The Deficit Terrorists

by

Ellen Brown

with a foreword & afterword by

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and an essay from William Shepherd on
Thomas Robertson ideas of Societal Inversion

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Foreword by William Franklin

Ellen Brown's article *The Egyptian Tinderbox: How Banks and Investors Are Starving the Third World* is grounded in an accurate description of the workings of the financial mechanism…an understanding almost universally absent from the mainstream media…eg. *BBC*, *UK* print media. Here is an extract from the *Follow the Money* section:

> ‘The cause of the recent jump in global food prices remains a matter of debate. Some analysts blame the *Federal Reserve's* 'quantitative easing' program (increasing the money supply with credit created with accounting entries), which they warn is sparking hyperinflation. Too much money chasing too few goods is the classic explanation for rising prices.
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> The problem with that theory is that the global money supply has actually shrunk since 2006, when food prices began their dramatic rise. Virtually all money today is created on the books of banks as 'credit' or 'debt', and overall lending has shrunk. This has occurred in an accelerating process of deleveraging (paying down or writing off loans and not making new ones), as the sub-prime housing market has collapsed and bank capital requirements have been raised. Although it seems counter-intuitive, the more debt there is, the more money there is in the system. As debt shrinks, the money supply shrinks in tandem.
>
> That is why government debt today is not actually the bugaboo it is being made out to be by the deficit terrorists. The flip-side of debt is credit, and businesses run on it. When credit collapses, trade collapses. When private debt shrinks, public debt must therefore step in to replace it.
>
> The 'good' credit or debt is the kind used for building infrastructure and other productive capacity, increasing the Gross Domestic Product and wages - and this is the kind governments are in a position to employ. The parasitic forms of credit or debt are the gamblers’ money-making-money schemes, which add nothing to GDP.
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> Prices *have* been driven up by too much money chasing too few goods, but the money is chasing only certain selected goods. Food and fuel prices are up, but housing prices are down. The net result is that overall price inflation remains low.
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> Meanwhile, interest rates on federal securities were also driven to very low levels, leaving investors without that safe, stable option for funding their retirements. 'Hot money' - investment seeking higher returns - fled from the collapsed housing market into anything but the dollar, which generally meant fleeing into commodities.’

Note Ellen Brown’s use of the term *Deficit Terrorists*...closer to the mark than *A Bankruptcy of Bankers*…but still pulling punches. We should be talking genocide…see *The Shock Doctrine* by Naomi Klein.

How Banks and Investors Are Starving the Third World by Ellen Brown

Underlying the sudden, volatile uprising in Egypt and Tunisia is a growing global crisis sparked by soaring food prices. But what caused the recent jump in food prices remains a matter of debate. "What for a poor man is a crust, for a rich man is a securitized asset class." – Futures trader Ann Berg, quoted in the *UK Guardian*

The Associated Press reports that roughly 40 percent of Egyptians struggle along at the World Bank-set poverty level of under $2 per day. Analysts estimate that food price inflation in Egypt is currently at an unsustainable 17 percent yearly. In poorer countries, as much as 60-80 percent of people's incomes go for food, compared to just 10-20 percent in industrial countries. An increase of a dollar or so in the cost of a gallon of milk or a loaf of bread for Americans can mean starvation for people in Egypt and other poor countries.

Follow the Money

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The problem with that theory is that the global money supply has actually shrunk since 2006, when food prices began their dramatic rise. Virtually all money today is created on the books of banks as "credit" or "debt," and overall lending has shrunk. This has occurred in an accelerating process of deleveraging (paying down or writing off loans and not making new ones), as the subprime housing market has collapsed and bank capital requirements have been raised. Although it seems counterintuitive, the more debt there is, the more money there is in the system. As debt shrinks, the money supply shrinks in tandem.

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While quantitative easing may not be the culprit, Fed action *has* driven the rush into commodities. In response to the banking crisis of 2008, the Federal Reserve dropped the Fed funds rate (the rate at which banks borrow from each other) nearly to zero. This has allowed banks and their customers to borrow in the U.S. at very low rates and invest abroad for higher returns, creating a dollar "carry trade."

