Proposal: 1652 (7100-AF40) Reg D - Reserve Requirements of Depository Institutions

Description:

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From: Spencer Hall

Proposal: 1652 (7100-AF40) Reg D - Reserve Requirements of Depository Institutions

Subject: R-1652; Reg D - Reserve Requirements of Depository Institutions

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Comments:

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None of the Fed's Ph.Ds know a debit from a credit. The remuneration of interbank demand deposits is unconstitutional.
The 1966 S&L credit crunch (where the term was coined) is the antecedent and paradigm.
You see, DFIs always pay for their new earning assets with new money period.
It is a incontrovertible fact, the source of time (savings-investment accounts) is demand deposits, directly or indirectly via the currency route or through the DFIs undivided profits accounts.
For example, negotiable CDs, rather than being a source of loan funds for the payment's system, negotiable CDs represent the indirect consequence of prior bank credit creation (they are derivative deposits to the system, not primary deposits). And the source of bank deposits (loans + investments = deposits), can be largely accounted for by the expansion of Reserve bank credit. This is proven by T-accounts. Given all factors which affect bank deposits, collectively while large in aggregate, are nevertheless peripheral to the expansion of new deposits.
From a system's perspective, commercial banks (DFIs), as contrasted to financial intermediaries (non-banks, NBFIs): never loan out, and can't loan out, existing deposits (saved or otherwise) including existing transaction deposits, or time "savings" deposits, or the owner's equity, or any liability item.
When DFIs 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 (demand deposits) - somewhere in the payment's system. I.e., commercial bank deposits are the result of lending, not the other way around.
The non-bank public includes every institution (including shadow-banks), the U.S. Treasury, the U.S. Government, State, and other Governmental Jurisdictions, and every person, etc., except the commercial and the Reserve banks.
It is a blatant discriminatory and predatory (oligarchic) practice. It is a license to steal from Joe Sixpack.
It also emasculates the FRB-NY's "open market power", literally, the power to steer the economy. It destroys money velocity.
Fundamentally, all savings originate within the payment's system. The only way to activate savings (put savings back to work) is for the saver-holder (fund's owner) to invest directly or indirectly (in other words, invest/spend outside the scope of the payment's system).
The NBFIs do not compete with the DFIs. The NBFIs are the DFI's customers. Savings flowing through the NBFIs never leaves the payment's system - as anyone who has applied double-entry bookkeeping on a national scale should already know (but in reality, no present day mathematical economist, even comprehends).
The DFIs can induce NBFI disintermediation - by outbidding the NBFI's for loan funds (as they would if PTIEs were encouraged, according to the American Bankers Association: "for the sole purpose of accepting large quantities of deposits from institutional investors and parking those deposits in a Federal Reserve Bank account and accruing interest", i.e., just as they did during the GFC with a devastating economic impact). Since 1933, disintermediation is a term that only applies to the nonbanks.
What does "outbid the DFI's mean? It means the DFI's remuneration rate destroys money, savings, and income velocity (as all commercial bank-held savings are frozen in the system, lost to either consumption or investment, as long as they are so-held / impounded and ensconced).
It is a lost fact, the DFIs do not loan out existing deposits, saved or otherwise. It is a monumental and

destructive accounting error. It exacerbates secular strangulation.
Link: "Should Commercial banks accept savings deposits?" Conference on Savings and Residential Financing 1961 Proceedings, United States Savings and loan league, Chicago, 1961, 42, 43. These were yesteryears' "smartest guys in the room".
Link: "Profit or Loss From Time Deposit Banking", Banking and Monetary Studies, Comptroller of the Currency, United States Treasury Department, Irwin, 1963, pp. 369-386
This Romulan cloaking device (payment of interest on interbank demand deposits, on a "Master Account" identified by a Primary nine-digit Routing Transit Number, RTN), vastly exceeded the level of short term interest rates which was explicitly illegal per the FSRRA of 2006.
Link: "The 2006 Financial Services Regulatory Relief Act gives the Fed permission to pay interest on reserves. The IOR rate was always higher than "the general level of short-term interest rates" which is imposed in the Law. "A Legal Barrier to Higher Interest Rates," The Wall Street Journal, Sept. 28, p. A13.