The Money Economy Is Not the Real Economy: "The Global Banking and Financial System is Fatally Flawed"

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Theme: Global Economy

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Money is the "nothing" that serves only to account for that which is available in the real economy; money is the "hole" that is defined by the "doughnut" of real goods and services. When pseudo-money can be created by fiat, apart from anything of real value, fraud, confusion, and madness ensue. — T. H. Greco, Jr.

The flawed money system

The global system of money, banking, and finance is fatally flawed. The symptoms of that, which have long been present in the form of recurrent cycles of price inflation and economic depression, and increasing indebtedness, have now become painfully obvious and acute.

By the application of various financial and political fixes the system has been propped up in stages to try to manage its ill effects and prevent the worst from happening.

Central bankers and politicians while falsely blamed the problems on labor shortages and workers' demands for higher wages, have tried to manage the adverse effects by means of interest rate manipulations, restriction or easing of credit, bank bailouts, and government spending on various programs, all of which tend to favor the corporations and wealthy class.

The debt bubble of the early 2000s which culminated in the "bust" of 2007-08 came close to bringing down the entire global financial house of cards. *The system has survived only by the application of unprecedented and extreme measures, and it continues to this day on life support.*

"Quantitative easing," bank bailouts, and central bank purchases of securities from the debt and equity markets have been desperate, last gasp measures to try to save this dysfunctional, destructive, and dying system. The inflation that resulted was initially confined to financial assets, particularly corporate stocks, as central banks intervened in the markets on the buying side which drive prices up. Then, with the massive bailouts and government handouts that were doled out during 2020 and 2021, and the accompanying lockdowns and forced closures of small businesses, price inflation shifted over to real estate prices, residential rents, commodities, and consumer goods and services. Central banks are now raising interest rates to try to compensate for that unprecedented inflation of the currency but they know that under this flawed money system they can only choose between inflation and depression. It is only a matter of deciding who will be forced to bear the greatest pain.

The great usury hoax

The world has been suffering for hundreds of years under a grand delusion and has been subjected to what I call "the great usury hoax." Usury is a word that is not much heard anymore because it calls attention to our greatest problem. When it **is**mentioned, it is said to mean the charging of "excessive" amounts of interest. But it takes only bit of research to discover the real meaning. When I embarked upon my own study decades ago I discovered a book by Sidney Homer and quoted it in my first book, *Money and Debt: A Solution to the Global Crisis.* As Homer described it, the Latin words from which these English words are derived are "usura" and "interisse." This is how he explained it:

> "The Latin noun "usura" means the "use" of anything, in this case, the use of borrowed capital; hence usury was the price paid for the use of money. The Latin verb "intereo" means "to be lost"; a substantive form "interisse" developed into the modern term "interest." Interest was not profit but loss. It was from exceptions to the canon law against usury that the medieval theory of interest slowly developed. Compensation for loans was not licit if it was a gain to the lender, but became licit if the compensation was not a net gain but reimbursement for loss or expense. The doctrine of intention was overriding." –A History of Interest Rates, Rutgers University Press, 1963.

Of course, ordinary people who seek to save money in this flawed system **do** suffer loss from the continual inflation that is caused by the usury that is built into the very foundation of the system when banks charge usury by lending into circulation money that they create money out of nothing. Thus, it appears that **all** interest may be justified, but banks are not people, and inflation is not a natural phenomenon but a result of the very "interest" that banks impose when they create money by lending it out.

Centralized money power

How did this system come about and why has it become so entrenched?

As I described in my book, The End of Money and the Future of Civilization, and going back at least as far as the founding of the Bank of England in 1694, both private bankers and the political authorities have found great advantage in it.

The bankers get a virtual legalized monopoly on the creation of exchange media (money), which they use to enrich themselves by charging usury when they lend money out; while central governments get to spend amounts of money that far exceed the revenues they receive from taxes and fees. This is clearly evident in the long trend of the massive accumulation of wealth in the hands of politicians, bankers and allied corporations, and the enormous growth of government debt of every country around the world.

As I've explained in my various books and presentations, the creation of fiat money by banks lending it at usury **causes debts to grow exponentially** with the passage of time. When private businesses and individuals are no longer able to take on additional debt, central governments that are not limited by their income from taxes and fees must take on the role of "borrower of last resort." That is why we see the explosion of government debt like that of the United States shown in the accompanying chart.

The last vestiges of budgetary restraint on federal government spending have been eliminated, along with any concern about what ordinary people really need and want. The results have been the ever-increasing centralization of power at the federal level, central planning of the economy, worsening price inflation, declining purchasing power of fiat money, increasing corporate ownership of real assets (especially residential real estate), zero or negative returns on people's savings, and increasing disparities of income and wealth. The only way this system can be perpetuated is by the complete elimination of any semblance of democratic government. As E. C. Riegel observed almost 80 years ago:

> *"Society is in the twilight of a passing day. The state now undertakes to finance the economy, and, since a free economy is manifestly impossible where the state assumes the responsibility of supplying the money circulation, the politician is compelled to choose between fascism and communism."* – *Private Enterprise Money*, 1944

The great disconnect

This concentration of power and wealth enables banks to allocate money to those sectors of the economy that further favor the interests of politicians, bankers, and corporatists, and emergence of a "super class" that will own and control virtually everything. In the process, sound principles of money creation that would be necessary in competitive markets, have been largely shunted aside and the connections between the money economy and the real economy, which have long been tenuous, have now been almost completely severed. When those who control banks and governments can create quasi-money out of nothing without any real value basis and allocate it selectively to advance their own narrow political and economic agendas, you know that the end is near. The system is doomed and it is just a question of how will it end, how long it will take, and who will suffer the most from its demise? The super class knows this and they are already taking steps to preserve their wealth and power and to leave the rest of us holding an empty bag of financial promises, while they make plans to replace it with a new system that will remain under their control and perpetuate their privilege.