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New Meaning to the Old Adage "Don't Play with Your Food"

At one time food was considered a poor speculative investment, because it was too perishable to be stored until market conditions were right for resale. But that changed with the development of ETFs and other financial innovations.

As first devised, speculation in food futures was fairly innocuous, since when the contract expired somebody actually had to buy the product at the "spot" or cash price. This forced the fanciful futures price and the more realistic spot price into alignment. But that changed in 1991. In a revealing July 2010 report in *Harper's Magazine* titled "The Food Bubble: How Wall Street Starved Millions and Got Away with It," Frederick Kaufman wrote:

The history of food took an ominous turn in 1991, at a time when no one was paying much attention. That was the year Goldman Sachs decided our daily bread might make an excellent investment...

Robber barons, gold bugs, and financiers of every stripe had long dreamed of controlling all of something everybody needed or desired, then holding back the supply as demand drove up prices.

As Kaufman explained this financial innovation in a July 16 interview on *Democracy Now*:

> Goldman...came up with this idea of the commodity index fund, which really was a way for them to accumulate huge piles of cash for themselves...Instead of a buy-and-sell order, like everybody does in these markets, they just started buying. It's called "going long." They started going long on wheat futures...And every time one of these contracts came due, they would do something called "rolling it

> over" into the next contract...And they kept on buying and buying and buying and buying and accumulating this historically unprecedented pile of long-only wheat futures. And this accumulation created a very odd phenomenon in the market. It's called a "demand shock." Usually prices go up because supply is low...In this case, Goldman and the other banks had introduced this completely unnatural and artificial demand to buy wheat, and that then set the price up...[H]ard red wheat generally trades between $3 and $6 per sixty-pound bushel. It went up to $12, then $15, then $18. Then it broke $20. And on February 25th, 2008, hard red spring futures settled at $25 per bushel...[T]he irony here is that in 2008, it was the greatest wheat-producing year in world history...
>
> [T]he other outrage...is that at the time that Goldman and these other banks are completely messing up the structure of this market, they've protected themselves outside the market, through this really almost diabolical idea called "replication"....Let's say...you want me to invest for you in the wheat market. You give me a hundred bucks .... [W]hat I should be doing is putting a hundred bucks in the wheat markets. But I don't have to do that. All I have to do is put $5 in...And with that $5, I can hold your hundred-dollar position. Well, now I've got ninety-five of your dollars...[W]hat Goldman did with hundreds of billions of dollars, and what all these banks did with hundreds of billions of dollars, is they put them in the most conservative investments conceivable. They put it in T-bills... [N]ow that you have hundreds of billions of dollars in T-bills, you can leverage that into trillions of dollars...And then they take that trillion dollars, they give it to their day traders, and they say, "Go at it, guys. Do whatever is most lucrative today."

And so, as billions of people starve, they use that money to make billions of dollars for themselves.

Other researchers have concurred in this explanation of the food crisis. In a July 2010 article called "How Goldman Sachs Gambled on Starving the World's Poor - And Won," journalist Johann Hari observed:

Beginning in late 2006, world food prices began rising. A year later, wheat price had gone up 80 percent, maize by 90 percent and rice by 320 percent. Food riots broke out in more than 30 countries, and 200 million people faced malnutrition and starvation. Suddenly, in the spring of 2008, food prices fell to previous levels, as if by magic. Jean Ziegler, the UN Special Rapporteur on the Right to Food, has called this "a silent mass murder", entirely due to "man-made actions."

Some economists said the hikes were caused by increased demand by Chinese and Indian middle class population booms and the growing use of corn for ethanol. But according to Professor Jayati Ghosh of the Centre for Economic Studies in New Delhi, demand from those countries actually *fell* by 3 percent over the period; and the International Grain Council stated that global production of wheat had *increased* during the price spike.

According to a study by the now-defunct Lehman Brothers, index fund speculation jumped from $13 billion to $260 billion from 2003 to 2008. Not surprisingly, food prices rose in tandem, beginning in 2003. Hedge fund manager Michael Masters estimated that on the regulated exchanges in the U.S., 64 percent of all wheat contracts were held by speculators with no interest whatever in real wheat. They owned it solely in anticipation of price inflation and resale. George Soros said it was "just like secretly hoarding food during a hunger crisis in order to make profits from increasing prices."

