

# The Money Changers Serenade: A New Bankers' Plot to Steal Your Deposits

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Global Research, November 22, 2013

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Region: [USA](#)

Theme: [Global Economy](#)

Former Treasury Secretary Timothy Geithner, a protege of Treasury Secretaries Rubin and Summers, has received his reward for continuing the Rubin-Summers-Paulson policy of supporting the “banks too big to fail” at the expense of the economy and American people. For his service to the handful of gigantic banks, whose existence attests to the fact that the Anti-Trust Act is a dead-letter law, Geithner has been appointed president and managing director of the private equity firm, Warburg Pincus and is on his way to his fortune.

A Warburg in-law financed Woodrow Wilson’s presidential campaign. Part of the reward was Wilson’s appointment of Paul Warburg to the first Federal Reserve Board. The symbiotic relationship between presidents and bankers has continued ever since. The same small clique continues to wield financial power. Geithner’s career is illustrative. In the 1980s, Geithner worked for Kissinger Associates. In the mid to late 1990s, Geithner served as a deputy assistant Treasury secretary. Under Rubin and Summers he moved up to undersecretary of the Treasury. From the Treasury he went to the Council on Foreign Relations and from there to the International Monetary Fund (IMF). From there he was appointed president of the Federal Reserve Bank of New York, where he worked to make banks more profitable by allowing higher ratios of debt to capital, thus contributing to the financial crisis.

Geithner arranged the sale of the failed Wall Street firm of Bear Stearns, helped with the taxpayer bailout of AIG, and rejected saving Lehman Brothers from bankruptcy in order to create the crisis atmosphere needed to more fully subordinate US economic policy to the needs of the few large banks.

Rubin, a 26-year veteran of Goldman Sachs, was rewarded by Citibank for his service to the banks while Treasury Secretary with a \$50 million compensation package in 2008 and \$126,000,000 between 1999 and 2009.

When a person becomes a Treasury official it is made clear that the choice is between serving the banks and becoming rich or trying to serve the public and becoming poor. Few make the latter choice.

As Michael Hudson has informed us, the goal of the financial sector has always been to convert all income, from corporate profits to government tax revenues, to the service of debt. From the bankers standpoint, the more debt the richer the bankers. Rubin, Summers, Paulson, Geithner, and now banker Treasury Secretary Jack Lew faithfully serve this goal.

The Federal Reserve describes its policy of Quantitative Easing — the creation of new money with which the Fed purchases Treasury debt and mortgage backed securities — as a low interest rate policy in order to stimulate employment and economic growth. Economists

and the financial media have parroted this cover story.

In contrast, I have exposed QE as a scheme for pumping profits into the banks and boosting their balance sheets. The real purpose of QE is to drive up the prices of the debt-related derivatives on the banks' books, thus keeping the banks with solvent balance sheets.

Writing in the Wall Street Journal ("Confessions of a Quantitative Easer," November 11, 2013), Andrew Huszar confirms my explanation to be the correct one. Huszar is the Federal Reserve official who implemented the policy of QE. He resigned when he realized that the real purposes of QE was to drive up the prices of the banks' holdings of debt instruments, to provide the banks with trillions of dollars at zero cost with which to lend and speculate, and to provide the banks with "fat commissions from brokering most of the Fed's QE transactions." (See: [www.paulcraigroberts.org](http://www.paulcraigroberts.org))

This vast con game remains unrecognized by Congress and the public. At the IMF Research Conference on November 8, 2013, former Treasury Secretary Larry Summers presented a plan to expand the con game.

Summers says that it is not enough merely to give the banks interest free money. More should be done for the banks. Instead of being paid interest on their bank deposits, people should be penalized for keeping their money in banks instead of spending it.

To sell this new rip-off scheme, Summers has conjured up an explanation based on the crude and discredited Keynesianism of the 1940s that explained the Great Depression as a problem caused by too much savings. Instead of spending their money, people hoarded it, thus causing aggregate demand and employment to fall.

Summers says that today the problem of too much saving has reappeared. The centerpiece of his argument is "the natural interest rate," defined as the interest rate at which full employment is established by the equality of saving with investment. If people save more than investors invest, the saved money will not find its way back into the economy, and output and employment will fall.

Summers notes that despite a zero real rate of interest, there is still substantial unemployment. In other words, not even a zero rate of interest can reduce saving to the level of investment, thus frustrating a full employment recovery. Summers concludes that the natural rate of interest has become negative and is stuck below zero.

How to fix this? The way to fix it, Summers says, is to charge people for saving money. To avoid the charges, people would spend the money, thus reducing savings to the level of investment and restoring full employment.

Summers acknowledges that the problem with his solution is that people would take their money out of banks and hoard it in cash holdings. In other words, the cash form of money provides consumers with a freedom to save that holds down consumption and prevents full employment.

Summers has a fix for this: eliminate the freedom by imposing a cashless society where the only money is electronic. As electronic money cannot be hoarded except in bank deposits, penalties can be imposed that force unproductive savings into consumption.

Summers' scheme, of course, is a harebrained one. With governments running huge deficits,

who would purchase bonds at negative interest rates? How would pension and retirement funds operate? Would they also be subject to an annual percentage confiscation?

We know that the response of consumers to the long term decline in real median family income, to the loss of jobs from labor arbitrage across national borders (jobs offshoring), to rising homelessness, to cuts in the social safety net, to the transformation of their full time jobs to part time jobs (employers' response to Obamacare), has been to reduce their savings rate. Indeed, few have any savings at all. The US personal saving rate is currently 2 percentage points, about 30%, below the long term average. Retired people, unable to earn any interest on their savings from the Fed's zero interest rate policy, are being forced to draw down their savings in order to pay their bills.

Moreover, it is unclear whether the savings rate is an accurate measure or merely a residual of other calculations. With so many people having to draw down their savings, I wouldn't be surprised if an accurate measure showed the personal savings rate to be negative.

But for Summers, the plight of the consumer is not the problem. The problem is the profits of the banks. Summers has the solution, and the establishment, including Paul Krugman, is applauding it. Once the economy officially turns down again, watch out.

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