \$500 to Farmer B and \$475 to the intermediary that added 10% real credit. Farmer A pays back a \$500 loan and pays interest of \$25 for 10% (\$50) of true credit intermediation. In the real world Farmer A would not borrow money this way unless he thought he was getting something, in this case Farmer A might take this type of loan to maintain some liquidity during the growing period before crop harvest. The Financial Intermediary loan captures 30.16% of the system earnings in the form of inflation and interest in a 90% direct transfer of wealth since the same crop is produced.

Prepared By

William Haugen
7175 Gaston Ave Apt 2225
Dallas, TX 75214
214-321-7494
whaugen@flash.net
October 19, 2012

Fractional Reserve Intermediation Analysis

In this system Wealth Transfer is (Loan Principal + Interest) x (1- Reserve Requirement)). Inflation is Principal portion of wealth transfer. In a 0% reserve system 100% of the loan repayment results in inflation with interest payments as direct wealth transfer without added inflation. In a 100% reserve system there is no inflationary wealth transfer and 100% of the interest earned is true credit intermediation.

Assumptions

Initial System Cash	\$1,000
Tractor Rent \$	\$500
Crop Sale Price	\$1,125
(a)-Loan Amount \$	\$500
(b)-Reserve Requirement (RR)	10.00%
(c)-Interest Rate	5.00%

Economic Recovery Plan for the United States

Fractional Reserve Analysis with 10% Reserve Requirement (Example)

Depression (75% Crop Failure from \$1,500 to \$325)

No Financial Intermediary Analysis

When no financial intermediary is involved, intermediation must be real direct asset lending. In this example, Farmer B as Intermediary lends Farmer A a tractor to use for \$500. Farmer A rents the tractor from Farmer B and grows a crop which is sold. In this system \$1,500 of wealth is created from crop sale split \$1,000 to Farmer A and \$500 to Farmer B for use of the tractor with financial intermediary not participating at \$0.

I. No Financial Intermediary (Real Asset Tractor Lending)					
	Farmer A	Farmer B	Intermediary	Total	
Start (Cash)	\$475	\$475	\$50	\$1,000	Begin Cash
Tractor Rent	(\$500)	\$500		\$0	
Sell Crop	\$375			\$375	
End (Cash)	\$350	\$975	\$50	\$1,375	End Cash
Direct Net Earnings	(\$125)	\$500	\$0	\$375	Earnings (\$)
% Earnings	-33.33%	133.33%	0.00%	100.0%	Earnings (%)

II. With 10% Reserve Financial Intermediation Added (10% Real Backing)					
	Farmer A	Farmer B	Intermediary	Total	
Start (Cash)	\$475	\$475	\$50	\$1,000	Begin Cash
Direct Net Earnings(Above)	(\$125)	\$500	\$0	\$375	
Loan	\$500		\$500	\$500	
Loan Interest	(\$25)		\$25	\$0	
Pay Back Loan	(\$500)		\$500	\$0	
End (Cash)	\$325	\$975	\$525	\$1,825	End Cash
Net Earnings	(\$150)	\$500	\$475	\$825	Earnings (\$)
% Earnings	-18.18%	60.61%	57.58%	100.0%	Earnings (%)
Wealth Transfer=(Principal+Interest) x (1- RR). Inflation is Principal portion wealth transfer.				32.7%	Inflation Cash

10% Fractional Reserve Requirement Financial Intermediation/Wealth Transfer Impact						
	(A)=(a) x (1-RR)	(B)= Item x (1-RR)	= (1 - RR)	(C)=Item x RR	(D) = (B) + (C)	
Item	Item \$ Amount	Inflation	\$ Unearned	% Unearned	\$ Earned	Total Return
Loan Principal (a)	\$500.0	\$450.0	\$450.00	90.0%		\$450.0
Interest (Loan(a) x (c))	\$25.0		\$22.50	90.0%	\$2.50	\$25.0
Total	\$525.0	\$450.0	\$472.50	90.0%	\$2.50	\$475.0
Wealth Transfer (Unearned Return = Σ(B))						\$472.50
Financial Intermediation Unearned Return % (Unearned Return/Total Return = Σ(B)/Σ(D))						99.5%
Intermediary Return on \$50 Required Reserve Investment (Total Return/Start Cash)						950.0%
Earned Financial Intermediation (Interest x Reserve Requirement = Σ(C))						\$2.50
Earned Financial Intermediation % of Total Return of \$475 (Earned Return/Total Return)						0.5%

10% Fractional Reserve Financial Intermediation Analysis

In this 10% fractional reserve system the Financial Intermediary adds a \$500 loan into the system 90% (1-reserve requirement) backed by no real or financial assets, increasing fractional reserve returns by \$450 to \$825 from the sale of the exact same crop now split (\$150) to Farmer A, \$500 to Farmer B and \$475 to the intermediary that added 10% real credit. Farmer A pays back a \$500 loan and pays interest of \$25 for 10% (\$50) of true credit intermediation. In the real world Farmer A would not borrow money this way unless he thought he was getting something, in this case Farmer A might take this type of loan to maintain some liquidity during the growing period before crop harvest. The Financial Intermediary loan captures 57.6% of the system earnings in the form of inflation and interest in a 90% direct transfer of wealth since the same crop is produced.

Prepared By

William Haugen
7175 Gaston Ave Apt 2225
Dallas, TX 75214
214-321-7494
whaugen@flash.net
October 19, 2012

Fractional Reserve Intermediation Analysis

In this system Wealth Transfer is (Loan Principal + Interest) x (1- Reserve Requirement)). Inflation is Principal portion of wealth transfer. In a 0% reserve system 100% of the loan repayment results in inflation with interest payments as direct wealth transfer without added inflation. In a 100% reserve system there is no inflationary wealth transfer and 100% of the interest earned is true credit intermediation.

Assumptions

Initial System Cash	\$1,000
Tractor Rent \$	\$500
Crop Sale Price	\$375
(a)-Loan Amount \$	\$500
(b)-Reserve Requirement (RR)	10.00%
(c)-Interest Rate	5.00%

Attachment 4
Economic Recovery Plan for the United States

Fed Annual Monetary Intermediation Cost 1984 to 2011 using M2M Money Stock¹

Assumptions

Fed Reserve Requirement (RR) 10.0%

Intermediation Cost Federal Reserve System (\$)								Intermediation Cost Federal Reserve System (% Est.)			
(N)	(A)	(B) = (A _N) - (A _{N-1})	(C) = (B ³) x (1-RR)	(D)	(E)=(C)+(D)	(F)	(G) = (F _N - F _{N-1})/F _{N-1}	(H) = (E) / (F)	(I)	(J) = (G) - (H)	
#	Year (End 12/31)	MoneyStock M2M-NS ¹ (\$ Billions)	\$ Increase Prior Year (\$ Billions)	Money Stock Change Intermediation Cost (\$ Billions)	Actual (Net) Budget ² (\$ Billions)	Total Annual Intermediation Cost (\$ Billions)	GDP ³ (\$ Billions)	GDP ³ (% Growth)	Intermediation (% GDP Cost)	Inflation % CPI-U (EOY) ⁴	GDP-Intermediation Net (% GDP) (r _t)
0	1983	\$1,349.9					\$3,688.1				
1	1984	\$1,429.7	\$79.8	\$71.82	\$0.607	\$72.427	\$4,034.0	9.379%	1.795%	3.949%	7.583%
2	1985	\$1,618.6	\$188.9	\$170.01	\$0.487	\$170.497	\$4,318.7	7.058%	3.948%	3.799%	3.110%
3	1986	\$1,883.9	\$265.3	\$238.77	\$0.504	\$239.274	\$4,543.3	5.201%	5.267%	1.098%	-0.066%
4	1987	\$1,921.2	\$37.3	\$33.57	\$0.504	\$34.074	\$4,883.1	7.479%	0.698%	4.434%	6.781%
5	1988	\$1,968.6	\$47.4	\$42.66	\$0.564	\$43.224	\$5,251.0	7.534%	0.823%	4.419%	6.711%
6	1989	\$2,019.8	\$51.2	\$46.08	\$0.582	\$46.662	\$5,581.7	6.298%	0.836%	4.647%	5.462%
7	1990	\$2,115.3	\$95.5	\$85.95	\$0.604	\$86.554	\$5,846.0	4.735%	1.481%	6.106%	3.255%
8	1991	\$2,323.2	\$207.9	\$187.11	\$0.685	\$187.795	\$6,092.5	4.217%	3.082%	3.064%	1.134%
9	1992	\$2,574.4	\$251.2	\$226.08	\$0.771	\$226.851	\$6,493.6	6.584%	3.493%	2.901%	3.090%
10	1993	\$2,713.9	\$139.5	\$125.55	\$0.894	\$126.444	\$6,813.8	4.931%	1.856%	2.748%	3.075%
11	1994	\$2,691.4	(\$22.5)	(\$20.25)	\$0.958	(\$19.292)	\$7,248.2	6.375%	-0.266%	2.675%	6.641%
12	1995	\$2,721.3	\$29.9	\$26.91	\$1.029	\$27.939	\$7,542.5	4.060%	0.370%	2.538%	3.690%
13	1996	\$2,881.1	\$159.8	\$143.82	\$1.084	\$144.904	\$8,023.0	6.371%	1.806%	3.322%	4.564%
14	1997	\$3,074.1	\$193.0	\$173.70	\$1.124	\$174.824	\$8,505.7	6.016%	2.055%	1.702%	3.961%
15	1998	\$3,430.6	\$356.5	\$320.85	\$1.192	\$322.042	\$9,027.5	6.135%	3.567%	1.612%	2.567%
16	1999	\$3,688.2	\$257.6	\$231.84	\$1.214	\$233.054	\$9,607.7	6.427%	2.426%	2.685%	4.001%
17	2000	\$3,882.2	\$194.0	\$174.60	\$1.245	\$175.845	\$10,129.8	5.434%	1.736%	3.387%	3.698%
18	2001	\$4,459.7	\$577.5	\$519.75	\$1.411	\$521.161	\$10,373.1	2.402%	5.024%	1.552%	-2.622%
19	2002	\$4,876.1	\$416.4	\$374.76	\$1.534	\$376.294	\$10,766.9	3.796%	3.495%	2.377%	0.301%
20	2003	\$5,247.3	\$371.2	\$334.08	\$1.655	\$335.735	\$11,414.8	6.018%	2.941%	1.879%	3.076%
21	2004	\$5,587.7	\$340.4	\$306.36	\$1.498	\$307.858	\$12,123.9	6.212%	2.539%	3.256%	3.673%
22	2005	\$5,682.5	\$94.8	\$85.32	\$1.476	\$86.796	\$12,901.4	6.413%	0.673%	3.416%	5.740%
23	2006	\$5,858.0	\$175.5	\$157.95	\$1.613	\$159.563	\$13,584.2	5.292%	1.175%	2.541%	4.118%
24	2007	\$6,196.1	\$338.1	\$304.29	\$2.411	\$306.701	\$14,253.2	4.925%	2.152%	4.081%	2.773%
25	2008	\$6,744.3	\$548.2	\$493.38	\$2.536	\$495.916	\$14,081.7	-1.203%	3.522%	0.091%	-4.725%
26	2009	\$7,327.3	\$583.0	\$524.70	\$2.914	\$527.614	\$14,133.6	0.369%	3.733%	2.721%	-3.364%
27	2010	\$7,895.2	\$567.9	\$511.11	\$3.211	\$514.321	\$14,735.9	4.261%	3.490%	1.496%	0.771%
28	2011	\$8,925.9	\$1,030.7	\$927.63	\$3.398	\$931.028	\$15,321.0	3.971%	6.077%	2.962%	-2.106%
TOTALS		\$8,925.9	\$7,576.0	\$6,818.40	\$37.706	\$6,856.106	\$257,631.8	5.22%	2.48%	2.90%	2.70%
Averages			\$270.57	\$243.51		\$244.86	Count(Years)	28	28	28	28
								Average Annual Growth			

Federal Reserve Monetary Intermediation Cost Estimate
Intermediation cost percentage estimated as [(M2M Money Stock growth in \$) times (1- Reserve Requirement) + Fed net operating cost] divided by [GDP (\$)].

Prepared By
William Haugen
7175 Gaston Ave Apt 2225
Dallas, TX 75214
214-321-7494
whaugen@flash.net
October 19, 2012

Notes
1-M2M-NS Money Stock consists of: 1) currency in circulation, 2) traveler's checks of nonbank issuers, 3) demand deposits, 4) other checkable deposits (OCDs), primarily negotiable order of withdrawal (NOW) accounts, 5) savings deposits (which include money market deposit accounts, or MMDAs), and 6) balances in retail money market mutual funds (MMMFs). NS - Not seasonally adjusted.
2-Includes Board of Governors Expenses less recoverable expenses, Table 2 since 2011 Report.
a-Ignores potential interest rate manipulation intermediation costs.

