The Dollar Crisis? Nine Mind-Blowing Facts About Money, Debt Default and Reserve Currencies

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Theme: Global Economy

China Invented *Every Form* of Money

China:

- Invented every single major form of currency, including paper money and fiat currency not backed by any tangible commodities
- Seized gold six centuries before Franklin Roosevelt, in order to prop up its fiat currency and prevent runaway inflation

Debt Forgiveness Is The *Basis* of Modern Civilization

Religions were *founded* on the concept of debt forgiveness.

For example, Matthew 6:12 says:

> And forgive us our debts, as we forgive our debtors.

Periodic times of debt forgiveness – or debt "jubilees" – were a basic part of the early Jewish and Christian religions, as well as Babylonian culture.

David Graeber, author of "Debt: The First 5,000 Years" told Democracy Now:

> If you look at the history of world religions, of social movements what you find is for much of world history what is sacred is not debt, but the ability to make debt disappear to forgive it and that's where concepts of redemption originally come from.

Ambrose Evans-Pritchard wrote in 2009:

> In the end, the only way out of all this global debt may prove to be a Biblical debt Jubilee.

Indeed, the first recorded word for "freedom" in any human language is the word for freedom from *debt*.

(Moreover, there is a long-standing legal principle that people should not have to repay their government's debt to the extent that it is incurred to launch aggressive wars or to oppress the people … what is called "odious debt").

The *Real* Reason Money Was Created?

Everyone was taught that money was invented to replace the messy business of barter. It's hard work walking my cow all the way to your village to trade for firewood … and then carrying all of that firewood back home. And what if no one *wants* my cow?

But economist Charles Goodhart – a former member of the Bank of England's Monetary Policy Committee – anthropologist David Graeber, and other experts on the history of money say that this is a myth. (Bloomberg has written on this issue.) Instead, they say that money was invented to finance war, and to keep score while armies went about pillaging and looting.

(We're not vouching for their theory, or saying that money is inherently bad. We just think it's interesting that there are alternatives to the "cumbersome barter" theory.)

Lifespan of Currencies

The average life expectancy for a fiat currency is less than 40 years.

But what about "reserve currencies", like the U.S. dollar?

JP Morgan noted last year that "reserve currencies" have a limited shelf-life:

As the table shows, U.S. reserve status has already lasted as long as Portugal and the Netherland's reigns.

Will the dollar last as long as Spain, France or Britain's reserve currencies? It's impossible to know.

But given that the dollar's reserve status has been slipping away for many years – and that the European Union (the world's largest economy) has now entered into a currency swap agreement with China – the dollar's reign may only have a couple of years left.

Big Banks Are Not Really In the *Banking* Business

Everyone thinks of banks as holding our deposits safe, and extending loans based upon the amount of deposits they hold in their vaults.

This is no longer true.

The big banks currently do very little traditional banking. Most of their business is from financial *speculation* (which, sadly, metastasizes into manipulation and criminal behavior).

For example, ***less than 10%*** of Bank of America's assets come from traditional banking deposits.

Time Magazine gave some historical perspective in 1993:

> What would happen to the U.S. economy if all its commercial banks suddenly closed their doors? Throughout most of American history, the answer would have been a disaster of epic proportions, akin to the Depression wrought by the chain-reaction bank failures in the early 1930s. But [today] the startling answer is that a shutdown by banks might be far from cataclysmic.
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> ***
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> Who really needs banks these days? Hardly anyone, it turns out. While banks once dominated business lending, today nearly 80% of all such loans come from nonbank lenders like life insurers, brokerage firms and finance companies. Banks used to be the only source of money in town. Now businesses and individuals can write checks on their insurance companies, get a loan from a pension fund, and deposit paychecks in a money-market account with a brokerage firm. "It is possible for banks to die and still have a vibrant economy," says Edward Furash, a Washington banks consultant.

Indeed, even though the taxpayers have thrown trillions of dollars at the "too big to fail" banks, they largely stopped loaning to Main street … and it was only the *smaller* banks that kept making loans.

