The US Fiat Dollar Ponzi Scheme: Digital Money Used to Purchase Toxic Assets from the "Too Big To Fail" Global Banks

"The US Federal Reserve Does Not Print Money" Says Dr. Lacy Hunt

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In the Hoisington Quarterly Review and Outlook (First Quarter 2013), Dr. Lacy Hunt wrote and we quote:

> "The Federal Reserve is printing money. No statement could be less truthful. The Federal Reserve (FED) is not, and has not been, 'printing money' as defined as an acceleration in M2 or money supply. Just check the facts. For the first quarter of 2013 the FED purchased $277.5 billion in securities (net) as their security portfolio expanded from $2.660 trillion to $2.937 trillion. A review of post-war economic history would lead to a logical assumption that the money supply (M2) would respond upward to this massive infusion of reserves into the banking system. The reality is just the opposite. The last week of December, 2012 showed M2 at $10.505 trillion, but at the end of March, 2013 it totalled only $10.450 trillion which was an unexpected decline of $55 billion. Printing money? No."

Please read the words which I have highlighted in bold and underlined.

Any novice in economics and monetary policy will have no difficulty in identifying the flaw in Dr. Lacy Hunt's contention as he has equated the printing of money (digital or otherwise) with the acceleration in M2 or money supply.

The acceleration in M2 is a consequence of the FED printing money in certain circumstances. We will address this issue in a moment. But, to say that because there was not a corresponding acceleration in M2, therefore was no money printing by the FED, is to put it kindly, drawing on the wrong conclusions.

But, first let us point out a critical fact which Dr. Lacy Hunt has not denied and this is the fact that the FED has expanded the monetary base from $840 billion to $2.93 trillion.

How did the FED increase the monetary base from a mere $840 billion to $2.93 trillion? The answer is simple. By a click of the computer mouse, thereby digitally creating virtual money which enabled the FED to embark on its various bail-out schemes following the financial tsunami of 2008 and thereafter the massive quantitative easing (QE) programs.

The digital money was employed in two specific areas – firstly to purchase toxic assets from the insolvent Too Big To Fail Global Banks and secondly to finance the US government debts by purchasing US treasuries.

Purchase of Toxic Assets from Banks

Why did the FED print money to buy toxic assets?

The banks were all insolvent, even till to-date. The toxic assets of banks in ordinary circumstances ("Old Normal") would have to be written off, if marked-to -market. They were all junk assets and ought to be treated as such. But, the FED and other central banks and with the connivance of the Bank of International Settlements (BIS) agreed to allow the global banks to treat these toxic assets in the balance sheets as still performing assets. It was a fraud, but this fraud could not be maintained for long so a way out was devised. The FED came to the rescue and purchased these toxic assets by printing money digitally. It was shifting toxic assets from one balance sheet to another – from the global banks' balance sheet to that of the FED!

But, there is a catch! In time, the global banks must re-purchase these toxic assets when they are able to do so (when the global economy has recovered). No one really knows when that would happen.

But, you can take it from me, that there will be no such re-purchase because these assets are all junk and there are not even worth a dime on the dollar. To that extent and in this sense, one can say that the FED is actually insolvent at the present moment as the value of its assets is junk. But, this Ponzi scheme is continuing because the FED can print money (digitally or otherwise) as long as confidence in the US$ remains.

In fractional reserve banking, when the FED purchases assets from the bank, it will create "bank reserves" which will enable the banks to "create money" by an agreed multiplier (usually by ten times).

In the present financial/banking environment, there is a huge problem. All the customers' deposits with the banks have been depleted in reckles speculation in the tech bubble in early part of this century followed by the sub-prime housing bubble, the stock market bubble, the derivative casino bubble etc. If all the banks' customers were to demand their deposits, these global banks would not be able to repay their customers and this would result in a bank-run.

By law and banking regulations, banks in such circumstances must increase their share capital and reserves in order that they be allowed to continue the banking business. But, the banks' shareholders don't have the trillions to re-capitalise the banks. The banks following the crisis have no reserves because prior to the crisis, the BIS and the FED decreed that banks need not have reserves. This is very significant, because a critical pillar of fractional reserve banking was dispensed with completely. As explained earlier, a bank's ability to create money is founded on the amount of reserves it has with the central bank. It can only create "ten times" (the multiplier) of the reserves e.g. if the reserves is $100 million, the bank can create $1 billion in its books and lend out the same to customers. This, in economic jargon is the velocity of money, the acceleration of the money supply and it hinges on the reserve requirement established by the BIS.