SOURCES:
1-M2M Money Stock data from St. Louis Fed at <http://research.stlouisfed.org/fred2/series/M2MNS>
2-FRS actual budget data from Publications Annual Reports Table 2 at <http://www.federalreserve.gov/publications/budget-review/default.htm>
3-GDP numbers from St. Louis Fed economic data at <http://research.stlouisfed.org/fred2/series/GDP>
4-Inflation CPI-U (End of Yr) data from Bureau of Labor Statistics at <http://www.bls.gov/cpi/>

Economic Recovery Plan for the United States

Federal Reserve Compounded Monetary Intermediation Cost to Economy 1984 to 2011¹

M2M (M2 Less Small Time Deposits) Money Stock Basis

(a)-Net GDP Productivity Growth Rate to economy (GDP Growth Rate (c) minus Intermediation Cost (b)) - (r_f)

(b)-Intermediation Cost Percentage²

(c)-GDP Growth Rate (Net GDP + Intermediation Percentage)²

Assumptions

(a)	2.74%
(b)	2.48%
(c)	5.22%

GDP EARNINGS WITH FED INTERMEDIATION EXPENSE INCLUDED

(N)	(A)	(B) = (A) x (c)	(C) = (A) x (b)	(D) = (A)+(B)+(C)	(E)=∑ (C) Compounded	
Period	Year	Net GDP ³ Year(Begin) (\$ Billions)	Productivity Growth (Net) (\$ Billions)	Fed Intermediation Expense ²	Net GDP Year (End) (\$ Billions)	Compounded Intermediation Expense ⁴ %
1	1984	\$3,688.1	\$192.4	(\$91.5)	\$3,789.0	\$91.5 2.4%
2	1985	\$3,789.0	\$197.7	(\$94.0)	\$3,892.7	\$190.3 4.7%
3	1986	\$3,892.7	\$203.1	(\$96.6)	\$3,999.2	\$296.8 6.9%
4	1987	\$3,999.2	\$208.7	(\$99.2)	\$4,108.7	\$411.5 9.1%
5	1988	\$4,108.7	\$214.4	(\$101.9)	\$4,221.1	\$535.0 11.2%
6	1989	\$4,221.1	\$220.2	(\$104.7)	\$4,336.6	\$667.6 13.3%
7	1990	\$4,336.6	\$226.3	(\$107.6)	\$4,455.3	\$810.0 15.4%
8	1991	\$4,455.3	\$232.5	(\$110.5)	\$4,577.2	\$962.9 17.4%
9	1992	\$4,577.2	\$238.8	(\$113.6)	\$4,702.4	\$1,126.7 19.3%
10	1993	\$4,702.4	\$245.4	(\$116.7)	\$4,831.1	\$1,302.1 21.2%
11	1994	\$4,831.1	\$252.1	(\$119.9)	\$4,963.3	\$1,489.9 23.1%
12	1995	\$4,963.3	\$259.0	(\$123.2)	\$5,099.1	\$1,690.8 24.9%
13	1996	\$5,099.1	\$266.1	(\$126.5)	\$5,238.7	\$1,905.6 26.7%
14	1997	\$5,238.7	\$273.3	(\$130.0)	\$5,382.0	\$2,135.0 28.4%
15	1998	\$5,382.0	\$280.8	(\$133.5)	\$5,529.3	\$2,379.9 30.1%
16	1999	\$5,529.3	\$288.5	(\$137.2)	\$5,680.6	\$2,641.3 31.7%
17	2000	\$5,680.6	\$296.4	(\$141.0)	\$5,836.0	\$2,920.1 33.3%
18	2001	\$5,836.0	\$304.5	(\$144.8)	\$5,995.7	\$3,217.2 34.9%
19	2002	\$5,995.7	\$312.8	(\$148.8)	\$6,159.8	\$3,533.9 36.5%
20	2003	\$6,159.8	\$321.4	(\$152.8)	\$6,328.4	\$3,871.1 38.0%
21	2004	\$6,328.4	\$330.2	(\$157.0)	\$6,501.5	\$4,230.1 39.4%
22	2005	\$6,501.5	\$339.2	(\$161.3)	\$6,679.4	\$4,612.1 40.8%
23	2006	\$6,679.4	\$348.5	(\$165.7)	\$6,862.2	\$5,018.5 42.2%
24	2007	\$6,862.2	\$358.0	(\$170.3)	\$7,050.0	\$5,450.6 43.6%
25	2008	\$7,050.0	\$367.8	(\$174.9)	\$7,242.9	\$5,910.0 44.9%
26	2009	\$7,242.9	\$377.9	(\$179.7)	\$7,441.1	\$6,398.1 46.2%
27	2010	\$7,441.1	\$388.3	(\$184.6)	\$7,644.7	\$6,916.5 47.5%
28	2011	\$7,644.7	\$398.9	(\$189.7)	\$7,853.9	\$7,467.1 48.7%
Growth Rates		2.74%	2.74%		2.74%	17.02%
Count (Years)		28	28		28	28

GDP EARNINGS WITH FED INTERMEDIATION EXPENSE REMOVED

(N)	(A)	(B) = (A) x (c)	(C) = (A) x (b)	(D) = (A)+(B)+(C)	
Period	Year	GDP ³ Year(Begin) (\$ Billions)	Productivity Growth(Total) (\$ Billions)	Fed Intermediation Expense ²	GDP Year (End) (\$ Billions)
1	1984	\$3,688.1	\$192.4	\$0.0	\$3,880.5
2	1985	\$3,880.5	\$202.5	\$0.0	\$4,083.0
3	1986	\$4,083.0	\$213.0	\$0.0	\$4,296.0
4	1987	\$4,296.0	\$224.2	\$0.0	\$4,520.2
5	1988	\$4,520.2	\$235.8	\$0.0	\$4,756.0
6	1989	\$4,756.0	\$248.2	\$0.0	\$5,004.2
7	1990	\$5,004.2	\$261.1	\$0.0	\$5,265.3
8	1991	\$5,265.3	\$274.7	\$0.0	\$5,540.0
9	1992	\$5,540.0	\$289.1	\$0.0	\$5,829.1
10	1993	\$5,829.1	\$304.1	\$0.0	\$6,133.2
11	1994	\$6,133.2	\$320.0	\$0.0	\$6,453.3
12	1995	\$6,453.3	\$336.7	\$0.0	\$6,790.0
13	1996	\$6,790.0	\$354.3	\$0.0	\$7,144.2
14	1997	\$7,144.2	\$372.8	\$0.0	\$7,517.0
15	1998	\$7,517.0	\$392.2	\$0.0	\$7,909.2
16	1999	\$7,909.2	\$412.7	\$0.0	\$8,321.9
17	2000	\$8,321.9	\$434.2	\$0.0	\$8,756.1
18	2001	\$8,756.1	\$456.9	\$0.0	\$9,213.0
19	2002	\$9,213.0	\$480.7	\$0.0	\$9,693.7
20	2003	\$9,693.7	\$505.8	\$0.0	\$10,199.5
21	2004	\$10,199.5	\$532.2	\$0.0	\$10,731.6
22	2005	\$10,731.6	\$559.9	\$0.0	\$11,291.6
23	2006	\$11,291.6	\$589.2	\$0.0	\$11,880.7
24	2007	\$11,880.7	\$619.9	\$0.0	\$12,500.6
25	2008	\$12,500.6	\$652.2	\$0.0	\$13,152.9
26	2009	\$13,152.9	\$686.3	\$0.0	\$13,839.2
27	2010	\$13,839.2	\$722.1	\$0.0	\$14,561.2
28	2011	\$14,561.2	\$759.8	\$0.0	\$15,321.0
Growth Rates		5.22%	5.22%	N.A.	5.22%
Count (Years)		28	28	28	28

Prepared By

William Haugen
7175 Gaston Ave Apt 2225
Dallas, TX 75214
214-321-7494
whaugen@flash.net
October 19, 2012

Notes/Sources:

- 1-Format adapted from "The Tyranny of Compounding Costs" at <http://www.pbs.org/wqhb/pages/frontline/retirement/etc/tyranny.html>
- 2-Intermediation and GDP growth rate estimates from Attachment 4.
- 3-Initial GDP from Attachment 4 via St. Louis Fed economic data at <http://research.stlouisfed.org/fred2/series/GDP>
- 4-Fed M2M Intermediation expenses compounded at total growth rate.

Fed Monetary Intermediation Cost 1984-2011

	\$ Billions	% Percent
Economic (GDP) earnings 2011 w/o Fed intermediation expense	\$15,321.0	100.0%
Economy earnings with Fed Intermediation expense deducted	\$7,853.9	51.3%
Fed Intermediation Expense from Non Bank Economy since 1984	\$7,467.1	48.7%

Fed Intermediation costs, primarily monetary expansion inflation, estimated to have wealth transferred approximately 48.7% of economic system returns to banking sector from 1984 to 2011.

Attachment 6

Economic Recovery Plan for the United States

Fed Annual Monetary Intermediation Cost 1960 to 2011 using M2M Money Stock¹

Assumptions

Fed Reserve Requirement (RR) 10.0%

(N)	Year (End 12/31)	(A)	(B) = (A _N) - (A _{N-1})	(C) = (B ³) x (1-RR)	(D)	(E) = (C)+(D)	(F)	(G) = (F _N - F _{N-1})/F _{N-1}	(H) = (E) / (F)	(I)	(J) = (G) - (H)
		MoneyStock M2M-NS ¹ (\$ Billions)	\$ Increase Prior Year (\$ Billions)	Money Stock Intermediation Cost (\$ Billions)	Actual (Net) Budget ² (\$ Billions)	Total Annual Cost (\$ Billions)	GDP ³ (\$ Billions)	Intermediation Cost Federal Reserve System (% Est.)	GDP ³ (% Growth)	Intermediation (% GDP Cost)	Inflation % CPI-U (EOY) ⁴
0	1959	\$289.4					\$513.2				
1	1960	\$303.0	\$13.6	\$12.24		\$12.24	\$523.7	2.046%	2.337%	1.361%	-0.291%
2	1961	\$324.0	\$21.0	\$18.90		\$18.90	\$562.6	7.428%	3.359%	0.671%	4.069%
3	1962	\$346.1	\$22.1	\$19.89		\$19.89	\$593.3	5.457%	3.352%	1.333%	2.104%
4	1963	\$371.4	\$25.3	\$22.77		\$22.77	\$633.5	6.776%	3.594%	1.645%	3.181%
5	1964	\$399.8	\$28.4	\$25.56		\$25.56	\$675.6	6.646%	3.783%	0.971%	2.862%
6	1965	\$429.5	\$29.7	\$26.73		\$26.73	\$747.5	10.642%	3.576%	1.923%	7.066%
7	1966	\$430.3	\$0.8	\$0.72		\$0.72	\$806.9	7.946%	0.089%	3.459%	7.857%
8	1967	\$452.4	\$22.1	\$19.89		\$19.89	\$852.7	5.676%	2.333%	3.040%	3.343%
9	1968	\$471.9	\$19.5	\$17.55		\$17.55	\$936.2	9.792%	1.875%	4.720%	7.918%
10	1969	\$472.7	\$0.8	\$0.72		\$0.72	\$1,004.5	7.295%	0.072%	6.197%	7.224%
11	1970	\$479.0	\$6.3	\$5.67		\$5.67	\$1,052.7	4.798%	0.539%	5.570%	4.260%
12	1971	\$524.4	\$45.4	\$40.86		\$40.86	\$1,151.4	9.376%	3.549%	3.266%	5.827%
13	1972	\$574.8	\$50.4	\$45.36		\$45.36	\$1,286.6	11.742%	3.526%	3.406%	8.217%
14	1973	\$594.2	\$19.4	\$17.46		\$17.46	\$1,431.8	11.286%	1.219%	8.706%	10.066%
15	1974	\$618.7	\$24.5	\$22.05		\$22.05	\$1,552.8	8.451%	1.420%	12.338%	7.031%
16	1975	\$682.9	\$64.2	\$57.78		\$57.78	\$1,713.9	10.375%	3.371%	6.936%	7.004%
17	1976	\$765.4	\$82.5	\$74.25		\$74.25	\$1,884.5	9.954%	3.940%	4.865%	6.014%
18	1977	\$829.7	\$64.3	\$57.87		\$57.87	\$2,110.8	12.008%	2.742%	6.701%	9.267%
19	1978	\$851.4	\$21.7	\$19.53		\$19.53	\$2,416.0	14.459%	0.808%	9.018%	13.651%
20	1979	\$845.9	(\$5.5)	(\$4.95)		(\$4.95)	\$2,659.4	10.075%	-0.186%	13.294%	10.261%
21	1980	\$876.9	\$31.0	\$27.90		\$27.90	\$2,915.3	9.622%	0.957%	12.516%	8.665%
22	1981	\$937.3	\$60.4	\$54.36		\$54.36	\$3,194.7	9.584%	1.702%	8.922%	7.882%
23	1982	\$1,063.6	\$126.3	\$113.67		\$113.67	\$3,312.5	3.687%	3.432%	3.830%	0.256%
24	1983	\$1,349.9	\$286.3	\$257.67		\$257.67	\$3,688.1	11.339%	6.987%	3.791%	4.352%
25	1984	\$1,429.7	\$79.8	\$71.82	\$0.607	\$72.427	\$4,034.0	9.379%	1.795%	3.949%	7.583%
26	1985	\$1,618.6	\$188.9	\$170.01	\$0.487	\$170.497	\$4,318.7	7.058%	3.948%	3.799%	3.110%
27	1986	\$1,883.9	\$265.3	\$238.77	\$0.504	\$239.274	\$4,543.3	5.201%	5.267%	1.098%	-0.066%
28	1987	\$1,921.2	\$37.3	\$33.57	\$0.504	\$34.074	\$4,883.1	7.479%	0.698%	4.434%	6.781%
29	1988	\$1,968.6	\$47.4	\$42.66	\$0.564	\$43.224	\$5,251.0	7.534%	0.823%	4.419%	6.711%
30	1989	\$2,019.8	\$51.2	\$46.08	\$0.582	\$46.662	\$5,581.7	6.298%	0.836%	4.647%	5.462%
31	1990	\$2,115.3	\$95.5	\$85.95	\$0.604	\$86.554	\$5,846.0	4.735%	1.481%	6.106%	3.255%
32	1991	\$2,323.2	\$207.9	\$187.11	\$0.685	\$187.795	\$6,092.5	4.217%	3.082%	3.064%	1.134%
33	1992	\$2,574.4	\$251.2	\$226.08	\$0.771	\$226.851	\$6,493.6	6.584%	3.493%	2.901%	3.090%
34	1993	\$2,713.9	\$139.5	\$125.55	\$0.894	\$126.444	\$6,813.8	4.931%	1.856%	2.748%	3.075%
35	1994	\$2,691.4	(\$22.5)	(\$20.25)	\$0.958	(\$19.292)	\$7,248.2	6.375%	-0.266%	2.675%	6.641%
36	1995	\$2,721.3	\$29.9	\$26.91	\$1.029	\$27.939	\$7,542.5	4.060%	0.370%	2.538%	3.690%
37	1996	\$2,881.1	\$159.8	\$143.82	\$1.084	\$144.904	\$8,023.0	6.371%	1.806%	3.322%	4.564%
38	1997	\$3,074.1	\$193.0	\$173.70	\$1.124	\$174.824	\$8,505.7	6.016%	2.055%	1.702%	3.961%
39	1998	\$3,430.6	\$356.5	\$320.85	\$1.192	\$322.042	\$9,027.5	6.135%	3.567%	1.612%	2.567%
40	1999	\$3,688.2	\$257.6	\$231.84	\$1.214	\$233.054	\$9,607.7	6.427%	2.426%	2.685%	4.001%
41	2000	\$3,882.2	\$194.0	\$174.60	\$1.245	\$175.845	\$10,129.8	5.434%	1.736%	3.387%	3.698%
42	2001	\$4,459.7	\$577.5	\$519.75	\$1.411	\$521.161	\$10,373.1	2.402%	5.024%	1.552%	-2.622%
43	2002	\$4,876.1	\$416.4	\$374.76	\$1.534	\$376.294	\$10,766.9	3.796%	3.495%	2.377%	0.301%
44	2003	\$5,247.3	\$371.2	\$334.08	\$1.655	\$335.735	\$11,414.8	6.018%	2.941%	1.879%	3.076%
45	2004	\$5,587.7	\$340.4	\$306.36	\$1.498	\$307.858	\$12,123.9	6.212%	2.539%	3.256%	3.673%
46	2005	\$5,682.5	\$94.8	\$85.32	\$1.476	\$86.796	\$12,901.4	6.413%	0.673%	3.416%	5.740%
47	2006	\$5,858.0	\$175.5	\$157.95	\$1.613	\$159.563	\$13,584.2	5.292%	1.175%	2.541%	4.118%
48	2007	\$6,196.1	\$338.1	\$304.29	\$2.411	\$306.701	\$14,253.2	4.925%	2.152%	4.081%	2.773%
49	2008	\$6,744.3	\$548.2	\$493.38	\$2.536	\$495.916	\$14,081.7	-1.203%	3.522%	0.091%	-4.725%
50	2009	\$7,327.3	\$583.0	\$524.70	\$2.914	\$527.614	\$14,133.6	0.369%	3.733%	2.721%	-3.364%
51	2010	\$7,895.2	\$567.9	\$511.11	\$3.211	\$514.321	\$14,735.9	4.261%	3.490%	1.496%	0.771%
52	2011	\$8,925.9	\$1,030.7	\$927.63	\$3.398	\$931.028	\$15,321.0	3.971%	6.077%	2.962%	-2.106%
TOTALS		\$8,925.9	\$8,636.5	\$7,772.85	\$37.706	\$7,810.556	\$295,852.0	6.75%	2.45%	4.00%	4.26%
Averages			\$166.09	\$149.48		\$150.20	Count(Years)	52	52	52	52
								Average Annual Growth			