Whether the emerging government is communist or fascist, it will be despotic and totalitarian, and it will be global. The globalization of banking, finance, economics, and politics, and the development of information and communications technologies have emboldened the global elite to make their big move to achieve total control. The "Great Reset" and "New World Order" are being promoted as the answer to the multi-dimensional mega-crisis that now threatens our civilization, but the vast majority of people will have no say about the specifics of these programs.

The great reconnect

Still, I am optimistic and confident that the old system will ultimately give way to new, more sustainable and equitable systems under popular control, a process that must begin with the emergence of parallel systems of exchange and finance that enable us to circumvent, and eventually replace, the centrally-controlled, usury-based money system. Although barely noticeable, that process has been underway for a long time at the micro level of communities and small businesses where community currency experiments have been popping up around the world, along with a surge in commercial trade exchanges that enable businesses to buy and sell from one another without fiat money by offsetting their purchases against their sales.

Unlike political fiat money which is forced on people through "legal tender" laws, the acceptance of private currency in the market is voluntary. "Private money/currency" must therefore be "honest money/currency." It must therefore be a credible promise of being redeemable for some real goods and services. In other words, it must be connected to the "real economy." Salmon P. Chase, as Chief Justice of the Supreme Court under President Abraham Lincoln, had this to say about forced circulation of currency: "The legal tender quality [of money] is only valuable for the purposes of dishonesty."

Now, the changing geopolitical circumstances are also stimulating major changes at the macro level of national governments and global trade. The connection between the real economy and the money economy must be inherent in any honest and sustainable system of money and finance. The creation of sound exchange media (money) requires that money be **spent** into circulation by trusted producers of real valuable goods and services that are available in the market and ready to be delivered in the near-term. Money, then, is a mere place-holder for real economic value; as a credible promise it will be widely accepted as a form of payment.

The Banker's and Politician's Last Gasp, and the Great Monetary Reset

While the past several decades have seen the emergence of many successful approaches to decentralized control of credit through private currencies and independent commercial credit clearing circles, economic and financial corporatization and globalization have overwhelmed their impact and placed ever tighter control into the hands of the elite class who have used their money power as a weapon of class warfare. The Breton Woods monetary agreement that was established toward the end of World War II made the US dollar the world's reserve currency and allowed the US and its various allies to dominate and control the machinery of money and finance. But with the breakdown of that agreement and the increasing application of financial and economic sanctions against rivals who challenge the western unipolar world order, we now see that some countries, notably China and Russia, are taking independent action to protect their own currencies, economies, and security interests.

These countries are moving to back their currencies with real commodities as Alasdair Macleod describes in his recent article The Commodity Currency Revolution, and in this YouTube interview Commodity-Backed Currencies to Challenge Dollar Yen & Euro?. This phenomenal shift is further elucidated in other sources, including David Stockman's Monetary Madness Among the Central Bankers, and Alastair Crooke's post about the decline of the western financial system and the US dollar as the world reserve currency. The latter makes the point that "… the financial war on Russia gave the West an unmistakable lesson from Moscow that the hardest currencies are not USD or EUR, but rather oil, gas, wheat, and gold. Yes, energy, food and strategic resources *are currencies* [in the real economy]."

Another sobering thesis is being articulated by Dr. Tim Morgan at his website Surplus Energy

Economics, in which he argues that, "the economy is an energy system, *not* a financial one," and that, "The *concept of limits* is replacing the paradigm of 'infinite growth.'" He rightly points out that, ***"What lies ahead is a process of adjustment – we might call it realignment – to the new reality of an economy in which the scope for expansion is constrained by limits, both to energy value and to environmental tolerance."*** Morgan's economic model, which he calls Surplus Energy Economics Data System [*SEEDS*], is based on the idea that continual economic growth has been possible only through the availability of the surplus energy that comes from fossil fuels. But that surplus, which is the amount of energy obtained minus the amount of energy needed to extract it, is continuing to decline, and that fact suggests that the enormous waste of resources spent on cheap non-durable, non-repairable, and non-recyclable products and weapons of war must be phased out.

This shift toward commodity backed national currencies, while not a total solution to the money problem, is a positive step toward reconnecting the means of payment to real economic value.

This will eventually lead also to the emergence of a new standard of value against which the value of currencies, as well as goods and services, can be measured, not only against one another on foreign exchange markets, but more objectively against the value of real goods and services. That standard will not be gold, as it was in the past, but a wide assortment, or "market basket," of useful commodities like the commodity standard I've been proposing for more than 40 years. History shows that, as exchange systems evolve, credit instruments become the primary payment media because the quantity of credit money is able to expand and contract in step with economic activity and the actual supplies of goods and services. Then, the selected standard commodities serve only as the measure of value and unit of account to quantify credit obligations.

Just as happened in the past with gold, I expect the commodities in a standard "basket" will serve as a new measure of value, but payments will be made using credit instruments and the credit clearing process, with perhaps, occasional settlement of residual account balances by the transfer of actual commodities. As I've repeatedly explained in my books and articles, it is crucial that these credit currencies be **spent** into circulation on the basis of an adequate real value foundation and without interest charges.

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