From: Avery B. Goodman, Esq., Avery Goodman

Subject: Reserve Requirements of Depository Institutions

Comments:

To the Board of Governors:

This proposal, to establish so-called "term deposits", appears to be a backhanded way of enhancing subsidies to favored financial institutions.

The Federal Reserve proposes to establish what are essentially "CD" deposits, in favor of the Fed's trading partners and member banks. Unlike an individual, however, a big bank that has daily access to various loan "windows" at the Federal Reserve, can perpetually borrow overnight funds. Your proposal specifically provides for these CDs to be "collateral" for discount window and other Fed loans. Discount window loans are given at interest rates that are far below that available in the open market, and are currently being given at nearly zero interest. It is obvious that you intend to continue these zero interest rate policies, since, otherwise, you would not have made this proposal, but would be proposing raising interest rates. Thus, primary dealers banks and other banks will be able to borrow overnight, from the Fed, while, at the same time, keeping counterbalancing deposits in Fed CDs.

As you have stated in the proposal, the counterbalancing CD deposits will receive a higher interest rates than overnight loans, because the interest rate will be similar to that available for such time periods in the open market. Longer term deposits always have higher rates than shorter term deposits. On top of that, since you have explicitly stated that the CDs will be considered risk free collateral for such loans. Presumably, this means you will be taking a zero or close-to-zero haircut on such loans. The differential between the overnight rate, and the short term rate (which may be as long as a year) is at the expense of the taxpayer (or the innocent saver whose dollars are being debased). The holders of dollars generally, and the taxpayers specifically, will be forced to absorb the differential between the ultra-short term window borrowing, and the higher "short and medium term" Fed "CD" rates, which means profits for the depositing banks and harm to the economy and the dollar.

Obviously, the proposal is supposed to deal with the problem of upcoming heavy or hyperinflation, by sequestering a large part of the funny money printed by the Federal Reserve since September 11, 2008. This flood of funny money falsified bank bookkeeping by preventing the necessary write downs and write offs that should have been done on bad assets. Beyond that, the Fed has also been printing funny-money to monetize Treasury and Agency debt. These actions have caused insolvent banking institutions to appear not only solvent, but profitable, all at the expense of the taxpayers and the people who have scrupulously saved dollars over many years of hard work. In a true capitalist economy, the men and women who brought down the world economy would have lost their jobs and, in many cases, been thrown into personal bankruptcy as a punishment for their incompetence and greed. But that doesn't happen when the Federal Reserve is protecting them from harm.

Had insolvent commercial banks been nationalized, with their investment sides allowed to fail, the safeguards put in place after the last Great Depression would have prevented a second one. There would have been few or even no runs

on banks, because deposits at failed institutions would have become deposits with the Federal government. To the extent that an unusual demand for the return of deposits came about, only a relatively small amount of new money would have been needed to fulfill the promises of the FDIC. The return of bank deposits upon demand, and the quick sale of the operating commercial banking divisions back into the private sector would have punished the executives who caused the problems, and prevented any possibility of a second Great Depression. We would surely have had a deep recession, with temporary high unemployment, and lower asset prices, but with the removal of incompetent managers and traders from the system, our nation, 2 years later, would already be on
a solid path to recovery. Instead, you are forcing innocent people to bear the costs, and we are on an unsustainable path to ruin, with Fed funny-money and Congressional giveaway programs the only thing holding up the economy. Because of what the Federal Reserve had done, and encouraged Congress to do, once the federal government finds itself unable to borrow further, we will face the prospect of a heavy or hyper inflationary depression.

If the so-called "liquidity" that you provided to the big banks was only temporarily needed, as you claimed at the time, nothing stops the Federal Reserve from slowly demanding that cash be returned, in exchange for a return of the "collateral." If, in truth, the banks are insolvent, they should have been closed down, and still should be closed down. In the meantime, the Federal Reserve must hand demand return of the funny-money, in exchange for the collateral, worthless though it may be. Interest rates should also be raised, immediately, to protect the dollar, and to prevent continuation of the current massive misallocation of investment capital into worthless schemes, speculations, and trading. Since the demand for money to engage in productive activity is currently very low, interest rates will naturally remain in the low range (so long as the market sees funny-money drained out and faith in the dollar is restored), but near-zero rates, such as those created by the Federal Reserve, are simply causing irresponsible speculative activity. Such activities produce no new wealth but, instead, merely shift wealth from one part of the population to another, without the consent of those who have no clout with the Federal Reserve. To prevent this, the Federal Reserve should be carrying out extensive reverse POMOs, selling assets you have purchased outright, back to a combination of banks and money market mutual funds. Unfortunately, you refuse to do this because you have a lot of incompetent friends and trading partners who are insolvent. So, instead, you come up with a series of Ponzi-like schemes, like this one, designed to rob the Peter, who is not your friend or benefactor, in order to pay Paul, who is.

You are unwilling to take serious steps to reign in the possibility of an inflationary onslaught. Instead, you have set the stage for it. That is obvious from the fact that you have tendered this proposal. The proposal to provide CDs, in exchange for sequestration of funny-money, is evidence of structural corruption. That does not mean that officials are willing to take overt bribes from banks, but it also doesn't exclude that possibility. In fact, it is highly probable that many Fed actions are dictated by the promise of lucrative jobs in the private sector in the future. However, most important, structural corruption means an emphasis on the well-being of a few very large banking institutions, who control and are tightly connected with the Fed, at the expense of virtually every other business and personal interest in our nation. This proposal is a reflection of that.

The Federal Reserve has printed trillions of new funny-money dollars in order to falsify values in the stock, bond and commodity markets, with the secondary effect of falsifying the balance sheets of insolvent banking institutions. At the same time, the Fed has reduced interest rates to near zero, while encouraging, in concert with other governmental and quasi-governmental organizations like the FDIC, very low bank deposit rates, punishing banks that offer higher deposit rates, and allowing comparatively high loan rates. This is supposed to allow insolvent banks to "earn" their way out of insolvency. In truth, however, it is yet another example of structural corruption. Taken as a whole, you are stealing money from savers and persons on a fixed income, and transferring it to incompetent bank executives, while cloaking your intentions under a false veil of "monetary policy". Incompetent bank executives would have lost their jobs in a real capitalist economy, but, instead, in the crony capitalism created by the Federal Reserve, they are benefiting, while the average American is suffering. Incompetents are taking enormous salaries and bonuses as a reward for failure, continuing to suck enormous wealth out of the system.

The responsible thing to do is to become serious about draining liquidity. That does not include fancy schemes, like this one, which provide the prospect of further subsidies to favored bank executives.

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