So, what we have at the present moment is that all the global banks are staring at a black hole. They are insolvent because they have not re-capitalised under the present banking regulations sufficient enough to cover all their liabilities. Additionally, they don't have sufficient reserves to trigger the multiplier and "create money" under the fractional reserve banking system.

So, part of the huge money printing by the FED went to "create" or "supply" reserves to the bank so as to cover-up the fact that the said global banks prior to the FED's intervention had zero reserves.
Even now, with the FED's intervention and as a result, there are now the so-called "surplus reserves" (a misnomer because there is no such surplus as these reserves are merely supplied to comply with BIS's new requirements) and as such the banks have not been able to "create" their own monies under the fractional reserve banking system.

This is because the banks cannot embark on a massive "money creation" based on the agreed multiplier of these reserves, as these reserves have been created in anticipation of bank runs, and not to allow the banks to create more money. At a conservative estimate, customers' deposits exceed statutory reserves by more than ten times. There is no way that banks can repay all the deposits. The present system and circumstance is that it is a giant Ponzi scheme.

And the FED, Bank of England, other central banks and the BIS know this too well and no amount of "reserves" created by printing money digitally would be able to resolve this issue as the horrendous consequence would be massive devaluation of the various fiat currencies engaged in such an exercise. In that event, we will have inflation and then hyperinflation.

Hence, and as a digression to the issue at hand, the powers that be and the financial elites have decided to do away with the illusion that customers' deposits are secured and instead can be confiscated to maintain the solvency of the banks. I have written an article recently, No Bank Deposit Will Be Spared From Confiscation posted to my website on 24th April, 2013, that in law and in fact, all bank deposits are deemed unsecured loans to banks which the banks can use it in any way, even to speculate and the only obligation of the bank is to repay the deposits on demand and if and when the bank has sufficient funds, failing which the depositor is just another unsecured creditor in the long queue in a bank's liquidation.

Coming back to the issue at hand.

When banks cannot lend money (since they cannot "create money" based on the current so-called "surplus reserves", a misnomer), they can no longer earn exorbitant profits, the FED yet again comes to the rescue. The FED agreed to pay interest on such reserves.

In Joe-Six-Packs language, this is a FREEBIE TO THE BANKS.

The FED prints money out of thin air digitally to purchase toxic assets (which prevents the banks from writing off such assets and declaring massive losses and the inevitable liquidation) and apply this "new digitally printed money" as reserves which gives an illusion of solvency of such banks so as to prevent bank runs. Adding insult to injury and to con the public further, the FED pays interest on monies in which it created itself and then given to the banks to generate profits for doing nothing at all so as to improve the balance sheets of the bankrupt banks.

Yet, the powers that be refuse to bail out the unemployed, the families that have been foreclosed, students up to their eyeballs in debt, and in compounding their poverty, remove the life-lines that may offer some hope such as reducing unemployment benefits and food stamps! Adding insult to injury, the Too Big To Fail Banks can borrow from the FED at near zero interest rates and then lend out to reap profits.

Is Dr. Lacy Hunt mistaken or what when he says that the FED does not print money?

PRINTING MONEY TO PURCHASE TREASURIES

The FED also prints money to lend to the US government. It does so by purchasing treasuries. Without this money printing, the US government would not be able to continue with its imperial war agenda.

If the FED did not print money, the US government would be bankrupt immediately, the economy would collapse and all imperial wars (proxy or otherwise) would come to a grinding halt.

Who says that there is no acceleration of the money supply?

Dr. Lacy Hunt misses the point totally when he chose to ignore the fact that printed monies did not and were not funnelled through the system in the "normal" way. In the "New Normal", the printed monies have been diverted and "supplied" in a roundabout way thereby creating an illusion that there was no multiplier effect as a result of the expansion of the FED's monetary base. How very naïve and misleading for Dr. Lacy Hunt to assert that the FED does not print money!.

The fact that the multiplier effect under the fractional reserve banking system (the "Old Nornal") did not correspond to the percentage increase in the monetary base is NOT AND CANNOT BE THE FOUNDATION OF THE ASSERTION THAT THE FED DID NOT PRINT MONEY.

