BANKING BLUNDER

C. Wayne Macleod

A plague stalks the world today, a plague caused by its banking system. The symptoms are: on-going inflation, increasing economic disparity, declining middle class, corruption in high places, exorbitant payouts, lessening democracy, crime, even wars. If allowed to continue we will eventually have a slave system of elites over humanity.

We should first examine its "fractional reserve" system, the system of America's Federal Reserve. Under this system a *fraction*, say of a $1,000 deposit, must be kept in reserve and the rest loaned, so if the fractional reserve is 10% then $100 is kept in reserve for people who might want to withdraw their deposits, and $900 loaned. But if that $900 is deposited in another bank, then 10% of that, or $90, must also be kept in reserve with $810 loaned, and so on. If taken to its extent this *system* (banks plus public) generates $900 + $810 + $729 + . . . = $9,000. That $9,000 was created "out of thin air" but in line with private enterprise when there are *many* competing banks, none receiving interest on the *totality* of the new money generated. If the system is monopolized with only *one* bank, then on the basis of that $1,000 the one bank does create, with the various exchanges between its branches and public, the extra $9,000, all from *debt*. Thus it is that if the system *in toto* were one bank that *monopoly* creation of money becomes a powerful force when privately owned, and that is what the Federal Reserve in effect is: a private monopoly cartel. It is a private business operating for the benefit of its shareholders, not a federal agency operating for the benefit of America's taxpaying citizens.

Similarly, when a $1,000 deposit is withdrawn the system *loses* $9,000 by the banks retracting the money supply the same as they generate it, and since there is both gain and loss the system would seem to be in balance. Or is it? Let's not forget that on that created $9,000 loaned to the public, *interest* must be paid. If the interest rate is 5%, that is $450 *more* than the system generated originally and not represented by the production of goods and services. Where does that extra $450 come from? There is only one way: it has to be *created* by the same system, and since it is new money unrepresented by increased production, it is *inflationary*. We often hear that when times are good inflation is inevitable. Here is the reason, but that reason will not be found in any standard economic text. Of course, there are also legitimate reasons for inflation, due to diminished supply such as from bad weather, but those generally are not systemic and can be remedied. It is when our dollar does not buy what it could ten years ago that we have reason to gripe. Obviously, the wealthy do not like inflation either, more so than average citizens, for the simple reason that on their loans with inflation they receive less value on their money when the loans are paid. But when inflation gets out of hand, as it is liable to in a *private* banking system (because of the interest motive), there is deliberate contraction of the money supply, which causes an economic *depression*. Here, then, is the reason for business cycles. What *can* be supported by our banking elite is *creeping* inflation caused by interest payments, and that is what we have had with our banking system over many past decades.

In the private capitalist system interest can be justified the same as rent. Whether rent is for an apartment, car, lawnmower, etc. or for the equivalent value in dollars, interest is like rent only on money. Actually, the fractional reserve system itself is not the major problem with our current system of banking, except that it exacerbates inflationary tendencies by the increased interest payed on the expanded money supply generated from debt. The real scam of the private banking system is on *public* debt, because government has no comparison with private individuals and businesses because it can levy taxes. Governments borrow funds by selling bonds in "Open Market Operations". The major players who buy those bonds are insurance companies, Big Business and the Federal Reserve, to whom by far the major part of the interest is paid, and paid to people who are already owners of wealth, meaning a transfer of wealth from taxpayers to wealth holders. It is all strictly in line with our private enterprise system, except in the case of government debt the interest paid is on the country's own money. That interest was $458.5 *billion* in fiscal year 2017 (U.S. Department of the Treasury, Bureau of the Fiscal Service). *The federal government does not need to borrow and pay interest at all!* Instead, public works can be financed directly from public treasuries. Instead of first borrowing money like businesses and households must do, highways, bridges, etc. can be financed directly with money immediately spent from government treasuries, without interest payments, but the big bug-a-boo in doing so is always that it would be inflationary. Yes, it would be - but remember: governments, unlike individuals and businesses, have the power of taxation. New money pumped into an economy can be withdrawn using taxes. If done in equal measure to production expenditure there need be no excess of money or scarcity of it (causing depression). The big advantage is that *there would be no public interest payment to private investors* by the federal government for public services.

That annual interest payment is huge, most going for military procurement that always requires financing by the federal government. War production itself is inherently inflationary because it is only made to be destroyed, but its financing is doubly attractive to private bankers who at times have felt loyalty only to their profit margins and have had no compunction to financing *both* sides of a conflict. *War is profitable*. The system *wants* conflict and Cold War. How else can super jet-fighters be justified? If the federal government wants those jet-fighters, which it always does, it must pay the interest cost for the Treasury bonds bought by the Federal Reserve to finance them. The taxpayer pays in three ways: the initial cost, the interest on that debt, and also in the usually caused inflation that in effect is a hidden tax. Since 1913 when the Federal Reserve was installed, the American dollar has lost over 95% of its value.

To reiterate, we might ask: what is the difference between the small investor or municipality buying and selling bonds compared to the federal government? Millions of people have bought bonds as an investment. Issuing bonds are the major way for municipalities to pay for schools, road repairs, etc. Why should the federal government not borrow too? This is the conflation of private expenditure with government expenditure and the justification for the current system. That borrowing is completely unjustified because the federal government *can legally create and destroy money through taxation*. So why does it have to borrow - and pay interest? The current American federal debt is over 21 *trillion* dollars! Interest payment is just rent on money. It is not represented by any production or services, and for that reason is inflationary. It is totally unnecessary because the federal government can pay its costs directly from the Treasury without that interest cost. Critics claim this would be inflationary, and it would be if the money created were not subtracted from the economy by taxes, and destroyed, which only the federal government can legally do. The irony is that the Federal Reserve buys Treasury bonds with *new* money. That is *created* money, the same as if the government did it directly - the argument given by critics of public financing to be inflationary.

