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Restoring National Sovereignty with A Truly National Banking System

Reviewing Ellen Brown's "Web of Debt:" Part VI

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Global Research, May 23, 2009
23 May 2009

Region: USA
Theme: Global Economy

This is the sixth and final article on Ellen Brown's superb 2007 book titled "Web of Debt," now updated in a December 2008 third edition. It tells "the shocking truth about our money system, (how it) trapped us in debt, and how we can break free." This article focuses on establishing a people-oriented banking system. It's high time we had one and reclaimed what's rightfully ours.

Restoring National Sovereignty with A Truly National Banking System

One serving everyone, not powerful moneychangers alone, the so-called Money Trust cartel of Wall Street bankers looting the national wealth for themselves and heading the country for bankruptcy, tyranny and ruin. Stopping them is Job One, and only mass activist outrage can do it.

At the Chicago Democratic National Convention, William Jennings Bryan won the nomination saying:

"(W)e believe that the right to coin money and issue money is a function of government….I stand with Jefferson (and say), as he did, that the issue of money is a function of the government and that banks should go out of the governing business….(W)hen we have restored the money of the Constitution, all other necessary reforms will be possible, and….until that is done there is no reform that can be accomplished."

No Fed existed at that time. If one did and operated like today, Bryan would have said abolish it or make it truly federal. As a US government agency, money created would go directly to the Treasury. But that's only 3% of the money supply. What about the other 97% in the form of commercial loans? Would that put government in the commercial lending business?

"Perhaps, but why not. As Bryan said, banking is the government's business, by Constitutional mandate" – at least the part of it involved in creating new money. The rest could be in private hands, like today – through banks and other financial institutions, such as finance companies, pension and mutual funds, insurance companies, and securities dealers. "These institutions do not create the money they lend but merely recycle pre-existing funds." With government printing money, banks would become more equitable recyclers – "borrowing money at a low rate and lending it at a higher one," except for one downside. Some would go bankrupt, but start-ups would replace them under a more stable and equitable system.

In 1946, the Bank of England was nationalized in name only and retained its (privately-controlled) money printing power. In 2003, James Robertson and John Bunzl proposed changing it their book titled: "Monetary Reform: Making It Happen." They advocated making it illegal for banks to create new money as loans. Only a central bank should do it with commercial banks having to borrow it for relending.

Government officials, however, balked at the idea saying the nation would be harmed as banks would go broke having been stripped of their "credit multiplier" capacity – the British version of fractional reserve lending. London banks are second only to Wall Street so rather than risk this fate they'd likely relocate "en masse to the Continent" and force the British economy to collapse.

In the 1940s, Representative Jerry Voorhis proposed a similar plan to Congress called "the 100 Percent Reserve Solution," his idea being "to require banks to establish 100 percent reserve backing for their deposits" – done by borrowing from the Treasury to supply what they needed.

In "The Lost Science of Money," Stephen Zarlenga wrote:

"With this elegant plan, all the bank credit money the banks have created out of thin air, through fractional reserve banking, would be transformed into US government legal tender – real, honest money." True enough but at a cost so great that (in 1946) it launched Richard Nixon's political career with a vicious red-baiting campaign accusing Voorhis of Communist Party links.

His plan was later revived but never enacted into law. One of its advocates is Zarlenga's American Monetary Institute. It drafted an American Monetary Act to eliminate fractional reserve banking and impose a 100% reserve requirement on all demand deposits, making them unavailable to loan and only for "a (fee-based) warehousing and transferring service." The Fed would be incorporated into the Treasury with the government solely authorized to create new money – to be circulated inflation and deflation-free for purposes such as: infrastructure development, education, health care, job creation, financing local economies, and funding government at all levels. For their part, banks would function traditionally – as intermediaries for deposits loaned out to borrowers.

A Monetary Reform Act goes further by requiring:

— 100% reserve requirement on all bank deposits, including savings; deposits wouldn't be counted as reserves against which to make loans; they'd be held in trust solely for their depositors' use;

— banks servicing depositors could only lend their own money; and

— doing it with depositors' funds would require they establish separate institutions, not called banks.

If Congress reclaims its money-creation power, banks will have to maintain 100% reserve requirements (available for withdrawals), to "avoid the electronic duplication that is the source of" money supply growth today. It would require them to raise enough money to "fund" all outstanding loans. "The 'credits' (or loans then) become 'deposits' that represent 'liabilities' of the banks, money (they) owe to the depositors." It would be secured (by borrowing) around $6 trillion or more in real money, not the fictitious kind they create today.

