Greed and Scarcity of Money:

The Flaw of Our Monetary System

Money is like an iron ring that we have put through our noses. We have forgotten that "money" is our creation and we designed it in order to facilitate our economic transactions and well-being. Now our creation became our enslavement and the "fetish" of money is leading us everywhere.

I think it is time to figure out what monetary reform we should do amidst the cataclysmic financial and employment disaster that the present monetary system has caused to all advanced economies globally.

The design and implementation of our financial system encouraged the development of human self-interest and avarice to such a degree that a dozen high-powered financial institutions via obscene pursuit of profit maximization have destroyed it.

I believe that greed and unfair competition are not the result of an immutable human temperament. I have come to the conclusion that "Social Darwinism" that cultivates human greed and fear of scarcity are in fact being continuously created and amplified as a direct result of the monetary policy we are using.

We can produce more than enough food to feed everybody, and definitely to create enough work for everyone in the world, but there is clearly not enough money to pay up fully. This is the great staring paradox of the modern capitalist system: *starvation in the midst of plenty*.

We know that the reason why so many people are destitute is not because they can not produce the things which they need but because they do not have the money to buy them. Hence the scarcity is in our national currencies, is generated by our enforced monetary system. The job of central banks is to create and maintain that currency scarcity, under the pretext of fighting against inflation, that illusive statistical freak.[1] And the direct consequence of this policy is that "*we have to fight each other in order to survive.*"

Contrary to what many believe, the creation of money is done primarily by the banks when they provide loans by simply crediting the amount of the loan to the borrower's deposit account. The money is not taken from the deposit of another bank's customer. Nor it was previously paid to the bank by anyone. It is new money, created by the bank for the use of the borrower. The Federal Reserve of Chicago states on the subject of money creation:

> The actual process of money creation takes place primarily in banks. The process of money creation occurs when the proceeds of the loans made by the banks are credited to borrowers' accounts ... The banks do not really payout loans from the money they receive as deposits. What they do when they make loans is to accept promissory notes in exchange for credits to the borrowers' transaction accounts. The deposit credits constitute new additions to the total deposits of the banking system.[2]

Consequently, the *banks*' *loans are not recycled deposits of other customers*. They are deposit credits advanced against the borrowers' promise to pay. This is an astonishing revelation of a *gigantic public deception for over 300 years*, since the founding of the Bank of England in 1694.

But, "the study of money is the one in which complexity is used to disguise the truth or to evade truth, not to reveal it."[3] Much discussion of money involves a heavy overlay of priestly incantation which is deliberate. Those who talk about money and make their living by it, they cultivate the belief that they are in privileged association with the occult. This is a well established *form of fraud*. There is nothing about money that cannot be understood by a person of reasonable curiosity, diligence and intelligence. Particularly, in relation to the

[1] "Inflation is measured, or misrepresented to be accurate, at the wholesale level by the Producer Price Index (PPI) and at the consumer level by the Consumer Price Index (CPI). Both comprise a mix of goods and commodities (no services) spread across different industries, but half of the items are creatively adjusted in different ways, making the reliability of price measurements highly suspect... If the public realized the Fed was creating inflation instead of fighting it, they would scream bloody murder", Peter Schiff with John Dowes, *Crash Proof, How to Profit from the Coming Economic Collapse*, John Wiley, 2007, p.32, p.74.

[2] Federal Reserve of Chicago, "Modern Money Mechanics", 1963.

[3] John Kenneth Galbraith, *Money, Whence it Came, Where it Went*, Bantam Books, 1975, p.6

process of *money creation* by the banks which is "so simple that the mind is repelled."[4]

The mind is repelled because the process is "sleight of hand". It is so completely foreign to what we have been taught at school, universities and read in the misinformed press. It is mind blocking to comprehend that in our economic system *money is created by credit*, i.e. *debt*. Because money and debt are as opposite in nature as fire and water. Money extinguishes debt, as water extinguishes fire.

