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# Frontiersman

*Facing the truth, however great the cost.*

*February 2007*

## A Den of Thieves: Cash Dollars In Circulation

Sam Aurelius Milam III

This is the second article in a series of articles that I'm presenting in this newsletter. The first article, *A Den of Thieves: Fractional Reserve Banking*, appeared in the December 2006 issue. The articles are based on my essay *They Can Fool Too Many Of The People Too Much Of The Time*. Due to the limited amount of space in this newsletter, I'm eliminating from the articles a lot of material that's included in the essay. However, copies of the essay are available upon request. The essay is also available on *Pharos*.

I intended, when I began the essay, to prove that fractional reserve banking increases the number of cash dollars in circulation. Early in the essay, I proved the opposite. However, while I was working my way through the mechanics of fractional reserve banking, I discovered that fractional reserve banking doesn't really exist, if it ever did. Beyond that, I found within the existing financial system a sinister potential. Inflation is only one of its evils. The thing that I least expected to discover but which ought to have been the most obvious from the very beginning is that none of it would be possible without the cooperation of the people.

In these articles, I've illustrated the dynamics of fractional reserve banking with a model of the process of deposits, loans, and redeposits. The model cycle is as follows:

1. Some number of **cash** dollars, in circulation in the economy, is available for deposit in the bank.
2. The available **cash** dollars are deposited in the bank.
3. The required number of **cash** dollars is held in reserve by the bank.
4. The difference between the number of **cash**

dollars deposited and the number of **cash** dollars held in reserve is loaned by the bank, as **cash** dollars, and again enters the economy.

5. The **cash** dollars loaned by the bank, circulating in the economy, are then available to be redeposited in the bank.

A series of such cycles is an idealization of the process of fractional reserve banking as it would happen in a real fractional reserve banking system. It illustrates the ideal performance to be expected from such a system. In the essay upon which these articles are based, I used a variety of examples to investigate the consequences of several such cycles. Those examples are shown in detail in appendix 1 of the essay. The various tables used throughout these articles are based on those examples. The quantities in appendix 1 of the essay, and in the various tables and figures shown in the essay, can be calculated by equations that will yield the accumulated total for any combination of parameters. Appendix 2 of the essay contains examples of such equations, as well as their derivations. Those equations are academically correct and ought to impress my critics but there are easier ways to do the calculations. I used a Hewlett-Packard HP-25 programmable calculator. The calculator programs are shown in Appendix 3 of the essay. None of the appendices or figures shown in the essay are presented in these articles. If you're interested in seeing them, then you can request a printed copy of the article or you can view it on *Pharos*.

When I began the essay, I believed that cycles of fractional reserve deposits and loans greatly increase the number of cash dollars in circulation, thereby contributing to inflation. I'd heard that claim from various folks who believed it to be one of the banking system's evils. It seemed reasonable and I believed it. However, Table 1 shows that I was mistaken. The number of cash dollars placed into circula- →

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**Table 1**

\$1000 Initial deposit  
10% held on reserve  
50% Redeposited

Number of Cash Dollars in Circulation	
After Deposit Number	Accumulated Total
1	\$0.00
2	450.00
3	652.50
4	743.63
5	784.63
6	803.08
7	811.39
8	815.12
9	816.81
10	817.56
11	817.90
12	818.06
13	818.13
14	818.16
15	818.17
16	818.18

**Table 2**

\$1000 initial Deposit  
10% held on reserve

Fraction Redeposited	Cash Dollars in Circulation After 10 Cycles
1.0	\$0.00
.90	402.59
.80	609.43
.70	718.32
.60	779.55
.50	817.56
.40	843.66
.30	863.01
.20	878.05
.10	890.11
0	900.00

**Table 3**

\$1000 initial deposit  
50% withheld from redeposit

Fraction Held on Reserve	Cash Dollars in Circulation After 10 Cycles
0	\$998.05
.10	817.56
.20	666.49
.30	538.42
.40	428.56
.50	333.33
.60	250.00
.70	176.46
.80	111.11
.90	52.63
1.00	0.00

tion by fractional reserve banking, in the example, will never be equal to the initial deposit, by which cash dollars were removed from circulation. Thus, the net effect of fractional reserve banking is to remove cash dollars from circulation, not to add cash dollars to circulation. That conclusion is true for all variations in the parameters except for the situation in which no cash is redeposited and no cash is held on reserve. Those conditions are, of course, the same as not having fractional reserve banking at all.