An August 2009 paper by Ghosh compared food staples traded on futures markets with staples that were not. She found that the price of food staples not traded on futures markets, such as millet, cassava and potatoes, rose only a fraction as much as staples subject to speculation, such as wheat.

Nomi Prins, writing in *Mother Jones* in 2008, also blamed the price hikes on speculation. She observed that agricultural futures and energy futures were being packaged and sold just like CDOs (collateralized debt obligations), but in this case they were called CCOs (collateralized commodity obligations). The higher the price of food, the more CCO investors profited. She warned:

> '[W]ithout strong regulation of electronic exchanges and the derivatives products that enable speculators to move huge proportions of the futures markets underlying commodities, putting a bit of regulation into the London-based exchanges will not alleviate anything. Unless that's addressed, this bubble is going to take more than homes with it. It's going to take lives.'

What Can Be Done?

According to Kaufman, the food bubble has now increased the ranks of the world's hungry by 250 million. On July 21, 2010, President Obama signed a Wall Street reform bill that would close many of the regulatory loopholes allowing big financial institutions to play in agriculture commodity futures markets, but Kaufman says the bill's solutions are not likely to work. Wall Street innovators can devise new ways to speculate that easily dance around cumbersome, slow-to-pass legislation. Attempts to ban all food speculation are also unlikely to work, he says, since firms can pick up the phone and do their trades through London, or arrange over-the-counter (private) swaps.

As an alternative, Kaufman suggests a worldwide or national grain reserve, so that regulators can bring wheat into the market when needed to stabilize prices. He notes that we actually kept a large grain reserve in the Clinton era, before the mania for deregulation. President Franklin Roosevelt pledged to maintain a large grain reserve in his second Agricultural Adjustment Act in 1938.

Chris Cook, former director of a global energy exchange, maintains:

The only long term solution is to completely re-architect markets. Firstly, cutting out middlemen which is a process already under way. Secondly, a new settlement between producer and consumer nations a Bretton Woods II.

Speculative markets today are driven more by fear, says Cook, than by greed. Investors are looking for something safe that will give them an adequate return, which means something they can live on in retirement. They need these investments because their employers and the government do not provide an adequate safety net.

At one time, federal securities were a safe and adequate investment for retirees. Then federal interest rates plunged, and investors moved into municipal bonds. Now that market too is collapsing, due to threats of bankruptcy among bond issuers. Cities, counties and states floundering from the credit crisis have been denied access to the quantitative easing tools used to bail out the banks although it was the banks, not local governments, that caused the crisis.[1] Meanwhile, pensions are being slashed and social security is under attack.

Arguably, along with the grain reserves institutionalized under Franklin Roosevelt, we need an *Economic Bill of Rights* of the sort he envisioned, one that would guarantee citizens at least a bare minimum standard of living. This could be done through job guarantees when people were able to work and social security when they were not. The program could be funded with government-created credit or government-bank-created credit, and this could be done *without* causing hyperinflation.

To support that contention would take more space than is left here, but the subject has been tackled in my book *Web of Debt*. In the meantime, the credit needed to get local economies up and running again can be furnished through publicly-owned banks.

Ellen Brown developed her research skills as an attorney practicing civil litigation in Los Angeles. In Web of Debt, Ellen Brown's latest book, she turns those skills to an analysis of the Federal Reserve and "the money trust." She shows how this private cartel has usurped the power to create money. Blog: Web of Debt; Book: Web of Debt: The Shocking Truth About Our Money System and How We Can Break Free. Niko Kyriakou contributed to this article.

Public Banking in America: Washington State Joins a Nationwide Movement by Ellen Brown

Bills were introduced on January 18 in both the *House* and *Senate* of the *Washington State Legislature* that add Washington to the growing number of states now actively moving to create public banking facilities. The bills, *House Bill 1320* and *Senate Bill 5238*, propose creation of a *Washington Investment Trust (WIT)* to "promote agriculture, education, community development, economic development, housing, and industry" by using "the resources of the people of Washington State within the state."

