



# **A Deep Dive into Money and Banking**

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# I. Beginnning at the beginning.

## Where does money come from?

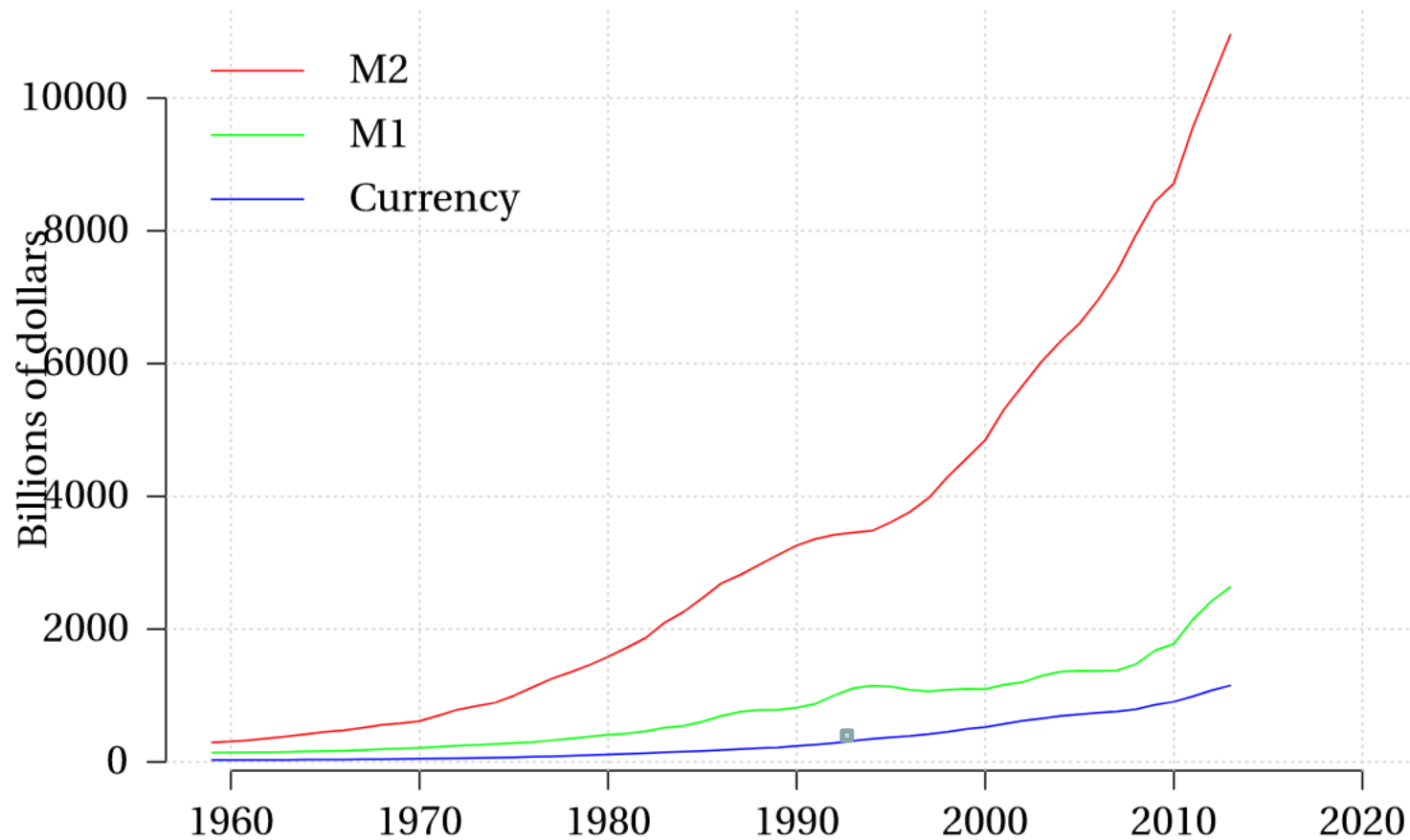


From the government, right?



Not really ...

### Components of the US monetary supply

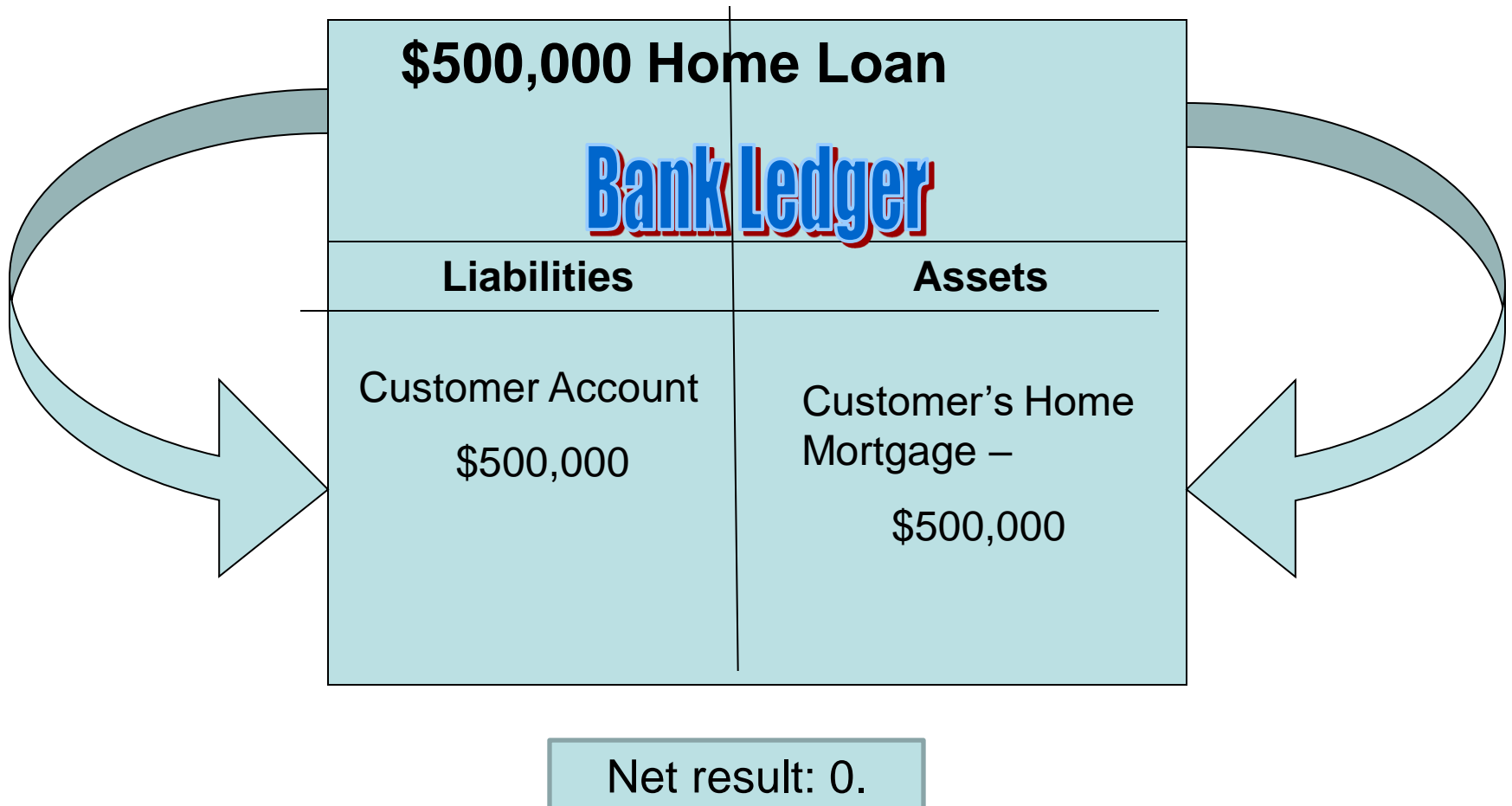


## Per the Bank of England --.

“[B]anks do not act simply as intermediaries, lending out deposits that savers place with them .... **Commercial banks create money, in the form of bank deposits, by making new loans**.... [B]ank deposits make up ... 97% of the amount [of money] currently in circulation.”

- *‘Money creation in the modern economy’, Quarterly Bulletin, 2014 Q1, **Bank of England.***

# How they do it: The magic of double-entry bookkeeping.



# Banking alchemy

- Bank A creates \$500K loan =
  - \$500K check =
  - \$500K deposit in Bank B
- Bank B creates \$500K loan =
  - \$500K check =
  - \$500K deposit in Bank A



\$1 million created; both banks' books balance



# What's wrong with this system?

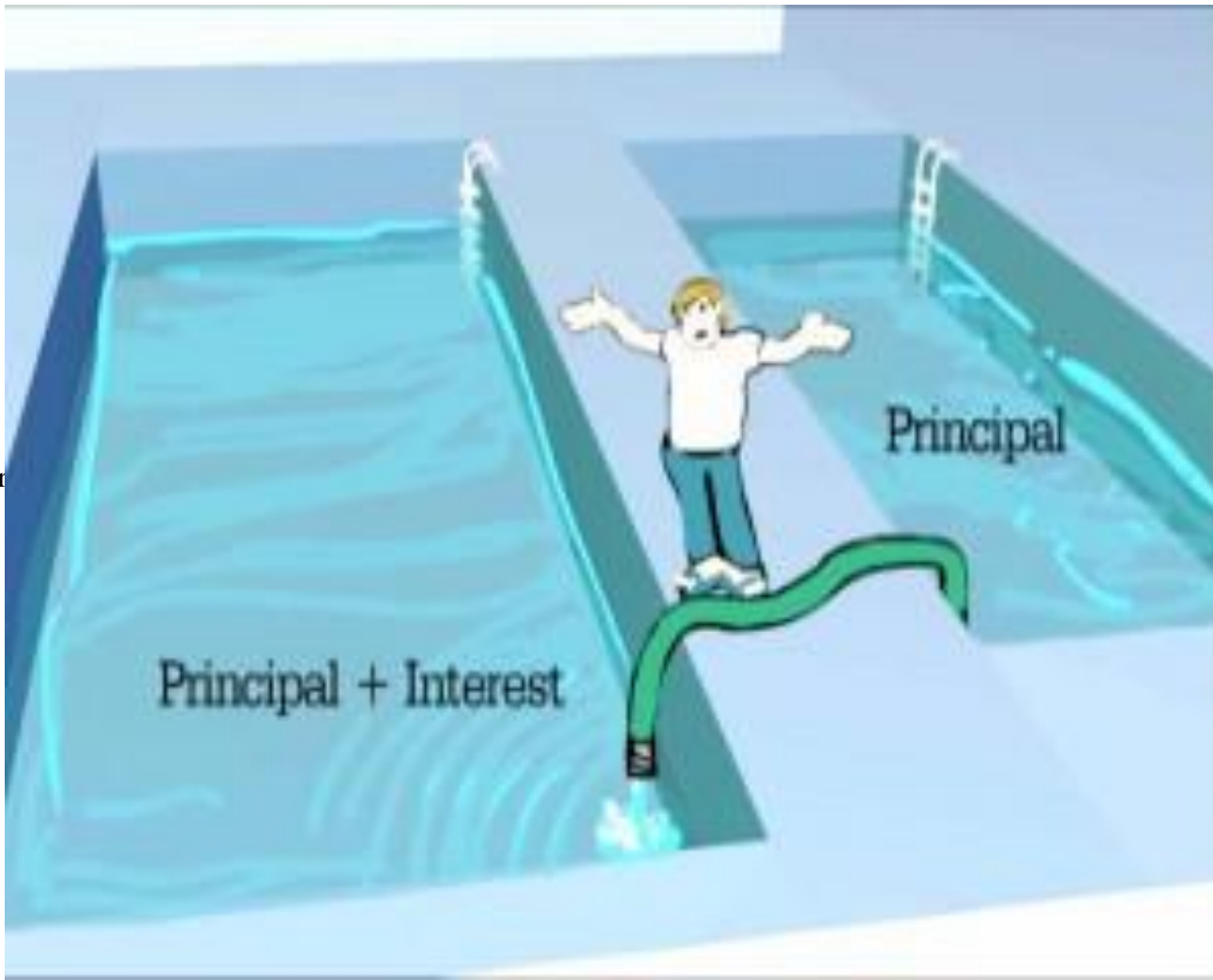
1. Private bankers determine where the money goes.

- Legally, banks own the deposits.
- They can gamble with them.
- They can determine who gets loans and the terms.
- They can refuse to lend.





