RIP-OFF BY THE FEDERAL RESERVE

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PREFACE: This mathematical analysis shows how:

1. The economic scheme in the U.S. of creating fiat book-entry money via T-securities in the amount of the principal of the security with a promise to repay the principal PLUS the interest (i.e., deficit spending), is impossible. The interest is never created. The debt must continually be increased to pay interest on earlier securities or the economy will collapse from de-leveraging;

2. The National Debt can never be paid off. Contracts that cannot be culminated are acts of fraud and are void from their inception;

3. The $8.4 trillion received from 2010 Treasury security auctions is hidden in the coffers of the FRBNY; its destination is undocumented and assumed to be profit of the Fed. (If it is used to redeem securities as claimed, there would be no inflation.) Whether concealment of this income from Congress is in violation of Title 12 section 247 requirement to submit a full report to Congress, or constitutes embezzlement, is for Congress to determine;

4. The Fed eventually receives the value of all issued securities as profit (it is inflation). The expense of maturing securities is not included in government records;

5. Congress has temporary benefit of ($1.4 trillion) deficit spending until maturity of the securities (the collateral). At maturity, the government must repay the value (of the loan) to the security holder. BUT THE VALUE OF THE REDEEMED SECURITY IS NOT REDUCED FROM THE FEDERAL DEBT.

6. Fiscal social obligations of the nation will be restricted while debt will escalate exponentially. Imposed social austerity and higher taxes merely postpones the inevitable.

7. The future explosion of interest (currently suppressed to “stimulate” the economy) and escalating debt will eventually consume the entire wealth of the nation and the future earnings of posterity for the benefit of “financiers”;

8. The operation is, as with any Ponzi scheme, predestined for inherent national bankruptcy when buyers to roll over the increasing debt cannot be found.

9. As the scheme becomes visibly precarious and the Fed becomes desperate, the interest rate will sky-rocket and accelerate the collapse.

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The Federal Reserve uses euphemistic smoke and mirrors to obscure their scam.
The appearance of the scheme is that Congress receives the benefit of inflation.
In reality, it is the Fed that receives the purchasing power from inflation---without public awareness or documentation. With full knowledge the following is not the way the Fed or the government describes the system, allow me to offer a different analysis of their operation.

CREATING BOOK-ENTRY (FIAT) MONEY

Congress can pay for federal expenses with funds collected from taxes, but Congress is never satisfied with this amount. The desire to buy votes/campaign contributions from special interest groups induces congress-critters to spend more, and this is identified as deficit spending. To create this make-believe money requires the assistance of the Federal Reserve.

Congress will give the Fed a T-security (bill, bond, or note) and the Fed will accept the document as an asset of one of the twelve FR Banks. The Fed will then establish a line of credit for the U.S. government (a book entry) in the same amount and list the liability as Federal Reserve Notes. Voila !! Fiat money has just been created for Congress to spend. Ref: ***2009 Annual Report to Congress by the Board of Governors**,* page 448 (for account identification only).

http://www.federalreserve.gov/boarddocs/rptcongress/annual09/pdf/ar09.pdf

The accumulated securities that have been authorized by Congress add up to the national debt.

If the Fed retained all of the securities (assets), the inflationary pressure created by the extended line-of-credit for Congress would be too obvious. Also, Congress complained several years ago the interest collected was too much profit. The Fed has been forced to return excess profit to the government. The Fed therefore wants to sell a major portion of the securities so it has arranged with the Treasury department to act as auctioneer for selling to the Primary Dealers. This immediately sells the assets of the Fed.

[FN: The Fed recently obtained $700 billion bailout funds. Secretary Paulson begged Congress, on actual bended knee, to give the Fed money and Congress gave them $700 billion in securities. The Fed then swapped the securities to GSE (Freddie and Fannie)/international bankers for toxic MBS's---and rescued Paulson's $800 million in Goldman stock by bailing out AIG.]