In turn, they'd have to raise interest rates, pay depositors less, operate on thinner margins, and likely drive customers to more competitive non-bank institutions, already controlling 80% of the market.

In December 2006, William Hummel proposed an alternative in an article titled "A Plan for Monetary Reform" under which banks could sell their existing loans to investors with ready cash if the federal debt was paid off by monitizing it with government-issued currency. Federal bond holders would need a new home for their savings with a rate of return making up for what they lost. Investment funds would likely create new vehicles for it. They could buy bank loans with investors' money and bundle them as securities for resale with interest.

Selling the loans would let banks avoid incurring substantial new debt to meet the new 100% reserve requirement. Bank "balance sheets could be wiped clean and they could start fresh with new loans" – operating traditionally by borrowing low and lending higher. However, these new limitations could prove harmful, "imposing an unfair burden on unsuspecting shareholders, warranting some equitable division of the sale proceeds in compensation."

Consider also that if these type restrictions existed, banks "would have little incentive to service the depository needs of the public." A solution would be to transfer its "depository role to a system of (nationwide) bank branches acting as one entity under the (government-run) Federal Reserve." In other words, a government-run public utility.

It would make the Fed "the sole depository and only its branches would be called 'banks.' " Others would close down or become private financial institutions in whatever form they'd choose.

Robert Guttman explains that basic banking is fairly simple – to provide a safe place to store money and transfer it to others. A government agency could handle it easily. It did earlier through the US Postal System (until shut down in 1967) and can do it again.

With the restoration of traditional banks, servicing credit cards would also have to be addressed as banks might be unable to do it. One solution would be to turn credit extension "over to a system of truly national banks (authorized to operate with) the 'full faith and credit of the United States' as agents of Congress," newly empowered to create money. In addition, government banks wouldn't be profit driven enough to charge exorbitant rates. They'd be "reasonable, predictable and fixed."

Consider also that old banks (namely existing branches) could be bought to become government-run ones, or if insolvent banking giants were nationalized, their branches alone might do the job. The FDIC could hire new management or have existing ones operate under new guidelines. The difference would be that interest would accrue to the government (and the) 'full faith and credit of the United States' would become an asset of the" country.

There's one other limitation as well – 100% reserve requirements would restrict money growth so it would have to expand to meet demand by other means. One way in a system with no federal debt or interest is to let consumer debt be self-regulated as under the LETS system in which “money is created whenever someone pays someone else with ‘credits,’ and it is liquidated when the outstanding credits are used up.”

Nationwide, “money would come into existence when it was borrowed from the community-owned bank, (then) extinguished as the loans were repaid.” It’s no different than how money is created now except that communities, not bankers (siphoning off interest in windfall profits), will do it. None of the above systems are perfect, but they’re far better than the current corrupted one benefitting bankers, not people.

The Question of Interest – Solving the “Impossible Contract” Problem

Money controlled by banks only creates the “principle and not the interest” to repay loans. Governments, on the other hand, can “not only lend but spend money into the economy, covering the interest shortfall and keeping the money supply in balance.”

However, “returning all the interest collected on loans to the government would require nationalizing” all forms of lending at interest, including banks. In the real world, a semi-private, semi-public system might work better as follows:

— governments would create money and be its initial lender;

— private financial institutions, including banks, “would recycle this money as loans;”

— they’d still earn interest, but not as much;

— as a result, the money supply would need to expand to cover it, but not as much as now; and

— overall it would expand proportionally to demand keeping inflation contained.

Vilified today as socialism, it’s the very system colonists used successfully to jump-start the country, make it grow, and do it without taxes or inflation. Franklin and Jefferson championed it. So did Jackson, Lincoln, and perhaps Kennedy later on.

Early 20th century Australia’s Commonwealth Bank created money, made loans, and collected interest at a fraction of what private bankers charged. It worked well enough for the country to have one of the highest standards of living in the world at that time. Once private banks printed money, Australia became heavily indebted, and its living standard fell to a 23rd place ranking.

In the 1930s, the Fed printed money. However, FDR empowered the Reconstruction Finance Corporation to provide plenty of cheap credit to build infrastructure, create jobs, and provide emergency loans to states. The US Postal Savings System, Small Business Administration (SBA), Fannie and Freddie initially worked the same way outside the private banking system.

