Money, Debt and Banks

Richard Greeves, Dr. John Courtneidge and David Soori

If you want to be the slaves of banks and pay the cost of your own slavery, then let the banks create money - Josiah Stamp, Governor of the Bank of England, 1920

Money is the medium we use to exchange goods and services. But how many of us stop to consider exactly what money is, how money is created in the first place and more importantly who creates it; because whoever controls the issue of money is in a very powerful position.

Of course, money is essential, because without it trading would only be possible through the direct exchange of goods themselves – hopelessly inconvenient. However, to keep trade and economic activity going, **there has to be enough of this medium of exchange in existence to allow all this buying and selling to take place**. When there is plenty, the economy booms. When there is a shortage, there is a slump. For example, in the Great Depression people wanted to work to earn money to support themselves; they wanted goods and services, and all the raw materials for industry were available - yet national economies collapsed and millions were out of work and living in poverty. Why? Because there was far too little money in existence to allow full trading to take place. **The only difference between boom and bust, growth and recession, is money supply. Poverty throughout the world is very rarely due to shortages of food supplies, goods or services; it is almost invariably due to an overall shortage in national economies of the means of exchange to trade food supplies goods and services.**

So who is responsible for making sure there is enough money in existence to cover all the buying and selling that people want to engage in? The answer is that today it is almost entirely controlled by private banks through the process of 'lending'.

The popular misconception is that, when a bank lends, it is simply lending money that other people have deposited. This is very misleading; the money loaned by banks is in fact new money created out of nothing. Professor J.K. Galbraith has described the process as "so simple that the mind is repelled".

After all, **when an overdraft or loan is made to someone, nothing is transferred from the accounts of those who have made deposits**. All that happens is a note is made on the borrower's account that he can spend up to, say, £5000. There may have been nothing in his account before that, but suddenly the borrower is allowed to make out cheques and draw cash to pay for goods and services up to £5000. As he does so, this is actually new money being introduced into the economy. The people he pays will in turn use that money to pay for goods and services. Today in the developed world more than 95% of the total money supply has come into existence in this way as personal and business loans, mortgages, overdrafts etc. provided by commercial banks and financial institutions. However, borrowers must eventually repay the loans and pay interest to the banks in the meantime. So today's money is in fact created by private interests for private profit. It is ironic that criticism is levelled at the privatisation of railways, health, education etc., yet the private control of the means that enables the entire economy to function is something that most people are not even aware of and thus it is never challenged.

Only cash, which is provided by the government and now accounts for just 3% of the total money supply in Britain, (having fallen from nearly 50% just fifty years ago) is provided interest free.

Since the money supply is now almost entirely made up of loans, more money must be lent out to keep the economy going. This is why most of us are inundated with offers of loans, credit cards and so on. If people don't borrow there will be a fall in the amount of money circulating, resulting in a reduction in buying and selling - a recession, slump or total collapse will follow depending on how severe the shortage is.

The increase in loans created by banks over the years is conclusive proof that banks do create "money" out of nothing – in Britain it was £1.2 billion in 1948 up to £14 billion by 1963 up to £680 billion by 1997 and now, bolstered by the boom in property prices and increase in mortgages to support them, it has reached close to £1200 billion. These are big increases in real terms, even allowing for inflation; they have enabled the economy to expand enormously, and as a result, living standards for many people have improved substantially - but it has been done on borrowed money. What is credit to the bank is debt to the rest of us.

This has some pretty far reaching implications - after all banks are businesses out to make profits from the interest on the loans they make. Since they decide to whom they will lend, they effectively decide what is produced, where it is produced and who produces it, all on the basis of profitability to the bank, rather than what is beneficial to the community as a whole. With bank created credit now at more than 95% of money supply, entire economies are effectively run for the profit of financial institutions. This is the real power, rarely recognised or acknowledged, to which all of us including governments the world over are subject. Our money, instead of being supplied interest free as a means of exchange, now comes as a debt owed to banks providing them with big profits, power and control, as the rest of us struggle with an increasing burden of debt. There is much less risk to making loans than investing in a business. Interest is payable regardless of the success of the venture. If it fails or cannot meet the interest payments, the bank may seize and later sell the borrower's property. Borrowing is extremely costly to borrowers who may end up paying back two or three times the sum lent. The banks are acquiring an ever-increasing stake in our land, housing and other assets through the indebtedness of individuals, industry, agriculture, services and government - to the extent that Britain and the world are today effectively owned by them.

