From: Spencer B Hall

Subject: Reg D, Q, & DD

Comments:

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Proposal: Regulation D, Q, and DD - Prohibition Against Payment of Interest on Demand Deposits
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Name: Spencer B Hall
Affiliation:
Category of Affiliation: Other
Address:
City:
State:
Country: UNITED STATES
Zip:
PostalCode:

Comments:
The payment of interest on demand deposits is the culmination of the biggest mistake in all of economics. The money creating depository institutions are not in competition with the non-banks (financial intermediaries). And money flowing to the non-banks actually never leaves the commercial banking system as anybody who has ever applied double-entry bookkeeping on a national scale should know. The elimination of regulation Q ceilings was literally a conspiracy which perpetrated a fraud on the American people. R. Alton Gilbert's "Requiem for Regulation Q: What It Did and Why It Passed Away" was pretensed on the assumption that the CBs are intermediaries between saver and borrower. Never are the CBs financial intermediaries in the lending process. From a systems viewpoint, commercial banks (DFIs), as contrasted to financial intermediaries (non-banks): never loan out, and can't loan out, existing deposits (saved or otherwise) including existing transaction deposits, or time deposits, or the owner's equity, or any liability item. When CBs grant loans to, or purchase securities from, the non-bank public, they acquire title to earning assets by initially, the creation of an equal volume of new money (transaction deposits) -- somewhere in the banking system. I.e., commercial bank deposits are the result of lending, not the other way around. The member banks (MCBs), will end up paying for what they (as a system) already own (effectively lowering their own profit margins). And they can't attract anymore deposits than the monetary authorities allow. The lending capacity of the banking system is dependent upon monetary policy, not the savings practices of the public. Paying interest on demand deposits only increases commercial bank expenses with no concomitant increase in the bank's earnings. And as a system, if bank profits, are once again, insulated against encroachment by sharply rising costs of interest-bearing demand deposits, a by-product must either be a large dosage of new money in the economy, or an overall increase in the level of interest rates. At no time between the Great Depression and the Great

Recession did commercial bank credit fall (or bank credit proxy). I.e., never have the commercial banks experienced DIS-INTERMEDIATION (an outflow of funds/bank deposits) as a result of competition from the non-banks. The 1966 paradigm is undisputable proof: Dr. Leland James Pritchard (MS, statistics - Syracuse, Ph.D, Economics - Chicago, 1933) 1. The Commercial & Financial Chronicle Thursday, April 6, 1967 "MONETARY POLICY BLUNDER CAUSED HOUSING CRISIS" 2. The commercial & Financial Chronicle, Thursday, June 6, 1968 "REPEAT OF 1966-TYPE CREDIT CRUNCH UNLIKELY DESPITE TIGHT MONEY" 3. "Profit or Loss from Time Deposit Banking" -- Banking and Monetary Studies, Comptroller of the Currency, United States Treasury Department, Irwin, 1963, pp. 369-386. But an even more important consideration from the standpoint of the entire economy is that commercial bank held savings are impounded within the commercial banking system, i.e., have a transactions velocity of zero, are lost to investment, or to any type of expenditure. I.e., CB held savings are a leakage in the Keynesian national income concept of savings. One way to help jump start the economy would be for the FED to redirect savings to the non-banks (the customers of the commercial banks). Non-banks are the most important economic sector in our economy -- or pre-Great Recession, 82% of the lending market (Z.1 release, sectors, e.g., MMMFs, GSEs, etc.).