## 2. The mathematical problem: banks create only the principal, not the interest.

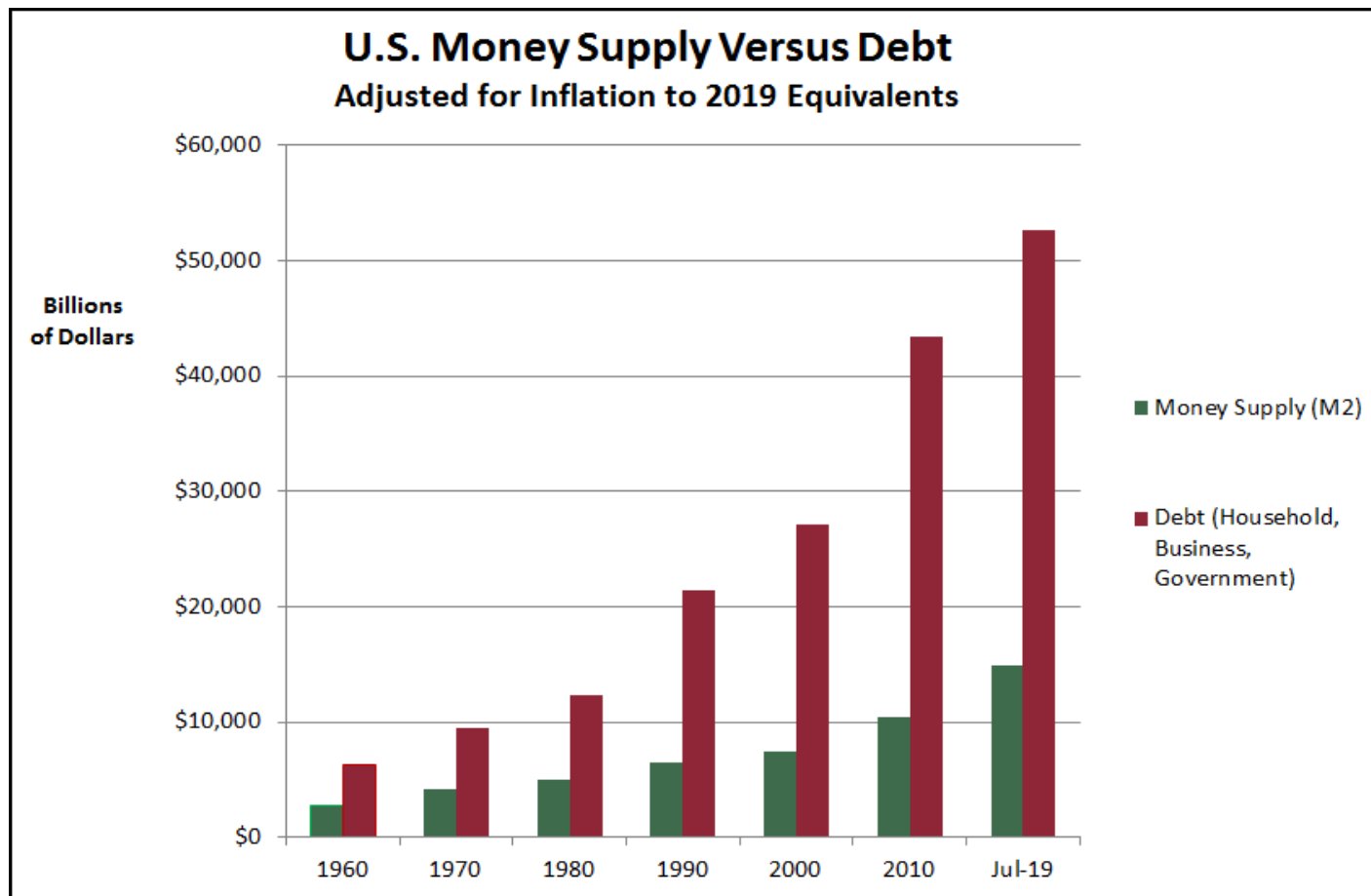


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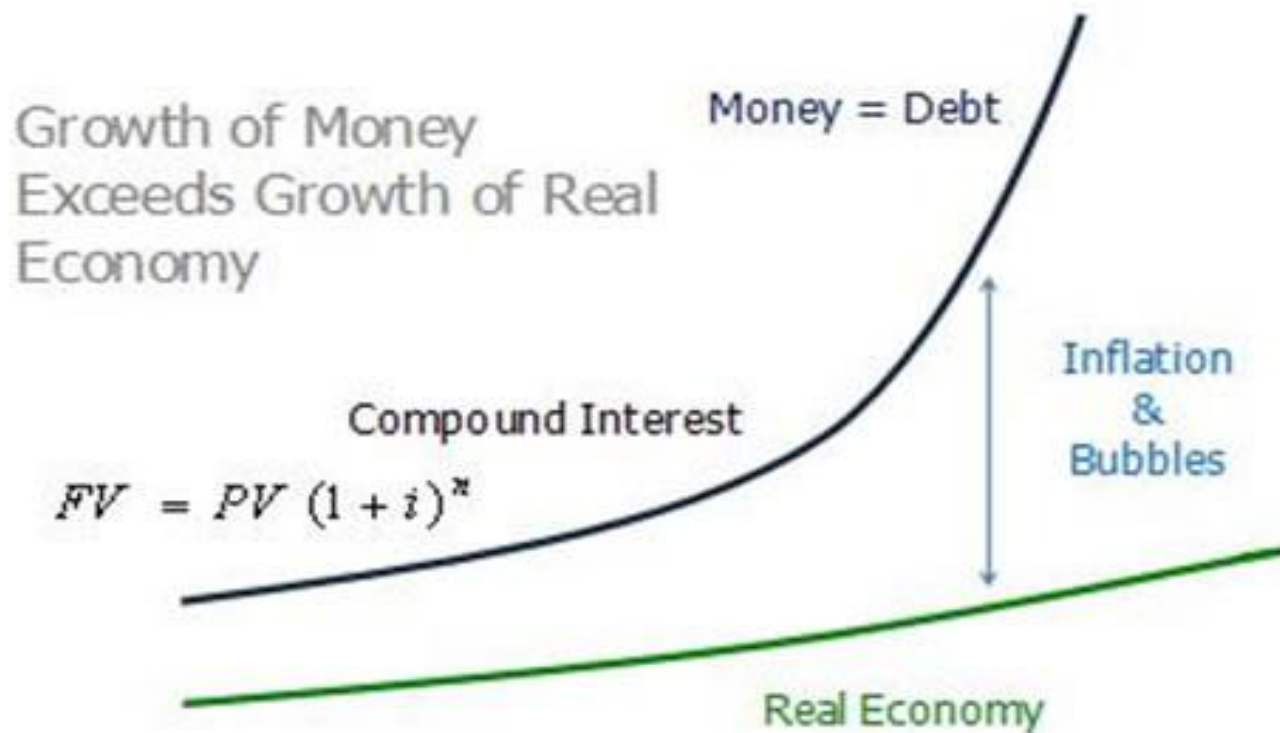
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B

# Debt-at-interest always grows faster than the real economy ...

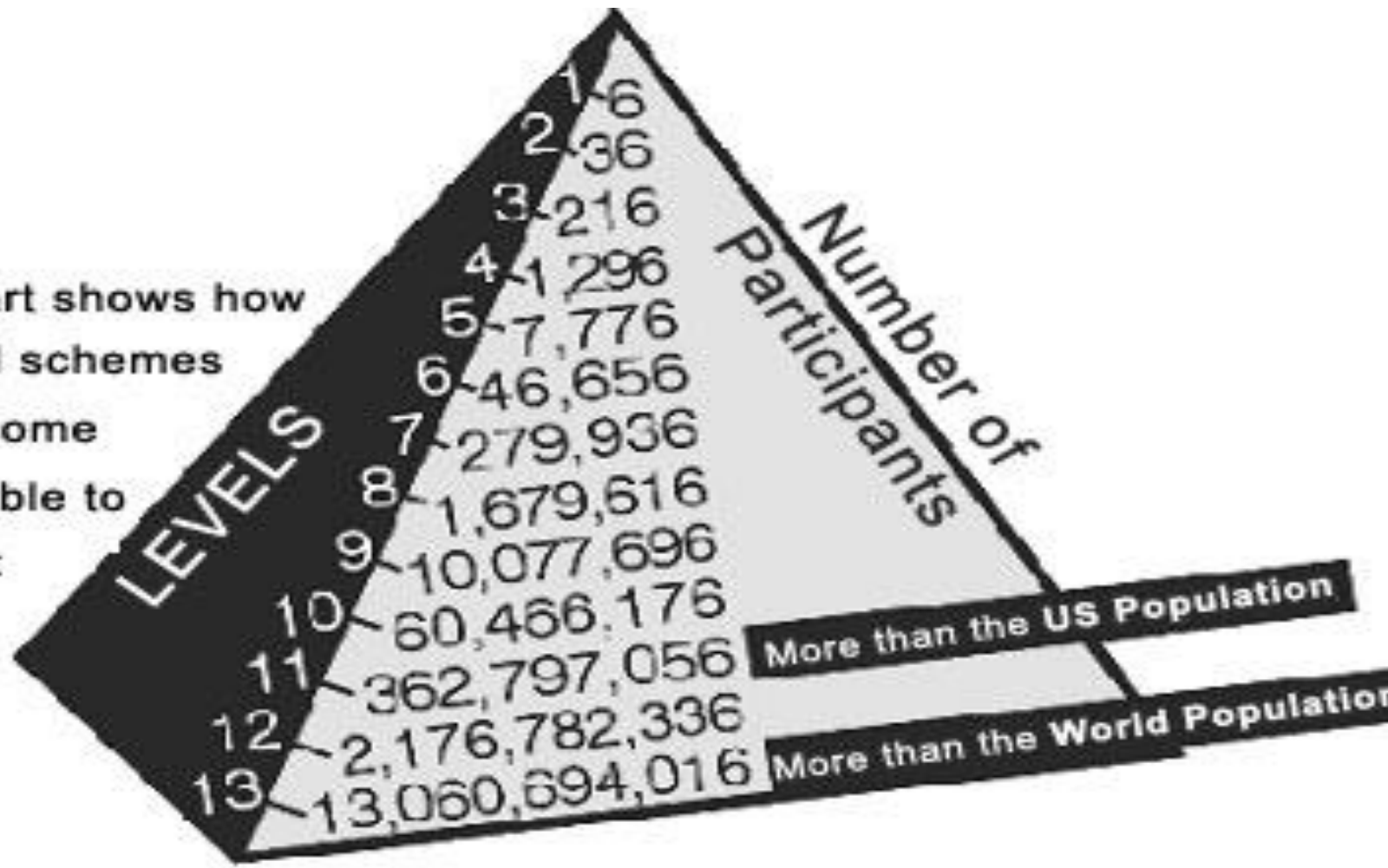


... creating the growth imperative.

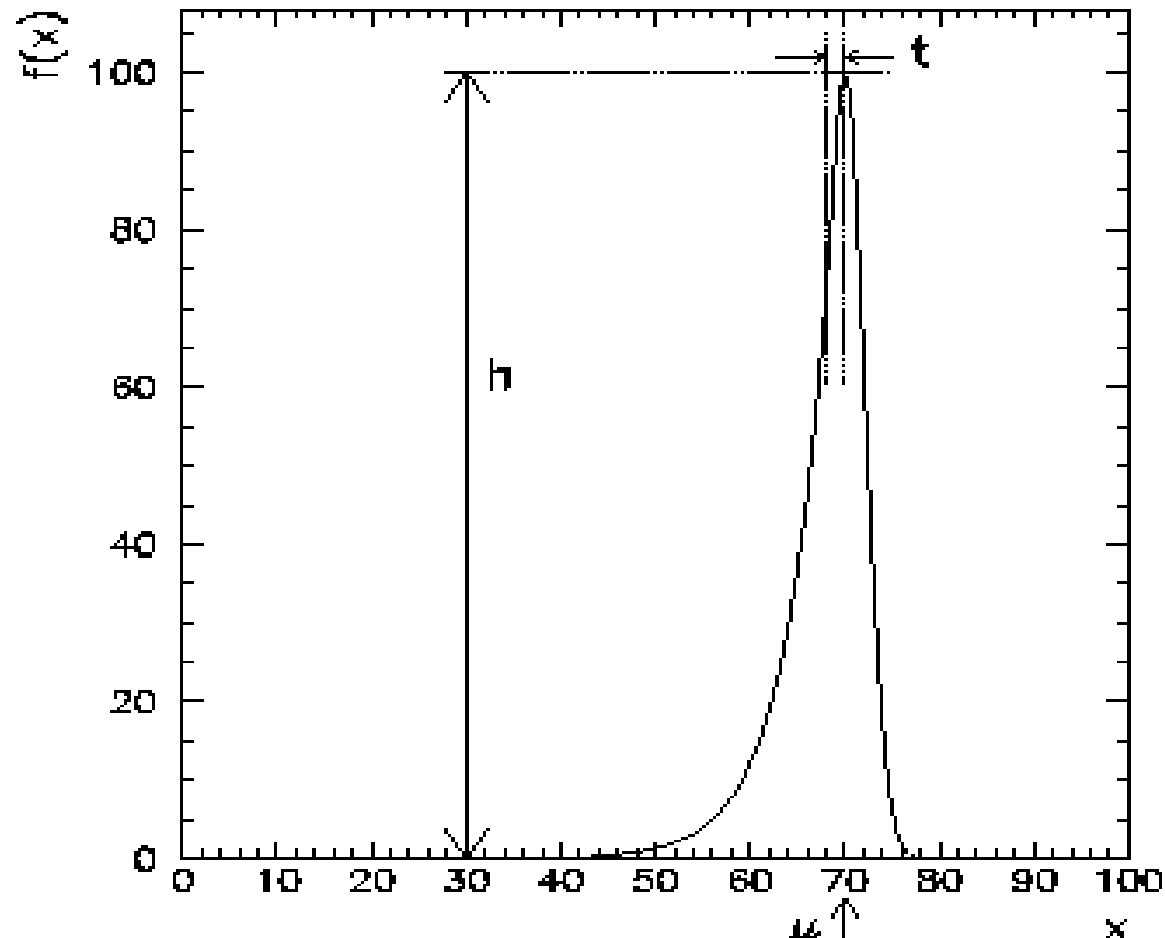


The gap is filled with more debt.  
It's a pyramid scheme.

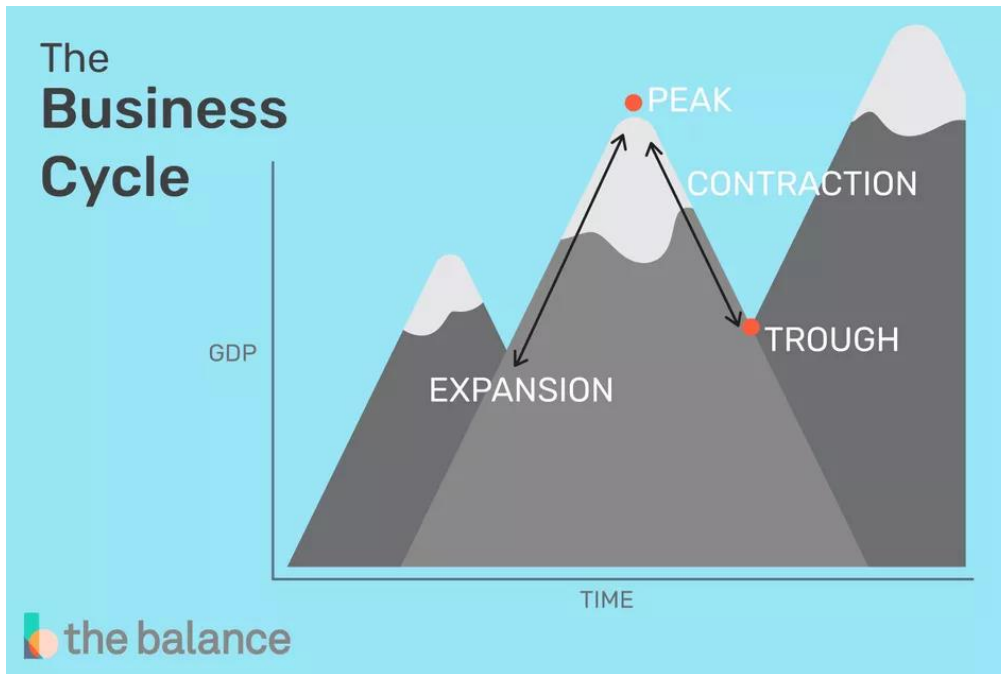
The chart shows how  
pyramid schemes  
can become  
impossible to  
sustain:



# Indefinite growth is unsustainable.



# The result is the “business cycle” – credit booms lead to busts.



- This is said to be an unavoidable phenomenon, going back 2000 years to the origins of banking itself.

## II. A deep dive into ancient history. How it's taught in Econ 101.





In fact, money and banking appeared 5,500 years ago as a complex *public* system, which was sustained for 2,000 years without booms and busts.

## 2.1 Sumerians



- Around 3500 B.C. arrived in Mesopotamia and lived in the city of Sumer
- Set up 12 city states – walled cities with land surrounding for farming
- Made temples called Ziggurats to worship gods – Priests only!

Sumerian cuneiform writings say their highly evolved civilization came from the gods, who genetically manipulated humans to be their serfs.





The many Sumerian firsts included the first written language ...