**The more cash dollars people deposit, the fewer cash dollars there are in circulation.**

Table 3 shows that the number of cash dollars in circulation varies inversely with the fraction held on reserve. That is, the fewer cash dollars the bank holds on reserve the more cash dollars will be in circulation.

**If the bank kept all cash dollars deposited, then none of them would be in circulation.**

It's apparent that fractional reserve banking doesn't increase the number of cash dollars in circulation. However, neither does it remove cash dollars from circulation. Deposits remove cash dollars from circulation, which would be the case for any banking system, not just for a fractional reserve banking system. Thus, it isn't the bank or its policies, but the people and their behavior, who are responsible for the removal of cash dollars from circulation. Fractional reserve banking puts a few of those dollars back into circulation again.

**Fractional reserve deposit and loan cycles reduce the number of cash dollars in circulation.**

Table 2 shows that the greater the fraction of cash dollars redeposited, the greater the tendency for cash dollars to be removed from circulation. That's so logical that I wonder why I needed a table to make me realize it.

Stray Thoughts

Sam Aurelius Milam III

Ne'er The Twain Should Meet — People live in houses. Animals belong in barns or in pastures.

Free Speech — In this country, we have complete freedom of speech, just so long as what we say doesn't offend anybody or violate any legislation or any administration policies.

Free Thought — In this country, we have complete freedom of thought, just so long as we don't say what we're thinking.

Better Left Undone — It's likely that the cost of attacks by so-called terrorists would never be as large as the cost of the so-called War on Terror. Maybe we should just rebuild the damage that they do and let it go at that.

Liberty Toilet Paper — U.S. flag patterns.

Unexpected Benefit — The nice thing about walking your dog is that people won't know that you're talking to yourself.

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## Letter to the Editor

Dear Sam.

.... I've received the *Frontiersman*, Jan 07, thank you.

2 quick comments:

Your response to Millie, p 3: Apology not necessary. Even going by memory, I can't imagine your comment of Buck going on sabbatical being misinterpreted to mean you. Actually, I'd had a feeling for a while you were running thin on Buck's quips. (I had a notion to send you a few ideas, in passing, but figured you wanted to source your own, and I quickly forget such things I don't write down, so now they are mentally vaporized away). Anyway, the intent of your message was unmistakable to me.

Comment on CHANGING TIMES from Steve of Fremont, p. 4: The comparison is a great idea, but the writer is off on his timing. If I may add the corrective information: 1956: good, agreed. But what he submitted as 2006, was about 1993. Here is the correct version for 2006: The police are called and of course, arrive with their protective SWAT team. Immediately they draw their guns (of course) toward the two scufflers, and 6 of them open fire on Mark, killing him instantly (even though Johnny started it). The shooters are given special commendation medals for bravery in the face of danger, and no charges are pressed against the police (of course) because it appeared he had something in his hand — which turned out to be his fingers “suspiciously concealed” by his thumb. While Johnny is recovering in the jail hospital from his 6 gunshot wounds, he is served the charges of “first degree murder” for the death of Mark, having been (of course) the proximate cause of the death. He is (of course) convicted, doing a 50-years to life sentence in prison, with enhancements for the six blazing SWAT team guns used to commit the “murder.” What will 2008 hold in store?