[FN: The ***2009 Annual Report*** lists Assets of $776 billion securities and $908 billion Government Sponsored Enterprise Mortgage Backed securities out of $2.2 trillion total assets. Whether the bailout money, given in large part to international bankers for toxic assets, was a quid pro quo with the PD to avoid lawsuits for fraud is beyond the scope of this writing. The International Bankers do not lightly suffer transgression. The continued mutual benefit of programs, paid for by taxpayers, should evidence Wall Street and the Fed/international bankers constitutes a symbiotic relation.]

The value of any securities not sold by the Fed is still in circulation and becomes the Reserves for commercial banks. Commercial banks, as an aggregate, have no other source of reserves. All money in circulation is originated from T-securities. The reserves, derived from Treasury checks deposited throughout the world, are then multiplied via loans by commercial banks utilizing the fractional reserve practice. (The System Open Market Committee (SOMC) selling and buying of securities alters the reserves---with high leverage---but this effect is applicable only to securities that are already in the public domain.) The Fed currently holds a mere $750 billion of $12.5 trillion issued securities. Ref. http://www.fms.treas.gov/bulletin/b2009_3.pdf. Chart OFS-1.

Observe that the amount of money created by the security is the amount of the principal but the amount promised to be repaid is the principal AND the interest. The interest is never created but payment is required by the agreement. It is impossible. The linear expansion of base/reserve money via fractional reserves by creating commercial loans does not change this. If, hypothetically, all money in circulation was used to pay off the securities issued by Congress, all bank reserves would be wiped out and the commercial loans would collapse---and every dollar of interest on the national debt accumulated from day one would still be due---but there would be no money outside of the Fed's vaults to pay it.

The debt created by usury based sovereign debt is perpetual; it can never be paid off. The contract cannot be culminated. Any contract that cannot be culminated is an act of fraud. A contract based upon fraud is invalid upon its inception. It would appear the national debt is not legally enforceable. (A debt incurred by a state or municipality is not a sovereign debt as used in this analysis. Such a debt is akin to a commercial loan and is completely repayable---but may be evidence of unwise administration and result in default.)

There are esteemed economists who contend the fractional reserve multiplier is a major cause of inflation. The concept is questionable. Assuming the amount of base money and the multiplier factor remain constant, the creation of fractional reserve money reaches a ceiling that cannot be exceeded until more base money (from T-security issues) is added. The multiplier factor is a mere linear increase of the base money. A major tool of the Fed is to alter the base money with SOMC transactions to boost or quench transient situations. Once the ceiling is reached, only Congressional deficit spending can create new money in circulation.

SOMC operations and multiplier factor alterations change the amount of FRN's in circulation --- a debt obligation of the Fed. Only Congressional deficit spending changes the debt obligation imposed on the citizens. However, if the multiplier factor is reduced to zero and banks are permitted to issue currency without limit, this analysis is subject to review.

THE INESCAPABLE WHIRLPOOL OF PERPETUAL,

ESCALATING NATIONAL DEBT

There is more skullduggery involved. Let us assume a newly established sovereign nation is setting up a usury based economy and will issue 100 unit securities, a five year maturity, and an annual interest rate of 20 percent over a span of five years. A high rate of interest and short maturity is used to reduce repetitive calculations. The identifications of Congress and the Fed will be used to convey the images.

Upon the issuance of the first security, Congress has 100 units to spend. At the end of the year, Congress/Treasury has to pay 20 units to the Fed for interest. If the nation had to pay off the security at the end of the first year, the bankruptcy is obvious. There have never been 120 units created. Twenty units could be removed from society but that would leave only 80 units in circulation, cause great financial hardships, and still leave an impossible obligation to redeem a 100 unit security. (This economic diminution would be akin to a contemporary balanced budget.) The solution is to put off the interest payment until the next issue of security for the second year. The interest is paid from the principal created by the second issue.

