



Forgive me for returning to money, the subject of an earlier essay. The current issue of sub-prime mortgages and the shaky global financial system demands attention. My special interest in semantics, led me to examine the meaning of 'money' and reach the conclusion that we need to understand better the nature of money and place it high on the political agenda.

For reasons you will find below, the media stifle any debate on this subject. Please accept this instead of robins, holly and snow, so that we may circumvent the censors.

**Before the age of glasnost, a group of Soviet citizens visiting the US, read newspapers and watched TV. Amazed to find a unanimous opinion on all big issues, they said: "In our country, to get that result we have a dictatorship, we imprison people, we tear out their fingernails. Here you have none of that. So what's your secret? How do you do it?"**

The Glasgow Media Group<sup>i</sup> and Media Lens<sup>ii</sup> help us to understand how. Edwards and Cromwell of Media Lens, while pointing to the extent of corporate influence over a press that also depends on advertisers for 75% of its revenues, they also remind us that the government appoints BBC's senior managers and ask:

**Has anything fundamentally changed since BBC founder Lord Reith wrote of the establishment: "They know they can trust us not to be really impartial"?<sup>iii</sup>**

Corporations do not need to imprison us or tear out our fingernails. We keep ourselves in line, once we have swallowed their myths, including the profound public misunderstanding of the meaning of 'money' and ignorance of the way the money system functions.

**MONEY:** if coins, notes and electronic equivalents do not connect reliably with reality, we cannot make reliable economic choices. Inflation illustrates this by blurring the value of money, a minor irritant but devastating now in Zimbabwe or in 1920s Germany and Austria.

OF COURSE, EVERYONE 'KNOWS' that inflation is caused by governments printing too much money, because, as EVERYONE 'KNOWS' governments create money. Ask your friends! (98% of my fairly sophisticated circle of acquaintances accept these statements as true.)

BUT those statements are FALSE, certainly in the case of all developed nations today.

The British government creates only about 3% of all new money; the private banks create the other 97%. In the US, the Federal Reserve, a private central bank, creates all new money. An aside on the Fed: in his historical account of the of the bankers' group behind its founding, Prof. Carroll Quigley says that for their efforts to succeed:

**... it was necessary to conceal, or even to mislead, both governments and people about the nature of money and its methods of operation.<sup>iv</sup>**

But how do banks create money? G F Towers governor Bank of Canada in the 1930s told us:

**... every time a bank makes a loan, new bank credit is created – new deposits – brand new money.**

The cheques for loans are deposited at the same or other banks that allow these records of debts to circulate and function as money, that is, to serve as a medium of exchange.

OF COURSE, EVERYONE 'KNOWS' how banks work: they lend only money that people have deposited for safekeeping. So what's Towers talking about? Banks don't *create* money.

Two more FALSE statements – exactly the myths we are encouraged to perpetuate!

The TRUTH: When you mortgage your house for £100,000, the bank needs only 10% of that in reserve. They conjure the rest out of thin air merely by writing in their ledger "*Mr. Smith owes us £100,000 and will pay it back over 20 years, meanwhile also PAYING INTEREST REGULARLY. If he doesn't we can seize his house, sell it and recover any remaining debt.*"

Most people are amazed by that conjuring trick of creating, out of thin air, debts that then circulate as though they were official money. J K Galbraith, the great economist, put it well:

**The process by which banks create money is so simple that the mind is repelled.**

The creation of money used to be the privilege of governments. Coins, notes but especially digital marks in computer files, cost much less to manufacture than the value they have when used to buy things. That extra value, called 'seigniorage', used to belong to the government (or sovereign) who could spend it into circulation on public works (or sometimes on royal palaces).