Federal Reserve Monetary Intermediation Cost Estimate

Intermediation cost percentage estimated as [(M2M Money Stock growth in \$) times (1- Reserve Requirement) + Fed net operating cost] divided by [GDP (\$)].

Prepared By

William Haugen
7175 Gaston Ave Apt 2225
Dallas, TX 75214
214-321-7494
whaugen@flash.net
October 19, 2012

Notes

- 1-M2M-NS Money Stock consists of: 1) currency in circulation, 2) traveler's checks of nonbank issuers, 3) demand deposits, 4) other checkable deposits (OCDs), primarily negotiable order of withdrawal (NOW) accounts, 5) savings deposits (which include money market deposit accounts, or MMDAs), and 6) balances in retail money market mutual funds (MMMFs). NS - Not seasonally adjusted.
- 2-Includes Board of Governors Expenses less recoverable expenses, Table 2 since 2011 Report.
- 3-Ignores potential interest rate manipulation intermediation costs.

SOURCES:

- 1-M2M Money Stock data from St. Louis Fed at <http://research.stlouisfed.org/fred2/series/M2MNS>
- 2-FRS actual budget data from Publications Annual Reports Table 2 at <http://www.federalreserve.gov/publications/budget-review/default.htm>
- 3-GDP numbers from St. Louis Fed economic data at <http://research.stlouisfed.org/fred2/series/GDP>
- 4-Inflation CPI-U (End of Yr) data from Bureau of Labor Statistics at <http://www.bls.gov/cpi/>

Attachment 7

Economic Recovery Plan for the United States

Federal Reserve Compounded Monetary Intermediation Cost to Economy 1960 to 2011¹

M2M (M2 Less Small Time Deposits) Money Stock Basis

Assumptions

(a)-Net GDP Productivity Growth Rate to economy (GDP Growth Rate (c) minus Intermediation Cost (b)) - (r _i)	4.30%
(b)-Intermediation Cost Percentage ²	2.45%
(c)-GDP Growth Rate (Net GDP + Intermediation Percentage) ²	6.75%

GDP EARNINGS WITH FED INTERMEDIATION EXPENSE INCLUDED									
(N)	(A)	(B) = (A) x (c)	(C) = (A) x (b)	(D) = (A)+(B)+(C)	(E)=Σ (C) Compounded				
Period	Year	Net GDP ³ Yr(Begin) (\$ Billions)	Productivity Growth (Net) (\$ Billions)	Fed Intermediation Expense	Net GDP Year (End) (\$ Billions)	Compounded Intermediation Expense ⁴	%		
1 ³	1960	\$513.2	\$34.6	(\$12.6)	\$535.3	\$12.6	2.3%		
2	1961	\$535.3	\$36.1	(\$13.1)	\$558.2	\$26.6	4.5%		
3	1962	\$558.2	\$37.7	(\$13.7)	\$582.2	\$42.1	6.7%		
4	1963	\$582.2	\$39.3	(\$14.3)	\$607.3	\$59.2	8.9%		
5	1964	\$607.3	\$41.0	(\$14.9)	\$633.3	\$78.1	11.0%		
6	1965	\$633.3	\$42.7	(\$15.5)	\$660.6	\$98.9	13.0%		
7	1966	\$660.6	\$44.6	(\$16.2)	\$688.9	\$121.7	15.0%		
8	1967	\$688.9	\$46.5	(\$16.9)	\$718.5	\$146.8	17.0%		
9	1968	\$718.5	\$48.5	(\$17.6)	\$749.4	\$174.4	18.9%		
10	1969	\$749.4	\$50.6	(\$18.4)	\$781.6	\$204.5	20.7%		
11	1970	\$781.6	\$52.8	(\$19.2)	\$815.2	\$237.5	22.6%		
12	1971	\$815.2	\$55.0	(\$20.0)	\$850.2	\$273.5	24.3%		
13	1972	\$850.2	\$57.4	(\$20.9)	\$886.7	\$312.9	26.1%		
14	1973	\$886.7	\$59.9	(\$21.7)	\$924.9	\$355.7	27.8%		
15	1974	\$924.9	\$62.4	(\$22.7)	\$964.6	\$402.4	29.4%		
16	1975	\$964.6	\$65.1	(\$23.7)	\$1,006.0	\$453.2	31.1%		
17	1976	\$1,006.0	\$67.9	(\$24.7)	\$1,049.3	\$508.5	32.6%		
18	1977	\$1,049.3	\$70.8	(\$25.7)	\$1,094.3	\$568.5	34.2%		
19	1978	\$1,094.3	\$73.9	(\$26.8)	\$1,141.4	\$633.8	35.7%		
20	1979	\$1,141.4	\$77.0	(\$28.0)	\$1,190.4	\$704.5	37.2%		
21	1980	\$1,190.4	\$80.3	(\$29.2)	\$1,241.5	\$781.3	38.6%		
22	1981	\$1,241.5	\$83.8	(\$30.5)	\$1,294.9	\$864.5	40.0%		
23	1982	\$1,294.9	\$87.4	(\$31.8)	\$1,350.5	\$954.6	41.4%		
24	1983	\$1,350.5	\$91.2	(\$33.1)	\$1,408.6	\$1,052.1	42.8%		
25	1984	\$1,408.6	\$95.1	(\$34.5)	\$1,469.1	\$1,157.7	44.1%		
26	1985	\$1,469.1	\$99.2	(\$36.0)	\$1,532.2	\$1,271.9	45.4%		
27	1986	\$1,532.2	\$103.4	(\$37.6)	\$1,598.0	\$1,395.3	46.6%		
28	1987	\$1,598.0	\$107.9	(\$39.2)	\$1,666.7	\$1,528.6	47.8%		
29	1988	\$1,666.7	\$112.5	(\$40.9)	\$1,738.3	\$1,672.7	49.0%		
30	1989	\$1,738.3	\$117.3	(\$42.6)	\$1,813.0	\$1,828.2	50.2%		
31	1990	\$1,813.0	\$122.4	(\$44.5)	\$1,890.9	\$1,996.1	51.4%		
32	1991	\$1,890.9	\$127.6	(\$46.4)	\$1,972.1	\$2,177.2	52.5%		
33	1992	\$1,972.1	\$133.1	(\$48.4)	\$2,056.9	\$2,372.5	53.6%		
34	1993	\$2,056.9	\$138.8	(\$50.4)	\$2,145.3	\$2,583.1	54.6%		
35	1994	\$2,145.3	\$144.8	(\$52.6)	\$2,237.4	\$2,810.1	55.7%		
36	1995	\$2,237.4	\$151.0	(\$54.9)	\$2,333.6	\$3,054.6	56.7%		
37	1996	\$2,333.6	\$157.5	(\$57.2)	\$2,433.8	\$3,318.0	57.7%		
38	1997	\$2,433.8	\$164.3	(\$59.7)	\$2,538.4	\$3,601.6	58.7%		
39	1998	\$2,538.4	\$171.3	(\$62.3)	\$2,647.5	\$3,907.0	59.6%		
40	1999	\$2,647.5	\$178.7	(\$64.9)	\$2,761.2	\$4,235.6	60.5%		
41	2000	\$2,761.2	\$186.4	(\$67.7)	\$2,879.9	\$4,589.2	61.4%		
42	2001	\$2,879.9	\$194.4	(\$70.6)	\$3,003.6	\$4,969.6	62.3%		
43	2002	\$3,003.6	\$202.7	(\$73.7)	\$3,132.6	\$5,378.7	63.2%		
44	2003	\$3,132.6	\$211.4	(\$76.8)	\$3,267.2	\$5,818.6	64.0%		
45	2004	\$3,267.2	\$220.5	(\$80.1)	\$3,407.6	\$6,291.4	64.9%		
46	2005	\$3,407.6	\$230.0	(\$83.6)	\$3,554.0	\$6,799.6	65.7%		
47	2006	\$3,554.0	\$239.9	(\$87.2)	\$3,706.7	\$7,345.7	66.5%		
48	2007	\$3,706.7	\$250.2	(\$90.9)	\$3,866.0	\$7,932.5	67.2%		
49	2008	\$3,866.0	\$260.9	(\$94.8)	\$4,032.1	\$8,562.7	68.0%		
50	2009	\$4,032.1	\$272.1	(\$98.9)	\$4,205.4	\$9,239.5	68.7%		
51	2010	\$4,205.4	\$283.8	(\$103.1)	\$4,386.1	\$9,966.2	69.4%		
64	2011	\$4,386.1	\$296.0	(\$107.6)	\$4,574.5	\$10,746.5	70.1%		
Compound Growth Rates		4.30%	4.30%	4.30%	4.30%	13.86%			
Count (Years)		52	52	52	52				