During the second year there are 200 units in circulation but the actual rate of interest on the second issue is not 20 percent. Since 20 units had to be paid to the security holders, congress only received 180 units to spend (100 + 80) but they are committed to pay 40 units of interest on the security at the end of the second year. The interest rate of 40 divided by 180 is 22.2 percent. Considering the second year alone, the interest is 20 divided by 80 or 25 percent.

When the security for the third year is issued, the interest of 40 units for the first two years securities will not be available for congress. Congress will receive only 60 units for public projects but will have to pay 20 units interest at the end of the year. The 240 units received by congress (100 + 80 + 60) will require 60 units of interest at the end of the third year. The cumulative interest rate (60 divided by 240) is 25 percent. The interest rate for the third year alone (20 divided by 60) is 33.3 percent.

At the start of the fourth year, the security will have to cover the interest charge for the three prior years of 60 units. Congress will receive 40 units for government spending. The 280 units received by congress (100 + 80 + 60 + 40) will demand 80 units of interest at the end of the fourth year. The cumulative interest rate (80 divided by 280) is 28.5 percent. The interest rate for the fourth year alone (20 divided by 40) is 50 percent.

The security issued for the fifth year will pay the 80-unit interest for the prior four years. Congress will have 20 units to splurge. The 300 units received by congress (100 + 80 + 60 + 40 + 20) will require 100 units of interest at the end of the fifth year.
The cumulative interest rate (100 divided by 300) is 33.3 percent. The interest rate for the fifth year alone (20 units received--20 units in interest) is 100 percent.

At the end of the fifth year, 100 units must be found to redeem the maturing security issued the first year (that "loaned" 100 units to the government) in addition to 100 units of interest that must be paid. Congress has an obligation to pay 200 units. This factor alone makes it obvious that more debt must be incurred to continue the scheme.
The inescapable whirlpool of usury debt can only avoid obvious default by increasing the value of future securities. Increasing the value of issued securities merely postpones the inevitable result.

As the sixth year approaches, the Fed holds 500 units of securities that must be redeemed by the Treasury before year eleven. The Fed has already received 200 units as interest while Congress retains 300 units from those securities. Before year eleven, the securities will accumulate an additional 300 units of interest payable to the Fed. That accounts for the entire 1000 units of securities and interest that have been involved over the five years. (Each of the five 100 unit securities involved 100 units of interest.)

Do not let the subtly of the numbers escape you. As the example demonstrates, the Fed receives the total value of the security and the interest if it does not sell the security. Only 500 units were created by the securities but 1000 units (interest and principal) were somehow acquired by the Fed. The only way for Congress to get the funding is to issue a 200 unit security at the end of the fifth and subsequent years and ALL of the value will be instantly due to the Fed. The scheme is not only perpetual but it must increase in size to continue.

When the 200 unit security matures, the value will belong to the Fed. And then a larger security must be issued to pay for the 200 unit security and the accruing interest further down the road. This is the methodology of any Ponzi scheme. The increase in the required size of deficit spending must be large enough to make the interest payment a relatively acceptable percentage to minimize public hostility.

The example's 100 unit roll-over value of year five reached $7.0 trillion in year 2009 with an additional $1.4 trillion securities issued for deficit spending. Ref. Post.

A high rate of interest has been selected for the example to minimize repetitive calculations. A ten percent interest rate will return 100 percent of the security value in ten years; a five percent interest rate will take twenty years. Lower rates of interest merely require more years to reach the same inherent bankruptcy. (Actually, bankruptcy occurs the first year irrespective of the interest rate, but then again, since the debt can never be paid off, the entire scheme is based upon fraud. A contract based upon fraud is void from its inception.)

But 5 year securities are a slow game. If we shifted our attention to 13 week bills, or even four-week bills, each obligation will quickly mature and must repeatedly be rolled over. Each new issue causes the creation of fiat money (inflation) and is profit for the Fed. If time lapse between bid and issue dates are ignored, the roll-over of four week 100 unit securities can be repeated thirteen times within a year. The gain of 1300 units of profit for the Fed only involves 100 units of national debt.