Given the right to make money out of nothing and lend it at interest, why not find every borrower you can? If possible, obtain collateral to cover your risk; if not, get others to bear the risk. Easy borrowing pushes up prices in the market (housing for example) and that reduces your risk in the short term; in the medium term, sell your loans in packages called Structured Investment Vehicles<sup>v</sup> to other institutions who then bear the risk; in the long term, if the bubble bursts, the government (alias, taxpayer) will step in to avoid the financial system collapsing. Of course, you can foreclose on the deal at any time when you are not being paid; sell the collateral, and use the proceeds to fill the original hole in thin air.

By ceding to private banks the power to create DEBTS that circulate among them as though they were official MONEY, governments lost most (97% in UK) of their power to support social and economic priorities with the seigniorage that justly should belong to us our governments. You can hear the note of triumph in the sound of a Rothschild's words:

**Permit me to issue and control the money of a nation and I care not who makes its laws.**

Today's UK housing market illustrates this well. The government could increase the housing stock to remove the imbalance that is forcing up prices beyond the reach of the majority if they still had the seigniorage they ceded to the banks. Instead, the banks by lending on property, often carelessly, are building an investment bubble that threatens the economy (as in Japan before their 1989/90 crash).

Compared with the banks the government is weak. Personally, I would prefer our democratically elected government to set priorities, especially having heard the then CEO of Barclays Bank, when asked about his responsibility to society, assert that he fully discharges his social responsibility by maximising returns to his shareholders (BBC Today programme).

Sir Josiah Stamp, Director of the Bank of England (1928-1941), then perhaps 2<sup>nd</sup> richest man in England, had the grace to warn us:

**Banking was conceived in iniquity and was born in sin. The bankers own the earth. Take it away from them, but leave them in power to create deposits, and with the flick of a pen they will create enough deposits to buy it back again. However take it away from them and all the great fortunes like mine will disappear, and they ought to disappear, for this would be a happier and better world to live in. But if you want to be the slaves of the banks and pay the cost of your own slavery then let bankers continue.**

How can we escape this modern form of slavery? First of all, we must recognise our captivity by seeing through the myths we are continually fed. We are not held in leg irons: instead, we are trapped in a net of words with twisted meanings. And, to reward our captors, we pay them interest.

Usury<sup>vi</sup> – the demand for payment of interest on borrowed money – used to be regarded as sinful by most world religions, and still is so in the case of Islam. The injustice of usury is stated thus:

**The privilege is to get paid for owning money, not for doing anything, not for risking anything.**

by the director of JAK a Swedish cooperative bank, that takes deposits and loans free of interest. If you take a JAK loan, you pay a small administrative cost but no interest. *However*, each month your payment to JAK is about the same as for a conventional loan. You pay off your debt, but instead of the interest other banks would pocket, that additional payment, except for a small administration fee, accumulates in your own savings account. Note: charging even simple interest is not essential for the honest conduct of the key banking service<sup>vii</sup> of lending money.

Money itself is only a means of signalling about the values of things. True wealth feeds us, keeps us warm and dry, transports us, and keeps us healthy, groomed, educated and entertained. Making money from money produces no real wealth but usurps the power to obtain true wealth from those who have produced it. "Money exists not by nature but by law." (Aristotle, *Ethics*)

Gold and silver are commodities that can function as a kind of money, an informal medium of exchange. Money tokens have no use without real wealth and rules or norms for their use. But food and shelter do have intrinsic value without gold, silver or law-based money tokens.

Unlike money, real wealth decays over time. You have to work to keep the land fertile, to repair machines, to maintain the population's skills from hairdressers to surgeons, from bakers to teachers, from footballers to violin virtuosos.

But financial wealth does not decay. It grows by compound interest. And how it grows! This was illustrated amusingly in the Millennium year:

**Had the Virgin Mary invested 1 Cent at baby Jesus' birth at 6% compounded annually ready for his return to earth, it would now be worth a mass of gold weighing about 200 trillion times the mass of the sun. Not compounded, it would now amount to about \$1.21.**

Only suckers work in the real economy and borrow at compound interest on credit cards! The tiny minority of super-rich who own most of the world's financial assets benefit most from interest.

