

## Re: Seigniorage, Who, What, Why

**Source:** <http://sci.tech-archive.net/Archive/sci.econ/2004-08/0731.html>

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Date: Fri, 13 Aug 2004 04:15:41 GMT

On 12 Aug 2004 18:37:33 -0700, [william\\_b\\_ryan@hotmail.com](mailto:william_b_ryan@hotmail.com) (Bill Ryan) wrote:

> *William F Hummel* <[wfhummel@comcast.net](mailto:wfhummel@comcast.net)> wrote in message  
news:<[qc7lh0hrsm87eagk43fynvimblb2jfe34o@4ax.com](mailto:qc7lh0hrsm87eagk43fynvimblb2jfe34o@4ax.com)>...

>> Read <http://wfhummel.net/seigniorage.html> and you will find out where  
>> seigniorage goes.

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> *Hummel: Since the State accepts only Fed liabilities  
> in payment of taxes, its liabilities are in effect  
> tax credits with no tangible backing.*

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> *False premise. The "State" accepts checks drawn on  
> commercial banks in payment of taxes.*

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Wrong. The State requires banks to deliver Fed liabilities in payment. If the payer's account does not have sufficient funds (Fed liabilities), his check will bounce.

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> *Hummel: Their wide acceptance as a medium of  
> exchange is based on the power of the State to  
> enforce tax collection.*

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> *Nope.*

Wrong again. If the State failed to enforce tax collection in the States own fiat money, there would be nothing to ensure the wide acceptance of fiat money as a medium of exchange. Simply declaring the dollar to be a valuable medium of exchange wouldn't make it so. Even legal tender status is not sufficient by itself, because it says nothing about value. Taxes are like a pump in a hydraulic system that ensures circulation and creates a demand for the dollar.

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> *Hummel: Since a bank's vault cash is part of its  
> reserves, the net withdrawal of cash reduces*

>aggregate banking system reserves. In order to  
>maintain control of the Fed funds rate, the Fed must  
>replenish those reserves. It does so by buying  
>Treasury securities in the open market, a process  
>known as monetizing the debt.

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>Here, Mr. "Argue from Arbitrary Definition" Hummel  
>follows his *modus operandi*. The purpose of reserves  
>(other than to impose regulatory authority) is to  
>settle transactions between banks. The hypothetical  
>net withdrawal of cash from banks does not affect the  
>interbank relationships whatsoever.

Ryan is the original Mr. "Argue by Changing the Subject and Hope that no one Notices." I leave it to the reader to notice the non-sequitur.

>But more  
>importantly, the ratio of cash to transactions is  
>generally decreasing, not increasing. If we are to  
>take self-taught crank Hummel's argument seriously,  
>it should work in reverse. Since the ratio of cash  
>to transactions is decreasing, not increasing, it is  
>the Fed that is paying "seigniorage" to the public.

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The non-sequitur continues and gets into blue sky argument.

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>Hummel: [The Fed] rebates all of its income after  
>expenses to the Treasury.

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>Nope. Before 1947, nothing was rebated. Since 1947,  
>not "all" but ninety percent (90%) of its self-  
>calculated "profit" is "rebated."

Who cares what happened in 1947? And who cares whether "all" means not quite all? The point is that the Treasury and not the Fed is the beneficiary of the Federal Reserve notes in circulation.

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>The vast bulk of Fed directed profits (effective  
>interest) to Wall Street are left out of the  
>calculation: the huge profits on the Fed's churning  
>of U. S. Government securities made by the select  
>group of dealers licensed to conduct the Fed's "open  
>market" operations.

Ryan believes that the Fed should not engage in open market operations as required to hold the Fed funds rate close to the target. I suppose he is entitled to his opinion. In any case, the profits to dealers due to the Fed's open market operation are not "huge." Dealers do make handsome profits in trading securities elsewhere in the open

market however. And occasionally some lose their shirts.

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>*Hummel: As monopoly supplier of bank reserves, the*

>*State must therefore compensate by either reducing*

>*tax revenues or increasing other spending.*

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>*Here, this rather ignorant economics groupie reveals*

>*his "Moslerist" credentials. Aping his mentor,*

>*Warren Mosler, contrary to facts in the real world,*

>*he conflates "government" with "the state" to make*

>*his specious case.*

Ryan's hatred of Mosler is worthy of a psychological study. The affliction has been bugging him for years. And what particular irritates him is that Mosler could not care less.

Regarding definitions, I use the term "State" to represent the entire Federal structure, including the three branches of government AND the Federal Reserve, which operates under rules set by Congress. I generally use the term government, to refer to the State minus the Fed. Ryan loves to argue by definition, but only his definition.

>*It is not "the State" but the Fed*

>*that is the monopoly supplier of bank reserves,*

>*inasmuch as the Fed is the central bank in the*

>*fractional reserve system.*

The State includes the Fed, as noted above.

>*It is government, not the*

>*Fed that taxes. The Fed, of course, as corporate*

>*entity, spends in offset to its revenues--as does*

>*every corporate entity, including government, and for*

>*that matter, General Motors.*

>—

If the Fed is a corporate entity, it is the strangest one in the country. It may keep books like one, but no corporate entity would rebate its net income to the Treasury. So let's not go overboard with analogies.