There is a phenomenon called "cognitive dissonance" where we can read the words and still doubt we have read them right. This is exactly what happens in our minds when we come across the notion of money creation. But to make sure that we have read it right, below is cited a statement by Graham Towers, for twenty years Governor of the Bank of Canada:

> Banks create money ... The manufacturing process to make money consists of making an entry in a book. That is all. Each and every time a bank makes a new loan new bank credit is created – brand new money.[5]

To help us dispel any possible doubts that a most astounding piece of sleight of hand is the *creation of money by private banks*, the following segment of a speech by Sir Joseph Stamp reveals much:

> The modern banking system manufactures money out of nothing. The process is perhaps the most outstanding piece of sleight of hand that was ever invented. *Banking was conceived in inequity and born in sin* ...Take this great power away from them and all great fortunes like mine will disappear, for then this would be a *better and happier world to live in* ... But if you want to be the *slaves of the bankers* and pay the cost of your slavery, then let bankers continue to create money and control credit.[6]

In fact the current monetary system is a profound "cruel hoax". When we wake up to that realization, our entire economic world view will need to be reordered, just

[4] ibid, p. 24

[5] Graham Towers, Governor of Bank of Canada from 1935-1955. Quoted in "Someone Has to Print the Nation's Money ... So Why Not Our Government? Monetary Reform Online, Victoria Times Colonist, October 16, 1996.

[6] Sir Joseph Stamp, Director of the Bank of England and the second richest man in Britain in the 1920s. From a speech at the University of Texas in 1927. Quoted in *Web of Debt,* Ellen Hodgson Brown, p.3, Third Millenium Press, 2007.

as physics was subject to reordering when man's world view changed with the realization that the earth is not stationary nor is it the center of the universe.

The hoax is that there is virtually *no real money in the system, only debts*. Except for coins, which constitute a negligible amount, the entire money supply consists of debt to private banks, for money they created with accounting entries on their books. It is all done by sleight of hand, and like a magicians trick, we have to see it many times before we realize what is going on.

Except for coins, the governments do not create money. Euro bills are created by the European Central Bank (ECB) located in Frankfurt. Tangible currency, coins and banknotes, together make about 3% of the money supply. The remaining 97% exists only as bookkeeping entries on the computer screens, and all of this electronic money is created by private banks of the country members of the European Union in the forms of loans.

Contrary to the popular belief as depicted earlier, the money that the banks lend is not recycled from pre-existing deposits. It is in essence a book-keeping entry to the bank's books due to the existing fractional reserve requirements system.[7] This bookkeeping entry is new money which did not exist until it was lent. Due to the importance of the above banking process which was concealed and distorted by the press and politicians in order to deceive the public we intend to be repetitious than to misinform. Hence we provide the following statement for thorough clarification and understanding. The process of unlearning, erasing false concepts that for so long captured our brain and imagination is indeed laborious,

> Banks do not lend the deposits they acquire. They lend by crediting the borrower's account with a new deposit... The accounts of other depositors remain intact and their deposits are fully available for withdrawal. Thus a bank loan increases the total of bank deposits, which means an increase in the money supply.[8]

[7] Because money is created so easily by the banks, only by a bookkeeping entry the central banks in order to prevent the banks from extending loans in excessive propensity, they instituted adequacy rules based on percentages. A bank must maintain legally required reserves, a) in the form of vault cash and b) in the form of deposit balances at its central bank equal to a prescribed percentage of its deposits. Currently the required reserve ratio for cash and deposit accounts is 8%, and savings and time deposits is about 3%. But these vary.

[8] William Hammel, "Money: What it is, How it Works", May 17, 2002.

In addition, another public misconception involves the relationship of inflation and governments "irresponsibility in printing too much money". This is far away from the truth. This is a myth. Creeping inflation is not caused by the government irresponsibly printing money. How is this possible to happen when the supply of money is not created by the government? The government does not create its own money. If it were, there would be no need to issue its public debt in the form of bonds or Treasury Bills and paying interest on them. If that would have been the case then probably the income tax would have been unnecessary. The private banks are creating the money supply through loans with interest. And when bank loans expand so does the money supply and this in turn causes inflation to increase.