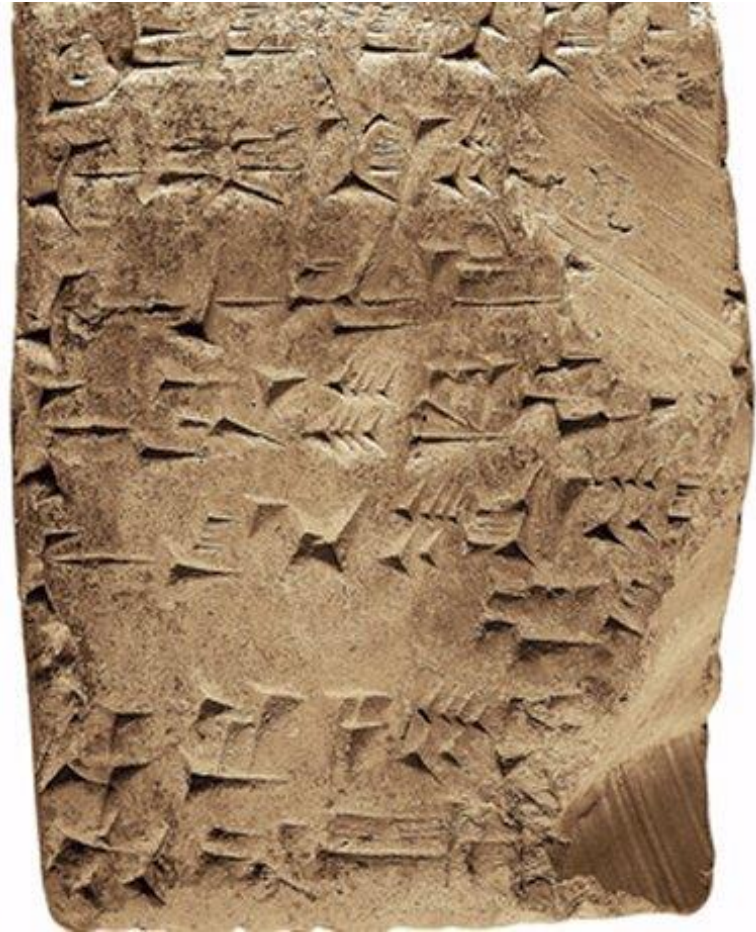
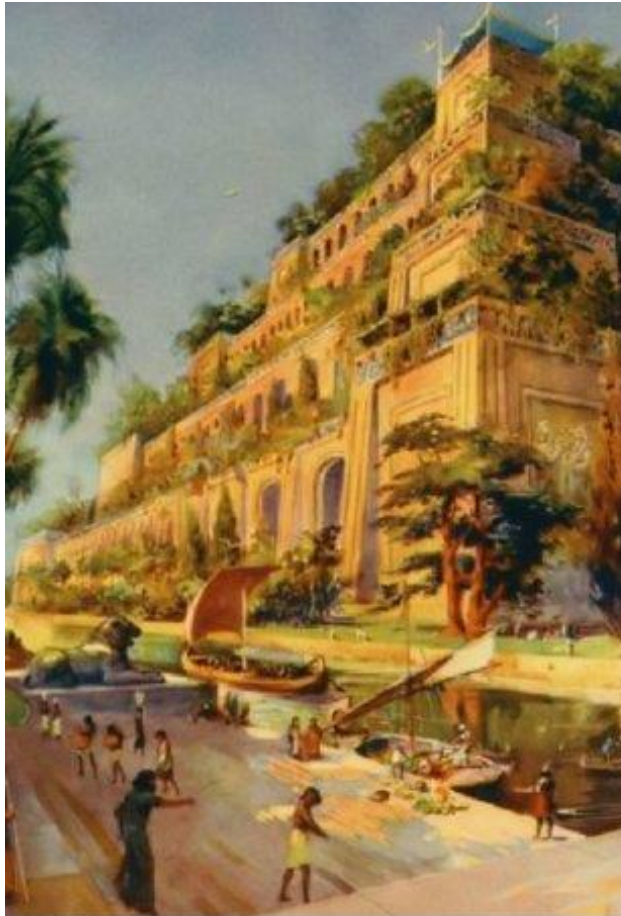


...which began as a system of accounts to manage the masses of workers serving the king and the temple.





Credit was issued by public institutions at high interest rates.



They avoided debt overload with periodic debt jubilees.

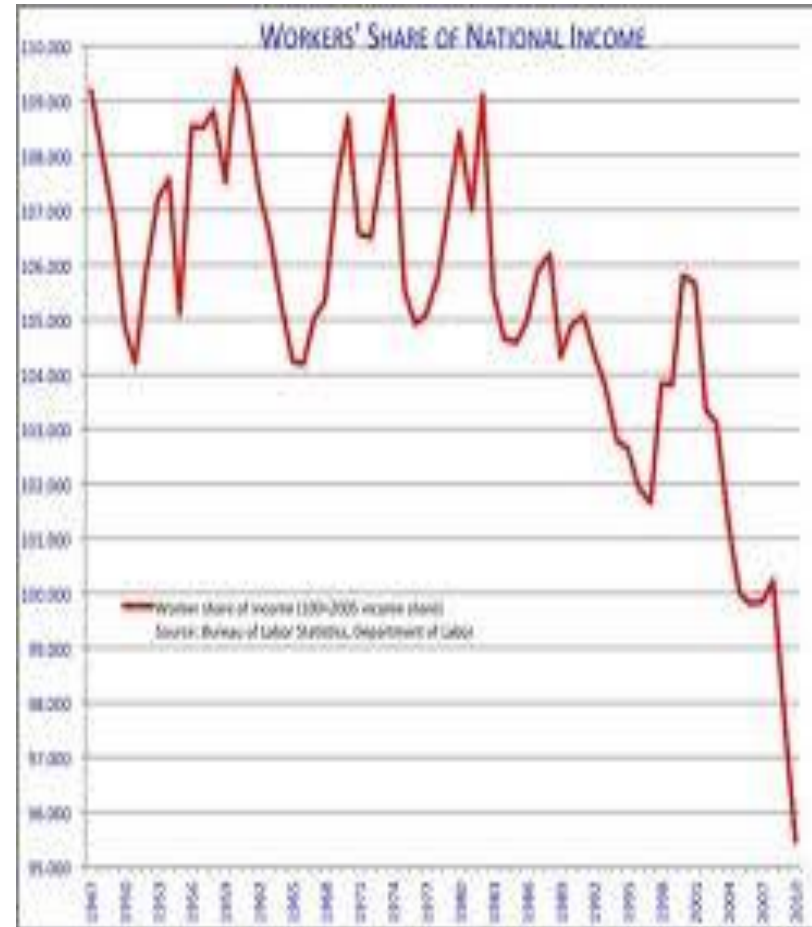


The system worked for 2000 years –  
until money and credit were privatized.





Today instead of jubilees we have  
periodic financial collapse,  
widening the wealth gap.

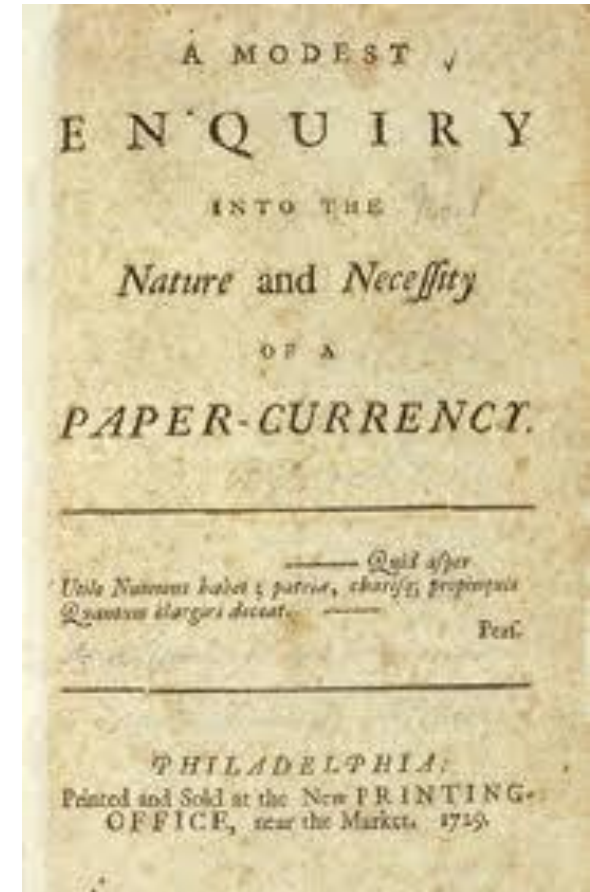


Debt is the new serfdom.



### III. A deep dive into American economic history

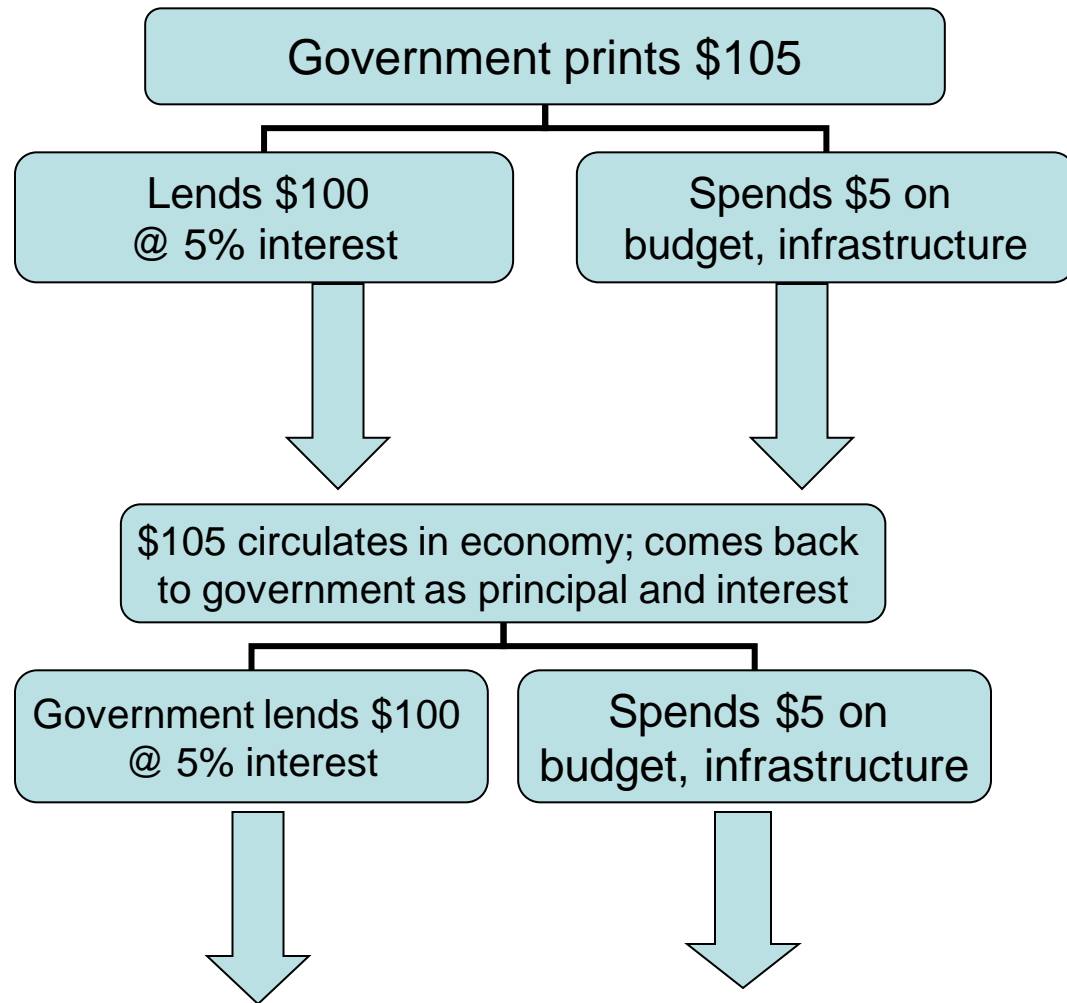
- The American colonists avoided debt slavery with an innovative system of public money creation.
- Precious metals were scarce, and the colonists resisted taxation.
- Government-issued bills of credit solved those problems but sometimes created another: inflation.



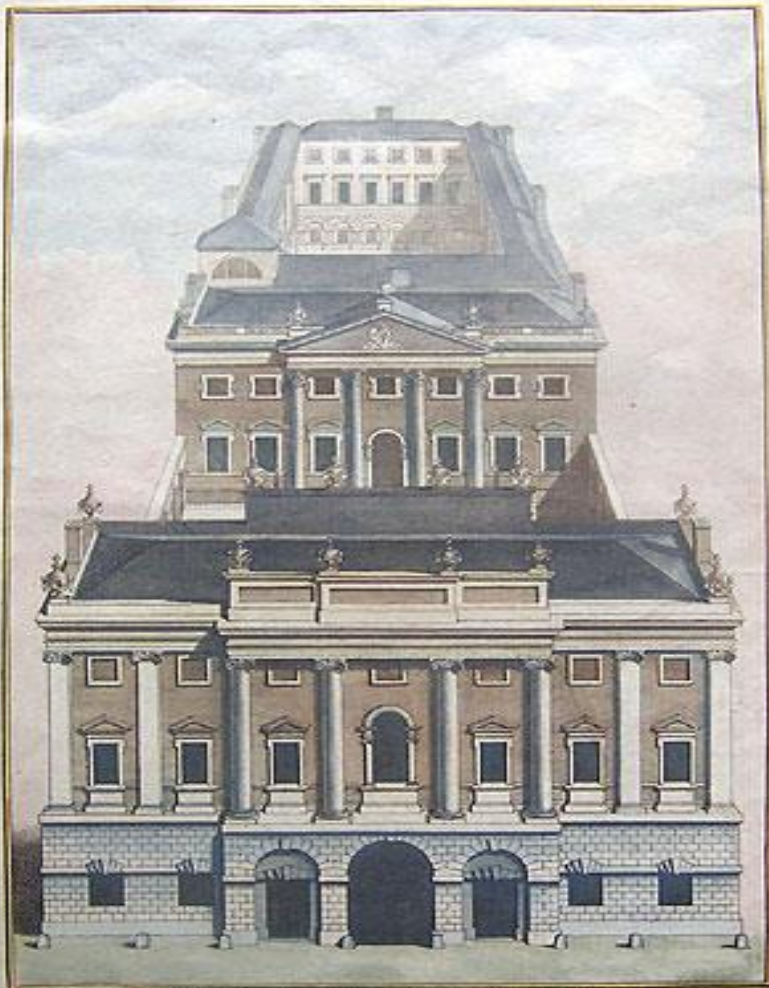
Pennsylvania's sustainable solution: bills of credit issued by a “land bank” were LENT to the farmers.

The result:

- No taxes
- No inflation
- No govt debt







*A Perspective View of the Bank of England.*

Meanwhile in England, fractional reserve banking was institutionalized when the privately owned Bank of England was founded in 1694 ...

... when William III needed money to fund a war.

- The bank issued banknotes and lent them to the government.
- Only the interest had to be paid.
- In effect, the national currency was rented from private bankers.



The colonists issued paper scrip until the Bank of England leaned on King George to forbid it. The result was depression and the American Revolution.





The colonists won the Revolution but lost the power to issue their own money. Private banks issued banknotes at interest on the fractional reserve (counterfeit) model.



President Lincoln avoided a crippling war debt by returning to the government-issued paper money of the American colonists.