Currently, all the state's funds are deposited with *Bank of America*. *HB 1320* proposes that in the future, "all state funds be deposited in the *Washington Investment Trust* and be guaranteed by the state and used to promote the common good and public benefit of all the people and their businesses within [the] state."

The legislation is similar to that now being studied or proposed in states including Illinois, Virginia, Hawaii, Massachusetts, Maryland, Florida, Michigan, Oregon, California and others.

The effort in Washington State draws heavily on the success of the 92-year-old *Bank of North Dakota (BND)*, currently the only state-wide publicly-owned US bank. The *BND* has helped North Dakota escape the looming budgetary disaster facing other states. In 2009, North Dakota sported the largest budget surplus it had ever had.

The Wall Street Credit Crisis Is Crippling State and Municipal Governments

[1] See "*The Fed Has Spoken: No Bailout for Main Street*."

That state budget deficits are reaching crisis proportions was underscored in the January 19 *New York Times*. Almost everywhere the fiscal crisis of states has grown more acute. Rainy day funds are drained, cities and towns have laid off more than 200,000 people, and Arizona even has leased out its state office building. . . .

"It's the time of the once unthinkable…," noted Lori Grange, deputy director of the Pew Center on the States. "Whether there are tax increases or dramatic cuts to education and vital services, the crisis is bad…"

The "once unthinkable" includes not only draconian cuts in services, increases in taxes, and sale of public assets, but now filing for bankruptcy. States are not currently allowed to go bankrupt, but a move is afoot in Congress to change all that. Bankruptcy proceedings would allow states to escape pension and other contractual obligations, following the dubious lead of such mega-corporations as *General Motors* and *Continental Airlines*.

Meanwhile, fears of state bankruptcy have caused state and municipal bond values to plummet and borrowing costs to soar. As with Greece and Ireland, rumors of bankruptcy become a self-fulfilling prophecy, bringing out the hedge funds and short sellers that turn prophecy into reality.

Addressing the Problem at Its Source: The North Dakota Model

While drastic spending cuts are being proposed and implemented, the states' woes are not the result of over-spending. Rather, they were caused by loss of revenues and increased borrowing costs resulting from the *Wall Street* banking crisis. Jammed with toxic assets, derivatives, and the subprime mortgage debacle, the *Wall Street* credit machine ground to a halt in the fall of 2008 and has still not recovered.

And it is here, in generating credit for the state, that the *Bank of North Dakota* has been spectacularly successful. By providing affordable, low interest credit for business expansion, new businesses and students, the *BND* has helped North Dakota sidestep the credit crisis altogether.

The *BND* partners with private banks, providing a secondary market for mortgages; offers "wholesale" banking services such as check clearing and liquidity support to private banks; and invests in North Dakota municipal bonds to support economic development. In the last ten years, the *BND* has returned more than a third of a billion dollars to the state's general fund. North Dakota is one of the few states to consistently post a budget surplus.

Unlike private banks, public banks don't speculate or gamble on high risk "financial products." They don't pay outrageous salaries and bonuses to their management, who are salaried civil servants. The profits of the bank are all returned to the only shareholder - the people.

Washington State Representative Bob Hasegawa, a prime sponsor of the Washington legislation, called the proposal for a publicly-owned bank "a simple concept that will reap huge benefits for Washington." In a letter to constituents, he explained, "The concept (is) to keep taxpayers' money working here in Washington to build our economy. Currently, all tax revenues go into a 'Concentration Account' held by the *Bank of America*. *BoA* makes money off our money and we never see those profits again. Instead, we can create our own institution and keep taxpayers' dollars here in Washington, working for Washington."

Hasegawa said a key feature of the Washington banking institution is that it will work in partnership with financial institutions, community-based organizations, economic development groups, guaranty agencies, and others. He said the *Washington Investment Trust* will offer "transparency, accountability, and accuracy of financial reporting," a welcome change from the accounting tricks common among the large Wall Street money center banks today.