As noted earlier, banks can build up deposits by increasing loans and investments on their own accounts so long as they keep enough currency on hand to redeem whatever amounts the holders of deposits want to convert into currency. This unique attribute of the banking business was discovered many centuries ago by the goldsmiths.

Specifically, what the goldsmiths discovered was that they could issue and lend paper receipts for the same gold many times over the amount of gold held in their vaults. This practice was feasible so long as they kept sufficient gold in "reserve" to redeem into gold whatever amounts the holders of the paper receipts wanted at any time. This mischief constitutes the "Genesis" of what came to be known as the *fractional reserve system* of our modern banking.

Thus the goldsmiths were the early bankers in the 17th century Europe where trade was conducted primarily in gold and silver coins. Yet these metal coins were difficult to transport in bulk and could be stolen. Hence, the goldsmiths initially provided safekeeping services, making a profit from vault storage fees for gold and coins deposited with them. In exchange they issued to the bearer paper receipts – Deposit Receipts- representing the value of gold and coins deposited.

These paper receipts which were not only redeemable into gold, but also traded broadly, were found by the merchants to be more convenient in use to purchase goods as a means of payment. Promptly, everyone was using them and they became known as *notes*, being acceptable as *money*, since whoever held them could go to the goldsmith-banker and exchange them with metallic money.

Eventually, the goldsmiths noticed that only 10% to 20% of their paper receipts were coming back for redemption in gold and coins at any one time. Thus they could safely "*lend*" with interest the gold in their vaults in amounts of 5 to 10 times over the value of their gold deposits. Hence, as long as they were careful not to over extend their loans and kept in vaults between 10% - 20% of the value of the precious metals held, in time they could become quite wealthy. And so they did. They typically issued notes with interest, receipts for loans of gold, and thus created "paper money" worth 5 to 10 times over the gold they actually held. At an interest rate of 10%, the same gold lent 10 times over, produced a 100% return annually, on gold the goldsmiths *did not actually own* and *could not legally lend*.

With the passage of time, the goldsmiths enriched themselves since more money was owed back to them due to the interest rate charges. Eventually the wealth possessed by the community people as a whole, the wealth of the town and finally of the country, was siphoned into the vaults of these goldsmiths-turned-bankers, while the majority of people fell progressively into their debt.[9]

Bernard Lietaer[10], who helped design the "euro", the single currency system, as a European central banker, explains below the interest rate problem which is of paramount importance in our monetary system,

> When a bank provides you with a $100,000 mortgage, it creates only the *principal*, which you spend and which circulates in the economy. The bank expects you to pay back $200,000 over the next 20 years, but it *doesn't* create the *second* $100,000 – *the interest*. Instead the bank sends you out into the tough world to battle against everybody else to bring back the second $100,000 ... Hence some have to *default* on their loans in order for others to get the money needed to pay off that *interest*.

This is the reason the decisions made by central banks are so important to the financial system, i.e. an increase in the interest rates automatically determines a larger number of bankruptcies. It follows that when the bank verifies your "creditworthiness", it is really checking whether you have the strength and

[9] *Web of Debt*, Ellen Hodgson Brown, Third Millennium Press, 2007, p.28
[10] An interview of Bernard Lietaer by Sarah van Gelder in "Beyond Greed and Scarcity" Yes! Magazine, Summer 1997.

capacity of competing and winning other indebted men or women. That is, if you are able to extract the second $100,000 that was never created. And if unfortunately you fail in that repugnant game, you lose your house or whatever other beloved item you had to place as collateral.[11]

The above revelation that the financial system we use has a major leakage in its foundations had profound implications. It constitutes the whole system highly unstable to shocks. The serious leakage which is caused by compound interest is very detrimental to the functioning of our monetary system because its monetary unit is entirely based on debt. The creation of money on borrowing at interest constitutes the financial system so vulnerable to crisis caused by either external or internal shocks.

