

## Re: questions on Fed activity

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  - *Date:* 25 Jan 2008 18:59:38 GMT
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"P. Maffia" <[pmaffia@xxxxxxxxxxxxxxxx](mailto:pmaffia@xxxxxxxxxxxxxxxx)> wrote:

Oh, for god's sake, go to the Federal Reserve site and get educated. Its not that difficult. The system has existed since the middle ages when the the Florence Bankers created modern banking.

It really isn't that hard. Even you morons should be able to understand it, although you don't.

And the Federal Government DOES NOT BORROW a single penny from the Fed.

Ok, fair enough: check their own site. What an idea. I checked it out, also read Wikipedia on this. Only got my original thoughts confirmed though. Maybe I'm reading it all wrong and such, then maybe you can explain it to me.

[http://en.wikipedia.org/wiki/United\\_States\\_public\\_debt](http://en.wikipedia.org/wiki/United_States_public_debt) <QUOTE /my emphasis/>

. The mechanics of U.S. Government debt

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. When the expenses of the U.S. Government exceed the revenue collected,  
. it issues new debt to cover the deficit. This debt typically takes  
. the form of new issues of government bonds which are sold on the open  
. market. However, the debt can also be monetized by which the Federal  
. Reserve creates an entry on its books to credit the US Government  
. for an amount equal to the dollar amount of the /bonds/ the Federal <--  
. Reserve is /acquiring/. The money created in this process not only  
. includes the new dollars that came into existence just to purchase  
. the bonds, but much more because this new money is now sitting in the  
. form of checkbook money at the Federal Reserve. Under the scheme of  
. Fractional Reserve Banking this new checkbook money is treated as an  
. asset to lend against. Economists estimate the expansion of the money  
. supply as being many times the amount of the initial money created  
. with the exact amount being a function of how what percentage of  
. deposits banks must set aside as "reserves".[11][12]

. (...)

. Arguments against paying down the national debt

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. Since the money supply is reduced when the U.S. Government pays down  
. its /debt/, the unintended result of a government surplus could be a  
. deflationary recession as the money supply contracts in the reverse  
. of the process of monetization described above.

. -----[http://en.wikipedia.org/wiki/Bond\\_%28finance%29](http://en.wikipedia.org/wiki/Bond_%28finance%29)

. Bond (finance)

. In finance, a /bond/ is a debt security, in which the authorized  
. issuer owes the holders a debt and is obliged to repay the principal  
. and interest (the coupon) at a later date, termed maturity. Other  
. stipulations may also be attached to the bond issue, such as the  
. obligation for the issuer to provide certain information to the  
. bond holder, or limitations on the behavior of the issuer. Bonds are  
. generally issued for a fixed term longer than ten years. U.S. Treasury  
. securities issue debt with life of ten years or more, which is a  
. bond. New debt between one year and ten years is a "note", and new  
. debt less than a year is a "bill".

. A bond is simply a loan, but in the form of a security, although  
. terminology used is rather different. The issuer is equivalent to  
. the borrower, the bond holder to the lender, and the coupon to the  
. interest. Bonds enable the issuer to finance long-term investments  
. with external funds.

</QUOTE>

I'm reading: "... FED makes new dollars, acquires /bonds/ ... Government  
pays down /bonds/ ...". I'm sorry for not feeling guilty for having  
the idea that the USA Government buys bonds (I thought and read that  
means "debt + interest") from the USA Central bank. While on the site  
of the USA central bank I noticed how the idea is how to insulate that  
central bank away from real democratic politics/control. This seems to  
be a violation of the USA constitution, which says something like the  
Senate "regulates the value of the currency" (IIRC). The Senate is  
supposed to regulate the value of money, yet the USA central bank is  
set up to make sure the Senate can not regulate the value of money. On  
purpose the board does this, and the board is elected in such a way  
as to insulate Senate/political power over monetary policy like  
inflation and deflation: the value of the USA coin.

I also think that I understood that part about more money being  
created by the FED creating money to buy the bonds: that money gets  
transferred to the varies bank-accounts of street banks, once there  
they use the fractional-reserve trick that allows them to create 10  
times more loans then they have real money for. With the Government  
selling bonds to the USA central bank and getting dollars back  
(apparently lending from the FED, later to be payed back, in theory  
at least), the total amount on all FED bank-accounts increases. With  
that the potential to create more loans, thus causing much heavier  
inflation through additional lending by street-banks, then just the

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dollars the FED created to buy the Government bonds.

Hence, I don't know what you're talking about: the USA Government seems to be selling bonds to the FED, gets dollars back. The USA Government, apparently not willing or able to use the proper method to acquire funds, which is taxation, is apparently losing it, and is actually buying money on interest from people within its own borders. In reality this would probably mean a lot of street-banks. I would think that constitutes corruption. A Government does not lend money from its own People, because when it has to pay that back plus interest, it is theft from the future. A Government that sells Government bonds "in the open market" is stealing money from the next generation. But the next generation should simply default on all these loans, and write it off as mismanagement by their parents. I can see how a Government might in an emergency borrow from its own public temporarily, unable to quickly harvest more taxes. But beyond that a Government should never borrow from any entities within its own borders.

Across borders, I'd think a Government should neither do that, unless in the case of a temporary emergency. If there is some kind of need to acquire foreign capital to start-up new industries, then it is I think better to cut a deal along the lines of letting the lending Country get a share of future profits from such new industry, up to the loaned sum plus bonus for the risk/effort. Say a Country, Kenya, wants to set up a clothing industry, if it needs 50 billion to do it, then a deal would be: Kenya gets 50 billion from Holland in services and products, and Holland gets a share of 10% of the profits of that clothing industry for a total of 60 billion. You then get two countries working their best to set it up and profit both. If it fails, Kenya is not in debt-slavery, and Holland can try to recover some funds from taking possession of its supplied products (factories/materials). If it succeeds, Kenya can pay the price, and once payed and even while paying it, it would be profitable and improve life there.

If you disagree: care to explain what this "bond" stuff really means (according to you), and why we always hear so much about "Government debt" which should not even exist to begin with.

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<http://www.jhwh.be>

#88 <http://www.xs4all.nl/~joshb/no-id-theft.html>

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