After being privatized, these mortgage lenders became corrupted, then bankrupt proving government can be the solution, not the problem, and a cheaper, more efficient one besides. From her own experience as Assistant HUD Secretary, Catherine Austin Fitts states:

"The public policy 'solution' has been to outsource government functions to make them more productive. In fact, this jump in overhead (simply subsidizes) private companies and organizations….regardless of (their) performance. (The scheme) make(s) no sense except for the property managers and owners who build and manage it for layers of fees."

It's the same argument used against privatized health care as opposed to cheaper, more efficient universal coverage leaving out insurer middlemen, letting government buy drugs at lower cost, and still leaving lifelong, high quality, comprehensive, and affordable choices in consumers' hands. It's a system begging to be instituted but won't be under Obama.

Once again, fear of big government is misguided. It should protect and serve everyone equally – impossible with the Money Trust running it, the way it works now with bankers creating money and extracting the national wealth for themselves.

Masquerading as "free enterprise today is a system in which giant corporate monopolies (use) their affiliated banking trusts to generate unlimited funds to buy up competitors, the media, and the government itself, forcing truly independent private enterprise out" – the very system Adam Smith and other classical economists abhorred.

Private banks have America and most other nations by the throat. They force governments to pay interest on their own money as well as "advance massive loans to their affiliated cartels and hedge funds, which use the money to raid competitors and manipulate markets." Its Darwinism in the extreme giving power brokers the right to choose who survives and who doesn't with ordinary people faring worst of all.

The solution is "publicly-operated police, courts and laws to keep corporate predators at bay" under a nationalized banking system, creating its own money, and serving people, not bankers – a truly equitable, sustainable, efficient and democratic system freed from parasitic financiers.

Beating the Robber Barons at Their Own Game

Using accepted business practices, the Rockefellers, Morgans, Carnegies, and Vanderbilts et al "deprived their competitors of property" by buying it on the open market through takeovers. Their "slight of hand" was how they funded them – through their own affiliated banks able to create money out of thin air, the same way it's done today for even larger stakes.

What banking cartels can do, so can governments – but through a much smaller, fairer and more efficient nationalized banking system operating as a public utility. Private financial institutions could still recycle loans but in the way described above.

Another choice would be for government to buy out all banks – a more equitable but unnecessary choice even though it would be quite affordable with the power to create money. What better time than now given the gravity of today's economic crisis leaving world economies close to collapse.

According to Murray Rothbard, the entire commercial banking system is bankrupt. It belongs in receivership and their managements jailed for embezzlement. Taxpayers would save a lot of money, and nations would be on the road to recovery and prosperity.

One observer says too-big-to-fail banks are already stealth nationalized since taxpayer bailouts stand ready whenever they get in trouble – the idea being that costs are socialized and profits privatized, a process begging to be halted. Taxpayer-supported banks “can and should be made public institutions operated for the benefit of” everyone. Given that major banks today are corrupted and bankrupt, now is the time to do it – not as a temporary measure but irrevocably under a totally restructured system.

The Quick Fix – Government that Pays for Itself

How much newly created government money would be inflation free? Could income and other taxes be eliminated? Would it “avoid the ‘impossible contract’ problem by furnishing the money necessary to cover the interest (not) advanced in commercial loans?”

If government and not banks created money, the amount needed would be less – “without cutting government programs or adding to a burgeoning federal debt.” Inflation would be avoided and income taxes eliminated without sacrificing growth and prosperity in proportion to a larger population. More people would be employed as well compared to over 20% out of work today according to economist John Williams when all excluded and distorted categories are included.

Imagine an inflation-tax-free economy with enough government-created money for health care, education, infrastructure development, other productive growth, environmental cleanup, scientific research, development of alternative energy sources, and much more. It would be utopian compared to today’s unsustainable system devouring people for profits and heading world economies for ruin.

Under today’s “impossible contract” system, 99% of the money supply is borrowed, all at interest to lenders. It means more of it is owed back in principle and interest than was borrowed. The money supply must continue to expand to keep up and prices along with it. The latter could be avoided if a proportional amount of goods and services are created, not at all the case in America with growing amounts of manufacturing offshored under a financialized economy paying tribute to bankers – “for lending money they never had to lend” in the first place.

