Reform of the US Monetary System: Message of 12 Year Old Victoria Grant

Out of the Mouths of Babes: Twelve-Year-Old Money Reformer Tops a Million Views

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The youtube video of 12 year old Victoria Grant speaking at the Public Banking in America conference last month has gone viral, topping a million views on various websites.

Monetary reform—the contention that governments, not banks, should create and lend a nation's money—has rarely even made the news, so this is a first. Either the times they are a-changin', or Victoria managed to frame the message in a way that was so simple and clear that even a child could understand it.

Basically, her message was that banks create money "out of thin air" and lend it to people and governments at interest. If governments borrowed from their own banks, they could keep the interest and save a lot of money for the taxpayers.

She said her own country of Canada actually did this, from 1939 to 1974. During that time, the government's debt was low and sustainable, and it funded all sorts of remarkable things. Only when the government switched to borrowing privately did it acquire a crippling national debt.

Borrowing privately means selling bonds at market rates of interest (which in Canada quickly shot up to 22%), and the money for these bonds is ultimately created by private banks. For the latter point, Victoria quoted Graham Towers, head of the Bank of Canada for the first twenty years of its history. He said:

> Each and every time a bank makes a loan, new bank credit is created — new deposits — brand new money. Broadly speaking, all new money comes out of a Bank in the form of loans. As loans are debts, then under the present system all money is debt.

Towers was asked, "Will you tell me why a government with power to create money, should give that power away to a private monopoly, and then borrow that which parliament can create itself, back at interest, to the point of national bankruptcy?" He replied, "If Parliament wants to change the form of operating the banking system, then certainly that is within the power of Parliament."

In other words, said Victoria, "If the Canadian government needs money, they can borrow it directly from the Bank of Canada. The people would then pay fair taxes to repay the Bank of Canada. This tax money would in turn get injected back into the economic infrastructure and the debt would be wiped out. Canadians would again prosper with real money as the foundation of our economic structure and not debt money. Regarding the debt money owed to the private banks such as the Royal Bank, we would simply have the Bank of Canada print the money owing, hand it over to the private banks, and then clear the debt to the Bank of Canada."

Problem solved; case closed.

But critics said, "Not so fast." Victoria might be charming, but she was naïve.

One critic was William Watson, writing in the Canadian newspaper *The National Post* in an article titled "No, Victoria, There Is No Money Monster." Interestingly, he did not deny Victoria's contention that "When you take out a mortgage, the bank creates the money by clicking on a key and generating 'fake money out of thin air.'" Watson acknowledged:

> Well, yes, that's true of any "fractional-reserve" banking system. Even before they were regulated, even before there was a Bank of Canada, banks understood they didn't have to keep reserves equal to the total amount of money they'd lent out: They could count on most depositors most of the time not showing up to take out their money all at once. Which means, as any introduction to monetary economics will tell you, banks can indeed "create" money.

What he disputed was that the Canadian government's monster debt was the result of paying high interest rates to banks. Rather, he said:

> We have a big public debt because, starting in the early 1970s and continuing for three full decades, our governments spent more on all sorts of things, including interest, than they collected in taxes. . . . The problem was the idea, still widely popular, from the Greek parliament to the streets of Montreal, that governments needn't pay their bills.

That contention is countered, however, by the Canadian government's own Auditor General (the nation's top accountant, who reviews the government's books). In 1993, the Auditor General noted in his annual report:

> [The] cost of borrowing and its compounding effect have a significant impact on Canada's annual deficits. From Confederation up to 1991-92, the federal government accumulated a net debt of $423 billion. Of this, $37 billion represents the accumulated shortfall in meeting the cost of government programs since Confederation. The remainder, $386 billion, represents the amount the government has borrowed to service the debt created by previous annual shortfalls.

In other words, *91% of the debt consists of compounded interest charges*. Subtract those and the government would have a debt of only C$37 billion, very low and sustainable, just as it was before 1974.

Mr. Watson's final argument was that borrowing from the government's own bank would be inflationary. He wrote:

> Victoria's solution is that instead of paying market rates the government should borrow directly from the Bank of Canada and pay only token rates of interest. Because the government owns the bank, the tax revenues it raises in order to pay that interest would then somehow be injected directly back into the economy. In other words, money literally printed to cover the government's deficit would be put into circulation. But how is that not inflationary?

Let's see. The government can borrow money that ultimately comes from private banks, which admittedly create it out of thin air, and soak the taxpayers for a whopping interest bill; or it can borrow from its own bank, which also creates the money out of thin air, and avoid the interest.

Even a 12 year old can see how this argument is going to come out.

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