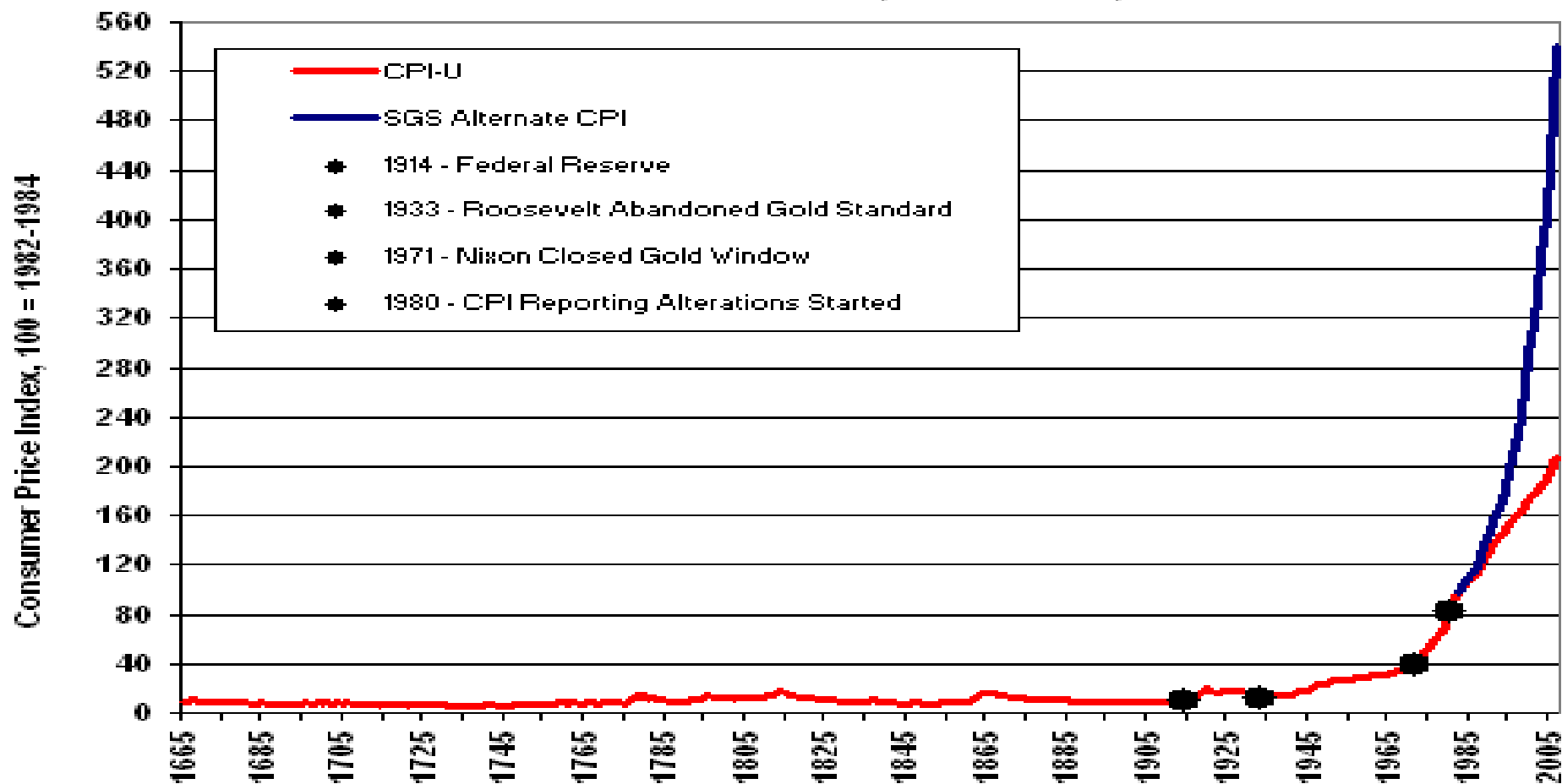
# The result was one of the most productive periods in American economic history ....

- \$450M issued in 1862, doubling the money supply (equivalent to adding \$15T today)
- \$64M lent for transcontinental railroad
- 1869: \$103M returned (60% profit)



... without triggering mass inflation.

**Consumer Inflation in the American Colonies/  
United States 1665 to 2007, CPI vs. SGS Alternate**  
Sources: ShadowStats.com, Robert Sahr, BLS



But Lincoln was assassinated, the Greenbacks were discontinued, and silver was demonetized. Again a deep depression resulted ...





... leading to the Populist Movement of the 1890s, seeking a return to government-issued money.



In 1894, in the first-ever march on Washington, “Coxey’s Army” sought a return to Lincoln’s Greenback system ...





... providing the plot line for the Wizard of Oz.



The prototype for Dorothy was populist leader Mary Ellen Lease, called “The People’s Joan of Arc,” who led a farmers’ revolt against high interest rates in Kansas.



She said in a speech that  
could have been given today:

“Wall Street owns the country. It is no longer a government of the people, by the people, and for the people, but a government of Wall Street, by Wall Street, and for Wall Street. The great common people of this country are slaves, and monopoly is the master. . . .

We want the abolition of the National Banks, and we want the power to make loans direct from the government.”



When the Greenbackers failed,  
the Populists sought to expand the  
money supply with silver.

- But Populist leader  
**William Jennings  
Bryan (the Lion)**  
insisted that it must  
be issued by the  
government.





# He said in his “cross of gold” speech in 1896:

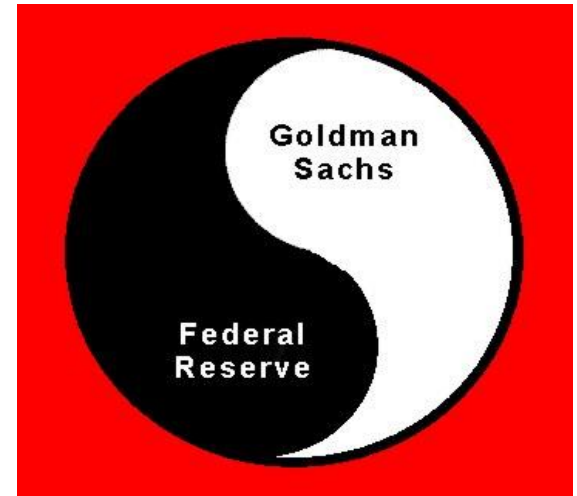
- We say in our platform that we believe that *the right to coin money and issue money is a function of government...*
- Those who are opposed to this proposition tell us that the issue of paper money is a function of the bank and that the government ought to go out of the banking business.
- I stand with Jefferson . . . and tell them, as he did, that *the issue of money is a function of the government and that the banks should go out of the governing business.*





• But the Federal Reserve, passed in 1913, was modeled after the Bank of England.

- The central bank issued money and lent it to the government, originally at interest.
- The **16<sup>th</sup> amendment** authorized an income tax to pay the interest due to the Fed for creating the money lent to the banks that would lend it to the government.



# The populist movement failed at the federal level, but it won in North Dakota.



- The farmers were losing their farms to out-of-state bankers.
- They organized, won an election, and passed legislation in 1919 to form the Bank of North Dakota.

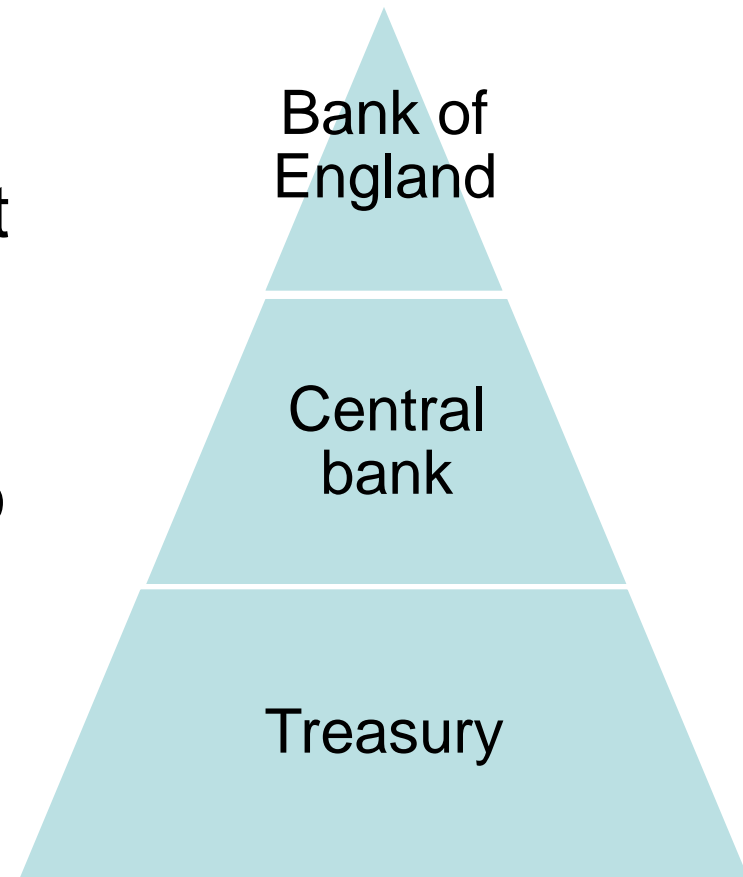
## IV. Global developments: the birth of “central banking”

- Meanwhile in other ex-British colonies -- Australia, New Zealand and Canada – truly “national” central banks were thriving.



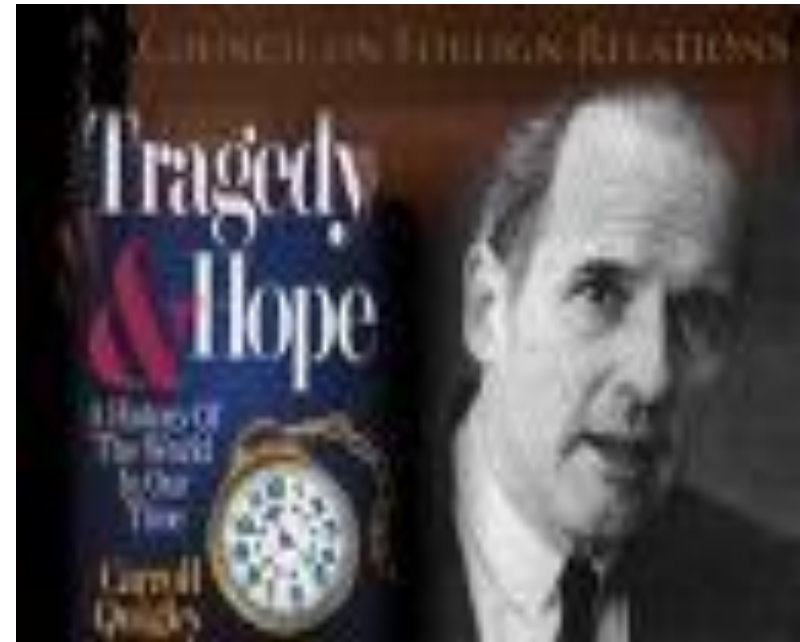
# But again the Bank of England suppressed them.

- A new plan was devised -- a system of “central banks” that would take over the power to issue national currencies.
- This money would be LENT to the government and people.
- The apex of the system would be the Bank of England.



After World War I, the BOE was replaced by the BIS. Georgetown Prof. Carroll Quigley wrote in “Tragedy and Hope” in 1966:

“The powers of financial capitalism had another far-reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole. . . .





“The apex of the system was to be the Bank for International Settlements in Basel, Switzerland, a private bank owned and controlled by the world's central banks which were themselves private corporations. Each central bank . . . sought to dominate its government by its ability to control Treasury loans . . . .”

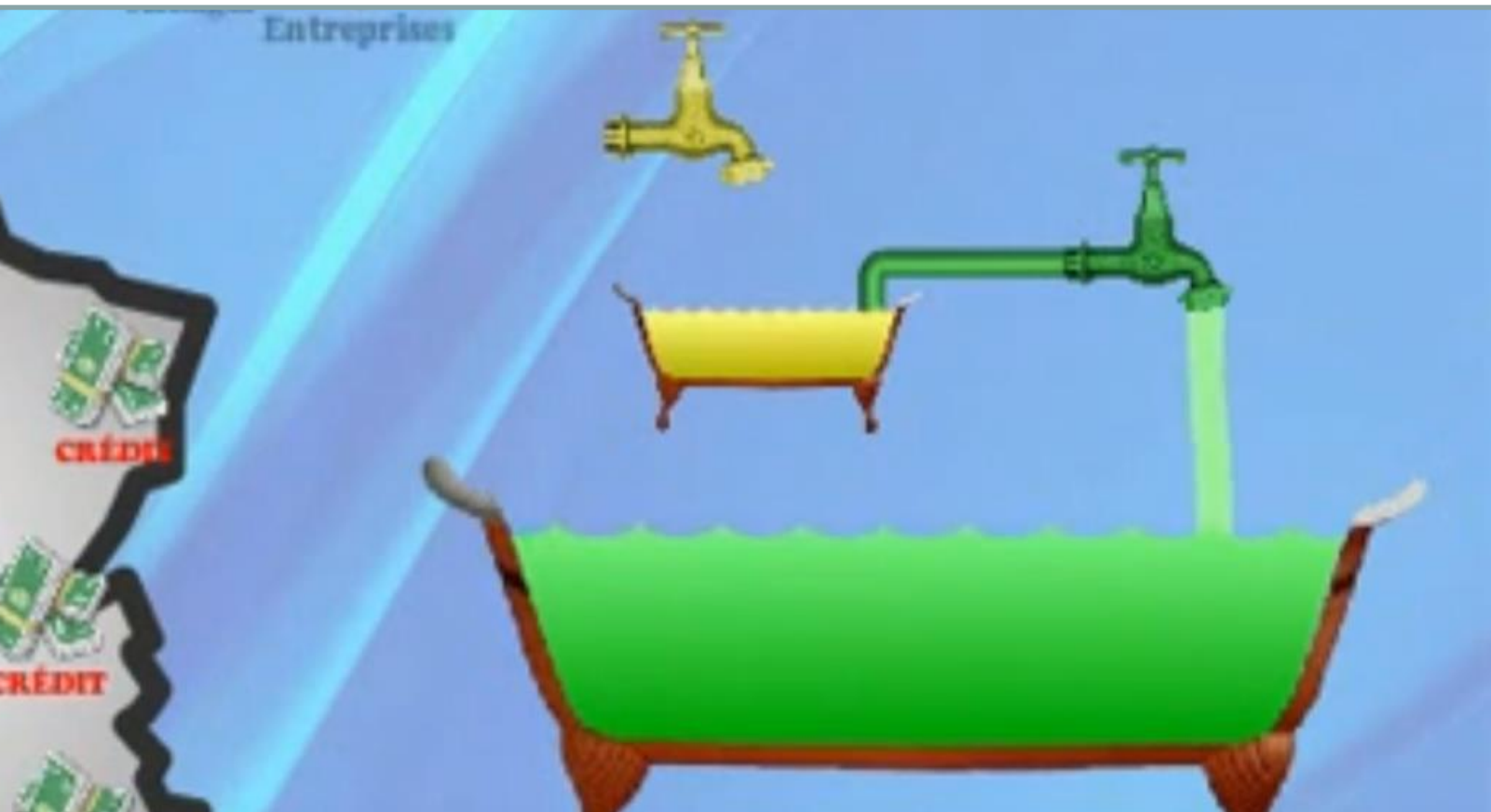


# The Basel Committee was formed in 1974.



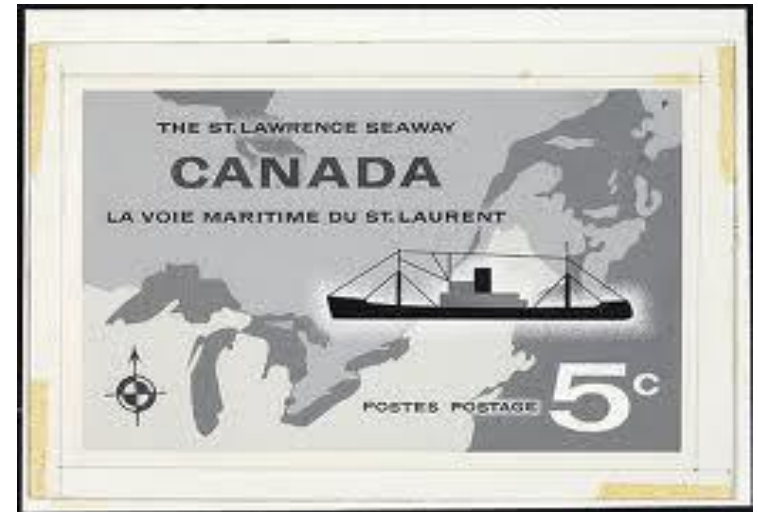
- One of its key objectives was to “maintain the stability of the currency.”
- That meant no more printing money or borrowing from the nation’s own central bank.
- Borrowing had to be private, on the presumption that banks are just lending existing money.

But banks actually create money when they make loans. The government-money tap was turned off and the private debt-money tap was turned on.



The Bank of Canada had engaged in public banking from 1939 to 1974, funding major projects with national credit:

- aircraft production
- education benefits for returning soldiers
- family allowances
- old age pensions
- the Trans-Canada Highway
- the St. Lawrence Seaway project
- universal health care.