GDP EARNINGS WITH FED INTERMEDIATION EXPENSE REMOVED									
(N)	(A)	(B) = (A) x (c)	(C) = (A) x (b)	(D) = (A)+(B)+(C)					
Period	Year	GDP ³ Year(Begin) (\$ Billions)	Productivity Growth (Total) (\$ Billions)	Fed Intermediation Expense	GDP Year (End) (\$ Billions)				
1 ³	1960	\$513.2	\$34.6	\$0.0	\$547.8				
2	1961	\$547.8	\$37.0	\$0.0	\$584.8				
3	1962	\$584.8	\$39.5	\$0.0	\$624.3				
4	1963	\$624.3	\$42.1	\$0.0	\$666.4				
5	1964	\$666.4	\$45.0	\$0.0	\$711.4				
6	1965	\$711.4	\$48.0	\$0.0	\$759.4				
7	1966	\$759.4	\$51.3	\$0.0	\$810.7				
8	1967	\$810.7	\$54.7	\$0.0	\$865.4				
9	1968	\$865.4	\$58.4	\$0.0	\$923.8				
10	1969	\$923.8	\$62.4	\$0.0	\$986.1				
11	1970	\$986.1	\$66.6	\$0.0	\$1,052.7				
12	1971	\$1,052.7	\$71.1	\$0.0	\$1,123.8				
13	1972	\$1,123.8	\$75.8	\$0.0	\$1,199.6				
14	1973	\$1,199.6	\$81.0	\$0.0	\$1,280.6				
15	1974	\$1,280.6	\$86.4	\$0.0	\$1,367.0				
16	1975	\$1,367.0	\$92.3	\$0.0	\$1,459.3				
17	1976	\$1,459.3	\$98.5	\$0.0	\$1,557.8				
18	1977	\$1,557.8	\$105.1	\$0.0	\$1,662.9				
19	1978	\$1,662.9	\$112.2	\$0.0	\$1,775.1				
20	1979	\$1,775.1	\$119.8	\$0.0	\$1,894.9				
21	1980	\$1,894.9	\$127.9	\$0.0	\$2,022.8				
22	1981	\$2,022.8	\$136.5	\$0.0	\$2,159.4				
23	1982	\$2,159.4	\$145.7	\$0.0	\$2,305.1				
24	1983	\$2,305.1	\$155.6	\$0.0	\$2,460.7				
25	1984	\$2,460.7	\$166.1	\$0.0	\$2,626.8				
26	1985	\$2,626.8	\$177.3	\$0.0	\$2,804.1				
27	1986	\$2,804.1	\$189.3	\$0.0	\$2,993.3				
28	1987	\$2,993.3	\$202.0	\$0.0	\$3,195.3				
29	1988	\$3,195.3	\$215.7	\$0.0	\$3,411.0				
30	1989	\$3,411.0	\$230.2	\$0.0	\$3,641.2				
31	1990	\$3,641.2	\$245.8	\$0.0	\$3,887.0				
32	1991	\$3,887.0	\$262.3	\$0.0	\$4,149.3				
33	1992	\$4,149.3	\$280.1	\$0.0	\$4,429.4				
34	1993	\$4,429.4	\$299.0	\$0.0	\$4,728.4				
35	1994	\$4,728.4	\$319.1	\$0.0	\$5,047.5				
36	1995	\$5,047.5	\$340.7	\$0.0	\$5,388.2				
37	1996	\$5,388.2	\$363.7	\$0.0	\$5,751.8				
38	1997	\$5,751.8	\$388.2	\$0.0	\$6,140.0				
39	1998	\$6,140.0	\$414.4	\$0.0	\$6,554.5				
40	1999	\$6,554.5	\$442.4	\$0.0	\$6,996.8				
41	2000	\$6,996.8	\$472.2	\$0.0	\$7,469.1				
42	2001	\$7,469.1	\$504.1	\$0.0	\$7,973.2				
43	2002	\$7,973.2	\$538.1	\$0.0	\$8,511.4				
44	2003	\$8,511.4	\$574.5	\$0.0	\$9,085.8				
45	2004	\$9,085.8	\$613.2	\$0.0	\$9,699.1				
46	2005	\$9,699.1	\$654.6	\$0.0	\$10,353.7				
47	2006	\$10,353.7	\$698.8	\$0.0	\$11,052.5				
48	2007	\$11,052.5	\$746.0	\$0.0	\$11,798.5				
49	2008	\$11,798.5	\$796.3	\$0.0	\$12,594.8				
50	2009	\$12,594.8	\$850.1	\$0.0	\$13,444.9				
51	2010	\$13,444.9	\$907.4	\$0.0	\$14,352.3				
64	2011	\$14,352.3	\$968.7	\$0.0	\$15,321.0				
Growth Rates		6.75%	6.75%	N.A.	6.75%				
Count (Years)		52	52	52	52				

Prepared By

William Haugen
 7175 Gaston Ave Apt 2225
 Dallas, TX 75214
 214-321-7494
 whaugen@flash.net
 October 19, 2012

Notes/Sources:

- 1-Format adapted from "The Tyranny of Compounding Costs" at <http://www.pbs.org/wgbh/pages/frontline/retirement/etc/tyranny.html>
- 2-Intermediation and GDP growth rate estimates from Attachment 6.
- 3-Initial GDP from Attachment 6 via St. Louis Fed economic data at <http://research.stlouisfed.org/fred2/series/GDP>
- 4-Fed M2M Intermediation expenses compounded at total growth rate.

Fed Monetary Intermediation Cost 1960-2011	\$ Billions	% Percent
Economic (GDP) earnings 2011 w/o Fed intermediation expense	\$15,321.0	100.0%
Economy earnings with Fed Intermediation expense deducted	\$4,574.5	29.9%
Fed Intermediation Expense from Non Bank Economy since 1960	\$10,746.5	70.1%

Fed Intermediation costs estimated to have wealth transferred approximately 70.1% of economic system returns to banking sector from 1960 to 2011.

Economic Recovery Plan for the United States

U.S. Commercial Banks Consolidated Conversion Estimate¹

October 19, 2011

(\$ Billions)

ASSETS	I. Conversion to 100% Reserve Demand Deposits			→	II. Split into Deposit Only and Commercial Bank		
	October 19, 2011				October 19, 2011		
	Existing (Before)	Funds Transfers	Converted Form (After)		Depositor Owned Depository	Commercial Intermediary	Reconciliation Total
	→	→					
	(\$ Billions)	→	DEMAND SECTION	% DD Deposits	DEMAND SECTION	NON-DEMAND SECTION	
CASH							
25 Cash and Cash Equivalents	\$1,656.2	\$6,692.9	\$8,349.1	100.0%	\$8,349.1	\$0.0	\$8,349.1
Total Cash	\$1,656.2	\$6,692.9	\$8,349.1		\$8,349.1	\$0.0	\$8,349.1
INVESTMENTS			NON-DEMAND SECTION	% Saving Deposits			
3 Treasury and Agency Securities ²	\$1,689.8	(\$1,689.8)	\$0.0			\$0.0	\$0.0
7 Mortgaged Backed Securities	\$141.6	\$0.0	\$141.6			\$141.6	\$141.6
8 Non-Mortgaged Backed Securities	\$656.9	\$0.0	\$656.9			\$656.9	\$656.9
26 Trading Assets	\$320.0	\$0.0	\$320.0			\$320.0	\$320.0
Total Investments	\$2,808.4	(\$1,689.8)	\$1,118.6		\$0.0	\$1,118.6	\$1,118.6
LOANS AND LEASES							
10 Commercial and Industrial Loans	\$1,313.6	\$0.0	\$1,313.6			\$1,313.6	\$1,313.6
11 Real Estate Loans	\$3,481.2	\$0.0	\$3,481.2			\$3,481.2	\$3,481.2
15 Consumer Loans	\$1,085.9	\$0.0	\$1,085.9			\$1,085.9	\$1,085.9
19 & 23 Fed Funds and Reverse RPs	\$390.3	\$0.0	\$390.3			\$390.3	\$390.3
20 All Other Loans and Leases	\$703.7	\$0.0	\$703.7			\$703.7	\$703.7
21 LESS: Allowance for loan and lease losses	(\$175.7)	\$0.0	(\$175.7)			(\$175.7)	(\$175.7)
24 Interbank Loans to Commercial Banks	\$12.6	\$0.0	\$12.6			\$12.6	\$12.6
Total Loans	\$6,811.7	\$0.0	\$6,811.7		\$0.0	\$6,811.7	\$6,811.7
OTHER ASSETS							
29 Other Assets	\$1,186.6	\$0.0	\$1,186.6				
Total Other Assets	\$1,186.6	\$0.0	\$1,186.6				
30 Total Assets	\$12,462.9	\$5,003.1	\$17,466.0		\$8,492.9	\$8,973.0	\$17,466.0
LIABILITIES & EQUITY							
DEMAND DEPOSITS (CASH EQUIVALENTS)			DEMAND SECTION		DEMAND SECTION		
32 Large time deposits ³	\$1,555.4	\$0.0	\$1,555.4		\$1,555.4		\$1,555.4
33 Other Deposits ³	\$6,793.7	\$0.0	\$6,793.7		\$6,793.7		\$6,793.7
31 Total Demand Deposits	\$8,349.1	\$0.0	\$8,349.1		\$8,349.1	\$0.0	\$8,349.1
BORROWINGS			NON-DEMAND SECTION		NON-DEMAND SECTION		
35 Borrowings from banks in the U.S.	\$141.8	\$0.0	\$141.8			\$141.8	\$141.8
36 Borrowings from others ⁴	\$1,438.1	\$0.0	\$1,438.1			\$1,294.3	\$1,438.1
34 Total Borrowings	\$1,579.9	\$0.0	\$1,579.9		\$143.8	\$1,436.1	\$1,579.9
NON-DEPOSIT LIABILITIES							
Bonded Debt to U.S. Government ⁵	\$0.0	\$5,003.1	\$5,003.1			\$5,003.1	\$5,003.1
37 Trading Account Liabilities	\$289.6	\$0.0	\$289.6			\$289.6	\$289.6
40 Net due to foreign offices ⁶	\$312.5	\$0.0	\$312.5			\$312.5	\$312.5
41 Other Liabilities ⁶	\$476.2	\$0.0	\$476.2			\$476.2	\$476.2
Total Non-Deposit Liabilities	\$1,078.3	\$5,003.1	\$6,081.4		\$0.0	\$6,081.4	\$6,081.4
42 Total Liabilities	\$11,007.3	\$5,003.1	\$16,010.4		\$8,492.9	\$7,517.5	\$16,010.4
RESIDUAL/EQUITY							
43 Shareholder Residual/Equity	\$1,455.6	\$0.0	\$1,455.6		\$0.0	\$1,455.6	\$1,455.6
Total Residual/Equity	\$1,455.6	\$0.0	\$1,455.6		\$0.0	\$1,455.6	\$1,455.6
Total Liabilities & Equity/Capital	\$12,462.9	\$5,003.1	\$17,466.0		\$8,492.9	\$8,973.1	\$17,466.0
Equity to Assets Ratio	11.68%		8.33%		0.00%	16.22%	8.33%

NOTES

1-Line numbers from Federal Reserve Statistical Release H.8 pages 4 and 5 (Not Seasonally Adjusted). Amounts in \$ Billions.

2-Treasury and Agency funds would be retired as a book entry and netted with borrowing from government required to fully fund US Bill cash demand deposit accounts.

3-All deposits treated as demand deposits and reserved 100%.

4-Depository Start-up for locations and FF&E estimated at 10% of Item 36 Borrowings from others.

5-Bonded debt to U.S. Government at market rate for equivalent debt secured by Loan Assets and/or other assets and would be repaid as loans payoff, est. at 0.25% premium over Treasuries: 7175 Gaston Ave Apt 2225

6-Some "Other Liabilities" may be considered demand liabilities, in which case they would require 100% reserves also and transfer to the new Depository Institution.