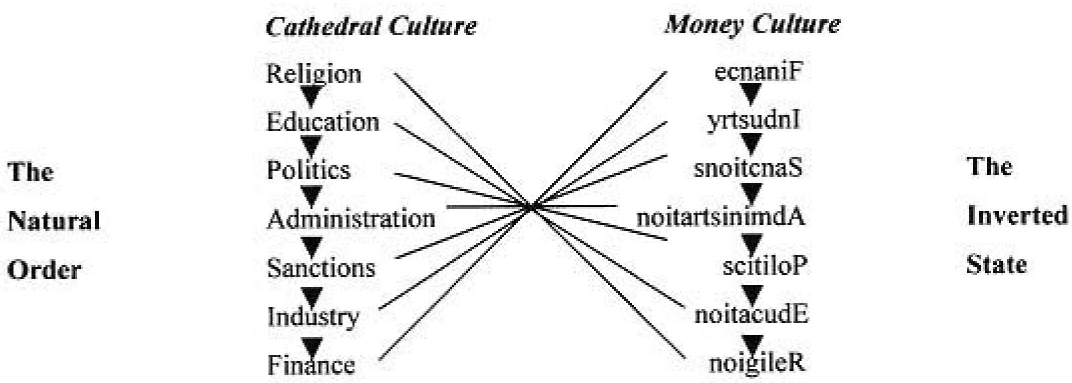
A public hearing on HB 1320 is scheduled for Tuesday, January 25th, at 1:30pm. The bill is assigned to the *Business and Financial Services Committee* in the House and the *Financial Institutions, Housing & Insurance Committee* in the Senate. For more information on the movement for publicly-owned banks, see *http://PublicBankingInstitute.org*. *This article was first published on January 25, 2011 by YES! Magazine, a national, nonprofit media organization that fuses powerful ideas with practical actions. Ellen is an attorney and the author of eleven books, including Web of Debt: The Shocking Truth About Our Money System and How We Can Break Free. Her websites:http://webofdebt.com* and *http://ellenbrown.com*.

Societal Inversion by William Shepherd *© william shepherd 1989*

> *extracted from Democracy & Christianity and The Power of Finance in The Rise & Fall of the Swedish Green Party (1982-1997) by William Shepherd.*

In the book *Human Ecology* published in 1947, the retired *Heriot-Watt Professor of Biology* Thomas Robertson set out a model of society that helped him to explain how societal inversion had taken place and the role of the usury virus in causing it. It is worth our while taking a little time to understand the Robertson model.

Society, argues Dr. Robertson, can be thought of as made up of seven great complex systems of human action. These seven mechanisms can be pictured forming themselves into a hierarchy of dominance. Robertson's basic idea is shown below diagrammatically:



In the natural order of society, power flows through ethics and values from the *Religious Mechanism* to the *Education Mechanism* and from there to the *Political Mechanism*. Here in the *Political Mechanism* the needs, the hopes and the aspirations of the many little people making up a society are translated into a language of policies and programmes of action so designed that they emerge in a form suited to the workings of the *Administration Mechanism*, which is then charged with the task of seeing that the things that society has decided to do are done the way society meant them to be done. So far so good.

In a well ordered society, the *Administration Mechanism* will then work through the *Sanctions Mechanism* distributed throughout society in the form of rewards, taboos, laws, customs, manners and the like to influence the day to day work that is carried out by the many little people with the help of energy slaves, intelligent tools or whatever else they need for their particular task, in the *Industrial Mechanism*.

At the bottom of the heap, as a service to the calls of the *Industrial Mechanism* is the *Financial Mechanism*, releasing money, making available credit and regulating the rewards of money, property and wealth according to the needs that society has for goods and services. This is *The Natural Order*.

The usury virus, by introducing the notion that time is money into society, works to invert this natural order by subtly shifting the balance of action away from the eternal verities of beauty, justice, kinship and the summum bonum (the good life). The end result is to degrade work from vocation and toil into jobs and labour, while placing a price on a man's life.