# In 1974, the Canadian Government quit borrowing from its own central bank.

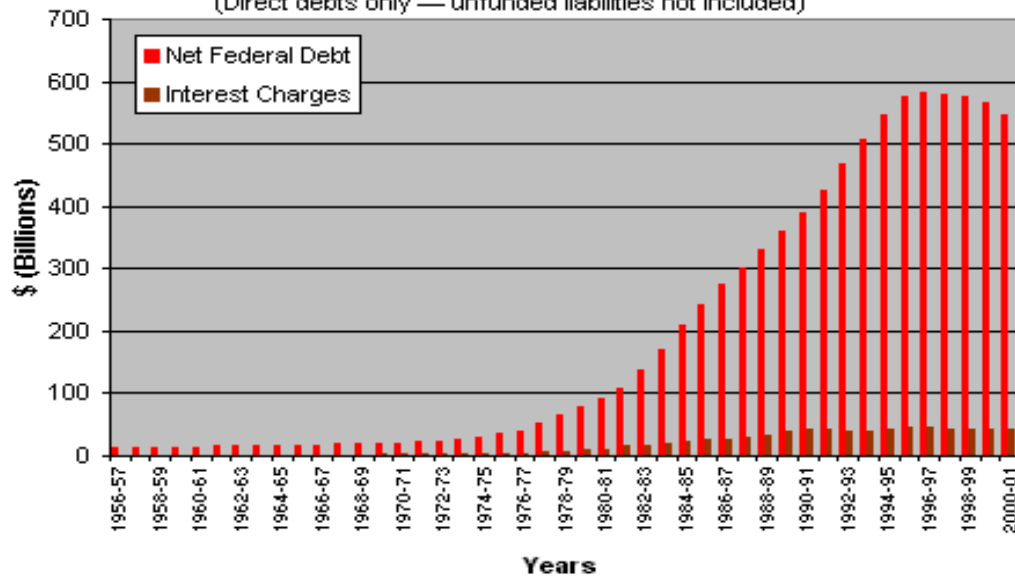
## Canada's Federal Debt

Source: Federal Government

Fiscal Reference Tables September 2001

Quoted at <http://www.taxpayer.com/Facts/Federal/FederalDebt.htm>

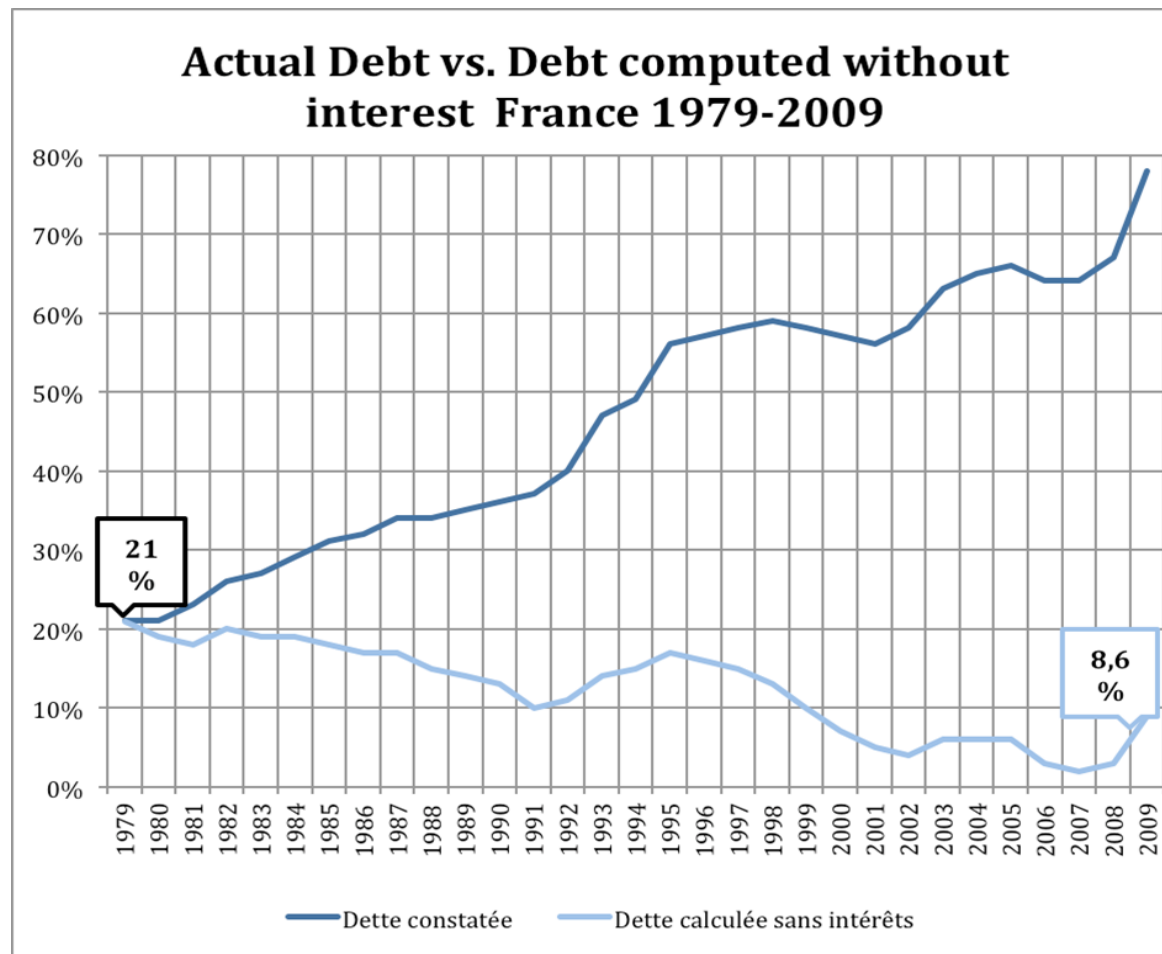
(Direct debts only — unfunded liabilities not included)



- By 2000, the federal debt had shot up to \$585 billion.
- Between 1961 and 2006, the Canadian government paid over twice its debt just in interest.



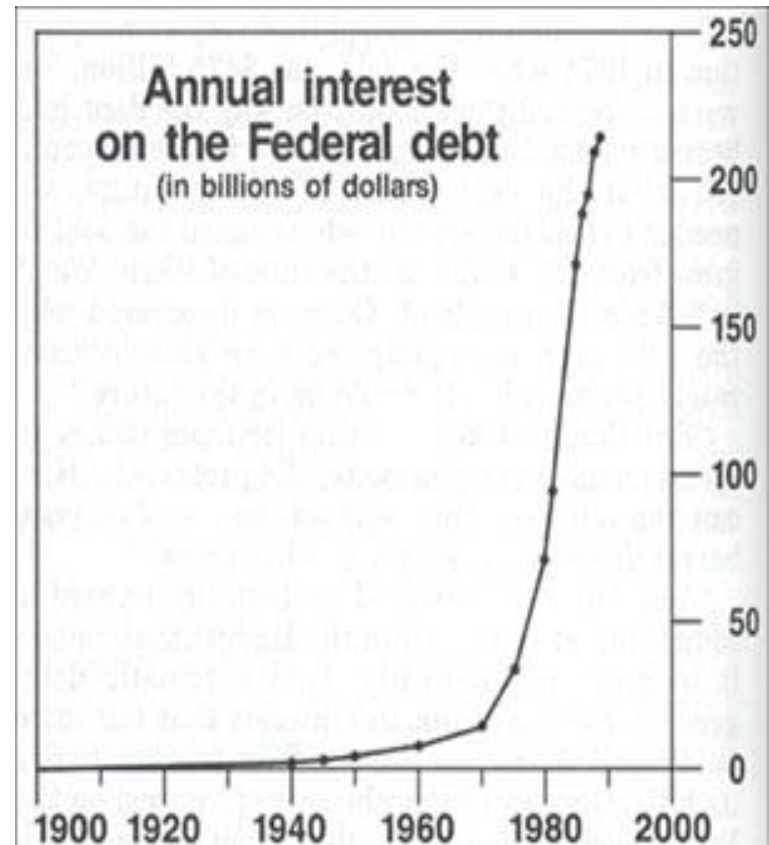
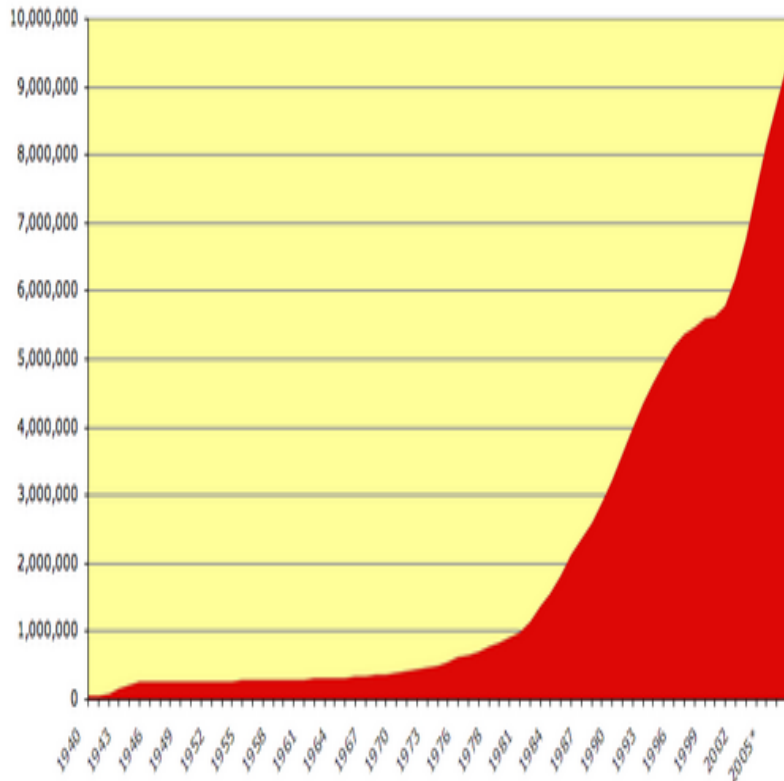
**Compare France:** From 1973-2010, its debt increased by €1.35B and it paid €1.4B in interest.



From Bernard Lietaer, et al., "Money and Sustainability" (2012)

Without interest, there might be no federal debt. As in 17<sup>th</sup> century England, *only* the interest actually gets paid.

**United States Gross Federal Debt: 1940-2007**  
**Millions of (Unadjusted) Dollars**  
*2004-2007 data estimated*

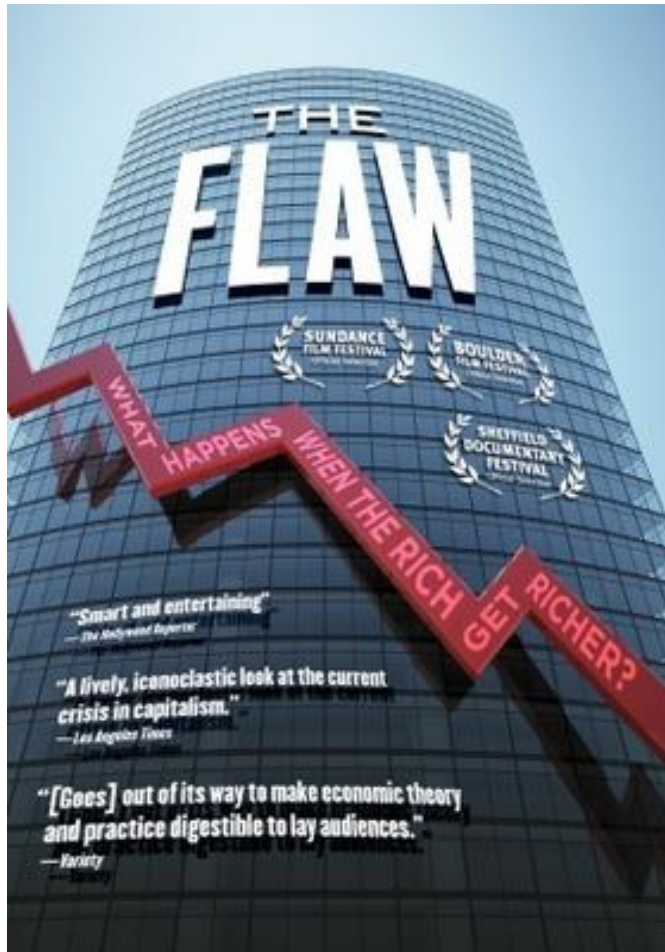


# The mystique of the Fed dissolved with the 2008-09 banking crisis.

- 9 million U.S. jobs lost.
- 6 million foreclosures.
- \$8 trillion in stock losses.



# What went wrong?



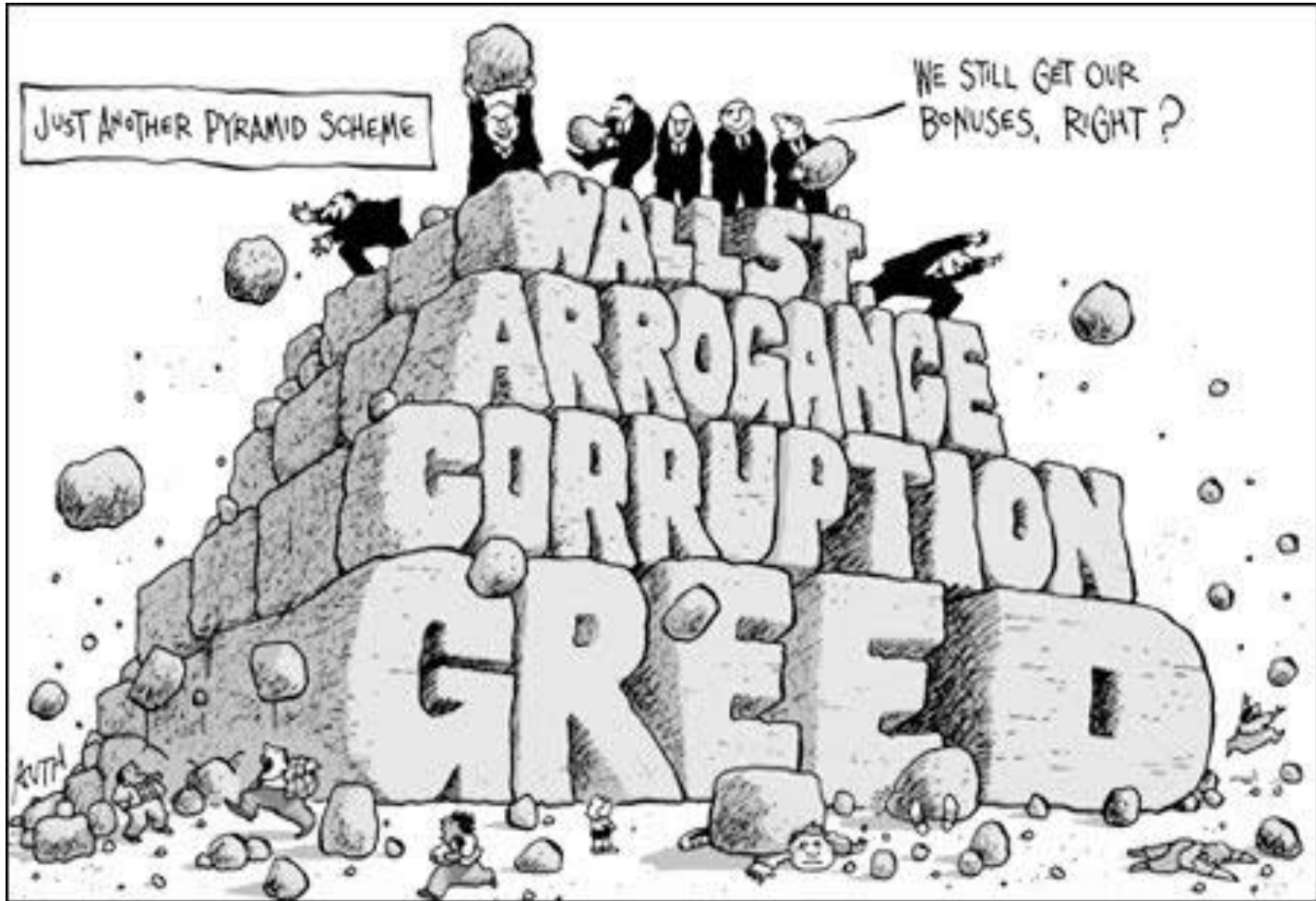
# Flaws in the neoliberal free-market model:

1. Markets self-correct.
2. Wealth trickles down.
3. Banks are just intermediaries; money is created by the government.
4. The booms and busts of the business cycle are unavoidable.
5. Government money-printing inevitably causes price inflation.
6. The money supply can be increased only up to full employment.