Roger Langrick solves the “impossible contract” this way: let government “issue enough new money to match the outstanding collective interest bill of the nation” even though it’s prohibitive at around $500 billion annually for government debt service alone. Today’s public and private debt comes to many tens of trillions so servicing that burden is staggering, yet innovative solutions may handle it, and once done, a brighter tomorrow awaits.

Ending Third World Debt

Today most of it is held by giant US-based banks like Citigroup and JP Morgan Chase. If they’re placed in receivership, the “US government could declare a ‘Day of Jubilee’ ” of debt forgiveness, and if done, it “would not be an entirely selfless act.” For America to pay off its international debt, it needs all the goodwill it can get. Forgiving other debts would encourage our creditors to forgive ours as world nations have no interest in seeing major economies collapse. What affects one, harms others.

"Our shiny new monetary scheme, rather than appearing to be a slight of hand, could unveil itself as a millennial model for showering abundance everywhere" for the mutual benefit of everyone. It's simple to do – just void out debts on banks' books with a click of a mouse. "No depositors or creditors would lose money, because (none) advanced their own money in the original loans." They were created out of thin air through accounting entries. On banking financial statements, they're liabilities because accounting rules say books must balance.

Once old debts are gone, new ones can be avoided by stabilizing national currencies to prevent devaluation by speculators. Bretton Woods protected against this. A new system is now needed, one that "retains the virtues of the gold standard while overcoming its limitations."

One now in use is to peg currencies to the dollar but with it comes loss of flexibility to compete in international markets or be able to budget enough for domestic needs – with a fixed money supply. Argentina's "currency board" in the 1990s forced its eventual bankruptcy in 1995 and again in 2001 as earlier mentioned.

A global currency is another proposal – one that creates more problems than it solves. The world "is not one nation or one region," and who's to be boss and in charge. Further, if all governments issued the same currency, "the global money supply (would be) vulnerable to irresponsible governments (issuing) too much." Strong ones would end up dominating the weak, and national sovereignty would be weakened, perhaps ended. A "fully dollarized" world is a prescription for trouble enough to make scarcity "the order of the day."

Rather than one currency, "a single global yardstick" is needed "against which governments can value their currencies – some independent measure (by) which merchants can negotiate their contracts and be sure of getting what they bargained for." How to do it is the question?

A New Bretton Woods

Michael Rowbotham picked up on John Maynard Keynes idea of pegging currencies to a basket of commodities, calling it "a profoundly democratic idea." He states:

"Today, wheat grown in one country may, due to a devalued currency, cost a fraction of wheat grown in another. This leads to (cheap wheat producers) becoming (heavy exporters) regardless of need, or the capacity to produce better quality wheat in other locations. In addition, currency values can change dramatically and the situation can reverse. Critically, such wheat 'prices' bear no relation to genuine comparative advantage of climate, soil type, geography and even less to indigenous/local/regional needs." Nor does it stabilize production in relation to need. By "imputing value to a nation's produce, and allowing this to determine the value of (its) currency, one is imputing value to its resources, its labourers and acknowledging its own needs."

An international trade unit could be established based on a basket of commodities representative enough to fend off speculators – just a "yardstick for pegging currencies and negotiating contracts." Exchange rates would be fixed everywhere but not forever. Changes would "reflect the national market for real goods and services," not currencies. They'd be "no room for speculation or hedging."

Various proposals involve "private international currency exchanges, but the same (type) reference unit (could) stabilize exchange rates among official national currencies." One calls for:

— a new fixed exchange rate system;

— a treaty banning speculation in derivatives;

— canceling or reorganizing international debt; and

— having governments issue enough "credit" to create full employment, then used for technical innovation and infrastructure development.

The plan is for exchange rates to be "based on an international unit of account pegged against the price of an agreed-upon basket of hard commodities."

Other plans are around as well, all stressing the same idea – "the urgent need for change" because the current system is corrupted and broken.

How then to stabilize national currencies? "The simplest and most comprehensive....international currency yardstick (measure) seems to be the Consumer Price Index....modified to reflect" real consumer expenditures, not the quantity of currencies traded in international markets by speculators. Henceforth, currencies "would just be coupons for units of value recognized globally" – stable enough for "commercial traders (to) 'bank' on them."

National currencies "would become what (they) should have been all along – (contracts) or promise(s) to return value in goods and services of a certain worth, as measured against a universally recognized yardstick for determining value."