SOURCE:

1-Federal Reserve Statistical Release H.8 Assets and Liabilities of Commercial Banks in the U.S. 10/19/11 at:

<http://www.federalreserve.gov/releases/h8/default.htm>

Prepared By

William Haugen

7175 Gaston Ave Apt 2225

Dallas, TX 75214

214-321-7494

whaugen@flash.net

October 19, 2012

Economic Recovery Plan for the United States

Federal Reserve Member Bank Conversion (Sample Bank Estimate)

Bank of America Corp., of Charlotte, North Carolina.¹

4th Qtr 2011 Averages (\$ Millions, FTE Basis)

FTE (Fully taxable-equivalent) basis is a non-GAAP measure¹

Assumptions

2-Reserve for Savings Account Withdrawals (Minimum Req'd)

10.00%

				I. Conversion to 100% Reserve Demand Deposits			II. Split into Deposit Only and Commercial Bank		
				Existing (Before)	Funds Transfers	Converted Form (After)	Depositor Owned Depository	Commercial Intermediary	Reconciliation Total
				(\$ Millions)	→	(\$ Millions)	(\$ Millions)	(\$ Millions)	(\$ Millions)
				DEMAND SECTION			DEMAND SECTION	NON-DEMAND SECTION	DEMAND SECTION
				% DD Deposits			% Saving Deposits		
ASSETS									
CASH									
Cash and Cash Equivalents		\$94,287	\$714,920	\$809,207	100.0%	\$809,207	\$0	\$809,207	
Total Cash		\$94,287	\$714,920	\$809,207		\$809,207	\$0	\$809,207	
INVESTMENTS									
Time Deposits and other short-term investments ²		\$27,688	\$0	\$27,688	69.9%		\$27,688	\$27,688	
Federal Funds (U.S. Government Securities) ³		\$237,453	(\$237,453)	\$0			\$0	\$0	
Trading Account Assets		\$161,848	\$0	\$161,848			\$161,848	\$161,848	
Debt Securities		\$332,990	\$0	\$332,990			\$332,990	\$332,990	
Total Investments		\$759,979	(\$237,453)	\$522,526		\$0	\$522,526	\$522,526	
LOANS									
Loans & Leases - Consumer		\$618,302	\$0	\$618,302			\$618,302	\$618,302	
Loans & Leases - Commercial		\$314,596	\$0	\$314,596			\$314,596	\$314,596	
Total Loans		\$932,898	\$0	\$932,898		\$0	\$932,898	\$932,898	
OTHER ASSETS									
Other Earning Assets		\$91,109	\$0	\$91,109			\$91,109	\$91,109	
Other Assets, less allowance for losses		\$329,294	\$0	\$329,294			\$329,294	\$329,294	
Total Other Assets		\$420,403	\$0	\$420,403		\$19,478	\$400,925	\$420,403	
Total Assets		\$2,207,567	\$477,467	\$2,685,034		\$828,685	\$1,856,349	\$2,685,034	
LIABILITIES & EQUITY									
DEMAND DEPOSITS (CASH EQUIVALENTS)									
NOW & Money Market Demand deposits		\$454,249	\$0	\$454,249		\$454,249		\$454,249	
Non-U.S. Bank Deposits (Interest Bearing)		\$20,454	\$0	\$20,454		\$20,454		\$20,454	
Non-U.S. Gov't & Official Institutional Deposits		\$1,466	\$0	\$1,466		\$1,466		\$1,466	
Non-interest-bearing Deposits		\$333,038	\$0	\$333,038		\$333,038		\$333,038	
Total Demand Deposits		\$809,207	\$0	\$809,207		\$809,207	\$0	\$809,207	
NON-DEMAND DEPOSITS									
Saving (U.S. Interest Bearing) ⁴		\$39,609	\$0	\$39,609			\$39,609	\$39,609	
Consumer CDs and IRAs		\$103,488	\$0	\$103,488			\$103,488	\$103,488	
Negotiable CDs, public funds & other time deposits		\$22,413	\$0	\$22,413			\$22,413	\$22,413	
Non-U.S. Time, Savings & Other (Interest Bearing)		\$57,814	\$0	\$57,814			\$57,814	\$57,814	
Total Non-Demand Deposits		\$223,324	\$0	\$223,324		\$0	\$223,324	\$223,324	
NON-DEPOSIT LIABILITIES									
Bonded Debt to U.S. Government ⁵		\$0	\$477,467	\$477,467			\$477,467	\$477,467	
Federal Funds & Other Short Term Borrowings		\$284,766	\$0	\$284,766			\$284,766	\$284,766	
Trading Account Liabilities		\$70,999	\$0	\$70,999			\$70,999	\$70,999	
Other Liabilities ⁶		\$201,479	\$0	\$201,479			\$201,479	\$201,479	
Long Term Debt ⁷		\$389,557	\$0	\$389,557		\$19,478	\$370,079	\$389,557	
Total Non-Deposit Liabilities		\$946,801	\$477,467	\$1,424,268		\$19,478	\$1,404,790	\$1,424,268	
Total Liabilities		\$1,979,332	\$477,467	\$2,456,799		\$828,685	\$1,628,114	\$2,456,799	
EQUITY									
Shareholder Equity		\$228,235	\$0	\$228,235		\$0	\$228,235	\$228,235	
Total Equity		\$228,235	\$0	\$228,235		\$0	\$228,235	\$228,235	
Total Liabilities & Equity		\$2,207,567	\$477,467	\$2,685,034		\$828,685	\$1,856,349	\$2,685,034	
Equity to Assets Ratio		10.34%		8.50%		0.00%	12.29%	8.50%	

NOTES

1-BofA considered representative bank. Federal Reserve Member Bank conversion into a depositor owned depository and intermediation bank is a general estimation and not intended as a detailed plan.

2-Initial reserve for savings account activity estimated at minimum of 10% to handle activity until conversion to CD's or transfer to new depositor owned depository.

3-Federal Funds from Federal Reserve would be retired as a book entry and netted with government borrowing required to fully fund US Bill cash demand deposit accounts.

4-Savings accounts at Bank of America converted to time deposits such as CD's or transferred to new Depository within a reasonable transition period, say up to a year.

5-Bonded debt to U.S. Government at market rate for equivalent debt secured by Loan Assets and/or other assets and would be repaid as loans payoff, est. at 0.25% premium over Treasuries.

6-Some "Other Liabilities" may be considered demand liabilities, in which case they would require 100% reserves also and transfer to the new Depository Institution.

7-Start-up for depository locations and FF&E estimated % of Long Term Debt at 5.0% BofA premises and equipment 2011, net of depreciation \$13,637,000,000.

SOURCE:

1-Bank of America 2011 Annual Report Table XIII Quarterly Average Balances and Interest Rates, p.134 at <http://www.bankofamerica.com/annualreport/>

Prepared By

William Haugen
 7175 Gaston Ave Apt 2225
 Dallas, TX 75214
 214-321-7494
 whaugen@flash.net
 October 19, 2012

Economic Recovery Plan for the United States

Federal Reserve Banks Consolidated Balance Sheet

Assumptions

2-Reserve for Savings Account Withdrawals (Minimum Req'd) 10.00%

Conversion Estimate¹

October 26, 2011

(\$ Millions)

I. Conversion to 100% Reserve Demand Deposits

October 26, 2011

ASSETS	Existing	Funds Transfers	Converted Form	
	(Before)	→	(After)	
	(\$ Millions)	→	DEMAND SECTION	
CASH EQUIVALENTS				
Gold certificate account	\$11,037	\$0	\$11,037	→
Special drawing rights certificate account	\$5,200	\$0	\$5,200	→
Coins	\$2,346	\$36,604	\$38,950	→
Total Cash	\$18,583	\$36,604	\$55,187	100.00%
U.S. GOVERNMENT SECURITIES				
Treasury Bills ²	\$18,423	\$0	\$18,423	→
Treasury notes and bonds, nominal ²	\$1,582,247	(\$960,836)	\$621,411	→
Treasury notes and bonds, inflation indexed ²	\$67,596	(\$67,596)	\$0	→
Inflation compensation ²	\$9,747	(\$9,747)	\$0	→
Total U.S. Gov't Securities	\$1,678,012	(\$1,038,178)	\$639,834	→
INVESTMENTS				
Federal agency debt securities ³	\$107,668	\$0	\$107,668	→
Mortgage-backed securities ³	\$849,261	\$0	\$849,261	→
Net Maiden Lane Holdings LLC, I, II & III ³	\$40,416	\$0	\$40,416	→
Net TALF Holdings LLC ³	\$794	\$0	\$794	→
Total Investments	\$998,139	\$0	\$998,139	→
LOANS				
Loans ³	\$11,004	\$0	\$11,004	→
Total Loans	\$11,004	\$0	\$11,004	→
OTHER ASSETS				
Items in process of collection	\$329	\$0	\$329	→
Bank premises	\$2,186	\$0	\$2,186	→
Central bank liquidity swaps ³	\$1,853	\$0	\$1,853	→
Other Assets ³	\$138,270	\$0	\$138,270	→
Total Other Assets	\$142,638	\$0	\$142,638	→
Total Assets	\$2,848,376	(\$1,001,574)	\$1,846,802	→
LIABILITIES & EQUITY				
DEMAND DEPOSITS - U.S. GOVERNMENT			DEMAND SECTION	
U.S. Treasury, General Account deposits	\$55,187	\$0	\$55,187	→
U.S. Treasury, Supplementary Financing Account	\$0	\$0	\$0	→
Total Demand Deposits	\$55,187	\$0	\$55,187	→
DEPOSITS - NON-U.S. GOVERNMENT				
Term deposits held by depository institutions	\$0	\$0	\$0	→
Other deposits held by depository institutions	\$1,588,042	\$0	\$1,588,042	→
Foreign official deposits	\$132	\$0	\$132	→
Other deposits	\$53,640	\$0	\$53,640	→
Total Non-Demand Deposits	\$1,641,814	\$0	\$1,641,814	→
NON-DEPOSIT LIABILITIES				
Federal Reserve Notes, net of F.R. Bank holdings ²	\$1,001,574	(\$1,001,574)	\$0	→
Reverse repurchase agreements ³	\$81,316	\$0	\$81,316	→
Deferred availability cash items	\$1,117	\$0	\$1,117	→
Other liabilities and accrued dividends ⁴	\$15,311	\$0	\$15,311	→
Total Non-Deposit Liabilities	\$1,099,318	(\$1,001,574)	\$97,744	→
Total Liabilities	\$2,796,319	(\$1,001,574)	\$1,794,745	→
EQUITY/CAPITAL				
Capital paid in	\$26,028	\$0	\$26,028	→
Surplus	\$26,028	\$0	\$26,028	→
Total Capital/Equity	\$52,057	\$0	\$52,057	→
Total Liabilities & Equity/Capital	\$2,848,376	(\$1,001,574)	\$1,846,802	→
Equity to Assets Ratio	1.83%	→	2.82%	

II. Split into Deposit Only and Commerce Dept.

October 26, 2011

Treasury Owned Depository ⁵	Fed/Commerce Sunset ⁶	Reconciliation Total
DEMAND SECTION		
\$11,037		
\$5,200		
\$38,950	\$0	\$38,950
\$55,187	\$0	\$55,187
	\$18,423	\$18,423
	\$621,411	\$621,411
	\$0	\$0
	\$0	\$0
	\$639,834	\$639,834
	\$107,668	\$107,668
	\$849,261	\$849,261
	\$40,416	\$40,416
	\$794	\$794
\$0	\$998,139	\$998,139
	\$11,004	\$11,004
\$0	\$11,004	\$11,004
	\$329	\$329
	\$2,186	\$2,186
	\$1,853	\$1,853
Start-up(Est.) ⁵	\$0	\$138,270
\$0	\$142,638	\$142,638
Total Assets	\$55,187	\$1,791,615
DEMAND SECTION		
\$55,187		\$55,187
\$0		\$0
\$55,187	\$0	\$55,187
	\$0	\$0
	\$1,588,042	\$1,588,042
	\$132	\$132
	\$53,640	\$53,640
\$0	\$1,641,814	\$1,641,814
	\$0	\$0
	\$81,316	\$81,316
	\$1,117	\$1,117
For Start-up ⁵	\$0	\$15,311
\$0	\$97,744	\$97,744
Total Liabilities	\$55,187	\$1,739,558
	\$26,028	\$26,028
\$0	\$26,028	\$26,028
Total Capital	\$0	\$52,057
\$55,187	\$1,791,615	\$1,846,802
	2.91%	2.82%

NOTES

1-General estimation of Federal Reserve Bank conversion into a Treasury owned depository and remaining bank.

2-Treasury and Agency Securities Holdings would be credited and retired against Federal Reserve Notes which would be exchanged for new US Bills issued by the people.

3-Investment sales and loan payoffs and would be credited to US government and retired.

4-Some "Other Liabilities" may be considered demand liabilities, in which case they would require 100% reserves also and transfer to the new Treasury Deposit Institution.

5-Deposit Bank would be assigned to Treasury Department.

6-Remaining operations of the Federal Reserve System would be assigned to Department of Commerce or sunset. Loan payoffs would be credited to US government and retired.

SOURCE:

1-Federal Reserve Statistical Release H.4.1 October 27, 2011 Table 8. Consolidated Statement of all Federal Reserve Banks at:

<http://www.federalreserve.gov/releases/h41/>**Prepared By**

William Haugen
7175 Gaston Ave Apt 2225
Dallas, TX 75214
214-321-7494
whaugen@flash.net
October 19, 2012

Federal Reserve Consolidated Statement Change from conversion to 100% Demand Deposits³

(\$ Millions)	For Week Ending
Federal Reserve Notes, net of F.R. Bank holdings Retired & Replaced with US Bills	10/26/2011
Plus: Cash Equivalents Needed to cover U.S. Gov't Demand Deposits	\$1,001,574
Less: Treasury and Agency Securities Holdings Retired	\$36,604
Bonded Debt to U.S. Government from Funding 100% Demand Deposit Conversion	(\$1,038,178)
Source: Federal Reserve Statistical Release H.4.1 Table 8. Consolidated Statement of all Federal Reserve Banks	(\$0)

Economic Recovery Plan for the United States

United States Government Consolidated Balance Sheet

Conversion Estimate^{a,1}

September 30, 2011

(From Notes refer to Source 1 document.)