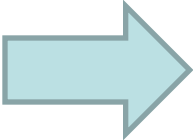
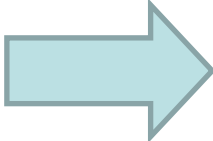
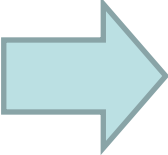




Myth #1. Greed is good – the invisible hand of the market will self-correct.



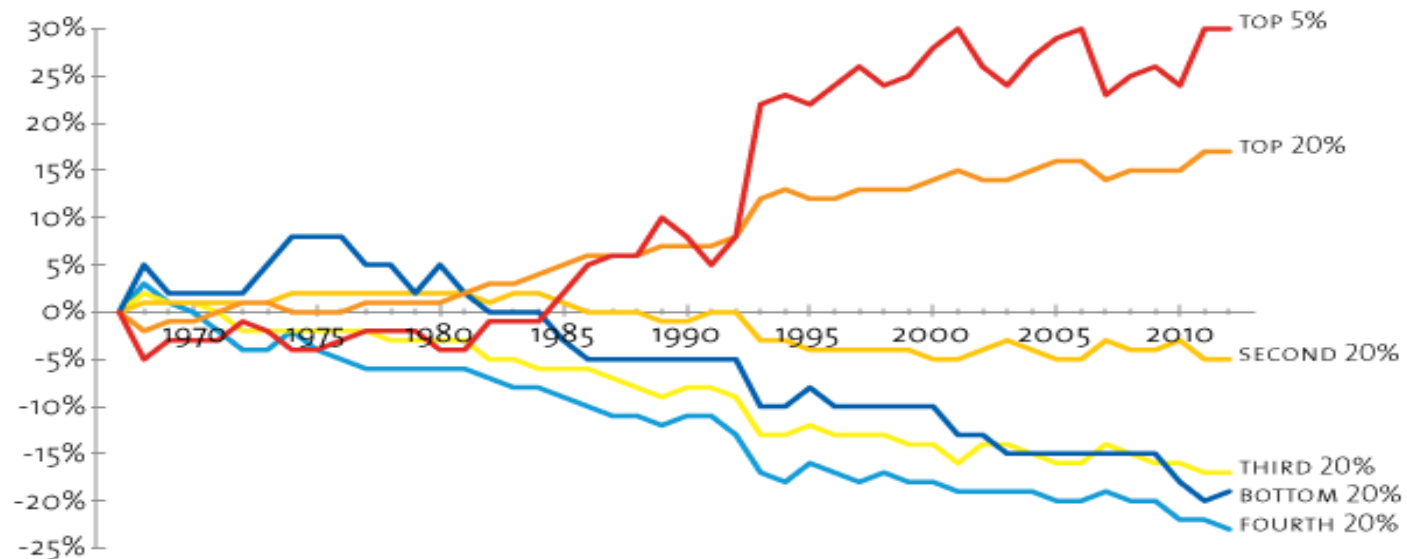
# **Fact:** The visible hand of government has routinely had to intervene.

- 19<sup>th</sup> c. bank runs 
- Crash of 1929, Great Depression 
- Shadow banking, derivatives 
- Subprime collapse 
- Federal Reserve Act
- Dollar off the gold standard, Glass-Steagall, FDIC
- Repeal of Glass-Steagall, Commodities Futures Modernization
- Bailout, Dodd-Frank, bail-ins, QE, ZIRP

## Myth #2: Wealth accumulation is benign; a rising tide lifts all boats; wealth trickles down.

### Change in Share of Total Income, 1967-2012

relative to 1967, by percentile

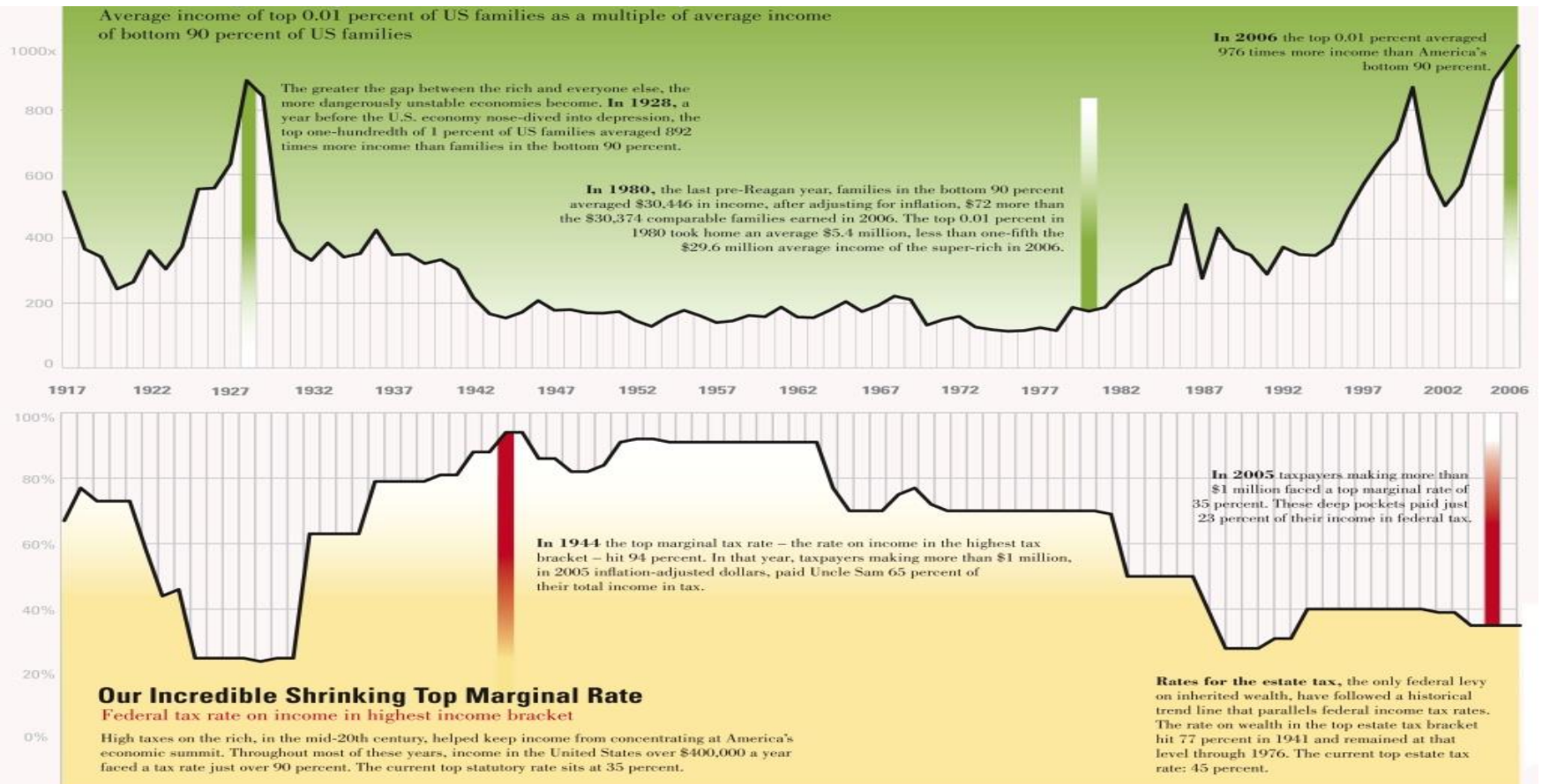


SOURCE: CENSUS BUREAU

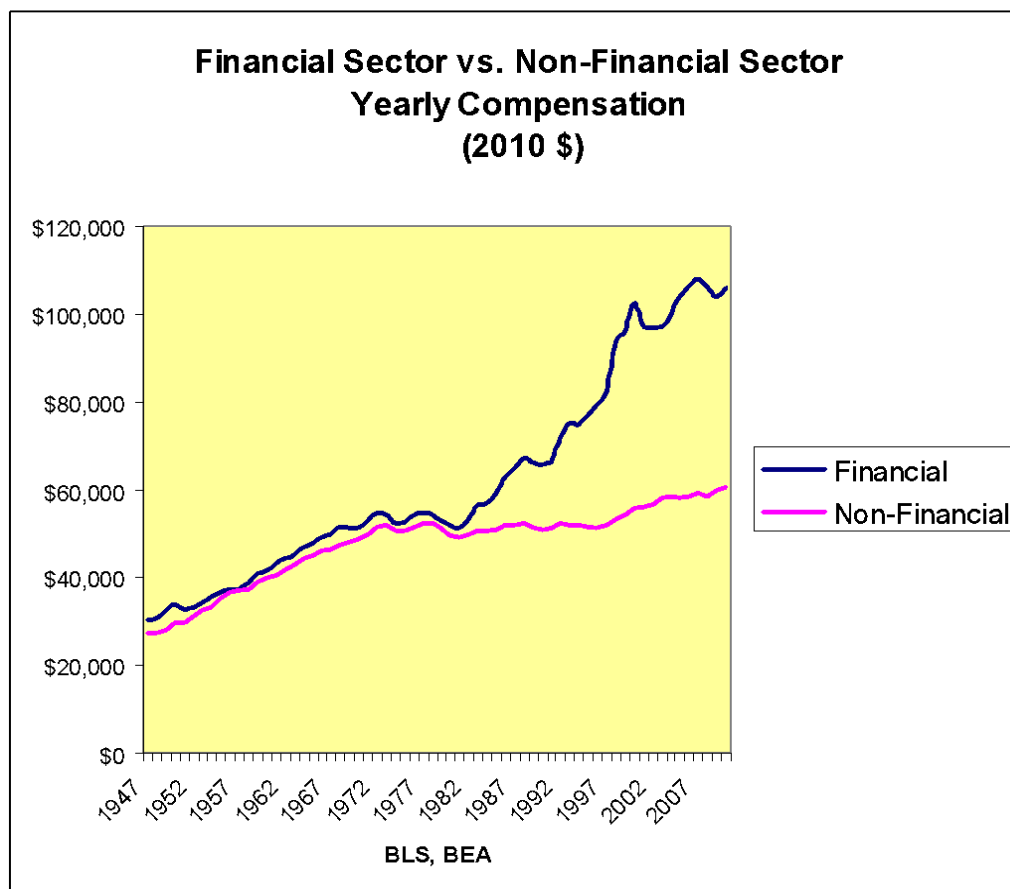
Mother Jones

# Fact: Gross wealth disparity precedes market collapses.

(Piketty, *Capital in the 21<sup>st</sup> Century*, 2013.)



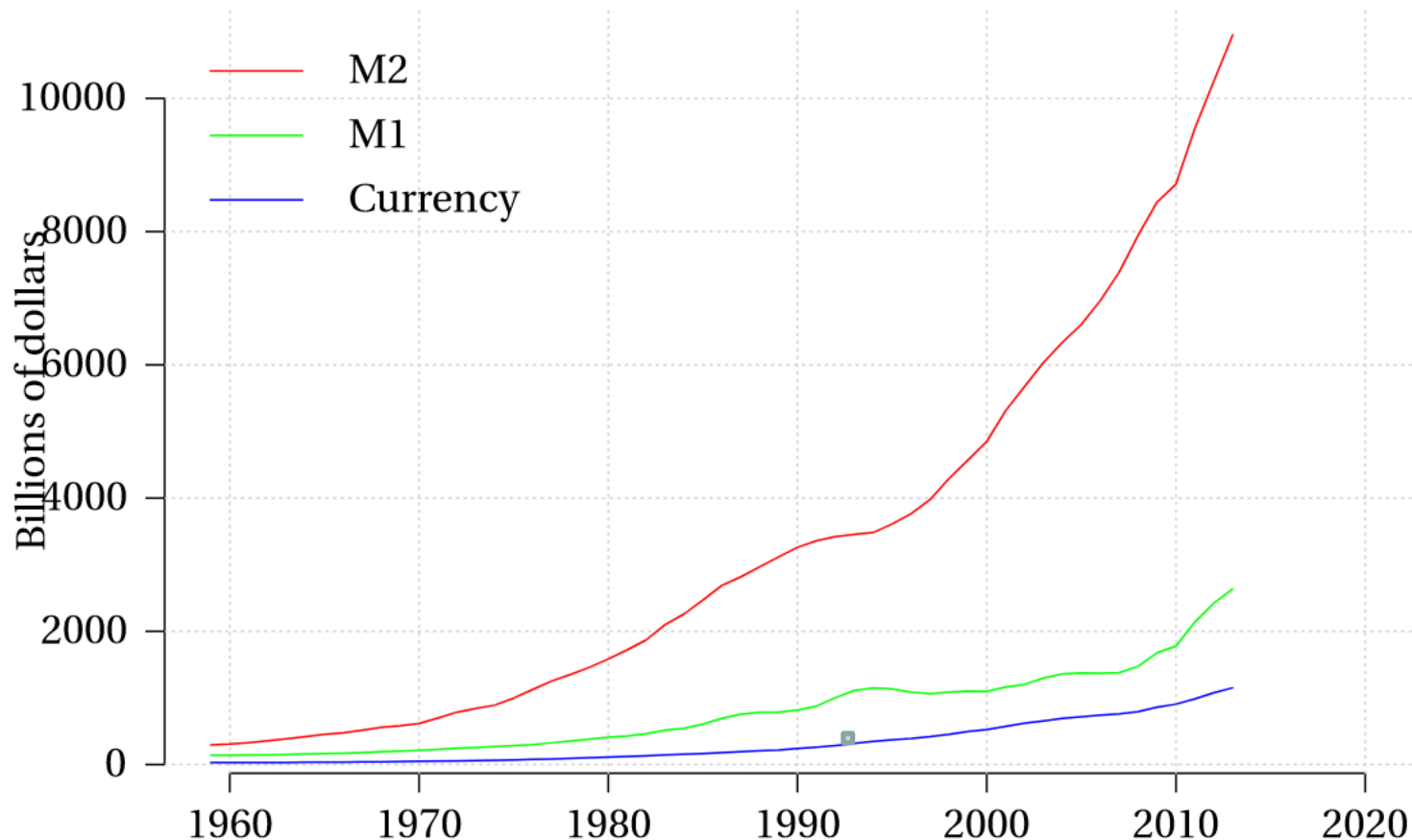
# The financial sector is the chief culprit.