Government without Taxes or Debt

Only a "radical shift in our concepts of money and banking will save us from the cement wall looming ahead" – an abyss otherwise named. Letting bankers hold "an illusory sum of gold," to be multiplied many times over by fractional reserve alchemy, entraps everyone in debt bondage. "The result was a (giant) Ponzi scheme that has pumped the global money supply into a gigantic credit bubble" now imploding.

Everything of value is at risk, including our futures and that of our loved ones – unless we can reverse the corrupted system entrapping us, and think of the benefits: expanded government services and prosperity, inflation and tax free.

Today's "web of debt" is based on fraud, deceit, and manipulative sleights of hand, including:

— fractional reserve alchemy – pure hocus-pocus witchcraft hokum;

— the gold standard of an earlier time letting bankers dangerously inflate the money supply "on the same gold reserves;"

— the private banking cartel Federal Reserve owned by major banks in each of 12 Fed districts empowered to create money and charge the government, business, and individuals interest on it – the result being everyone put in permanent debt bondage to world-class predators;

— the federal debt and money supply; both continually expand under a highly inflationary scheme;

— the federal income tax to pay interest to bankers;

— the FDIC and IMF to ensure mega-banks get bailed out no matter what unwarranted risks they take; the IMF is also a sort of knee-cap breaking enforcer for the monied interests – extracting multiple pounds of flesh in as part of a giant extortion racket;

— a "free market" for those who own it under a corrupted, manipulated system of socialized risks and privatized profits, enforced by the Pentagon's long arm;

— the Plunge Protection Team (PPT) and Counterparty Risk Management Policy Group (CRMPG) – created to rig and manipulate markets along with colluding Wall Street bankers bailed out whenever they get in trouble; the notion that markets move randomly is rubbish – about as real as the tooth fairy or Mother Goose;

— "floating" exchange rates – for more manipulation and collusion in international currency markets;

— short selling – for speculators in all type assets; when used against currencies, it can artificially force them down enough to cause economic havoc the way it was done to Asian Tiger countries in 1997 and many others as well;

— "globalization" and "free trade" – a predatory system benefitting America and the West under WTO rules; countries also become vulnerable to speculative assaults when their currencies are convertible and economies opened to "free trade;"

— inflation myths – money creation isn't the problem; speculative currency attacks force destructive devaluations, meaning prices rise as a result; American inflation is "caused by private banks inflating the money supply with debt," not by printing money; also by productive growth not keeping up;

— the "business cycle" – responsible financial managements produce stable prosperity; when irresponsibly done by a private banking cartel, booms and busts result; it's an unnatural "monetary scheme in which money comes into existence as a debt to private banks for 'reserves' of something lent many times over;"

— the home mortgage boondoggle – monetizing home mortgages today creates most money; borrowers think they're using "pre-existing funds, when the bank is just turning one's promise to pay into an 'asset' secured by real property;" when paid off, the interest usually exceeds the original loan, and in cases of default, banks seize the homes;

— the housing bubble – it was caused by easy credit in the 1990s and post-2000 by an irresponsible Fed and Wall Street bankers' plan, including massive fraud like issuing up to 10 mortgages on a single home when its owner had only one;

— adjustable rate mortgages (ARMs) – affecting about half of all US ones, it was a scam through subprime lending and low "teaser" rates, later ratcheted to unaffordable levels and catching buyers unawares;

— the secret bankruptcy of banks – they gambled hugely on risky derivatives and housing loans, far afield from traditional banking of borrowing low and lending higher for modest, stable profits; the result – all major banks are insolvent with only government bailouts keeping them afloat;

— "vulture capitalism" and derivatives – the former amounts to predatory banks and hedge funds "buying out shareholders and bleeding businesses of profits, using loans of 'phantom money' created on a computer screen" out of thin air; the latter turned banks into casinos making huge bets that went sour; and

— moral hazard, once called the "Greenspan put;" substitute Bernanke and Geithner now for the maestro of misery; it lets banking giants take outsized risks knowing bailout backups await any that go sour.

Conclusion – private commercial banking practices are corrupted, destructive and obsolete, and vulture capitalist investment banks are parasites on productivity, serving their interests at public expense. Congress should and must either close down insolvent banks or put them in receivership as step one. Then "claim them as public assets, and operate them as agencies serving" public depository and credit needs.