Perhaps you follow, Polonius' advice in *Hamlet* - 'Neither a borrower nor a lender be.' – so you may think that the banks gather no compound interest from you? Then consider this:

Do you not buy food and clothes, drink water, use gas and electricity – in short, participate in normal economic life? Well, your suppliers or their suppliers borrow to purchase equipment and materials. Necessarily they add the interest they pay to the prices you pay.

It's rather like a privatised Value Added Tax that flows into the accounts of those with financial wealth. 80% of the population are net contributors; the second richest 10% break even; the richest 10% scoop the pool, but the richest 0.01% take by far the most<sup>viii</sup>.

I am revolted by the injustice of our monetary system, especially as it affects the poor in the poorest nations that are caught in debts that compound faster than they can be discharged by selling cheaply their raw materials and labour. (Let's not mention the off-shore banks through which their elites channel much of their development aid and income from national assets<sup>ix</sup>.)

**Worse still, as the engine of turbo-consumerism, debt is the driver of global warming:**

The banks create money as debt from nothing. (It takes a few computer keystrokes: no need even to manufacture coins and notes!) But the banks do not create any money to pay the interest they charge, so *there is never enough money to balance all the accounts.*

Hence the present money system is inherently unstable. It will crash unless the real economy is continually expanding. So producer-borrowers in the real economy have to fight each other to pay the interest or face bankruptcy. Producers must sell, sell, sell and we must buy, buy, buy, ripping down the forests, emptying the seas, guzzling fossil fuels to avoid a recession, while polluting the atmosphere enough to destroy many species, perhaps including ourselves.

It is up to us: we vote for the law-makers. We allowed our gullible or rather-too-easily-corrupted politicians to pass this system legally into existence. Some recognised the danger:

**If the American people ever allow the banks to control the issuance of their currency, first by inflation and then by deflation, the banks and the corporations that will grow up around them will deprive the people of all property until their children will wake up homeless on the continent their fathers occupied. I sincerely believe the banking institutions having the issuing power of money are more dangerous to liberty than standing armies.**

Thomas Jefferson (3<sup>rd</sup> President of the US)

**The Government should create, issue and circulate all the currency and credit needed to satisfy the spending power of the Government and the buying power of consumers. . . . The privilege of creating and issuing money is not only the supreme prerogative of government but it is the government's greatest creative opportunity.**

Abraham Lincoln (16<sup>th</sup> President of US, assassinated 1865)

Lincoln issued \$400m free of debt and interest. British disapproval was expressed in The Times:

**If that mischievous financial policy, which had its origin in the North American Republic, should become indurated down to a fixture, then that Government will furnish its own money without cost. It will pay off debts and be without a debt. It will have all the money necessary to carry on its commerce. It will become prosperous beyond precedent in th history of the civilized governments of the world. The brains and the wealth of all countries will go to North America. That government must be destroyed, or it will destroy every monarchy on the globe.**

Bankers continued their fight. Opposing them appears to have curtailed a few lives. Another President who was sworn in on 4<sup>th</sup> March 1881, said:

**Whosoever controls the volume of money in our country is absolute master of all industry and commerce . . . and when you realise that the whole system is very easily controlled one way or another, by a few powerful men at the top, you will not have to be told how periods of inflation and depression originate.**

James A Garfield (20<sup>th</sup> President of the US, assassinated on 19<sup>th</sup> November 1881)

In 1913, Woodrow Wilson (US President 1913-1921) passed the Federal Reserve Act, setting up the privately owned central bank that creates US money. He also *introduced Income Tax largely to pay interest on money borrowed by the government from the Fed*. Later he said:

**I am a most unhappy man. I have unthinkingly ruined my country. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation and all our activities are in the hands of a few men. We have come to be one of the worst ruled, one of the most completely controlled and dominated Governments in the civilised world no longer Government of free opinion, no longer Government by conviction and not a Government of the majority but a Government by the opinion and the duress of a small group of dominant men.**

More recently, J F Kennedy (35<sup>th</sup> President of the US) having, on 4<sup>th</sup> June 1963 made the Executive Order 11,110 restoring the government's power to create interest-free money and after issuing \$4,292,893,825 of it, was assassinated on 22<sup>nd</sup> November 1963 with President L B Johnson rescinding the order the following day.

