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I encourage everyone to really buckle down and tackle this tutorial. It's a little technical, but should be fairly easy to understand. If you follow understand this process then you will also understand the danger that our nation faces.

### **Who Creates Money?**

How does our monetary system really work? Most people, even those holding degrees in finance from prestigious universities don't really know. They've never stopped long enough to consider the process – instead, just regurgitating that which they learn in various economics textbooks.

We've been told that "the Federal Reserve is the ONLY institution that can create money". Is this really true? Yes, and no. Yes, the Fed is the only institution that has the authority to issue physical Federal Reserve Notes (FRN's). They order these from the U.S. Treasury's Bureau of Engraving and Printing (BEP) – which acts as a simple printer. The Fed simply pays the BEP for labor, paper, ink, and whatever other supplies go into printing a Federal Reserve Note. No, the Fed is not the only entity that can create certain types of money, such as that which is found in the "M1" measure of the nation's money supply. More on that another time.

What is a "note"? It should more properly be referred to as a "demand note". It's something that is payable on demand. It's debt that somebody owes something on.

What does it mean to "pay" somebody? It means to "provide compensation". Compensation can exist in lots of ways. We can compensate with money, labor, other assets, etc.

We can glean from all of this that the Federal Reserve issues its own money ("demand notes"). We can also say that the Fed issues its own debt. It creates the debt ("demand notes"), and it provides compensation when others seek to cash in those demand notes.

That seems pretty basic, correct? So why do "esteemed" media outlets such as the Wall Street Journal print articles such as this? [Fed considers issuing its own debt](#)

The article pretends like the US government is the only entity that issues debt. In actuality, the Fed issues its own debt that is backed by US government debt. This is what we call money. You could say that the Fed's debt (money) has a "0" length maturity (can be paid at any time with more money) and has some negative interest rate in the case of inflation – or positive interest during deflation.

Clear as mud?

Let's take things from the very beginning to see how the first part of our monetary system works.

### **The International Banking Shell Game**

Our example will use the US government, a bank, and the Federal Reserve. We will pretend that there is no money whatsoever in the economy. What happens first?

First off, the US government needs to decide that they want to create debt to pay for something. They can't create money, since they don't have that authority (other than coin) under our current economic system (I know the US Constitution states things differently, but I'm describing our current economy).

We'll pretend that the U.S. Treasury gets out some red construction paper and a magic marker to create an IOU. It states: "We, the Federal government, pledge \$1,000 of the future labor of our citizens to the bearer of this IOU at maturity". Treasury bonds don't really have this exact wording, but the concept is exactly the same.

What is the Federal government going to do with their pretty, red IOU piece of paper? It's not "official" money. They could try selling the IOU to a manure company in exchange for a few truckloads of manure –

but this probably wouldn't work, since Washington, D.C. already has plenty of manure in the halls of Congress.

Instead, the Federal government depends on the Federal Reserve to hold a Treasury auction for them. I use the term "Federal Reserve" very broadly. The Fed is actually composed of 12 regional branches, along with an "official government looking" building in Washington, D.C. The twelve branches are all private entities, and the one in Washington is private except for the President being able to name a Board member every two years – the choice HEAVILY influenced by the international bankers.

Eleven of the Fed branches primarily act as regional clearing houses for the banking system. It is the New York branch of the Fed that has all of the power of implementing our nation's economic policy – and it is this same branch that holds Treasury auctions to sell US government IOUs (Treasury bills, notes, and bonds). So the New York Fed holds an auction to sell the \$1,000 IOU that the government wants to get rid of. Who's going to buy it? Nobody, because there isn't any money in the economy. The ONLY one that can buy it is the bank, since the Fed does not buy directly from the US government. How does the bank get any money to buy the Federal government's IOU?