The federal debt is another problem – at "its mathematical limits, (it's) forcing another paradigm shift if the economy is to survive." We have a choice: let a debt-based house of cards collapse or have it be a wake-up call for radical change. Again, imagine the possibilities:

— ending personal income taxes and stimulating stable economic growth at the same time;

— eliminating the federal debt entrapping us and future generations in permanent bondage;

— returning money creation power to the government as the Constitution mandates with a cornucopia of benefits to follow;

— strengthening universal Social Security for everyone in place of disappearing private pensions;

— fostering stable, inflation-free prosperity with no booms and busts;

— keeping borrowing costs fair and affordable, not subject to private bank manipulation; and

— ending destructive currency devaluations and economic warfare for private gain; with stable exchange rates, the "dollar becomes self-sustaining, and the United States and other countries become self-reliant," free from foreign creditors and one-way market rules benefitting the strong over the weak.

Impossible? Only for non-believers, but it won't happen magically. It's for organized people to challenge organized money enough for government to reclaim its money creation power.

Nothing short of a populist revolution for radical change is needed – bubbling up from the grassroots to an unstoppable force. "Reviving the 'American system' of government-issued money" would return us to our colonial roots, and like Dorothy in the Wizard of Oz, "we the people would finally have come home."

More on that topic in a follow-up article.

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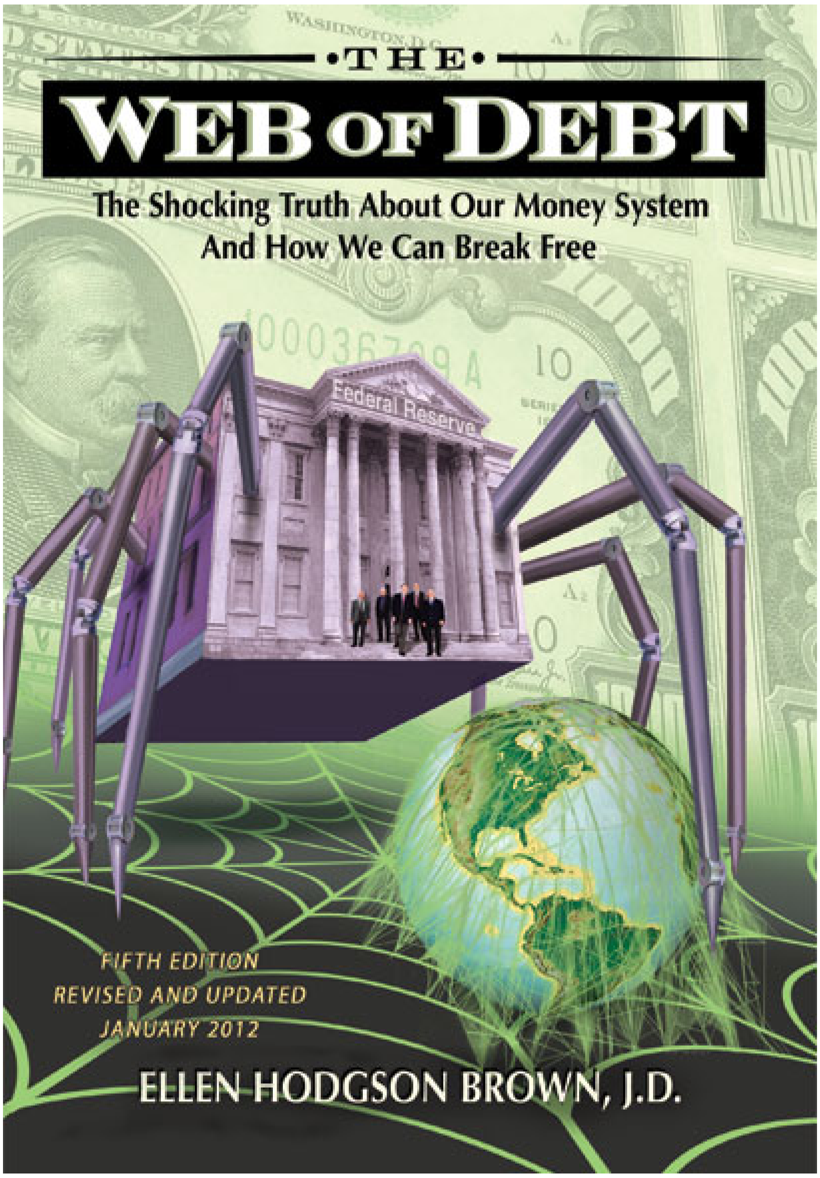

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