Gradually there arises a class of men whose business in life is to make money, not in the good sense of creating new wealth by the use of their minds and making available a good or a service which has value in the eyes of their fellow men, but in the bad sense of devising tricks to force their fellow men in society to give back two when they were given one.

Not all money lending is usurious. Nor is all usury of a monetary nature. But the introduction of the idea of money into a society and the establishment of a debt-credit mechanism[2] for the issuing of it

[2] Thomas Robertson refers to this Venetian trick as *Major Usury* in contrast to *Minor Usury* associated with the debates between Calvinists and Catholics. Interest-free banking and usury-free banking are different things. See R.H.Tawney on the *1571 Law against Usury* at http://cesc.net/adobeweb/dispatches/64.%20letterfromnewgate.pdf

leads inevitably to the inversion of society. No longer will society function like a healthy organism as in the natural order, but will be at war with itself with each of the seven mechanisms compelled to work against its intrinsic nature.

In *The Inverted State*, the power flow in society is reversed, Robertson explains. The *Financial Mechanism* releases credit for nuclear power plants and channel tunnels and through the structure of the currency system distributes money to corporate bodies; such as governments and limited liability companies.

Credit is unavailable for the elimination of scarcity; for products needed by those without money to pay for them; and for providing services which cannot be sensibly marketed as a commodity with a price.

The arts and the world of sport which should be organized and financed by those who participate in them and those who obtain so much joy from them are instead compelled to scramble at the table of the rich corporation because only they are issued with the money and can see a return for their investment.

How much better it would be, as G.K.Chesterton, Hilaire Belloc and the *Distributists* argued, to issue money instead to people and let them determine if there were some public service for which some common organization was required.

How much better it would be to abolish the right of corporate bodies to be treated in law as legal entities, as Thomas Jefferson argued, instead letting people speculate in their own merchant adventures, be taxed (if any such should be needed) in their own right, and own (if they do not wish it to be thrown into the common stock) their own wealth.

Personal possessions and common wealth were the basis of the just society. Private property, argued G.B.Shaw, not personal property was what Socialism was intent on abolishing.

When the *Financial Mechanism* no longer provides society with the financial services that its *Industrial Mechanism* requires to carry out the tasks the society wants it to do, then the answer for R.H.Tawney is not to cut back the demands and throttle the supply but to throw out the *Financial System* and replace it with a better one.

That after all is exactly what happens when a country's survival is threatened. Putting a country on a war footing means overriding the *Financial Mechanism* and placing orders for goods and services with the *Industrial Mechanism* directly. It is the deliberate reversal of the power flow between the *Industrial* and the *Financial Mechanisms* from that of the inverted state to that of the natural state.

In the inverted state the financial function calls the shots and the only game it has learned to play in reaching its ascendancy is to monopolize the issuance of money and credit and release it only to those who would make more money with it or further consolidate the power of the financial mechanism and the financial filter by which it exercises its control.

In the inverted state, money and credit is no longer available to provide for the exchange of goods and services and the provision of a stable store of value, the only two legitimate purposes of money and credit, but is instead made a scarce commodity to itself be traded for power favours.

The *Political Mechanism* by relinquishing the issuance of money and credit plays a pivotal role in the inversion of society. This has always been understood by the Thomas Paines and the Napoleon Bonapartes as they have attempted to craft constitutions that would guarantee that power flows in the natural way.

This has always been understood by the financial power and the religious power as they have attempted to switch the direction of the power flow at the very high leverage points in each of the other mechanisms by acting on the money and the credit flow as surrogates for power and increasingly so the greater the monetarisation of social action.

It is not enough, argues Dr. Robertson, to give Parliament the power to spend and the power to exact taxes, because all that happens is that the clerks invent the idea of a national debt which blows the whole underlying idea of power to the people sky high.

In Great Britain this extraordinary sabotage of the tax and spending power of the Parliament was first used in 1836. *The Money Power* lent the Parliament twenty million pounds 'to abolish slavery'. Quite an irony! It followed it up in 1848 with another nine million pounds for the Irish famine. We the people were on the slippery slope. Next came Disraeli with his purchase of the Suez Canal and the cat was out among the pigeons.