The bank has to go ask the Fed for money, since the Fed is the only entity that can create "initial" or "base" money. They are also the only entity that can order and issue physical Federal Reserve Notes (FRNs). The bank can't just be "any old bank" and talk to the Fed. They have to be a "special" type of bank. These are known as "Primary Dealers". The Fed ONLY does business with Primary Dealers. Other banks need to work through Primary Dealers to get anything done. These Primary Dealers are the international bankers that control the economies of every industrialized nation in the world. The "Fed" is just a "managerial" entity that the bankers set up to act as a pipeline between them and the US government.

The Primary Dealer bank goes to the "discount window" at the New York Fed and asks for some money. Actually, they don't need to be very persuasive, since the international bankers control the operations of the Fed. The Fed says: "Sure, I'll loan you \$1,000 so that you can buy the \$1,000 of US government IOUs". How does the Fed get the money to lend to the Primary Dealer since there is no money in the economy?

The Fed issues a brand new \$1,000.

All companies, organizations, and households operate on a "balance sheet", whether they recognize it or not. The New York branch of the Fed is no different. How does the Fed create \$1,000 on its balance sheet?

First off, the Fed creates a loan deposit in the amount of 1,000 "Federal Reserve Notes (FRNs)". Then it creates a "demand account" for the Primary dealer in the amount of 1,000 "Federal Reserve Notes Outstanding". "Outstanding" just means that somebody owes 1,000 FRNs to the Fed – in this case the Primary Dealer - against the 1,000 FRN asset that the Fed has on its books. The Primary Dealer now has an account of 1,000 FRNs. Notice how these are "notes". That means that they are pieces of "debt paper" that are payable by the asset – more FRNs. At this point we can say that FRNs are "backed by" more FRNs. In other words, paper is backed by paper. If we stopped here then it could be rightly argued that our money is absolutely worthless. But there's more to it.

The Primary Dealer uses the \$1,000, that was deposited into its demand account at the Fed, to purchase the \$1,000 of US government IOUs at a Treasury auction. The government gets the \$1,000 of FRNs to put into its Treasury account, while the Primary Dealer gets the government IOUs.

The balance sheet of the Federal government now shows an asset of \$1,000 in FRNs and a liability of \$1,000 in government IOUs.

The Primary Dealer has an asset of \$1,000 in government IOUs and a liability of a \$1,000 loan to the New York Fed.

The New York Fed has an asset of a \$1,000 loan to the Primary Dealer and a liability of \$1,000 of FRNs outstanding (in circulation).

Let's now resolve the loan between the Primary Dealer and the Fed. The New York Fed will take its asset of \$1,000 in FRNs and buy the \$1,000 of US government IOUs from the Primary Dealer. How do things look now?

The Primary Dealer has assets of \$0 and liabilities of \$0. The loan has been paid off and the Fed now owns the government IOUs.

The New York Fed has an asset of \$1,000 in government IOUs and a liability of \$1,000 in FRNs outstanding. Notice where this all leaves us. The Federal government has \$1,000 of FRNs that they can use to purchase things in the economy, while they have promised \$1,000 of the future labor of its citizens to the bearer of its

IOUs. Who owns those IOUs? The New York Fed.

The New York Fed has created \$1,000 of brand new money, which the US government now has to spend into the economy. These are the \$1,000 of Federal Reserve Notes Outstanding that sit on the liability side of its balance sheet. What is the \$1,000 backed by? It is backed by the asset that the Fed holds – US government IOUs. No longer are the FRNs just backed by more FRNs. Now they are backed by the future labor of American citizens. The US government sold their citizens into slavery to the Fed (international bankers).

### **Conclusion**

Now some of you might be asking the question: “Can’t the US government just give the \$1,000 back to the New York Fed and get rid of the claim on the future labor of Americans?”

Not really, the Fed only does business with Primary Dealers, not the US government. The US government would need to hire the services of the Primary Dealer and pay them the \$1,000 for their “effort”. Then the Fed could decide to sell the government IOUs to the Primary Dealer, in exchange for the \$1,000 in FRNs. The Fed would then use this \$1,000 FRN asset to cancel out the \$1,000 in FRNs Outstanding. This means that all money in the economy would now be gone. Where would this leave things?