	I. Conversion Retiring Fed Debt Holdings at Book			II. Conversion Retiring Fed Debt Holdings at Market		
	Existing (Before)	Funds Transfers	Converted Form (After)	Existing (Before)	Funds Transfers	Converted Form (After)
	(\$ Billions)	→	(\$ Billions)	(\$ Billions)	→	(\$ Billions)
ASSETS						
CURRENT ASSETS						
Cash (Unrestricted and restricted) (From Note 2.)	\$89.3	\$0.0	\$89.3	\$89.3	\$0.0	\$89.3
International monetary assets (From Note 2.)	\$76.6	\$0.0	\$76.6	\$76.6	\$0.0	\$76.6
Gold (I. Book value/II. Market) ^d (From Note 2.)	\$11.1	\$0.0	\$11.1	\$423.6	\$0.0	\$423.6
Accounts and taxes receivable, net	\$106.3	\$0.0	\$106.3	\$106.3	\$0.0	\$106.3
Inventories and related property, net	\$296.1	\$0.0	\$296	\$296.1	\$0.0	\$296
Total Current Assets	\$579.4	\$0.0	\$579.4	\$991.9	\$0.0	\$991.9
INVESTMENTS						
Bonded Debt to U.S. Government from Conversion ^b	\$0.0	\$5,003.1	\$5,003.1	\$0.0	\$5,003.1	\$5,003.1
Loans receivable and mortgage backed securities, net	\$772.1	\$0.0	\$772.1	\$772.1	\$0.0	\$772.1
TARP direct loans and equity investments, net	\$80.1	\$0.0	\$80.1	\$80.1	\$0.0	\$80.1
Debt and equity securities	\$99.7	\$0.0	\$99.7	\$99.7	\$0.0	\$99.7
Investments in Government-Sponsored Enterprises	\$133.0	\$0.0	\$133.0	\$133.0	\$0.0	\$133.0
Beneficial interest in AIG trust	\$10.9	\$0.0	\$10.9	\$10.9	\$0.0	\$10.9
Total Investments	\$1,095.8	\$5,003.1	\$6,098.9	\$1,095.8	\$5,003.1	\$6,098.9
OTHER ASSETS						
Property, plant, and equipment, net	\$852.8	\$0.0	\$852.8	\$852.8	\$0.0	\$852.8
Other assets	\$179.3	\$0.0	\$179.3	\$179.3	\$0.0	\$179.3
Total Other Assets	\$1,032.1	\$0.0	\$1,032.1	\$1,032.1	\$0.0	\$1,032.1
Total Assets	\$2,707.3	\$5,003.1	\$7,710.4	\$3,119.8	\$5,003.1	\$8,122.9
			284.8%			260.4%
LIABILITIES & EQUITY						
CURRENT LIABILITIES						
Accounts payable	\$63.4	\$0.0	\$63.4	\$63.4	\$0.0	\$63.4
Accrued Interest Payable (From Note 14.)	\$51.9	\$0.0	\$51.9	\$51.9	\$0.0	\$51.9
Benefits due and payable	\$171.0	\$0.0	\$171.0	\$171.0	\$0.0	\$171.0
Total Current Liabilities	\$286.3	\$0.0	\$286.3	\$286.3	\$0.0	\$286.3
MONETARY LIABILITIES (From Note 19.)						
International Exchange Stabilization	\$60.3	\$0.0	\$60.3	\$60.3	\$0.0	\$60.3
Gold Certificates (pledged to Fed Res. System) ^d	\$11.0	\$0.0	\$11.0	\$422.1	\$0.0	\$422.1
Total Monetary Liabilities	\$71.3	\$0.0	\$71.3	\$482.4	\$0.0	\$482.4
OPERATIONAL LIABILITIES						
Federal employee and veteran benefits payable	\$5,792.2	\$0.0	\$5,792.2	\$5,792.2	\$0.0	\$5,792.2
Insurance and guarantee program liabilities	\$161.7	\$0.0	\$161.7	\$161.7	\$0.0	\$161.7
Loan guarantee liabilities	\$63.0	\$0.0	\$63.0	\$63.0	\$0.0	\$63.0
Environmental and disposal liabilities	\$324.1	\$0.0	\$324.1	\$324.1	\$0.0	\$324.1
Other liabilities (Less Monetary Liabilities Shown Separately)	\$355.7	\$0.0	\$355.7	\$355.7	\$0.0	\$355.7
Total Operational Liabilities	\$6,696.7	\$0.0	\$6,696.7	\$6,696.7	\$0.0	\$6,696.7
INVESTMENT LIABILITIES						
Liabilities to Government-Sponsored Enterprises	\$316.2	\$0.0	\$316.2	\$316.2	\$0.0	\$316.2
Total Investment Liabilities	\$316.2	\$0.0	\$316.2	\$316.2	\$0.0	\$316.2
DEBT LIABILITIES						
Federal debt held by the Federal Reserve System ^{c,2}	\$1,664.7	(\$1,664.7)	\$0.0	\$1,664.7	(\$1,664.7)	\$0.0
Federal debt securities held by commercial banks ^{c,3}	\$1,689.8	(\$1,689.8)	\$0.0	\$1,689.8	(\$1,689.8)	\$0.0
Federal debt securities held by the public (Note 14.)	\$6,767.7	\$0.0	\$6,767.7	\$6,767.7	\$0.0	\$6,767.7
Total Debt Liabilities	\$10,122.2	(\$3,354.5)	\$6,767.7	\$10,122.2	(\$3,354.5)	\$6,767.7
Total liabilities	\$17,492.7	(\$3,354.5)	\$14,138.2	\$17,903.8	(\$3,354.5)	\$14,549.3
EQUITY/CAPITAL (Net Position)						
Earmarked funds	\$748.2	\$0.0	\$748.2	\$748.2	\$0.0	\$748.2
Non-earmarked funds	(\$15,533.6)	\$8,357.6	(\$7,176.0)	(\$15,532.1)	\$8,357.6	(\$7,174.6)
Total net position (Capital Shortage/Funding Gap)	(\$14,785.4)	\$8,357.6	(\$6,427.8)	(\$14,783.9)	\$8,357.6	(\$6,426.4)
Total Liabilities & Equity/Capital	\$2,707.3	\$5,003.1	\$7,710.4	\$3,119.8	\$5,003.1	\$8,122.9
Equity to Assets Ratio	-546.13%	→	-83.37%	-473.87%	→	-79.11%

NOTES

- a-General estimation of financial impact of converting to 100% reserve system and retiring Federal Reserve Treasury holdings. (Not all dates match so general purposes only)
- b-Initial seigniorage, first use new money creation, allocated to government to loan for 100% funding of commercial bank demand deposits. Bank debt to U.S. Government est. at 0.25% premium over Treasuries for equivalent debt secured by Loan Assets and/or other assets and would be repaid as loans payoff. Subsequent seigniorage to be direct issued to the people, who created increased productivity to justify it, on a pro rata basis as a "Labor Dividend" or as interest to demand deposit accounts held at new depositor owned 100% depository only institutions.
- c-Treasury & Agency Securities Holding by Commercial Banks would be retired as a book entry and netted with bank borrowing required to fully fund US Bill cash demand deposit accounts.
- d-From Note 2.-Treasury held 261,498,900 oz of gold with 9/30/2011 market value of \$423.6 billion pledged as collateral for gold certificates issued & authorized to the FRBs by Treasury Secretary.

Gold information (From Source 1)

	Treasury Gold oz	Book Value/oz	Book Value (\$ Billions)
Gold Asset (From Note 2. p.64)	261,498,900	\$42.2222	\$11.04
Gold Certificate Liability est. (From Note 19. pp.105-6)	260,525,847	\$42.2222	\$11.00

Date (Mkt Price) Market Price/oz Market Value(\$Billions)

Date (Mkt Price)	Market Price/oz	Market Value(\$Billions)
9/30/2011	\$1,620.0	\$423.6
9/30/2011	\$1,620.0	\$422.1

SOURCES:

- 1-Financial Statement of the U.S. Government for the Years Ended 9/30 2011 and 2010 from 2011 rpt p.45 at: <http://www.fms.treas.gov/fr/> (From Notes refer to Source 1 document.)
- 2-2013 Fiscal Year Historical Tables Budget of the U.S. Government Fiscal Year End 9-30-2011 Table 7.1-Federal Debt at the End of Year 1940-2011 p.140 at: <http://www.whitehouse.gov/omb/budget/Historicals/>
- 3-Federal Reserve Statistical Release H.8 Assets and Liabilities of Commercial Banks in the U.S. 10/19/11 at: <http://www.federalreserve.gov/econresdata/releases/statisticsdata.htm>

Prepared By

William Haugen
7175 Gaston Ave Apt 2225
Dallas, TX 75214
214-321-7494
whaugen@flash.net
October 19, 2012

Commercial Bank Debt to U.S. Government from conversion to 100% Reserve Demand Deposits ³		
	For Week Ending	10/19/2011
Commercial Bank Deposits (Assumed all Demand) - Liability 31		\$8,349.1
Less: Cash on Hand - Assets 25		(\$1,656.2)
Less: Treasury and Agency Securities Holding - Assets 3		(\$1,689.8)
Bonded Debt to U.S. Government from Funding 100% Demand Deposit Conversion		\$5,003.1
Source: H.8; Pages 4 & 5 Assets and Liabilities of Commercial Banks in United States (Not Seasonally Adjusted), FRB		

Attachment 9
Economic Recovery Plan for the United States
Federal Debt Securities Held by the Public and Accrued Interest^a

For Fiscal Year ending September 30th.

		Federal Debt Securities			Average Interest Rate		Interest Paid	
Treasury securities (public):	Maturity	Fiscal Yr 2010	Net Change During Year	Fiscal Yr 2011	2011	2010	2011 (Est.)	Security
Marketable securities:	(Term in Yrs)	(\$ Billions)	(\$ Billions)	(\$ Billions)			(\$ Billions)	
Treasury bills	0 to 1	\$1,783.7	(\$308.1)	\$1,475.6	0.1%	0.2%	\$1.476	Treasury bills
Treasury notes	1 to 10	\$5,252.6	\$1,154.4	\$6,407.0	2.3%	2.6%	\$147.361	Treasury notes
Treasury bonds	10+	\$846.0	\$170.4	\$1,016.4	5.8%	6.1%	\$58.951	Treasury bonds
Treasury TIPS ^b	5+	\$593.6	\$111.7	\$705.3	1.9%	2.2%	\$13.401	Treasury (TIPS)
Total Marketable Treasury Securities		\$8,475.9	\$1,128.4	\$9,604.3	2.30%	2.42%	\$221.189	Total Marketable^c
Nonmarketable securities		\$546.9	(\$24.2)	\$522.7	2.8%	2.8%	\$14.636	Nonmarketable
Net unamortized premium/(discounts)		(\$33.9)	\$4.4	(\$29.5)				
Total Nonmarketable Treasury Securities		\$513.0	-\$19.8	\$493.2				
Total Treasury Securities, Net (Public)		\$8,988.9	\$1,108.6	\$10,097.5	2.33%	2.44%	\$235.824	Total Interest
Agency securities:								
Tennessee Valley Authority		\$23.4	\$1.0	\$24.4				
All other agencies		\$0.3	\$0.0	\$0.3				
Total Agency Securities Net unamortized		\$23.7	\$1.0	\$24.7				
Accrued interest payable		\$47.4	\$4.5	\$51.9				
Total Federal debt + accrued interest (Public)		\$9,060.0	\$1,114.1	\$10,174.1				

Public Debt and Interest Rates Note

It is anticipated commercial banks will receive a one time loan from the government to fully fund demand deposits 100%. The interest rate for the approximate \$5.0 Trillion loan is anticipated to be at market which is estimated as matching Treasury rates plus a risk premium estimated at 0.25% (25 basis points) which is approximately the market premium for Fannie Mae and Freddie Mac bonds which carry implied government backing. Interest rate calculations for bank note and jobs impact based on weighted ave 2011 public debt.

Note 14 Comments

Federal debt securities held by the public outside the Government are held by individuals, corporations, State or local governments, FRBs, foreign governments, and central banks. The above table details Government borrowing primarily to finance operations and shows marketable and nonmarketable securities at face value less net unamortized discounts including accrued interest.

Securities that represent Federal debt held by the public are issued primarily by the Treasury and include:

- (1) - Interest-bearing marketable securities (bills, notes, bonds, and inflation-protected).
- (2) - Interest-bearing nonmarketable securities (government account series held by deposit and fiduciary funds, foreign series, State and local government series, domestic series, and savings bonds).
- (3) - Non-interest-bearing marketable and nonmarketable securities (matured and other).

Section 3111 of Title 31, U.S. Code (U.S.C.) authorizes the Secretary of the Treasury to use money received from the sale of an obligation and other money in the General Fund of the Treasury to buy, redeem, or refund, at or before maturity, outstanding bonds, notes, certificates of indebtedness, Treasury bills, or savings certificates of the Government. There were no buyback operations in fiscal years 2011 and 2010.

Gross Federal debt (with some adjustments) is subject to a statutory ceiling (i.e., the debt limit). Prior to 1917, the Congress approved each debt issuance. In 1917, to facilitate planning in World War I, Congress established a dollar ceiling for Federal borrowing. On February 12, 2010, Public Law 111-139 was enacted, which increased the statutory debt limit to \$14,294.0 billion. On August 2, 2011, Public Law 112-25 was enacted, which increased the statutory debt limit to \$14,694.0 billion on August 2, 2011, and to \$15,194.0 billion on September 22, 2011. Public Law 112-25 also established procedures to further increase the statutory debt limit. Prior to the enactment of Public Law 112-25, Treasury faced a period that required it to depart from its normal debt management procedures and to invoke legal authorities to avoid exceeding the statutory debt limit. As of September 30, 2011, and 2010, respectively, debt subject to the statutory debt limit was \$14,746.6 billion and \$13,510.8 billion, respectively. The debt subject to the limit includes Treasury securities held by the public and Government guaranteed debt of Federal agencies (shown in the table above) and intragovernmental debt holdings (not shown from p.92 totaling \$4,710.9 billion as of 9/30/2011).