# Myth #3. Banks are just intermediaries. Money is created by government.

**Components of the US monetary supply**

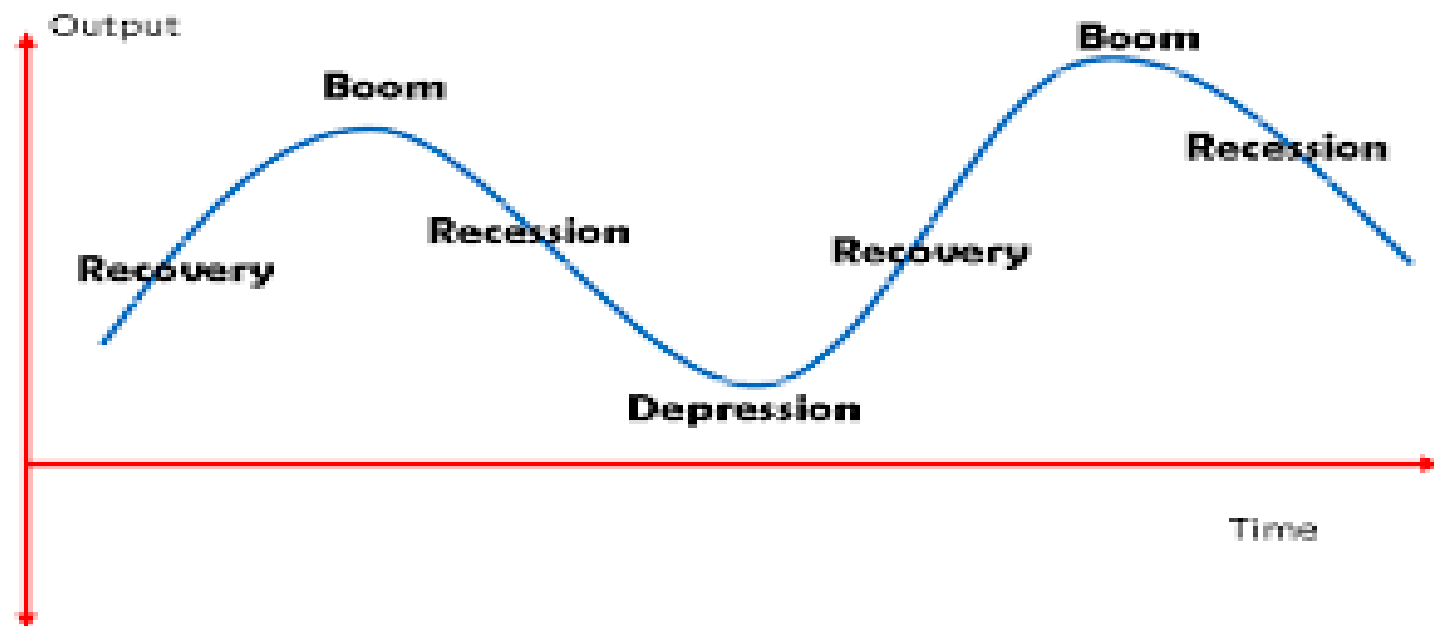




**Fact:** “We are completely dependent on the commercial Banks. *Someone has to borrow every dollar we have in circulation, cash or credit.* If the Banks create ample synthetic money we are prosperous; if not, we starve.”

*-- Robert H. Hemphill, Credit Manager of the Federal Reserve Bank of Atlanta, 1934*

**Myth #4:** The business cycle is a natural, unavoidable phenomenon.



A large crowd of protesters is shown holding numerous signs during the Jubilee 2000 demonstration. The signs prominently display messages such as "STOP TAKING THE MONEY", "STOP DEBT OW!", "CANCEL 100% NOW", and "Break the chains of debt". A "gettyimages" watermark is visible in the center-right of the image.

How to fill the gap between debt and income without debt jubilees? Easy, said Ben Bernanke: “Helicopter money.”





But critics point to **Myth #5**:  
The quantity theory of money --  
increasing demand just increases prices.

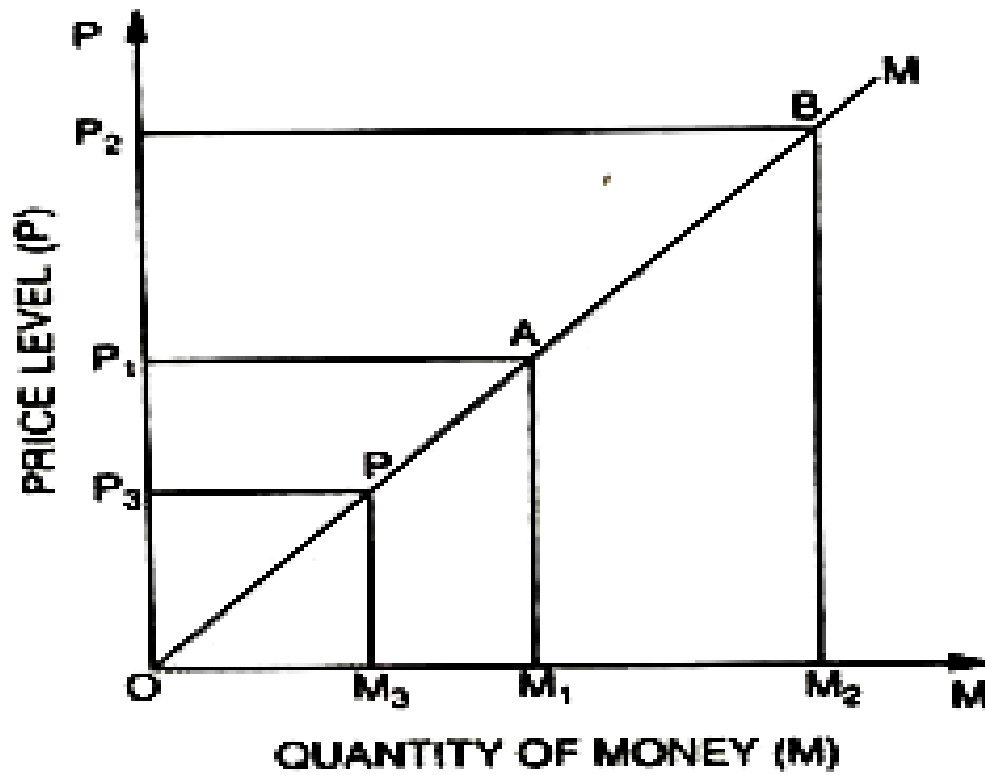
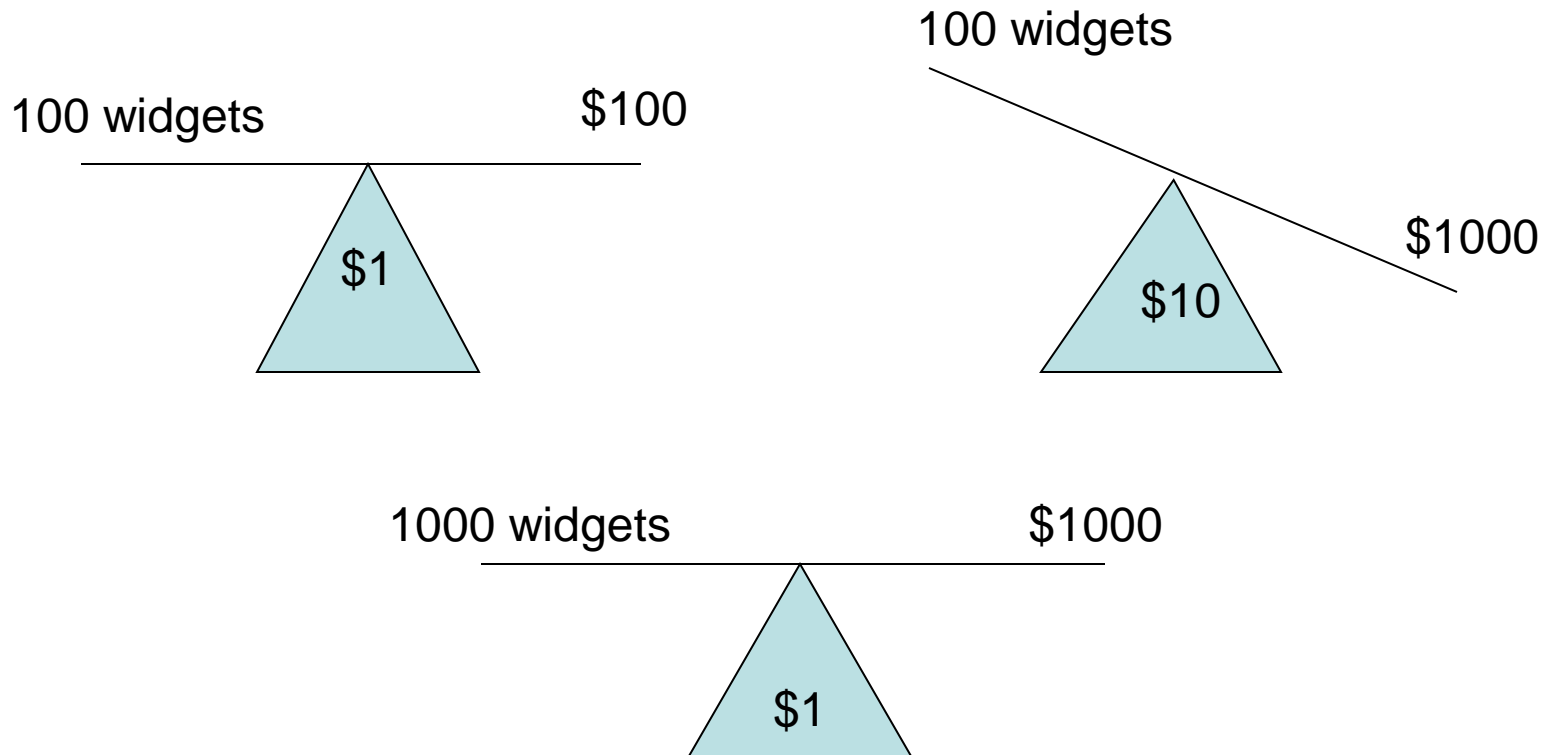
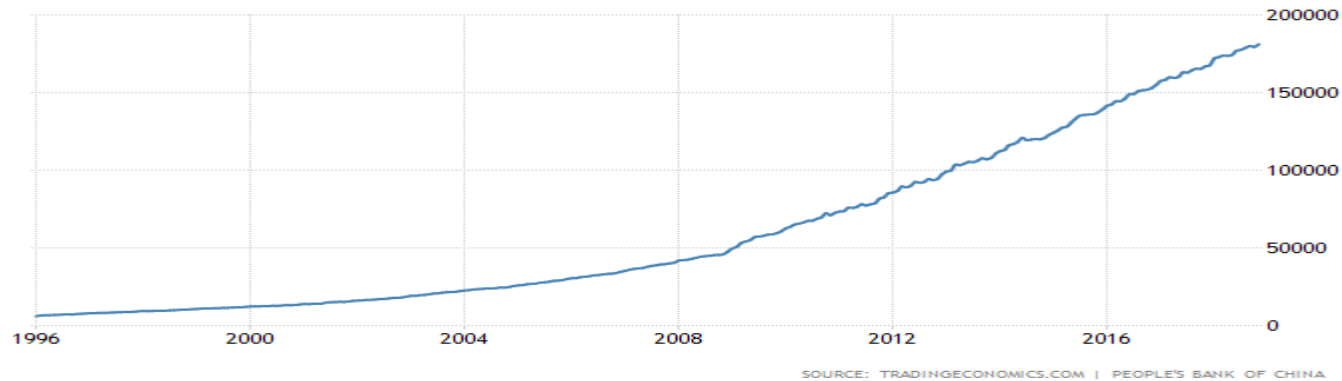


Fig. 28.1

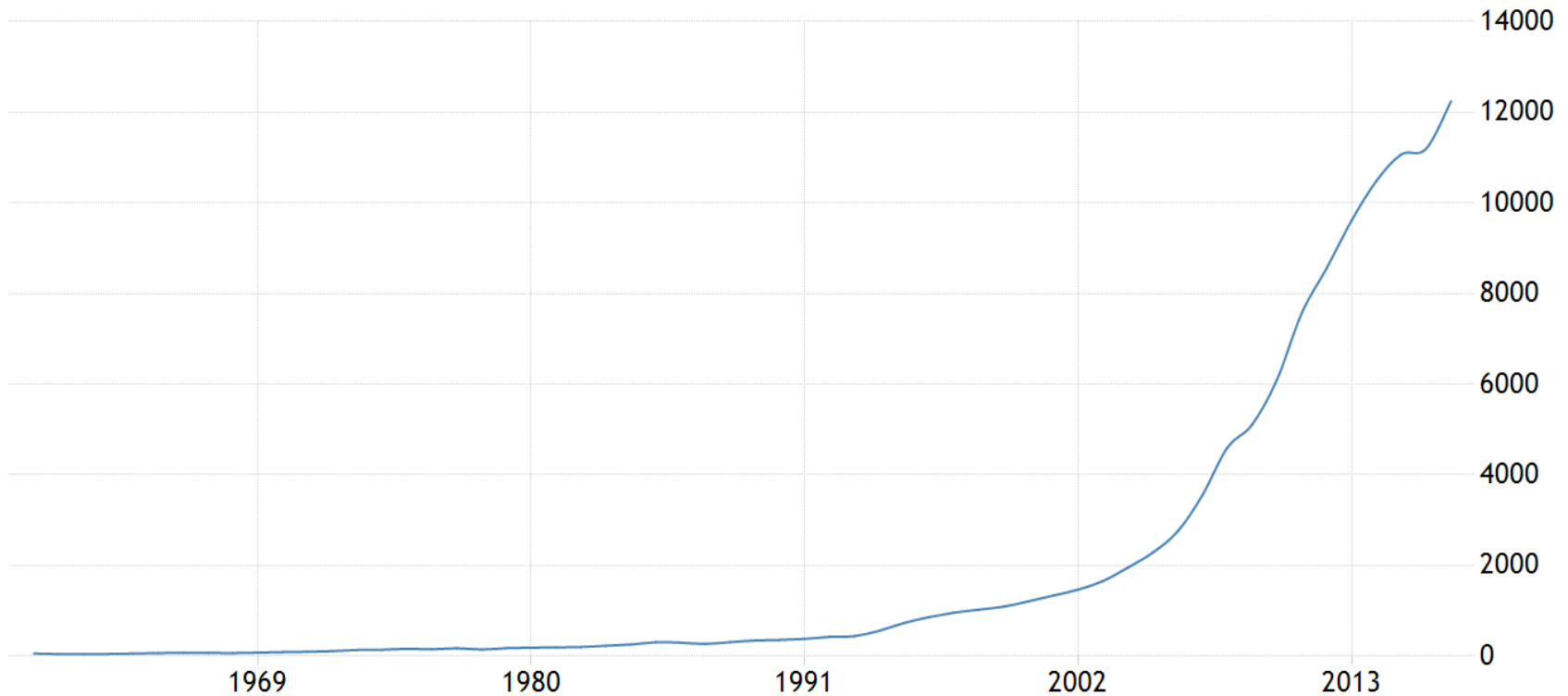
Price inflation results only when demand (money) exceeds supply (widgets).