Thomas Paine's remark that wars were declared to raise taxes and not the other way about was now beside the point. The idea was afoot that Parliaments should turn to the *Money Power* whenever it had a neat idea. No longer was it *Tax and Spend*. Now, despite all Gladstone's efforts (and he brought the national debt down from eight hundred and forty six million pounds in 1816 to six hundred and fifty million pounds in 1914) it was *Spend and Borrow*…and Tax to service the debt. The power flow had been reversed and was now flowing from the *Financial Mechanism* to the *Industrial Mechanism*. The *Sanctions Mechanism* was now protecting private property, a euphemism for using force to stamp on any attempt to revert the power flow to the natural state.

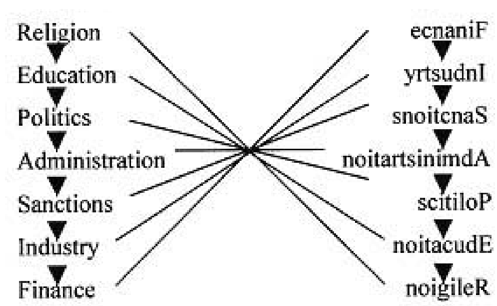
The *Administration Mechanism*, like a reed in the middle of a stream, moved with the flow, its primary concern for 'keeping the show on the road' now fed no longer by the high moral principle of implementing political decisions that have flowed from an educated citizenry deliberating under the overarching virtue of a moral law and an ethical code, but working now to the lowest of principles. The piper calls the tune. Might is right and the creed is greed.

The national debt was explained as a war debt and to this degree Thomas Paine's remark was well placed. The wars against France and Spain from 1688 to 1775 for instance had put another hundred and twenty eight million pounds on the ledgers and the Napoleonic wars had done their bit with yet another six hundred and seven million pounds.

But this was no different to the age old practice by which the king's heavy mob extorted money from the moneylenders to pay the soldiers. It accumulated on the books, it was ingeniously transferred from the strong to the weak in the counting house, and eventually it was wiped out by the revolution. The law of force always wiped the slate clean in the end.

But what we have now is something different…the institutionalizing of usury as the invisible hand of an invisible tyrant, *The Money Power*, who directs it to disempower any who would unmask the emperor or remove his crown.

In the essay entitled *The Foundations of Structural Sociology* I suggested visualising the *societal inversion process* as the buckling of a sheet of metal. There are various ways this can occur. One way is to apply a force at the point of major curvature in the centre of the metal sheet. Imagine this force as the weight of the accumulated debt and wealth divisions in a society as usury turns the screw year in year out. The act of wiping clean the slate removes the force allowing society to reestablish the natural order.



Look again at the diagram. In the *inverted state* the letters spelling the name of each mechanism have been reversed and run from right to left.

This reversal indicates that in the *inverted state* not only has the hierarchy of dominance inverted...this is the societal inversion to which Robertson refers...but the goal of each mechanism has become the complete reverse of what it would be in the *natural order*.

Monetary dispatronage is one of the symptoms of the inverted state. A modified form of *Gresham's Law* might state that in an inverted society bad lending drives out good lending. Perhaps we should call this *Wegerif's Law*[3].

But *Wegerif's Law* might give us a chance. The ratio of lending for *Goods* and *Bads* could be a surrogate for a society's production and consumption and provide a tracker index to measure a society's deterioration from a *Cathedral Culture* serving ordinary people to a *Money Culture* where the society and its money distribution channels are controlled by the rich and powerful...and their institutionalised major and minor usury generators.

[3] See *Letter from Basra* at http://www.cesc.net/adobeweb/dispatches/01.%20letterfrombasra.pdf .

Afterword by William Franklin

Ellen Brown's article on the abolition of our current bankruptcy of bankers argues for the creation of a political movement for a public banking sector…one run by the accounting profession instead of by the spivs of *Wall Street* and the *City of London*. Here the UK lags behind the US. The furthest public opionion has gone is summarised by the recent publication of this letter in *The Times* on Thursday 13th January 2011.