IT MAKES YOU THINK!

Reform is simple: by 10% annual increments, gradually compel banks to hold 100% reserves against all loans until a bank making money out of thin air would be as criminal as any other counterfeiter. All official money would then be backed by the real wealth (social and economic infrastructure) it would be used to generate. Although no one would lose anything they *already* have, everyone would benefit from lower prices and from less financial stress; while advertising pressure on children and all of us would probably reduce greatly. The need for central banks to coax 'market sentiment' to avoid recession by delicately balancing interest rates would cease. We could still give the banks their annual c.£40 billion subsidy – if we vote for it.

The super-rich<sup>x</sup> would keep their already accumulated billions in their tax havens without their privatised VAT replenishing them; they would probably continue to pay little tax ("Only little people pay tax"<sup>xi</sup>) and continue to influence/bribe the political class as eagerly. But you can understand how keen they are to prevent debate that might threaten their future incomes.

For the sake of my health, I thank heaven I'm not a President of the US but only a retired professor of information management with an interest in the semantics of 'money'.

Enjoy the festive season! Keep out of debt. And if you aim for high office, and want to institute these reforms, then keep your mouth shut until they cannot stop you.

PLEASE DO READ SOME BETTER WRITERS<sup>xii</sup> THAN I AM.

Ronald (Isaac) Stamper

London, December 2007

<sup>i</sup> [www.glasgowmediagroup.org/](http://www.glasgowmediagroup.org/) (within Glasgow University Sociology Department)

<sup>ii</sup> [www.medialens.org](http://www.medialens.org)

<sup>iii</sup> David Edwards and David Cromwell, in *Guardians of Power The Myth of the Liberal Media*,

<sup>iv</sup> Quigley, Carroll, 1966, *Tragedy and Hope*, Macmillan, New York. (Hard to find. Macmillan quickly withdrew it from publication and have now destroyed the plates.)

<sup>v</sup> <http://GaryNorth.com/public/2637.cfm> (Do watch this hilarious sketch!)

<sup>vi</sup> Diwany, Tarek El, 2003, *The Problem with Interest*, Kreatoc Ltd, London

<sup>vii</sup> Kennedy, Margrit, 1995, *Interest and Inflation Free Money*, Seva International, Okemos, Michigan

<sup>viii</sup> Kennedy, *op. cit.*

<sup>ix</sup> Hiatt, Steven (Ed), 2007, *A Game As Old As Empire*, Berrett-Koehler, San Francisco

<sup>x</sup> Haseler, Stephen, 2000, *The Super-Rich*, Macmillan Press, Basingstoke, Hampshire.

<sup>xi</sup> Donald Trump, I believe.

<sup>xii</sup> For example: Shakespeare, R & P Challen, 2002, *Seven Steps to Justice*, New European Publications, London; Huber, J & J Robertson, 19??, *Creating New Money*, New Economics Foundation, London; Zarlenga, S A, 2002, *The Lost Science of Money*, American Monetary Institute, Valatie NY; Rowbotham, M, 1998, *The Grip of Death*, Jon Carpenter Publications. Charlbury, Oxfordshire; Lietaer, B, 2001, *The Future of Money*, Century, London; Daly, H E, *Beyond Growth*, Beacon, Boston Mass; Strange, S, 1998, *Mad Money*, University Press, Manchester.

There's also: [www.MoneyReformParty.org.uk](http://www.MoneyReformParty.org.uk) whom I thank for the Christmas Tree.