In case public financing of public expenditure without an interest cost with its inflationary effect is thought Utopian, it is nothing new in the world. Canada had public financing between the years 1938 and 1974, and it was during those years that Canada financed its participation in World War II, built the Saint Lawrence Seaway, Trans Canada Highway and established hospitals and universities, all without inflation. Regardless of what we think about Nazi Germany, it was the first country to come out of the Great Depression by this system, unlike the U. S. that needed war to do so, and Germany experienced little inflation throughout the years of World War II. Abraham Lincoln did the same, who during the Civil War issued debt-free money known as *Greenbacks*. Speculation has been that this was the reason for his assassination, and of John F. Kennedy who also threatened to issue debt-free money.

With such power wielded by the creation of money, we must wonder if it is always used to benefit the country it vouches to serve. In 2018 the American banking system has resulted in repeated deficits, to a total current debt of over $21 *trillion*. That figure means every American currently owes about $61,900 in taxes to the federal government, amounting to approximately $161,000 per household. The public interest *alone* on that debt is now the federal government's second largest single expense, next to national defence. Nothing is produced by this interest payment, no salaries are paid, no welfare, no veteran or medical benefits. Many expenses further incurred are not paid by taxes but from selling government bonds, that is, by going further into debt. And the interest generated, which is the profit of the banks, is inflationary. If a banking cabal existed for the purpose of owning (and enslaving) an entire country, this would be a way of doing it.

We are perhaps fortunate in having the admission of an insider to such conspiracy, Carroll Quigley, a historian who wrote the epic but now banned book, “Tragedy and Hope” (1966). A member of the group himself, he admits the existence of a clandestine cabal with the means and desire to undermine America's real strength with excessive spending and unbalanced budgets. He reveals (page 950):

> *This myth, like all fables, does in fact have a modicum of truth. There does exist, and has existed for a generation, an international Anglophile network which operates, to some extent, in the way the radical Right believes the Communists act. In fact, this network, which we may identify as the Round Table Groups, has no aversion to cooperating with the Communists, or any other groups, and frequently does so. I know of the operation of this network because I have studied it for twenty years and was permitted for two years, in the early 1960's, to examine its papers and secret records.*

Quigley continues with information that the influence of the Round Table Groups was extended in various areas by front organizations, including in New York where it became known as the Council on Foreign Relations. Since the CFR origin the cabal has become integrated with the Rothschild financial empire, begun as early as the first meeting of the six men at Jekyll Island, 1910, who set up the Federal Reserve, with Paul Warburg being the major driving force behind that development. Warburg was nothing less than a Rothschild agent. J. P. Morgan, who later set up and financed the CFR, was a former employee of the Rothschilds in England. Morgan made buying influential American newspapers a deliberate policy so as to control their editorship.

The classic definition of monetary inflation is “too much money chasing too few goods.” If in a very simple economy there were 100 apples and $100, each apple would be worth $1.00. But if the money supply were doubled to $200, then each apple would be worth $2.00. That is monetary inflation. Note that it has nothing to do with apples; the doubling in price is due entirely to what happens to the money supply. If the 100 apples were increased to 200, the $1.00 price would be restored. Thus we see that the best cure for inflation is increased production. In a realistic economy the amount of money and goods should always be in aggregate balance, so with an increase in money there must be an increase in production for stability. An economy usually achieves this because investment of new money is offset by production.

The suggested alternative to any government decreed (fiat) system is minted gold or silver directly used as money or as backing for money, the reason being the stability of currency when backed by a scarce metal. There are examples in history of the stability given by precious metals to a currency, resulting in long term prosperity, one being the *solidus* of the Byzantine Empire that kept its value for 800 years without inflation. But this was due to the responsibleness of the Byzantine regulators and the strictness of laws governing counterfeiting. The Roman Empire was less fortunate, when wear from circulation, private hoards, clipping, etc. caused diminished gold supply. As a result, the emperors began adulterating Roman coins with cheaper alloy. Coins in European museums show that the *denarius* under Augustus was worth twenty cents, while a century after the death of Marcus Aurelius it was worth half a cent. Under Diocletian debasement of coinage became deliberate state policy, so there is noting intrinsic about gold or silver preventing inflation. That solely depends on the trustworthiness of people governing the system.

The essential defect of the Western banking system is its *private* ownership. When money *creation* is in private hands there will be temptation to create interest bearing loans in excess of the productive capacity of the economy, resulting in inflation followed by monetary restriction and depression. The most obvious remedy is to have a truly nationalist banking system creating a nation’s money supply in the method of *Greenbacks* during the Civil War. Money would be created by a federal agency and loaned at interest to private banks, which in turn would loan it to the public. Above all, federal government projects must be financed directly from national treasuries, therefore without the need of interest payments to private financiers on what is a nation’s own wealth. If kept in balance with goods and services, and remembering that the best cure for inflation is production, money creation would be based on production, not debt, which if carefully managed would reduce taxes, if not eliminate them entirely. None of this means that national financing for public expenditure requires a nationalized banking system; it simply means that the procurement of public goods and services would be paid for by public financing using the nation’s own money, not requiring that of private financiers resulting in the exorbitant flow of national wealth, via interest payments, to elites.