NOTES

- a-Data from U.S. Financial Statement Note 14. Federal Debt Securities Held by the Public and Accrued Interest pp. 90-92, Source 1.
b-TIPS = Treasury Inflation Protected Securities.
c-Weighted Average.

SOURCES

- 1-Financial Statements of the U.S. Government for the Years Ended 9/30 2011 and 2010 (Detailed) at:
<http://www.fms.treas.gov/fr/>
2-Treasury rates from U.S. Treasury Recourse Center Daily Treasury Yield Curve Rates at:
<http://www.ustreas.gov/offices/domestic-finance/debt-management/interest-rate/yield.shtml>

Prepared By

William Haugen
7175 Gaston Ave Apt 2225
Dallas, TX 75214
214-321-7494
whaugen@flash.net
October 19, 2012

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

Prepared By

William Haugen

7175 Gaston Ave Apt 2225

Dallas, TX 75214

214-321-7494

whaugen@flash.net

October 19, 2012

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%

Attachment 11

Economic Recovery Plan for the United States

Direct Issuance and First Use (Seigniorage) Money Supply Intermediation to the People (Estimated)

M2M¹ (M2 Less Small Time Deposits) Money Stock Basis Assumed

Initial Conditions

Initial conditions would be to take GDP of economy in base year and divide it by itself and call the result 100 and the same for the money stock, take the chosen money stock indicator and divide it by itself and call it 100. Then, one possible way to allocate the productivity increase of the economy back to the economy itself in the most direct, efficient and least costly way would be for any increases in the money stock to be directly credited by the government as interest/Labor Dividend pro rata to the accounts held at the new 100% cash depositories. If the economy grows at a 2% rate then 2% seigniorage interest would be credited to the demand deposit accounts. In recessionary cycles, if any, no interest/Labor Dividend would be paid. In that sense these 100% reserve checking accounts would appear to earn interest/Labor Dividends and be the same as today's fractional reserve checking accounts that are paying effectively no interest in recessionary periods and some interest in expansionary periods. There would be no need for FDIC insurance because the depository would have 100% cash and demand deposits - it would not be possible for such a depository to not have 100% funds on hand to cover any withdrawal situation including up to 100%. Commercial Banks would no longer take demand deposits but could take CDs and make time matched funding loans and lend their own capital and continue to offer other financial services without FDIC Insurance.

Formula If economy declines, no Labor Dividend until fully recovered to avoid inflation.

$$\begin{aligned} \text{[% Change MS}_N\text{]} &= \frac{[\text{MS}_N - \text{MS}_{N-1}]}{[\text{MS}_{N-1}]} = \frac{\text{Money Stock}_N \times \text{GDP}_N}{\text{Money Stock}_{N-1} \times \text{GDP}_0} - 1 \\ \text{[Labor Dividend (LD)]} &= \text{Seigniorage} \\ \text{[Seigniorage]} &= \text{Seigniorage} \end{aligned}$$

Provided [GDP_N] greater than any previous [GDP_X] in the series 0 to N-1, if not then [% Change MS_N] = 0%

Where

MS =Money Stock/Supply
 GDP =Gross Domestic Product, measure of economic performance
 N = Year, (period between measurements used)
 LD =Labor Dividend [Seigniorage/interest]

Economic (GDP) Performance

	Year/Period (N)										
	0	1	2	3	4	5	6	7	8	9	10
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP ² (End of Year \$ Billions)	\$10,373.1	\$10,766.9	\$11,414.8	\$12,123.9	\$12,901.4	\$13,584.2	\$14,253.2	\$14,081.7	\$14,133.6	\$14,735.9	\$15,321.0
Economy GDP (Begin GDP _{N-1})		100.000	103.796	110.042	116.878	124.374	130.956	137.405	135.752	136.252	142.059
Economy GDP (End GDP _N /GDP ₀)	100.000	103.796	110.042	116.878	124.374	130.956	137.405	135.752	136.252	142.059	147.699
% GDP Change (GDP _N /GDP _{N-1} - 1)		3.796%	6.018%	6.212%	6.413%	5.292%	4.925%	-1.203%	0.369%	4.261%	3.971%
% Change Cumulative (GDP _N /GDP ₀ - 1)	0.000%	3.796%	10.042%	16.878%	24.374%	30.956%	37.405%	35.752%	36.252%	42.059%	47.699%

Money Stock Growth

	Year/Period (N)										
	0	1	2	3	4	5	6	7	8	9	10
Money Stock (Begin 1/1)		100.000	103.796	110.042	116.878	124.374	130.956	137.405	137.405	137.405	142.059
% Change (Period N from GDP% N-1)		3.796%	6.018%	6.212%	6.413%	5.292%	4.925%	-1.203%	0.369%	4.261%	3.971%
% Change Cumulative (Σ MS from 0)		3.796%	10.042%	16.878%	24.374%	30.956%	37.405%	35.752%	36.252%	42.059%	47.699%
Labor Dividend (Year N)³		3.796%	6.018%	6.212%	6.413%	5.292%	4.925%	0.000%	0.000%	3.387%	3.971%
Money Stock (End)	100.000	103.796	110.042	116.878	124.374	130.956	137.405	137.405	137.405	142.059	147.699
Labor Div Cumulative (MS _N /MS ₀ - 1)	0.000%	3.796%	10.042%	16.878%	24.374%	30.956%	37.405%	37.405%	37.405%	42.059%	47.699%
Money Stock (LD Model) (Begin)		\$4,459.7	\$4,629.0	\$4,907.6	\$5,212.4	\$5,546.7	\$5,840.2	\$6,127.9	\$6,127.9	\$6,127.9	\$6,335.4
Labor Dividend (Year/Period N)		\$169.3	\$278.6	\$304.9	\$334.3	\$293.6	\$287.6	\$0.0	\$0.0	\$207.5	\$251.6
Money Stock (LD Model) (End)	\$4,459.7	\$4,629.0	\$4,907.6	\$5,212.4	\$5,546.7	\$5,840.2	\$6,127.9	\$6,127.9	\$6,127.9	\$6,335.4	\$6,586.9
Money Stock (M2M Actual)	\$4,459.7	\$4,876.1	\$5,247.3	\$5,587.7	\$5,682.5	\$5,858.0	\$6,196.1	\$6,744.3	\$7,327.3	\$7,895.2	\$8,925.9
Variance (with LD Model)	Over / (Under)	5.3%	6.9%	7.2%	2.4%	0.3%	1.1%	10.1%	19.6%	24.6%	35.5%

Money Stock (LD Model)/GDP Ratio	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	101.2%	100.8%	100.0%	100.0%
Variance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	0.8%	0.0%	0.0%

Prepared By

William Haugen
 7175 Gaston Ave Apt 2225
 Dallas, TX 75214
 214-321-7494
 whaugen@flash.net
 October 19, 2012

Notes/Sources

1-M2M Money Stock data (\$ Billions, Not Seasonally Adjusted) from St. Louis Fed at <http://research.stlouisfed.org/fred2/series/M2MNS>
 2-GDP numbers (\$ Billions, End of Year) from St. Louis Fed economic data at <http://research.stlouisfed.org/fred2/series/GDP>
 3-Also known as Seigniorage. It is percent (%) increase in money stock for period N, provided the economy has total net positive growth above all previously paid Labor Dividends. Seigniorage money supply expansions would be paid like interest, direct deposited into depository account holders accounts on a pro rata basis.

Attachment 12

Economic Recovery Plan for the United States

Historical Support for 100% Full Reserve Demand Deposit Banking

All of the persons listed supported a 100% reserve banking system and although many likely had different versions of the exact structure such a system might have they were all supportive of 100% reserve (time matched lending without money creation ability) banking. One version was known as "The Chicago Plan" primarily by Henry Simons was supported by hundreds of economists in the 1930's.

Nobel Prize Winners

- | | |
|--------------------|---|
| 1 Milton Friedman | Nobel Prize Economics 1976, Economics Professor primarily University of Chicago. |
| 2 James Tobin | Nobel Prize Economics 1981, Economics Professor Yale and Harvard, (March 5, 1918 – March 11, 2002) |
| 3 Maurice Allais | Nobel Prize Economics 1988, Economics Professor, École Nationale Supérieure des Mines de, Paris (May 31, 1911 – October 9, 2010) |
| 4 Merton H. Miller | Nobel Prize Economics 1990 for discovery of M&M Theorem, Economics Professor primarily University of Chicago in "Do the M&M propositions apply to Banks?" Journal of Banking & Finance 19, 1995. |
| 5 Frederick Soddy | Nobel Prize Chemistry 1921 (believed to be first discover of 100% reserve principle in 1926, author 1934 <i>The Role of Money</i> pp. 67-68 quote "[Fractional Reserve] Banks have never been solvent". |

Bankers

- | | |
|----------------------|---|
| 1 Frank A. Vanderlip | President National City Bank (1909-1919) (now Citicorp), Assistant Secretary of Treasury (1891-1901) and member of original Jekyll Island Conference for the creation of the Federal Reserve System (1864 – June 30, 1937). |
| 2 Alexander Efron | Originated no minimum balance checking known as Checkmaster Plan while Vice President National Safety Bank & Trust, New York, (1893 – December 24, 1950). |
| 3 Mervyn King | Current governor of the Bank of England, England's Central Bank in "Banking: From Bagehot to Basel, and Back Again" Speech at Buttonwood Gathering, New York City, Monday October 25, 2010. |

Economists

- | | |
|----------------------------------|--|
| 1 Irving Fisher | Economics Professor, Yale, one of the most respected economists from the first half of the 20th century advocated for 100% reserve system from 1934 for the remainder of his life (1867-1947). |
| 2 Herman E. Daly | Economics Professor, University of Maryland, author in 2007 of "Ecological economics and sustainable development: selected essays of Herman Daly", p.114. |
| 3 Laurence Jacob Kotlikoff | Economics Professor, Boston University (January 30, 1951 –) |
| 4 Jesús Huerta de Soto Ballester | Economics Professor, Rey Juan Carlos University, Madrid, Spain (December 23, 1956 –) |
| 5 Jörg Guido Hülsmann | Economics and Law Professor, Université d'Angers, Angers, France |
| 6 Richard A. Werner | International Banking Professor, University of Southampton, England |
| 7 Joseph Huber | co-author with James Robertson of <i>Creating New Money: A Monetary Reform for the Information Age</i> , 2000, chair of economic and environmental sociology at Martin Luther University of Halle-Wittenberg, Germany (1948-). |
| 8 James Robertson | co-author with Joseph Huber of <i>Creating New Money: A Monetary Reform for the Information Age</i> , 2000, British political and economic thinker/activist (born August 11, 1928). |
| 9 Lauchlin Currie | Assistant to Former Federal Reserve Chairman Marriner Eccles during Roosevelt administration (October 8, 1902 – December 23, 1993). |
| 10 Murray Rothbard | Notable Austrian School Economist (March 2, 1926 – January 7, 1995) |
| 11 Ludwig von Mises | Prominent Early Austrian School Economist (September 29, 1881 – October 10, 1973) |
| 12 Henry C. Simons | Economics and Law Professor, U. Chicago and a primary author of the "Chicago Plan" 100% banking reserves plan letter March 1933 on file in Roosevelt Library in Hyde Park, NY. |
| 13 Garfield V. Cox | Finance Professor and Dean of the Chicago School of Business (1945-52), signed 100% banking reserves letter March 1933 on file in Roosevelt Library in Hyde Park, NY. (May 4, 1893 –) |
| 14 Aaron Director | Economics and Law Professor, U. Chicago signed 100% banking reserves letter March 1933 on file in Roosevelt Library in Hyde Park, NY (1901 – September 11, 2004). |
| 15 Albert Gailord Hart | Economics professor at Columbia University, supported "Chicago Plan" signing March 1933 Letter on file in Roosevelt Library in Hyde Park, NY. |
| 16 Frank H. Knight | Economics Professor, U. Chicago (1922-52) signed 100% banking reserves letter March 1933 on file in Roosevelt Library in Hyde Park, NY (November 7, 1885 - April 15, 1972). |
| 17 Lloyd W. Mints | Economics professor, U. Chicago signed 100% banking reserves letter March 1933 on file in Roosevelt Library in Hyde Park, NY (1888 –). |
| 18 Henry Schultz | Economics professor, U. Chicago signed 100% banking reserves letter March 1933 on file in Roosevelt Library in Hyde Park, NY (September 4, 1893 – November 26, 1938). |
| 19 Frank D. Graham | Economics and International Finance Professor Princeton (1890-1949). Frank D. Graham Memorial Lecture at Princeton is named in his honor. |
| 20 Charles R. Whittlesley | Economics professor at Princeton and Wharton School, U. Penn (1900-79). |
| 21 Richard A. Lester | Labor Economics Professor and Former Chairman Princeton Department of Economics author "Gold Money, Bank Money, and Real Money" VQR Spring 1941 (March 1, 1908 – December 31, 1997). |
| 22 Earl J. Hamilton | Economics Professor Duke (1927-44) and U. Chicago (1947-67), also editor of the Journal of Political Economy for seven years and president of the Economic History Association 1951-52. (1899 – 1989). |
| 23 Willford I. King | Economics Professor, NYU 1927-45 (1880–1962). |
| 24 Charles O. Hardy | Associate Economist at Fed during Marriner Eccles Roosevelt era Chairmanship, fellow at Brookings Institution and author including "Credit Policies of the Federal Reserve System in 1932. |
| 25 John R. Commons | Economics Professor and Labor Historian University of Wisconsin-Madison (October 13, 1862 – May 11, 1945). |
| 26 James W. Angell | Economics Professor Columbia University (1898-1986). |
| 27 American Economic Association | Leading economics society in the world, 1937 poll by Irving Fisher indicated 1,100 members had signed approval of 100% reserve banking with 96 indicating specific reservations. |