An economic scheme that utilizes later investors to pay the interest due earlier investors is identified as a Ponzi scheme. This is precisely the scheme that has been presented above.

A government publication has noted the fiscal policy insecurity: "(T)his growing gap between (Government's) receipts and total spending …cannot be sustained indefinitely." ***http://www.fms.treas.gov/frsummary/frsummary2010.pdf*** page 3 of 12. The statement was undoubtedly intended to support confiscation of more wealth from the citizens.

ALL FIAT MONEY BECOMES A PROFIT FOR THE FED HIDDEN BY THE FRBNY; THE OPERATION TRANSFERS ALL THE WEALTH OF THE NATION TO "FINANCIERS"

If a security is sold at auction, as approximately ninety percent of them are, the Fed receives the value of the security from the Primary Dealer and the ultimate purchaser is eventually reimbursed by the Treasury at maturity. Whether auctioned or not, the Fed receives the value of the security. The value of all T-securities held by the Fed until redemption is a clear profit for the Fed, as is the value of all securities sold to and held by Primary Dealers, funds, nations, states, or financial institutes.

Low interest rates will reduce gain for security investors but will provide cheap money for commercial banks to loan. Much of the interest from T-securities held by the Fed must be returned to the government as a result of 1970's legislation, so the Fed has little motivation to raise rates to make more money--they receive the value of the security.

The total value of auctions in 2010 was $8.4 trillion. Approximately $6 trillion of the securities sold matured in less than one year.

http://www.treasurydirect.gov/instit/annceresult/press/preanre/2010/2010.htm ;
http://www.treasurydirect.gov/RI/OFAuctions?form=histQuery .

The handling of auction funds is the responsibility of the Fed. Ref. GAO FINANCIAL REPORT TO SECRETARY OF TREASURY, Nov 2010, page 17.

http://www.treasurydirect.gov/govt/reports/pd/feddebt/feddebt_ann2010.pdf.

This writer concludes the sales are credited to an account of the Fed and not to an account of the Treasury. There is no inflation if it is otherwise.

The $8.4 trillion in income does not reveal itself in the ANNUAL REPORT TO CONGRESS; Ref. Tables 10 and 11, pages 454 to 462 REPORT for 2009. Id. (Auctions are not Open Market transactions. Securities that are not sold are assigned to SOMC.) This $8.4 trillion is concealed from Congress and the public.

The NY Fed handles accounting for the securities. Ref. ACCOUNTING FOR TREASURY SECURITIES AT THE FEDERAL RESERVE BANK OF NEW YORK , GAO /AFMD-84-10, May 2, 1984, page 9 of 30,

http://archive.gao.gov/d5t1/124060.pdf.

The report does not identify the account that is being used to redeem the securities. This writer concludes the payments are debited to an account of the Treasury and not to an account of the Fed.

Confirmation of the Fed's handling is found in their ANNUAL REPORT: BUDGET REVIEW 2010, "The Reserve Banks auction, issue, maintain and redeem securities … (and handle) paper U.S. savings bonds and book-entry marketable Treasury securities." P 5.

"Aha!" exclaims a disciple of the Fed. "The above analyze proves the integrity of the Fed. The $8.4 trillion is obviously being used to pay the redeemed securities and the sale and redemptions are off-setting." And thus would the Fed beguile the naïve. Indeed, the Treasury's receiving the value from auctions for that purpose is widely proclaimed in media publications. Treasury financial statements claim "borrowing from the public" finances government operations. However, direct transfer of money from the public cannot, in any way, expand the monetary system or result in the creation of fiat money (i.e., inflation) any more than can the payment of taxes by a private entity. The label is deliberately misleading.