Inequality Today In America Is Worse than In Ancient *Slave-Owning* Societies

Inequality is much worse than you think …

Indeed, inequality in America today is twice as bad as in ancient Rome, worse than it was in Tsarist Russia, Gilded Age America, modern Egypt, Tunisia or Yemen, many banana republics in Latin America, and worse than experienced by slaves in 1774 colonial America.

Quantitative Easing *Hurts* the Economy

81.5% of all money created through quantitative easing is sitting there gathering dust … instead of helping the economy.

Indeed, quantitative easing actually *hurts* the economy, Main Street, and the average American.

Yes, The U.S. *Has* Defaulted

It is widely stated that the U.S. government has never defaulted. In reality, the U.S. has partially or fully defaulted on *numerous* occasions.

***How* Money Is Really Created**

Banks create money out of thin air, without regard to whether or not they have deposits on hand.

This sounds like an outrageous statement … but the Federal Reserve has said as much.

For example, a 1960s Chicago Federal Reserve Bank booklet entitled "Modern Money Mechanics" said:

> [Banks] do not really pay out loans from the money they receive as deposits. If they did this, no additional money would be created. What they do when they make loans is to accept promissory notes in exchange for credits to the borrowers' transaction accounts.

Economist Steve Keen notes:

> As long as 4 decades ago, the actual situation was put very simply by the then Senior Vice President, Federal Reserve Bank of New York, Alan Holmes. Holmes explained why the then faddish Monetarist policy of controlling inflation by controlling the growth of Base Money had failed, saying that it suffered from "a naive assumption" that:
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>> The banking system only expands loans after the [Federal Reserve] System (or market factors) have put reserves in the banking system. **In the real world, banks extend credit, creating deposits in the process, and look for the reserves later**. The question then becomes one of whether and how the Federal Reserve will accommodate the demand for reserves. In the very short run, the Federal Reserve has little or no choice about accommodating that demand; over time, its influence can obviously be felt. (Alan R. Holmes, 1969, p. 73; emphasis added)

Moreover:

(1) William C. Dudley, President and Chief Executive Officer of the Federal Reserve Bank of New York, said in a speech in July 2009:

> Based on how monetary policy has been conducted for several decades, banks have always had the ability to expand credit whenever they like. They don't need a pile of "dry tinder" in the form of excess reserves to do so. That is because the Federal Reserve has committed itself to supply sufficient reserves to keep the fed funds rate at its target. If banks want to expand credit and that drives up the demand for reserves, the Fed automatically meets that demand in its conduct of monetary policy. In terms of the ability to expand credit rapidly, it makes no difference.

(2) On February 10, 2010, Ben Bernanke proposed the elimination of **all** reserve requirements:

> The Federal Reserve believes it is possible that, ultimately, its operating framework will allow the elimination of minimum reserve requirements, which impose costs and distortions on the banking system.

Under the current fractional reserve banking system, banks can loan out many times reserves. But even that system is being turned into a virtually *infinite* printing press for banks.

Germany's central bank – the Deutsche Bundesbank (German for German Federal Bank) – has also admitted in writing that banks create credit out of thin air.

Steve Keen points out that 2 Nobel-prize winning economists have shown that the assumption that reserves are created from excess deposits is not true:

> The model of money creation that Obama's economic advisers have sold him was shown to be empirically false over three decades ago.
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> The first economist to establish this was the American Post Keynesian economist Basil Moore, but similar results were found by two of the staunchest neoclassical economists, **Nobel Prize winners Kydland and Prescott** in a 1990 paper Real Facts and a Monetary Myth.
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> Looking at the timing of economic variables, they found that credit money was created about 4 periods before government money. However, the "money multiplier" model argues that government money is created first to bolster bank reserves, and then credit money is created afterwards by the process of banks lending out their increased reserves.
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> Kydland and Prescott observed at the end of their paper that:
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> Introducing money and credit into growth theory in a way that accounts for the cyclical behavior of monetary as well as real aggregates is an important open problem in economics.