Government Members

- | | |
|------------------------|--|
| 1 Robert L. Owen | U.S. Senator (D-OK) 1907-25, Chairman Senate Committee on Banking and Currency (1913-1919) and Senate sponsor of the Glass-Owen Bill (H.R. 7837) which became the Federal Reserve Act signed into law 12/23/1913, (February 2, 1856 – July 19, 1947). |
| 2 Henry Wallace | 33rd Vice President of the United States, Secretary of Agriculture and Secretary of Commerce under Roosevelt Administration |
| 3 Paul Howard Douglas | U.S. Senator from Illinois 1948-66 and former Univ of Chicago economics professor supported 100% reserve banking including co-authoring <i>A Program for Monetary Reform</i> in July 1939 (March 26, 1892 – September 24, 1976). |
| 4 Bronson Cutting | U.S. Senator from New Mexico (interim 1928 and 1929-35) introduced 100% reserve banking legislation in Senate June 6, 1934 (S. 3744)(June 23, 1888 – May 6, 1935). |
| 5 Wright Patman | U.S. Congressman (D) from 1st District Texas (1929-1976) and chair of the House Committee on Banking and Currency (1965–75) introduced legislation in House in 1934 (H.R. 9855)(August 6, 1893 – March 7, 1976). |
| 6 Jerry Voorhis | U.S. Congressman (D) from 12th District California 1937-1947. Voorhis supported 100% reserve banking and teamed with Wright Patman to force Fed to pay most interest earned on federal securities to the U.S. Government (April 6, 1901 – September 11, 1984). |
| 7 T. Alan Goldsborough | U.S. Congressman (D) from 1st District Maryland (1921-1939) introduced legislation to end fractional reserve banking system in 1937 (HR 31) (September 16, 1877 – June 16, 1951). |
| 8 Ron Paul | U.S. Congressman from 14th District Texas and two time Republican candidate for President. |
| 9 Dennis J. Kucinich | U.S. Congressman from 10th District Ohio. |
| 10 Douglas Carswell | MP in British Parliament |

Notable Historic Supporters

- | | |
|----------------------|--|
| 1 Thomas Edison | Greatest Inventor of 20th Century (February 11, 1847 – October 18, 1931). |
| 2 David Hume | One of the most important figures in the history of Western philosophy in <i>Of Money</i> 1752. |
| 3 Robert de Fremery | Respected financial writer and author <i>Money and Freedom</i> 1955. |
| 4 Gertrude M. Coogan | First woman to receive MBA from Northwestern, earned in 1922 with special honors and author of <i>Money Creators</i> 1935. |

SOURCES:

- 1-Robert de Fremery from *Money and Freedom*, 1954 at <http://www.wcf.com/mandf/>
- 2-"Irving Fisher and the 100% Reserve Proposal", William Allan, UCLA, 1993 at <http://www.fullreservebanking.com/papers.htm>
- 3-"The 'Chicago Plan' and New Deal Banking Reform", Ronnie J. Phillips, 1992 at <http://www.levyinstitute.org/pubs/wp/76.pdf>

Prepared By

William Haugen
7175 Gaston Ave Apt 2225
Dallas, TX 75214
214-321-7494
whaugen@flash.net
October 19, 2012

Attachment 13

Economic Recovery Plan for the United States

Selected Bank Run Failures in the United States since FDIC Deposit Insurance in 1934¹

#	<u>Commercial/Savings Bank</u>	<u>State</u>	<u>Year</u>	<u>Bank Assets (\$ Billions)</u>	<u>FDIC Cost (\$ Billions)</u>	<u>Comments</u>
1	Franklin National Bank	NY	Oct-74	\$3.6		Depositors withdrew \$1.75 Billion after management revealed huge losses. Was largest Federal Reserve outlay it had ever made to a member bank at that time.
2	Hartford Federal S&L	CT	Feb-82			Hartford Federal S&L experienced what was called "the first genuine depositor bank panic since the 1930s", when depositors withdrew \$3 million in cash in a matter of hours.
3	Penn Square	OK	Jul-82	\$0.5	\$0.1	Rumors of problems at Penn Square began circulating in May '82 causing an approximate \$130 million deposit runoff that forced the bank to rely increasingly on brokered funds.
4	Abilene National Bank	TX	Aug-82			Experienced a run of 12% of deposits during a 3-day period in mid-July before closing August 6th.
5	First National Bank of Midland	TX	Oct-83	\$1.4		Depositors withdrew \$664 million in the year before the bank was closed.
6	Continental Illinois	IL	May-84	\$40.0	\$1.1	Large depositors withdrew over \$10 billion in early May 1984. Congressman Stewart McKinney coined term "too big to fail" at Congressional hearing on Continental Illinois failure.
7	American Savings And Loan	CA	Jun-88	\$30.2	\$5.7	Customers panicked and withdrew \$6.8 billion from the bank.
8	Home State Savings Bank of Cincinnati	OH	Mar-85			Bank losses and run exceeded State of Ohio Deposit Guaranty Fund requiring all Ohio state banks to convert to FDIC insurance and state pledge to cover depositors.
9	First Republic of Texas	TX	Jun-88	\$32.5	\$3.9	Famous for the "electronic bank run" that led to its failure. Depositors withdrew over \$1.8 Billion.
10	M Corp	TX	Mar-89	\$18.0	\$2.8	Depositors withdrew between \$50 and \$100 million of deposits within two days of MCorp's announcement of intent to file Chapter 11 bankruptcy.
11	Bank Of New England (BNE)	MA	Jan-91	\$21.7	\$0.9	Run on bank was estimated to be \$1 billion in two days in early January before failure January 6th.
12	IndyMac Bank	CA	Jul-08	\$32.0		After financial problems announced, depositors withdrew about 7.5%, approximately \$2.4 Billion, of deposits prior to failure.
13	Washington Mutual	WA	Sep-08	\$307.0		Customers pulled out \$16.7 billion in deposits in a ten-day span.
14	Bear Sterns	NY	Mar-08			Not FDIC bank; Investment bank. Customers withdrew \$15 Billion over three days and stock fell 47% in one day, 93% in last year.
15	Lehman Brothers	NY	Sep-08			Not FDIC bank; Investment bank. Stock dropped from \$67.73/share to bankruptcy within a year and customers withdrew over \$45 Billion. Fed provided liquidity of over \$87 Billion.

Notes

1-Bank run failures are not possible under a 100% reserve system. None of the above failures would have occurred with a 100% reserve system.

2-The Investment Banks would have been less likely to fail utilizing 100% time matched funds spread lending finance.

Prepared By

William Haugen
7175 Gaston Ave Apt 2225
Dallas, TX 75214
214-321-7494
whaugen@flash.net
October 19, 2012

SOURCES:

- 1-*Managing the Crisis: The FDIC and RTC Experience*, 1998 at <http://www.fdic.gov/bank/historical/managing/>
- 2-*The great Texas banking crash: an insider's account*, 1996, By Joseph M. Grant
- 3-*Bank failures in the major trading countries of the world: causes and remedies*, 1998, By Benton E. Gup
- 4-"Run on Big Wall St. Bank Spurs Rescue Backed by U.S.", New York Times March 15, 2008 at <http://www.nytimes.com/2008/03/15/business/15bear.html>

Attachment 14

Economic Recovery Plan for the United States**Financial Rescue Nears GDP as Pledges Top \$12.8 Trillion (Update1)****March 31, 2009**

The following table details how the Fed and the government have committed the money on behalf of American taxpayers over the past 20 months, according to data compiled by Bloomberg.

	--- Amounts (Billions)---	
	Limit	Current
Total	\$12,798.14	\$4,174.42

Federal Reserve Total	\$7,765.64	\$1,683.42
Primary Credit Discount	\$110.74	\$61.31
Secondary Credit	\$0.19	\$1.00
Primary dealer and others	\$147.00	\$20.18
ABCP Liquidity	\$152.11	\$6.85
AIG Credit	\$60.00	\$43.19
Net Portfolio CP Funding	\$1,800.00	\$241.31
Maiden Lane (Bear Stearns)	\$29.50	\$28.82
Maiden Lane II (AIG)	\$22.50	\$18.54
Maiden Lane III (AIG)	\$30.00	\$24.04
Term Securities Lending	\$250.00	\$88.55
Term Auction Facility	\$900.00	\$468.59
Securities lending overnight	\$10.00	\$4.41
Term Asset-Backed Loan Facility	\$900.00	\$4.71
Currency Swaps/Other Assets	\$606.00	\$377.87
MMIFF	\$540.00	\$0.00
GSE Debt Purchases	\$600.00	\$50.39
GSE Mortgage-Backed Securities	\$1,000.00	\$236.16
Citigroup Bailout Fed Portion	\$220.40	\$0.00
Bank of America Bailout	\$87.20	\$0.00
Commitment to Buy Treasuries	\$300.00	\$7.50

FDIC Total	\$2,038.50	\$357.50
Public-Private Investment*	\$500.00	\$0.00
FDIC Liquidity Guarantees	\$1,400.00	\$316.50
GE	\$126.00	\$41.00
Citigroup Bailout FDIC	\$10.00	\$0.00
Bank of America Bailout FDIC	\$2.50	\$0.00

Treasury Total	\$2,694.00	\$1,833.50
TARP	\$700.00	\$599.50
Tax Break for Banks	\$29.00	\$29.00
Stimulus Package (Bush)	\$168.00	\$168.00
Stimulus II (Obama)	\$787.00	\$787.00
Treasury Exchange Stabilization	\$50.00	\$50.00
Student Loan Purchases	\$60.00	\$0.00
Support for Fannie/Freddie	\$400.00	\$200.00
Line of Credit for FDIC*	\$500.00	\$0.00

HUD Total	\$300.00	\$300.00
Hope for Homeowners FHA	\$300.00	\$300.00

* - FDIC's commitment to guarantee lending under the Legacy Loan Program and the Legacy Asset Program includes a \$500 billion line of credit from the U.S. Treasury.

Source

Bloomberg "Financial Rescue Nears GDP as Pledges Top \$12.8 Trillion (Update1)" March 31, 2009 at <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=armOzfkwtCA4>

Attachment 15

Economic Recovery Plan for the United States**Formulas****Symbol Key**

- GDP = Gross Domestic Product (\$), measure of economic output of economy.
 MS = Money Stock (\$) at end of given period X (M2M-NS used for calculations).
 N = Last Observation in series 0 to N, assumed year but could be quarterly or other selected period.
 RR = % Reserve Requirement for Federal Reserve Member Banks. [% demand deposit accounts banks must hold in reserve for withdrawals from demand deposit (checking/debit card type) liabilities].
 X = Any specific observation in time series 0 to N.

Annual Monetary Intermediation Cost (\$) of Federal Reserve Banking System Estimate

$$= [(MS_N) - (MS_{N-1})] \times [1 - RR(\%)] + [\text{Net Annual Operating Expenses}]$$

Annual Monetary Intermediation Cost (%) of Federal Reserve Banking System Estimate

$$= \frac{[(MS_N) - (MS_{N-1})] \times [1 - RR(\%)] + [\text{Net Annual Operating Expenses}]}{[GDP_N]}$$

Economy Increase/Change Formula

$$[\% \text{ Change } GDP_N] = \frac{[GDP_N - GDP_{N-1}]}{[GDP_{N-1}]}$$

Money Stock Increase Formulas

$$[\% \text{ Change Money Stock}_N] = \frac{[\text{Money Stock}_0] \times [GDP_N] - 1}{[\text{Money Stock}_{N-1}] \times [GDP_0]}$$

[Labor Dividend]
 [Interest]
 [Seigniorage]

Provided if [% Change Money Stock_N] less than 0%, then 0%.

(Positive growth condition, [GDP_N] must be greater than any previous [GDP_X] in the series 0 to N-1 for Payment of Labor/Productivity Dividend)

Money stock increase will remain at zero [Money Stock_{N-1}] until economy fully recovered from GDP decline. Since people receive seigniorage, creation and first use of new money, directly on a pro rata basis there is no economic benefit of inflating the money stock during periods of economic decline.

[Money stock is increased now via direct wealth transfer from the other sectors of the economy to the banking system, making recessions worse for everyone but the banking sector.]

$$[\text{Money Stock}_N] = [\text{Money Stock}_{N-1}] \times \frac{[GDP_N]}{[GDP_{N-1}]}$$

Provided if [% Change Money Stock_N] less than 0%, then [Money Stock_N] = [Money Stock_{N-1}].

(Positive growth condition, [GDP_N] must be greater than any previous [GDP_X] in series 0 to N-1 for [Money Stock_N] increase)

Prepared By

William Haugen
 7175 Gaston Ave Apt 2225
 Dallas, TX 75214
 214-321-7494
whaugen@flash.net
 October 19, 2012