The confusion actually confirms the scenario developed herein. When $8.4 trillion in securities is transferred from the Treasury to the Fed, there is a credit on an account of the Treasury (but is considered a liability in a Fed account titled federal reserve notes) and an asset entry in an account of the Fed (titled T-securities). The $8.4 trillion book-entry for the Treasury is used to pay the $7 trillion redeemed securities with $1.4 trillion being available for deficit spending by Congress. The T-securities possessed as an asset by the Fed are sold at auction and the $8.4 trillion belongs to the Fed. Where the value from the auctions is entered into the books of the Fed, and to where the $8.4 trillion goes, is not available information. This is how the fiat money of inflation is created as detailed earlier. It is assumed the IRS knows nothing of this income or profit. Whether Title 12 section 531 or some other provision excludes such income from taxation is for Congress to determine.

Observe the deficit spending of $1.4 trillion requires Congressional approval. The $7 trillion roll-over securities somehow require no Congressional action but occurs automatically. With the national debt at approximately $15 trillion, the average maturity of Treasury securities would be about one year. The interest on the national debt is shown as an expense on the government's balance sheet. The $7 trillion from the sale of the roll-over securities is not included in government accounting and is concluded to be a profit for the Fed.

INITIATING THE SCAM

Similar historic banking operations declared they loaned the value of the security to the king and therefore they should receive interest from the loan. The pretense is a sham. Congress and the Fed have agreed they are going to rip-off the public by devaluating the currency. Each party acquires purchasing power from the scheme. Congress gives a promise to pay (a security or collateral) which is given to the Fed and the Fed gives a promise to honor the government's checks with fiat book-entry money (printing press money, i.e., FRN's, a legal tender.) A "legal tender" is a commodity that is required by law to be accepted for a contract stipulating another commodity (i.e., the original contract is in dollars; you must accept FRN). It is an acknowledgement of debt that can never be paid because there is no lawful money available. <u>Title 12 USC section 411</u> clearly stipulates "(Federal Reserve notes) shall be redeemed in lawful money on demand at the Treasury Department of the United States … or at any Federal Reserve Bank. " Good luck with that. You will only receive more debt of an under-capitalized federal corporation shell created by Wall Street bankers during a week-long retreat on Jekyll Island.

To get the scheme started and the con game financed by third parties, it must have the appearance that interest is their source of profit and a gain must be made from the brokerage difference. A prime concern for the Fed under these conditions would be the difference in the value credited to the Treasury account and the value received from the auction. If the value of securities purchased by the public is transmitted directly to the Treasury, there cannot be any inflation, but then there is no gain to the Fed from book-entry money. The percentage taken by the Fed for profit can even be variable but is hidden without an audit.

If the Fed projected a guise of a brokerage firm to sell government bonds to the public to a susceptible Congress, it would be a simple arrangement with minimal investment or risk. The currency in circulation in 1913 was non-interest bearing U.S. Notes. After the operation was set up and the New York Federal Bank was handling the accounting, it would be a simple shift of accounting procedures to have the T-securities accepted by the FR Bank as owner instead of as a broker. The difference allows the Bank to create fiat money (inflation or Federal Reserve Notes) as a profit for the Bank. Whether this falls within the parameters of embezzlement depends upon many conditions.

The 1913 congressional report of objects of the legislation by Senator Glass included the statement "(3) Furnishing an elastic currency…of bank notes…" Perhaps the enumerated powers of the Federal Reserve Banks at 12 USC section 341, paragraph Eighth, might be stretched to authorize the practice of debasing the money. However, the courts have repeatedly concluded the profits of the Fed belong to the United States. Ref. Scott v FRB of Kansas City, 405 F3d 532, 535; In Re Hoag Ranches, 846 F2d 1227. The fact that the income is not reported is suggestive of subterfuge.

To put $8.4 trillion in perspective, the 2010 operation of the U.S. government involved $3.4 trillion and that includes the $1.3 trillion deficit. The entire amount of taxes collected by the U.S. government was only $2.1 trillion. Title 12 section 247 imposes upon the BOG a responsibility: "The Board of Governors of the Federal Reserve System shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress. " The requirement is not limited to administrative costs. Why does this not include a report of the $8.4 trillion from the auctioning of T-securities that is handled by the FRBNY ??

