Chapter 90
Unsustainability of Debt-Based Money

Patrick Collins
Independent Researcher, Japan

ABSTRACT

In addition to the problems caused by money being fiat, most modern money is moreover created not by governments but by the privately-owned banking systems as debt to themselves. This is not only grossly contrary to all traditions of natural justice, it is also unconstitutional. This problem has been understood and publicised by many politicians and writers over centuries, but it is still not widely known due to the financial and political power of the perpetrators. Since it is also the main cause of the continuing increase in inequality in all the rich countries, the "great reset" being advocated by those in charge of the present system is clearly not fit to become the new basis of the economic system.

INTRODUCTION

"If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and corporations that will grow up around them will deprive the people of all property until their children wake up homeless on the continent their fathers conquered." – Attributed to Thomas Jefferson, 3rd U.S. President, immortalized at Mount Rushmore

As discussed in chapters 1 and 2, most money nowadays is *fiat*, and is not sufficiently robust against inflationary political pressures to provide a solid basis for the world economy. However, there is another important reason why the current system is coming to the end of its usefulness, due to a fundamental flaw in the money systems used in most countries today, which has been introduced by stealth over the last few centuries. In the history of paper money discussed above, a major role was played by banks, which are the descendants of the "money-lenders" of an earlier era. As well understood nowadays, though not at the time, a major feature of money-lenders' business was systematic fraud, nowadays euphemized as "fractional reserve banking", which enables banks to literally create money – formerly the exclusive preserve of governments. This has grown and spread to the extent that nowadays nearly all money is

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created not by governments for the benefit of the public, as was done through most of history, but by banks as interest-bearing debts to themselves.

3.1 MONEY CREATION BY PRIVATE BANKS

Part of traditional money-lenders' business was to store customers' gold and provide them with signed notes stating how much gold they possessed, which were more convenient for making business payments than carrying physical gold. They also lent their gold to other customers, by lending them similar notes to use for payments, charging them a rate of interest. In doing this, gold merchants learned that they could use the same gold to back several times as much in paper notes as they actually possessed in gold – thereby earning several times more in interest payments – provided that they could always repay any customer who wanted to take their gold back. At a time when well-run farms and other businesses could grow their output by 2-3% per year, bankers could earn about 10 times this on their capital, perhaps 30% per year. This led to the unjust and socially destructive enrichment of financiers over productive industries which has continued over the centuries to the present day.

This theft of the wealth of the population was not widely understood by its victims – nor by anyone else. A famous phrase describing this process of stealing a tiny amount from everyone is "Death by a thousand cuts": each little cut is insufficiently important for people to take steps to counteract, but if allowed to continue they cumulatively become fatal to the successful functioning of the economy, whereby those who work productively should become rich, not those who dishonestly manipulate the money supply. This would be equivalent to a situation in a large company in which the accountants write fraudulent accounts that make the accounting department ever richer, while all other employees' salaries decline.

An early example of the popular discontent caused by the injustice of unbridled money-lending fraud was the preparation in 1215 of the historic British treaty known as "Magna Carta". Although the historic document, which the local rulers in Britain forced then King John to sign, covered many issues, two of its clauses were to the effect that a debt to a money-lender must not continue to burden a debtor's widow or their children after the debtor's death.

Today, the profit that a bank earns by creating a "bank deposit" when it authorises a new loan to a customer is similar to earlier money-lenders' practice of lending several times more paper money than they had gold, which enabled them to enrich themselves at the expense of the communities and markets within which they operated. Nowadays this practice by banks is dignified with the name "fractional reserve banking", which enables banks to receive the profits from creating money "out of thin air".

As a result of the growth and spread of this system, most of the money used in most countries today is created by the banking system as debt to the banks. This system is very different from the creation of debt-free money in the past by the king or government in order to pay for activities necessary for the public good, most fundamentally national defence and justice. It hardly needs to be explained that permitting a small group of private citizens – that is non-governmental bankers – to create and use debt-based money as they wish is contrary to all concepts of justice, honest government or democracy.

1. It is unfair and indeed unconstitutional – the limitless profits of seigniorage should only ever go to the people, as represented by their government.