The fundamental reason is that the system as a whole is always short of money. It is short of necessary funds to stop the leakage caused by the compound interest. If this ruinous leakage is not sealed quickly, not only somebody, but almost everybody will go broke in cataclysmic successive financial shocks until the system finally collapses. The one which we are painfully experiencing now is just a *vicious warning* since the system is not self-adjusting to an imaginary state of equilibrium as we were taught to believe. On the contrary it is *inherently* unstable. This is why, as of this writing, the foundations of the global capitalist system have melted down and within its debris the unbelievable amount of 33 trillion dollars in equity losses were found.

It is a tragic epilogue to an unfair and corrupt system based on extreme wealth inequality, fraudulent financial practices and outrageous deception. These are the symptoms of the last phase of unfettered capitalism. The music finally stopped in the grand game of musical chairs and the millions of debtors, broken men and

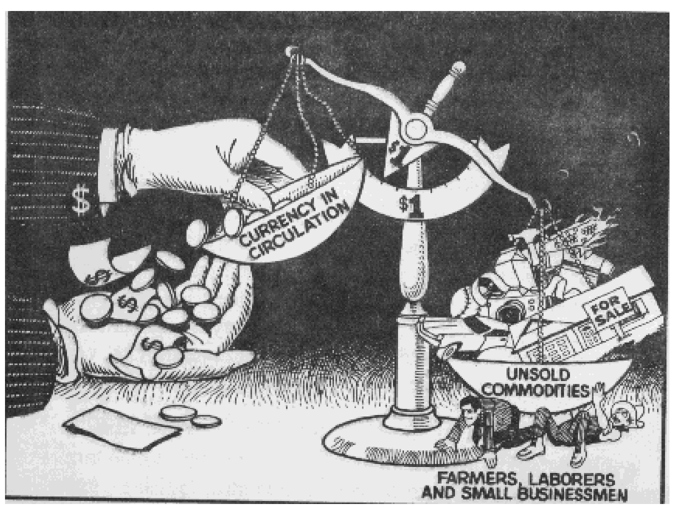
[11] This conclusion is derived through the application of the quantity of money equation, $M*V=P*Q$, where M is the money supply, V is the velocity of circulation of money, P is the general level of prices and Q is the physical output. Since V, is fairly constant and $P*Q$ corresponds to the value of money income, Y, the only way that foreclosures and bankruptcies to be avoided is, the growth of Y over time to be greater than the compound interest on borrowings. This is currently unattainable and rather unlikely to happen in the future. As the economies cannot be rescued by simply bailing out failed banks, the conditions most likely will deteriorate as we enter 2009. Hence Y will decline. The other possibility is the money supply M, to grow faster than compound interest on debt, a case which will toss the whole system into the air. Already the Fed has stopped reporting the broad aggregate of money supply, M3 due to chaotic financial conditions.

women, rushed to find not the chairs to be seated but the interest needed to pay back their loans. But in vain, there was not enough money around. Their houses were foreclosed and their loans in default.

For many broken and homeless people it was not their fault that they failed. The *financial system failed* because it had within it the seed of its own destruction. This is the existence of compound interest which makes it impossible to collectively perform in a monetary system that is always short of money.

As Keynes said “it needs more intelligence to defeat the forces of time and our ignorance of the future”[12]. After all, life is not long enough, why all these financial experts of the establishment inflicted such a catastrophic blow to so many millions of people and also self-destructing themselves? They knew that the system was leaking and was leaking badly, moving in instability from crisis to crisis in the last century. Why did they conceal it? It may be a foolish question, but I still have in mind the maxim:

Whom the Gods intend to destroy they first make them mad.



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[12] John Maynard Keynes, *The General Theory of Employment, Interest and Money*, December 1935, Harcourt Brace, p.157