Good luck on trying to follow this sequence in the accounting records. Even Enron, World Com, and Bernie were able to cook the books --- and they were audited. The annual audit of the Fed follows accounting guidelines established by the Fed. Those guidelines do not permit the receipts and disbursements of T-security auctions being examined.

If asked "Who owns the T-securities that are sold at the auctions--the Fed or the U.S. government?" A Fed representative will respond "The securities are a liability of the government." An astute observer will note the inquiry was avoided; it was not answered.

A newspaper article a couple of years ago informed us the annual increase in interest to be 15 percent while the budget only grew 7 percent. That reflects the exponential growth of interest. More recently the deficit has been increasing much faster to fund/conceal the rapid growth in interest requirement --- and to rescue financial institutes from default. Professor Bob Blain, Southern Illinois University, Edwardsville has graphed the exponential growth in debt from 1915 to be irregular only during the 1930's.

In 1790 during Congress' consideration of Alexander Hamilton's proposal to pay the national debt with a usury based obligation placed upon the citizens, congressman James Jackson, after lengthy reflection on the devastation similar plans had imposed on European countries and cities, included the following observation to Congress:

"Let us take warning by the errors of Europe, and guard against the introduction of a system followed by calamities so universal… The funding of the debt will occasion enormous taxes for the payment of the interest …(such a system) must hereafter settle upon our posterity a burthen (sic) which they can neither bear nor relieve themselves from." Ref. ***ANNALS OF CONGRESS***, Vol. 1, 1790, pp. 1141-2.

In actual practice within the United States, a collection of taxes for part of the government spending is well known. Payment of part of the government expenses by taxation does not alter the government's usury program; for analytical analysis they can stand alone. The ninety year pattern of increasingly larger deficit spending is the escalation as the climax of chaos beyond description approaches.

The end result of economic exploitation by usury is becoming transparent in Europe. As various nations become indebted to "financiers," the demand to satisfy the debt includes the selling of national heirlooms and infrastructure to the creditors. Airports, roads, government buildings, and all resources are fair game. Ownership of land and resources by a financial oligarchy is but one example of feudalism — the government is mere window-dressing. The outstanding unfunded debt that is even now overhanging the citizens of the United States is more than enough to impose slavery if the people submit. If the people can be brainwashed to believe they must pay the debt, the income tax (if it exists) can be used to confiscate 100 percent of their income and the masses must subsist on government largess. Benjamin Ginsberg documents in FATAL EMBRACE numerous times when societies have revolted against such oppression. What the people of the U.S. will tolerate remains to be seen.

References:

Thanks to a professor teaching a graduate course of Money and Banking for revealing how the Fed creates money. The rest of the analysis is an inescapable mathematical progression as recognized in engineering.

Dr. Bob Blain, Emeritus Professor of Sociology at Southern Illinois University, Edwardsville, in a published paper “Revisiting U.S. Public and Private Debt” released in 2008 observes the exponential increase in national debt from 1915 and the destruction inflicted upon historic societies by usury based monetary systems.

FATAL EMBRACE by Benjamin Ginsberg documents historic occasions in which a usury debt based economic system (but not so identified) resulted in the “financiers” facing public fury including deportation, confiscation of estates, and physical harm to the individuals involved.

GREENSPAN’S BUBBLES; THE AGE OF IGNORANCE AT THE FEDERAL RESERVE by Bill Fleckenstein reveals how the Fed suppressed Federal Fund interest rates to create a false prosperity that devastated the economy for 20 years and destroyed the home construction industry.

THIS TIME IS DIFFERENT; EIGHT CENTURIES OF FINANCIAL FOLLY by Carmen Reinhart & Ken Rogoff reviews defaults as seen by an economist speaking to the International Monetary Fund/World Bank. It is the nature of governments to steal from the people.