Furthermore, central banks such as the U.S. Federal Reserve and the European Central Bank, which regulate the commercial banks and set interest rates, are controlled not by elected governments but largely by **private interests** from the world of commercial banking; they are basically private banks. Even the Bank of England, although nationalised in 1946, is still largely under private control by virtue of the fact that its Court of Directors, the Monetary Policy Committee and its executive directors, who are responsible for the day to day running of the bank, are all dominated by bankers and conventional economists.

The debt burden on individuals and businesses is always going to increase under this system, because when a bank creates money by making a new loan, no extra money is created and fed into the economy to pay the interest on that loan. The existing money supply would soon be depleted by interest payments to the banks, if more money were not found from somewhere. The only way for interest payments to be kept up therefore is for more loans to be taken out. Although some individuals and businesses may pay off their debts or get by without additional borrowing, **overall** people and industry must keep borrowing **more and more** to create the money in the economy required to service the overall burden of debt. We are borrowing at least £60 billion of new "money" into existence each year just to cover interest payments. However, people and industry can't go on increasing their debt indefinitely, even with the lower interest rates that have come about in recent years as a response to the ever growing debt burden. Nevertheless, even with these much lower interest rates, ultimately there must come a point when people will no longer be able to afford to borrow and that point may now be getting very close. When the crunch comes, the economy will go into decline. The system ultimately contains the seeds of its own destruction.

Just as individuals and businesses in debt up to their eyeballs, so are whole nations. Governments borrow money from banks in a similar way to individuals. In return they issue to the lender exchequer or treasury bonds - otherwise known as government stocks or securities. These are basically IOUs - promises by government to repay the loan by a particular date, and to pay interest in the meantime.

The result of government borrowing is the national debt. British national debt now stands at about £400 billion - the annual interest on that debt is around £25-£30 billion. The government raises this money by taxing you and me. National debt is up from £26 billion in 1960 and £90 billion in 1980. Successive governments have borrowed this money into existence over the years.

However, if banks can create money out of nothing, then why can't the state do the same? In fact it already does so in practice with the relatively very small amount of cash in the economy. (The Bank of England oversees the production of notes and coins, the banks buy them up in response to customers' demands for cash and the profits of this operation are remitted to the Treasury where they become part of the public purse.)

Abraham Lincoln considered it a primary duty of the government to provide a nation with the medium of exchange to enable the economy to function. He proved the point by funding the Union war effort in the U.S. Civil War with government created currency called "Greenbacks", rather than taking out huge loans from the banks. He was of course assassinated, and the creation of greenbacks was terminated. A century later John F. Kennedy had similar ideas of breaking the Federal Reserve's monopoly on money creation with the re-introduction of greenbacks.

But what we have today is a situation where, instead of creating it themselves and spending it into the economy on public services and projects, boosting the economy and providing jobs, governments get banks to create it for them and then borrow it at interest.

It all started in 1694, when King William wanted money to fight a war against France. He borrowed £1.2 million from a group of London bankers and goldsmiths. In return for the loan, they were incorporated by royal charter as the Bank of England, which became the government's banker. Interest at 8% was payable on the loan and immediately taxes were imposed on a whole range of goods to pay the interest. This marked the birth of national debt. Ever since then, the world over, governments have borrowed money from private banking interests and taxed the population as a whole to pay the interest.

In practice governments could create as much money as is necessary to fund public projects such as schools, hospitals and railways, and once spent by them into the economy when the projects are paid for this money would continue to circulate, interest free. Instead, the government constantly whines that there is never enough money for anything (except a war!) because it borrows so much of what it needs, and this creates added expense through interest charges. Thus a major reason why the government is so keen to encourage private finance initiatives is because in the short term it does not have to raise so much money through taxation and borrowing. It is quite happy to let the private sector undertake and bear the cost of the borrowing instead and pass it on to the public.

Even so with interest on the national debt at around £25 to £30 billion a year - substantially more than the entire defence budget - the Chancellor is still faced with a massive budget deficit, which under the present system he can only bridge by yet more borrowing and yet more taxation. But it doesn't have to be like this - without at this stage touching on the steps that could be taken to reduce private debt, the national debt could at least be prevented from increasing by a cessation of government borrowing and instead issuing government created money to fund future public projects. Indeed over a period of time the national debt could be phased out by a carefully controlled process of redeeming government stocks with government created money rather than the current practice of issuing new ones. Some experts have estimated that such a course of action could bring about a 12 pence in the pound reduction in income tax. The problems of dilapidated schools, inadequate health facilities, ageing railways – all these and more could become a relic of the past.

Contact: Campaign for Interest Free Money, 13 North Road, Hereferd, Herts SG 14 1LN

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