One other thing that occurred to me: You seem to be statistician-oriented somewhat. Maybe ... you also might have some added thought on this. In your opinion, what are the statistical chances in the year 1983, (location withheld), of a two juror pools, 100+ people, selected for jury duty, and coincidentally NOT ONE OF THEM being a gun owner? (I'd say, ZERO chance). This is what convicted me. Your

comments please? Anywhere you know of I can get real statistics on this? I know there was juror tampering at this level, but nothing to prove it with, yet.... —an inmate

*I don't know the likelihood that there would be any gun owners in the jury pool. Considering the anti-gun brainwashing in recent decades, that probability might be lower than either of us would like to believe. Here's another question that might be even more important. What's the likelihood of somebody in the jury pool who knows the difference between a right and a privilege? I don't know where to get valid statistics on either question.* —editor

## Continuing Education Courses For Women

Original Source Unknown. Forwarded by Don G.

1. Silence: The Final Frontier, Where No Woman Has Gone Before
2. The Undiscovered Side of Banking: Deposits
3. Combating the Imelda Marcos Syndrome: You Do Not Need New Shoes Every Day.
4. Parties: Going Without New Clothes
5. Man Management: Discover How Minor Household Chores Can Wait Until After the Game.
6. Bathroom Etiquette I: Men Need Space in the Bathroom Cabinet Too.
7. Bathroom Etiquette II: His Razor Is His.
8. Valuation: Just Because It's Not Important to You....
9. Communication Skills I: Tears — The Last Resort, Not the First Resort
10. Driving a Car Safely: A Skill You CAN Acquire
11. Telephone Skills: How to Hang Up
12. Water Retention: Fact or Fat
13. Cooking I: Bringing Back the Bacon, Eggs and Butter
14. Compliments: Accepting Them Gracefully
15. PMS: Your Problem, Not His
16. Dancing: Why Men Don't Like To
17. Household Dust: A Harmless Natural Occurrence That Only Women Notice
18. Integrating Your Laundry: Washing It All Together
19. Oil and Gas: Your Car Needs Both.
20. TV Remotes: For Men Only ∞

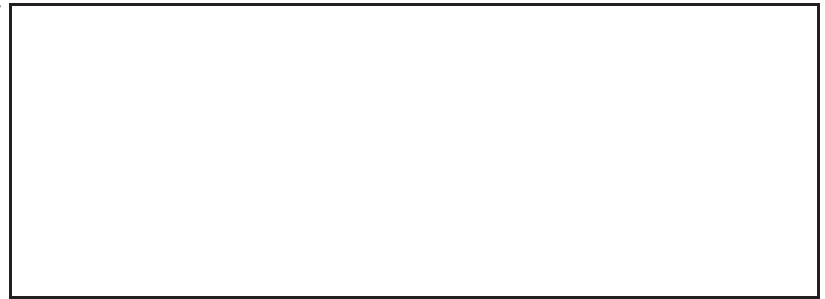
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Nation in Distress

The well-being of a baby  
does NOT justify the  
enslavement of a man.



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### Acknowledgments

My thanks to the following: Sir James the Bold; SantaClara Bob; Lady Jan the Voluptuous; Lord Jeffrey the Studious; and Sir Donald the Elusive.

—editor

### Blame

Original Source Unknown. Forwarded by Don G.

- If an employee at a restaurant cuts his finger off while slicing salami, he blames the restaurant.
- If you smoke three packs a day for 40 years and then die of lung cancer, your family blames the tobacco company. ∞

### Changing Times

Original Source Unknown.

Forwarded by Steve, of Fremont, California.

**Scenario:** Jack pulls into the school parking lot with a rifle in the gun rack of his pickup truck.

**1956:** Jack and the football coach go out to the parking lot at lunch and compare Jack's rifle to the coach's rifle. That's why Jack brought it to school. They decide to go hunting together.

**2006:** The school goes into emergency lock down. The FBI is called. Jack is hauled off to jail and never sees either his pickup truck or his rifle again. Counselors are called in for traumatized students and teachers. ∞

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—Sam Aurelius Milam III, editor

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