In other words, if the conventional view that excess reserves (stemming either from customer deposits or government infusions of money) lead to increased lending were correct, then Kydland and Prescott would have found that credit is extended by the banks (i.e. loaned out to customers) after the banks received infusions of money from the government. Instead, they found that the extension of credit preceded the receipt of government monies.

Indeed, Keen says that 25 years of research proves that creation of debt by banks precedes creation of government money, and that debt money is created first and precedes creation of credit money.

This angle of the banking system has actually been discussed for many years by leading experts:

"The process by which banks create money is so simple that the mind is repelled."
– Economist John Kenneth Galbraith

"[W]hen a bank makes a loan, it simply adds to the borrower's deposit account in the bank by the amount of the loan. *The money is not taken from anyone else's deposit; it was not previously paid in to the bank by anyone. It's new money, created by the bank for the use of the borrower.*"
– Robert B. Anderson, Secretary of the Treasury under Eisenhower, in an interview reported in the August 31, 1959 issue of *U.S. News and World Report*

"Do private banks issue money today? Yes. Although banks no longer have the right to issue bank notes, they can create money in the form of bank deposits when they lend money to businesses, or buy securities. . . . The important thing to remember is that when banks lend money *they don't necessarily take it from anyone else to lend. Thus they 'create' it*."

-Congressman Wright Patman, Money Facts (House Committee on Banking and Currency, 1964)

"*The modern banking system manufactures money out of nothing.* The process is perhaps the most astounding piece of sleight of hand that was ever invented."
– Sir Josiah Stamp, president of the Bank of England and the second richest man in Britain in the 1920s.

> "Banks create money. That is what they are for. . . . 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 loan . . . new Bank credit is created — brand new money." – Graham Towers, Governor of the Bank of Canada from 1935 to 1955.

Additionally, in First National Bank v. Daly (often referred to as the "Credit River" case) the court found that the bank created money "out of thin air":

> [The president of the First National Bank of Montgomery] admitted that all of the money or credit which was used as a consideration [for the mortgage loan given to the defendant] was created upon their books, that this was standard banking practice exercised by their bank in combination with the Federal Reserve Bank of Minneaopolis, another private bank, further that he knew of no United States statute or law that gave the Plaintiff [bank] the authority to do this.

The court also held:

> The money and credit first came into existence when they [the bank] created it.

(Here's the case file).

Justice courts are just local courts, and not as powerful or prestigious as state supreme courts, for example. And it was not a judge, but a justice of the peace who made the decision.

But what is important is that the president of the First National Bank of Montgomery apparently admitted that his bank created money by simply making an entry in its book ….

Moreover, although it is counter-intuitive, virtually all money is actually created as debt. For example, in a hearing held on September 30, 1941 in the House Committee on Banking and Currency, then-Chairman of the Federal Reserve (Mariner S. Eccles) said:

That is what our money system is. If there were no debts in our money system, there wouldn't be any money.

Robert H. Hemphill, Credit Manager of the Federal Reserve Bank of Atlanta, said:

> If all the bank loans were paid, no one could have a bank deposit, and there would not be a dollar of coin or currency in circulation. This is a staggering

> thought. We are completely dependent on the commercial Banks. Someone has to borrow every dollar we have in circulation, cash or credit. If the Banks create ample synthetic money we are prosperous; if not, we starve. We are absolutely without a permanent money system. When one gets a complete grasp of the picture, the tragic absurdity of our hopeless position is almost incredible, but there it is. It is the most important subject intelligent persons can investigate and reflect upon. It is so important that our present civilization may collapse unless it becomes widely understood and the defects remedied very soon.

(Former Fed chairman Alan Greenspan was so worried that the U.S. would pay off it's debt – causing the fed to "lose control of monetary policy" – that he suggested tax cuts for the wealthy for the purpose of *increasing* the debt.)

There is a growing movement to give the power to create money and credit back to the government, so that the people can save many billions of dollars in interest payments to the big banks.

But the giant banks are close to negotiating a secret trade treaty which would allow them to keep their monopoly on money creation.

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