The Primary Dealer (international banker) would now have \$1,000 in government IOU assets – consisting of the future labor of American citizens, and \$1,000 in Capital (profit) on the liability side of the balance sheet. The US government now has no assets, and liabilities of \$1,000 owed on the future labor of its citizens along with Capital of negative \$1,000.

There’s a name for when organizations have negative Capital (or equity). It’s known as bankruptcy – or insolvency.

This shows how international bankers systematically create debt slaves of every citizen in every developed nation, and how they steal the wealth and leave the nations bankrupt.

It’s ONLY through governments creating more and more debt, along with banks issuing debt to the citizenry, that this whole scheme can keep being played out.

The Federal government CANNOT pay off its debt. To do so would leave it bankrupt. This is why both Republican and Democrat administrations have no choice other than creating vast new spending debt. We now have the international bankers withdrawing loans from the economy. This is exactly the same as withdrawing money. It reduces available liquidity in the marketplace and forces the US government to spend as fast and furiously as possible in order to artificially create new liquidity. It will not end well.

### **ADDENDUM**

I need to add an addendum to my tutorial on our nation’s base money supply. I gave it some more thought, and there is a path for the US government to reduce their debt to \$0 in the scenario that I gave. It can only happen if the banks let it happen – but it can happen nonetheless.

The important thing to consider is how the US government is the first debtor in the creation of our money supply. There can (in general) be no increase in our base money unless the US government goes further into debt. They can only get out of that debt if the Fed relinquishes the Treasury securities that it holds to the Primary Dealers (international bankers).

This is beginning to change somewhat – and for the worse. We’re now seeing signs where the Fed might be using other types of debt to create money, such as Mortgage-backed securities and/or Agency debt (Fannie Mae, Freddie Mac, etc.). If this becomes more evident it would mean that some of our base money would now be backed by mortgage loans, and not just US Treasuries.

Here is the rewritten “Conclusion” to the previous tutorial.

### **Conclusion**

Now some of you might be asking the question: “Can’t the US government just give the \$1,000 back to the New York Fed and get rid of the claim on the future labor of Americans?”

Not really, the Fed only does business with Primary Dealers. Here’s what “could” happen to make things even out:

The New York Fed could decide that they want to sell the \$1,000 of US government IOUs that they’re holding as assets. They would have to sell these to the Primary Dealer (PD), but the PD has no money anymore. The PD would have to go to the Fed’s discount window and take out a \$1,000 loan. The Fed would create another \$1,000 of FRNs as a loan asset, along with \$1,000 of FRNs Outstanding as a liability. The Primary Dealer would then take the \$1,000 loan and buy the \$1,000 of government IOUs from the Fed.

Now the Fed will use the \$1,000 from the Primary Dealer to cancel out \$1,000 of its FRNs Outstanding. The Fed will just have a \$1,000 loan to the Primary dealer as an asset, and \$1,000 of FRNs Outstanding as a liability. The Primary Dealer would have \$1,000 of government IOUs as an asset, and a liability of \$1,000 to the Fed for their loan.

The Primary Dealer can sell the US government back their IOUs, in return for the \$1,000 that the government has.

The US government would now have \$0 of assets and \$0 of liabilities. The Primary Dealer would have assets of \$1,000 and a liability of the \$1,000 loan to the Fed.

Lastly, the Primary Dealer takes their \$1,000 and pays off the Fed loan. They now have assets of \$0 and liabilities of \$0.

The Fed would take the \$1,000 from the Primary Dealer and cancel out the \$1,000 of FRNs Outstanding.

The Fed now has assets of \$0 and liabilities of \$0.

The main point to learn from all of this is that the US government has no power to decide when the New York Fed will buy or sell US Treasury securities. The only way that the government can pay off debt that the Fed holds is if the Fed sells that debt to a Primary Dealer (international banker) first. The only way that the government can sell its debt is if the New York Fed holds a Treasury auction for them. Everything cycles through the bankers, and the bankers collect fees and commissions for everything that passes through.

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