To put the nail in the coffin of Dr. Lacy Hunt's argument, let me quote him (with my comments in bold):

> However, empirical evidence is clear that high powered money is not causing an increase in M2. (I have pointed out above that it went to reserves and treasuries under the "New Normal" for the reasons stated and as such, little or no money was created by banks and the multiplier did not take off as expected. But, that was not the objective of the FED which was to save the fiat money system and the TBTF global banks. It is a leap of imagination and denial to say that as such, there was no money printing. There was money printing, but the acceleration (multiplier effect) did not materialise as it would had under the "Old Normal".)
>
> Why? A bank's conversion of reserves into money is called the money multiplier. At the end of 2007, the money multiplier was 9.0. This meant that the monetary base of $825 billion was multiplied nine times to create the level of M2 that stood at $7.4 trillion. (Yes, Dr. Lacy Hunt, this is because it was under the "Old Normal" when the banks were in a position to create money out of thin air under the fractional reserve banking system. This was before the crisis. What is it so difficult for Dr. Lacy hunt to understand this simple issue? As explained above, under the "New Normal" the multiplier effect went to reserves and treasuries.)
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> At the end of March 2013, the monetary base had exploded to $2.09 trillion… (This is because of FED's digital money printing and as Dr. Lacy Hunt has admitted, the monetary base "exploded". It can only "explode" because of

> unrestrained money printing which expanded the monetary base. Why does Dr. Lacy Hunt try to confuse the issue of expansion of monetary base with the multiplier effect under the fractional reserve banking system?)
>
> … but the money multiplier had collapsed to only 3.6 creating an M2 balance of $10.4 trillion. (Does not Dr.Lacy Hunt's admission and observation prove my point that under the "New Normal", the multiplier effect went to reserves and treasuries as opposed to the "Old Normal" where it would be channelled to the fractional reserve banking system whereby banks can then "create money out of thin air" by book entry in proportion to their reserves. Under the "New Normal", even though reserves are at record high, banks were not allowed to utilise the multiplier because the banks failed to comply with the requirements of banking reserves under the BIS guidelines which must be complied with by year 2019. Therefore, FED's printing money is to enable the TBTF banks to comply with the new BIS guidelines. Dr. Lacy Hunt should not pretend that he does not know this fact. Dr. Lacy Hunt is dishonest when asserting that the FED does not print money.)

Finally:

> The Central Bank has very little control over the movement of the money multiplier; the actions of banks and their customers primarily control this variable. (Such ignorance is appalling. Under the fractional reserve banking system, the amount of reserves determines the amount that can be multiplied. So, when the FED and any other central banks determine the amount of reserves, it in fact determines the velocity of money that can be created by the banks. The money multiplier is a consequence of the amount of reserves. If the reserves of bank A is $100 million, the multiplier effect for bank A is that it can loan $1 billion. If the reserves of bank B is $1 billion, then the multiplier effect for bank B is that it can loan $1 trillion. Under the "Old Normal" the amount of reserves required under banking regulations is a proportion of the amount of customers' deposits. This is so basic.)

The article by Dr. Lacy Hunt and the assertion that the FED does not print money serves only one purpose – to mislead and to create an illusion as to the true nature of the banking system under the "New Normal".

If the FED did not print money as asserted by Dr. Lacy Hunt, which resulted in the managed devaluation of the US$ toilet paper money, why would other countries engage in competitive devaluation and QE? The central banks are all acting in concert to save the TBTF banks and the fiat money system as the priority because that IS THE REAL ECONOMY to be saved as far as the powers that be are concerned. Main Street is secondary. If the fiat money system fails, the Main Street collapse is the inevitable consequence.

It is not the other way round, Dr. Lacy Hunt. Saving Main Street will not save the fiat money system. The fiat money system is the Ponzi scheme that has enabled the US and other developed countries to live beyond their means. It is a debt-based system and the fiat money is the fuel that keeps the system running. Without this fuel, everything comes to a standstill. However, the system is inherently self-destructive because a point would be reached whereby too much fuel (fiat money printing) would clog the engine.

Dr. Lacy Hunt, please fill your car engine with engine oil till it overflows. Then try to start your car.

Have a nice and enjoyable drive! When the fumes come gushing out of the exhaust, the fire brigade may be summoned by a bystander. Be prepared for a civil suit for negligence or worse.

NOTES & REFERENCE

For further information on the financial scam by BIS and Basel III, refer to my article "BISTRO – Bank of International Settlements Total Rip Off" dated 30th September, 2010 and the implications of BASEL III Accords on banking capital ratios and reserves.

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