**Fact:** Compare China -- M2 grew *1800%* in 23 years, yet inflation was low.

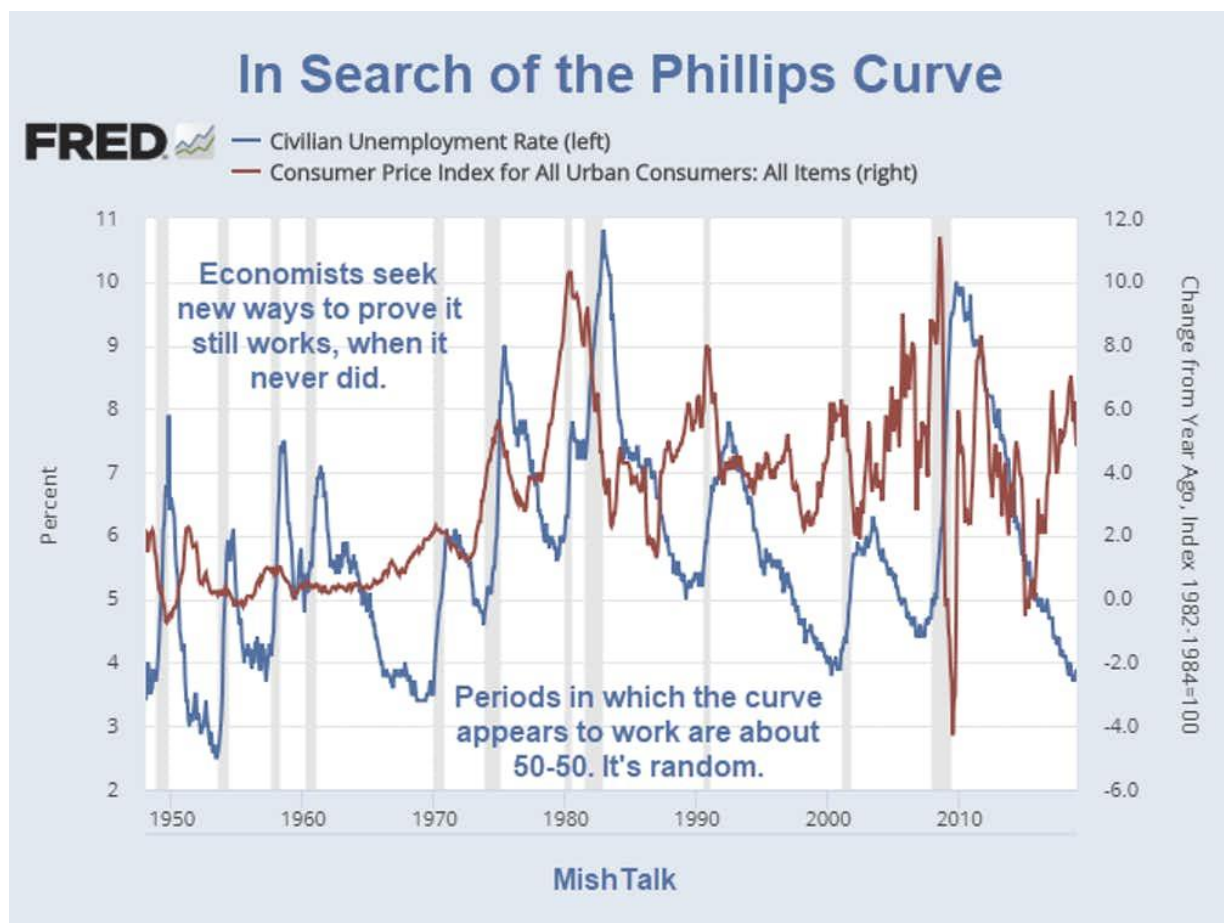


# Why? China's GDP shot up too.



SOURCE: [TRADINGECONOMICS.COM](http://TRADINGECONOMICS.COM) | WORLD BANK

**Myth #6. The Phillips curve:** money injection works only up to full employment, and we're at full employment today.

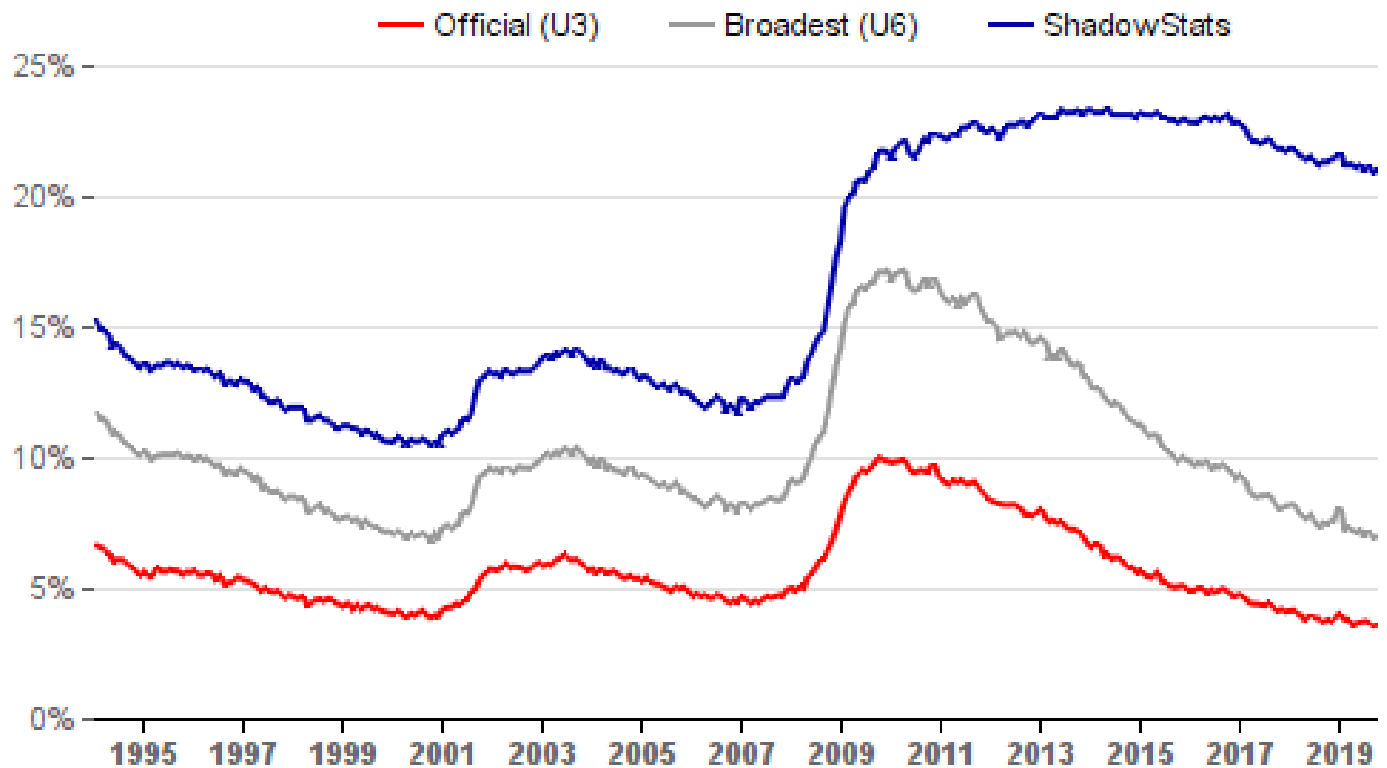




**Fact:** real unemployment  
is about 22%.

***Unemployment Rate - Official (U-3 & U-6) vs ShadowStats Alternate***

Monthly SA. Through Oct. 2019 (ShadowStats, BLS)

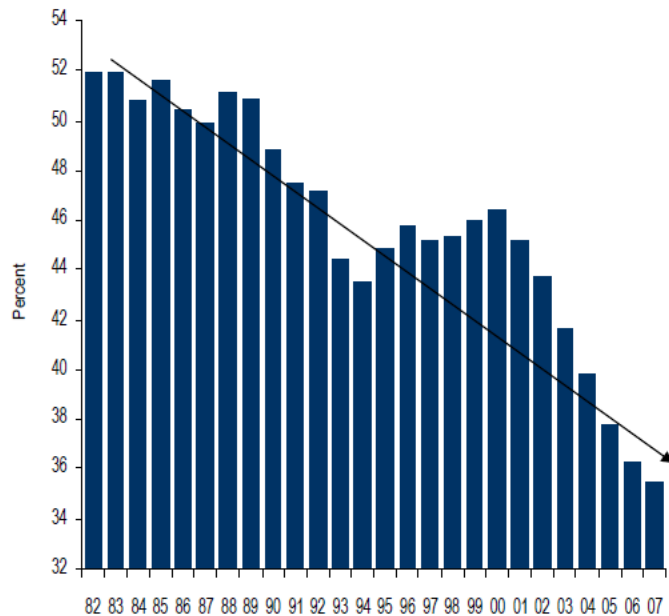


Published: Nov. 1, 2019

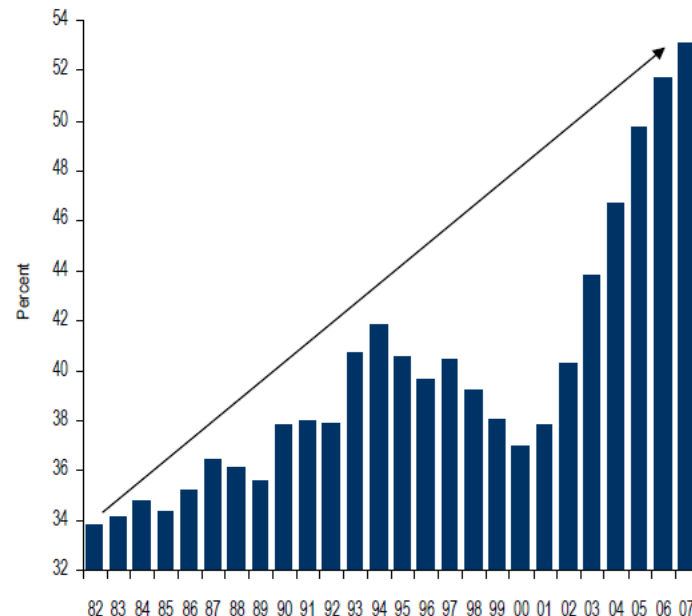
ShadowStats.com

**Fact:** Not all new money goes into the consumer market. Savings and debt repayment don't add to demand.

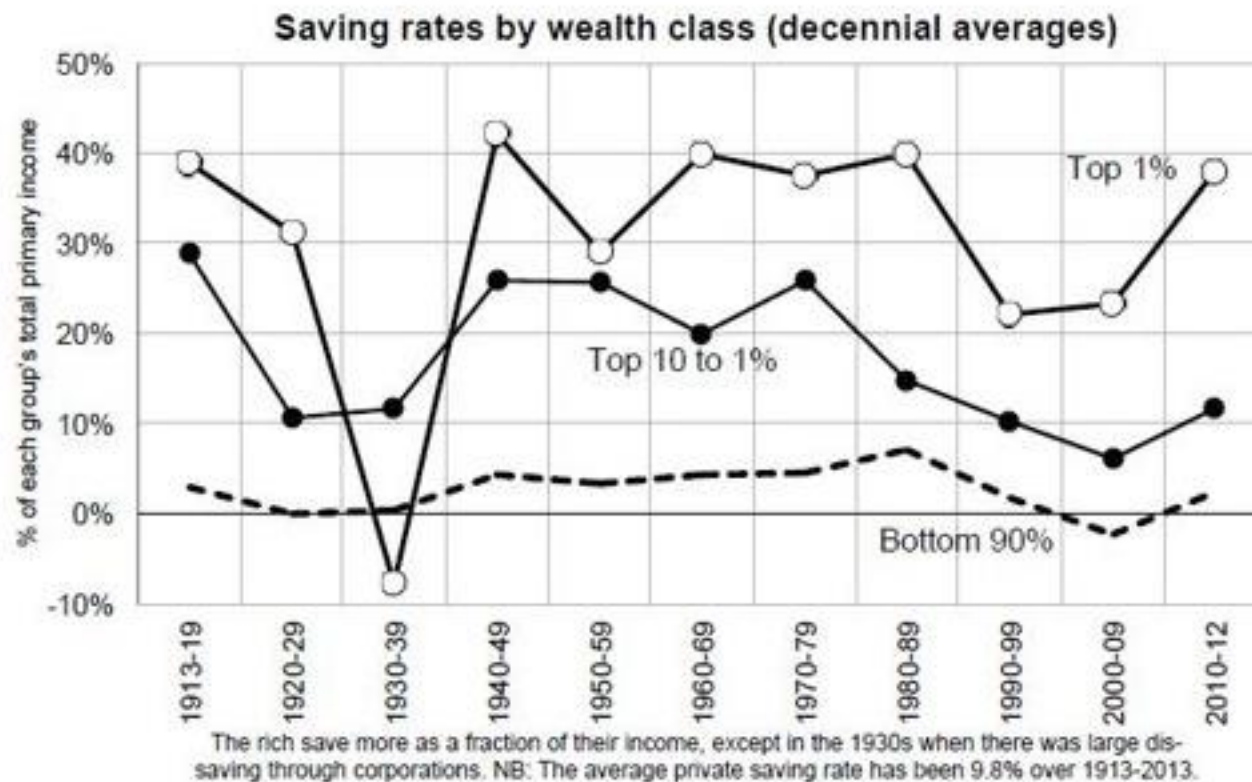
China: Consumer Spending  
as a Share of GDP



China: Gross National Savings  
as a Share of GDP



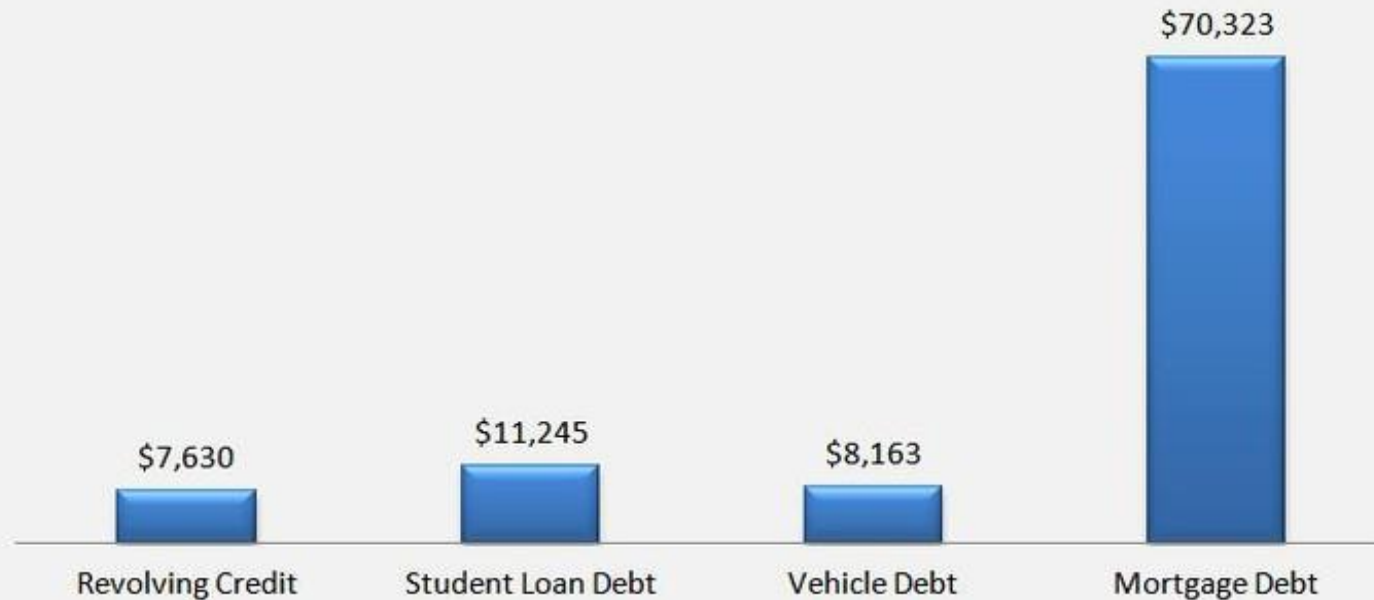
# The savings rate for most US families is very low.



Source: Emmanuel Saez and Gabriel Zucman, *The Distribution of U.S. Wealth, Capital*

And US household debt is very high.  
Money going to debt repayment is  
extinguished with the debt.

**Average debt outstanding**  
by household (Oct. 2018)



Sources: NYFRB, Federal Reserve, US Census

# So there is plenty of room for helicopter money from the central bank:

- For infrastructure
- For a Green New Deal
- For a universal basic income/national dividend
- For Medicare for all
- For student debt relief







For more information –  
[PublicBankingInstitute.org](http://PublicBankingInstitute.org)  
[EllenBrown.com](http://EllenBrown.com)