> 'Sir, The underlying problem with banks is the "fractional reserve" system by which they are allowed to operate. They take in money on deposit at a relatively low rate of interest and are then able to re-lend about 85 percent (sic) of it - sometimes several times over - at a much higher rate of interest. Banks trade with other people's money and, when dealing in derivatives, actually gambling with it. This is a perfect platform for people who are not very bright to enrich themselves. However, as we know, every now and again their often highly speculative lending and investment programmes run into trouble and the public picks up the bill.
>
> The business of banking is far too strategically important for any advanced nation to leave to those concerned solely with profit. Like the police, the military and the transport infrastructure it belongs in the hands of the state, which should run it for the benefit of all. This is not a socialist view; nationalisation is the only fair and reasonable way of ensuring productive, non-speculative and non-usurious money flow among a country's citizens.
>
> And if the tax take drops, does it really matter? Tighter control of budgets in all sectors, some quantitative easing (perfectly sound if linked to the true productive capacity of the country) will fill the gap. In any case, most people would regard almost anything as better than being at the mercy of our banks.'

Note the error that has converted a *Capital Adequacy Ratio* of 0.085 to '85 percent' ...which makes me curious to see the original letter before it went into the massaging mill at *The Times Letters Desk*. I suspect that the letter's author was quite clear about *Major Usury*...the Venetian banking device of pyramiding up from £85 of customer deposits to issuing interest-bearing loans of £1000...and his original text was 'mistranslated' into the *Minor Usury* of the second sentence under the guise of 'shortening' the text...a well-honed technique at *The Times* for removing unpalatable remarks as John Papworth's ever-expanding file of discussions with *The Times* letter desk bears witness.

Sabine Kurjo McNeill is doing sterling work with *Westminster Parliamentarians* to raise awareness about *Lincoln Greenbacks* and *Kennedy Silverbacks* opportunities. But the floodgates to placing public credit on the UK political agenda will not open in the UK until the first *County Council* or a *City Council* adopts the *North Dakota Banking* model at the same time as demonstrators pour onto the streets to protest against the swingeing budgetary cuts and the forced reduction in public sector employment at the very time it should be increasing. This might be sooner than anyone expects. It was very quiet in the early months of 1939.

John Maynard Keynes' crucial insight in his 1936 *General Theory of Employment, Interest and Money* was the failure of what he labelled 'effective demand'. Qualitative easing is supposed to address this fatal defect in the monetary system but if the new money gets no further than bank balance sheets...with just a trickle lost in bonuses to offshore tax havens...then nothing of the sort happens, particular when the rate that money is destroyed increases exponentially at the same time with the cancellation of debts and repayment of loans.

War[4] is one way to increase effective demand but the most efficient way to increase it peacefully during a depression[5] is to bypass the private banks and issue money directly to those parts of the economically active population that will put the money back into circulation...the poor, the lower middle classes and those on fixed incomes.

The easiest way to do this...not least because all the necessary mechanisms are already in place in most European countries (though not yet in the US) is so obvious that it dare not speak its name for fear of a Lincoln and Kennedy reaction, namely to mint money and give it fairly to ordinary people as a guaranteed income for everybody. Benefits should be increased dramatically...perhaps several times...to quickly put money into the pockets of ordinary people.

Housing benefits should be increased, instead of entitlements slashed so as to cover the full housing costs. Tenants are being fleeced by private energy and water companies as much as by landlords. And on the grounds of fairness, the housing benefits system should be indifferent to whether housing costs are incurred as rent or mortgage interest. Their effect is the same...something which is blindingly obvious when you look at your monthly bank statement.

As for cutting back child benefit entitlements, income support, job seeker allowance, working tax credits, disability allowances…and transfers to local councils and charities. This is about as economically illiterate as you can get.

[4] Two classics tracts from the 1930s…*My Quest for Peace* by George Lansbury and *Peace with Honour* by A.A.Milne…make the arguments against waging unjust (and just) war. Since then the *War Party* has been in power. It is time for a change.

[5] A depression is really a *Capital Strike* with credit withdrawn instead of labour (as it was in *1926 General Strike*).