THE MONEY MASTERS dvd

October 1, 2008

Urgent Letter re the $700 Billion Bank Bailout

Dear Fellow American Citizen:

The ongoing, severe economic turmoil in our nation - destined to get worse if the right remedy is not enacted - was predicted in our video *The Money Masters* as the inevitable result of our fractional reserve banking system.

Our banking system, established by the *Federal Reserve Act* of 1913, works essentially like a spring. When the Central Bank, the Federal Reserve, wishes to create new money, it simply does so. There are no reserves to our money. The Fed then spends this money, usually to buy Treasury Bonds from private owners of the bonds (more recently to bailout or help huge banks buyout failing banks), which the sellers had purchased from the Treasury Department. These bonds (and Treasury bills, TIPS and notes) were initially sold to the public to fund government deficits. In our metaphor the money created by the Fed is the spring. The spring gets stretched in the following manner.

Banks, privately-owned, are permitted to loan out 90% of this new Fed-created money once it is deposited by the sellers of the bonds. That would not be a problem, except for the fact that the borrowers almost always redeposit the money (or the people they pay with their loan proceeds do). Once re-deposited, the banks can lend it out again. This re-loan, redeposit, re-loan, redeposit, etc. scheme, authorized by the *Federal Reserve Act* of 1913, allows banks each time to retain just 10% of the re-deposited loan proceeds as a reserve, ultimately allowing banks to lend out 9 times the original amount deposited, and to charge interest on it as many times as it was loaned. So instead of an interest rate of, for example, 6%, the banks may be collectively receiving a total of 54% interest per year (6% x 9; usually it is somewhat less due to the lack of qualified borrowers). Now you know, if have not already seen *The Money Masters*, why banks grow and prosper much more than other businesses, that is, until they have stretched the spring to the maximum.

Once the economy is flooded with the bank-created money 9 times in excess of the money originally created by the Fed, an expansion that increases the money supply, which reduces the purchasing power of already-existing money (including wages and savings), interest rates begin to drop (as there is more money to lend) and prices rise (inflation). The dollar begins to fall relative to the money of other countries not in this same stage of money expansion. Money begins to flow out of US Treasury bonds (due to lower interest rates and the lessening purchasing power of the dollar due to inflation). Thus ends the expansionary or "boom" part of this artificial "business cycle." To combat rising inflation and the falling dollar, the Fed begins raising interest rates.

Then the spring of the economy - the money supply - having been stretched to the maximum, begins its contraction, usually initiated by rising interest rates reaching a point that begins to inhibit borrowing and also inflation. The economic "bust" part of the cycle begins. Loans dwindle as interest rates rise and credit terms tighten. Various segments of the economy, accustomed to easy credit, begin to contract due to higher interest rates; loans become harder to get. Home prices fall, businesses begin to fail, bankruptcies increase. This "bust" part of the cycle continues, and worsens, until inflation is "tamed," prices stabilize, and the dollar rises relative to other currencies. Eventually, the higher interest rates begin to attract foreign money, and the Treasury then is able to borrow what it needs at lower and lower interest rates. Interest rates fall. The artificial cycle then begins anew.

This boom-bust economic cycle is totally unnecessary and is the fundamental cause of the inherent instability in our economy. It is due to too-rapid increases in the money supply due to deficit spending and then the multiplier effect of fractional reserve banking (described above) and to lenders greedy to take advantage of such a system that rewards lending with more and more interest revenue; followed by a too-rapid contraction of the money supply (such as we are experiencing now), necessary to combat the inflationary effects of the former phase, both the direct result of the *Federal Reserve Act* of 1913. We urgently need to reform this system that rewards greed and results in ever-increasing swings from boom-to-bust - destroying ordinary businesses and farms in the process. We need to repeal or fundamentally reform the *Federal Reserve Act* of 1913, and to replace it with a system that eliminates the ability of private banks to "create" and multiply money as loans.

The major banks of this country - the ones the government is lending your money to, and from which the Bailout Bill proposes to buy their bad assets (wouldn't you too like the opportunity to sell off your bad investments to the government!), are busily swallowing up the banks in trouble in this latest bust - one deeper because of more rapid prior monetary expansion and inflation. As after all prior bust cycles, they will emerge larger and more powerful, and fewer. Wealth will be even more concentrated under their control, which they will use in the next bust to further this process, until eventually no one will own anything but the ability to borrow - to go deeper into debt to banks than their neighbors. Not savings, but credit scores will determine the average American's ability to engage in economic activity (such as buying a home or car). No one will dare breathe a word against such power, concentrated in very few hands, and our republic will end with a whimper.

Our Congress struggles with ignorance of the complex, bank-created system enacted in 1913. It struggles with the money the bank PACs flood into the political system to defeat their critics and elect their shills. It struggles with mass media owned or controlled by the banks, which seek to stir up panic in the populace, to stampede Congress into bank-developed "solutions" that only make the fundamental problems worse and increase their wealth. Based on history, the banks will not fail to see-saw the economy and the markets to match their strategies for fooling the public, and putting pressure on the Congress to do their will. But we must resist. We must hold out for genuine reform - for repeal or fundamental reform of the *Federal Reserve Act* of 1913.

Here is a hyperlink to one such reform proposal, the **Monetary Reform Act.** It is not the only possible reform, but it is one developed, in its essentials, over many years by numerous monetary reformers including the late Nobel Laureate, Dr. Milton Friedman. Any genuine reform of our monetary system must include two basic elements: fractional reserve lending (such as described above) must be prohibited, and private banks must be forbidden from creating money, whether as loans or otherwise. *The Monetary Reform Act* does both. It also incorporates means of doing this that include paying off the huge national debt, and stabilizing the economy.

We have not previously written the viewers of *The Money Masters.* We judged the time was not ripe. But increasingly we are being asked - urgently - what can we do, and when, to be effective. *Now* it is clearly urgent that we flood Congress with our calls, emails and letters, to oppose the proposed taxpayer-funded Bailout of the banks. Rather, we support genuine reform, that will not result in an even greater concentration of economic power in fewer and fewer hands. We support the *Monetary Reform Act*, or any such Act that repeals or reforms the *Federal Reserve Act* so as to prohibit fractional reserve banking and money creation (as loans or otherwise) by private banks. We oppose the Bailout of the banks. We want genuine, fundamental reform, *now*!

Very truly yours,

Patrick S.J. Carmack

Patrick S.J. Carmack, J.D.
Producer of *The Money Masters*