

Trust of authorities, an essential requirement if a financial regulator is to become an effective protective entity...

An examination of banking cannot be properly examined in light of recent developments arising out of the global financial crisis and related events without firstly considering the origins of banking and why the system became flawed.

Over three hundred years ago the Gold Smiths made a small income from their safes but notice that depositors rarely came in with claim cheque¹ money to exchange them for the gold they had deposited in their vaults nor did they come in all at once. This was because the paper-based claims were being traded in the marketplace as if they were the gold themselves. Meanwhile the Gold Smith had another business, they lent out their gold claiming interest and naturally as the paper claim system gained confidence they too were asking for paper not gold.

As trade and industry expanded, more and more people asked the Gold Smiths for loans. Eventually the Gold Smith artisan became a banker because they realised that they could write out claim checks not only for their own gold but also for the gold of their depositors who were not any the wiser. For a very long time the Bankers became richer on other people's deposits. The depositors learnt that the Bankers were making a profit from their deposits and demanded that they cut them in and thus began banking with Bankers paying a small interest to depositors and charged a higher interest to those seeking a loan.

As trade and industry continued to grow the Bankers got a bolder idea to make themselves even richer. Since no one but the Bankers actually knew how much gold was in the vault they began to write out paper-based claims that were far in excess of the gold they held in their vaults. The ostentatious behaviour of Bankers along with their obvious wealth resulted in suspicion and some borrowers demanded gold instead of paper. The rumor spread to the larger depositors they turned up and demanded their gold, the game was up. This resulted in what all Bankers dread, a run on the banks. This was the first major crisis for the Bankers.

This crisis ruined many individual banks and damaged public confidence in all Bankers. It would have been straightforward to outlaw creating money from nothing but the large volumes of credit the Bankers were offering had become essential to European expansion. So the government legalised the practice and Bankers agreed to limits as to how much fictional money could be loaned out.

A nine to one (paper to gold) ratio was agreed upon and the Fractional Reserve was created. It was also arranged that central banks would support smaller banks if there were a run on a bank. Only if there was a run on a lot of banks would the banker's credit system come crashing down, the credit bubble would burst.

¹ Cheque (or check in American English)

Today the money system is an evolution of the fractional reserve system and a network of banks backed by a central bank.

In the past money was a receipt that could be exchanged for gold or silver, in the present a paper or digital dollar can only be redeemed for another paper or digital dollar. During this evolutionary period of the modern banking system the fraction of gold backing the debt money shrunk to nothing.

Also in the past privately created bank credit could be accepted or refused by an individual as payment for a debt. The decision to accept a bank credit note depended upon how much confidence an individual had in the note.

In the present privately created bank credit can be legally exchanged for government issued 'fiat' currency. Fiat money is money that derives its value from government regulation or law. The term derives from the Latin fiat, meaning, "*let it be done*" or "*it shall be [money]*". Law compels the individual to accept fiat currency as payment for a debt or else the courts will not enforce a debt obligation.

Therefore if banks and governments can both create money than how much money actually exists?

In the past the money as a total amount was related to the amount of whatever commodity was in existence that most people would accept as an alternative for the payment of a debt. In the present new money is literally created as debt and the amount of money that can be created has only one real limit, the total level of debt.

Governments place an additional statutory limit on the creation of new money though the implementation of a fractional reserve requirement. Today this reserve is very arbitrary from country to country and from time to time and the former gold ratio arrangement was completely replaced with a debt ratio arrangement.

Specifically the ratio of new debt money to existing debt money on deposit in the bank, and the amount of money a bank is expected to have in reserve is dependent upon two things. The amount of government issued money (commonly referred to as cash) a bank has in deposited with the central bank; and plus the amount of already existing debt money it has written into it's book as debt.

When a new bank begins and has no depositors the Central Bank provides the new bank with capital papers referred to as 'high-powered money' i.e. the bank's account with the Central Bank. The required debt ratio began as nine to one which meant that from about \$1,100 held at the Central Bank in terms of government issued money (cash) the new bank could then lend a borrower \$10,000 in return for a borrower's pledge of debt.

This new money doesn't actually come from anywhere but is typed into existence through a computer keyword. The borrower then has a bank cheque for the amount of the loan. The receiver (seller of a commodity) then deposits the bank cheque into a bank which may be another bank. However, unlike the high-powered money this new money cannot be multiplied by the reserve ratio but is instead divided by the ratio.

On the deposit of the original \$10,000 the second bank can lend \$9,000 and the process can be repeated with other banks until almost \$100,000 of fictional money is created. The exception to this process is if someone takes the money out of circulation. For example, places it in a tin box and buries in the back yard.

All of this new debt money has been legally created upon just a little more than \$1,100 of government issued money originally deposited with the Central Bank. On this point it is relevant to mention an old banker's saying 'create a profit make a law' and in this case the law to create money from debt.

There are two primary books held by banks, deposits and loans and the ratio is the same. Therefore one book may show deposits of 100 million dollars and the book of loans show 90 million dollars. This gives banks the incentives to seek deposits and many people wrongly believe that loans come out of deposits. This mistaken belief of where money comes from is not the fault of the people because if you asked people what they learnt in school about the banking system none would say that they were told that banks created money out of debt. That part of our education seems to be overlooked and strangely enough that seem to have happen elsewhere around the world.

During the past four decades Bankers at the highest level have by one way or another influenced governments to change the debt ratio and in some countries the ratio can be as high as 30 to 1 and in other cases through the use of loan fees acquired from borrowers there is no fractional reserve whatsoever.

So whilst the banking rules are very complex the common sense reality is quiet simple. From a social psychological perspective, economist and author Mark Mansfield has best sum up the situation:

"Everyone sub-consciously knows banks do not lend money. When you draw on your savings account, the bank doesn't tell you that you can't do this because it has lent the money to somebody else."

Today more than 95% of money in circulation today is the result of someone signing a pledge of indebtedness to a bank somewhere around the global. The past Chairman of the Board, Midlands Bank of England - Reginald McKenna said:

"I am afraid that the ordinary citizen will not like to be told that banks can and do create money, ...And they who control the credit of the nation direct the policy of Governments and hold in the hollows of their hands the destiny of the people."

Banks can only practice this money system with the cooperation of governments, and unfortunately if enough governments allow the system to continue those that do not subscribe to the notion that banks should have so much power have little power to do much about the situation because essentially the entire system is a global one and the real power over the system is owned, so to speak, by Bankers, not governments.

The simple truth is that when anyone signs on the dotted line for a so-called loan their assets are the only things of value and for anyone that believes the debt pledge will be honoured; the debt papers are portable and exchangeable.

In this system it is the individual who has any true value because in the real world lending means the lender has must have something that is real to lend. If you need a car jack because you have a flat tire the photocopy of what a jack looks like on a piece of paper is of no use to you. In the artificial world of money a bank's promise to pay money it does not have is allowed to be past off as money. The sad thing is that many people accept it as such because they are none the wiser. Without the document the individual signed, the banker would have nothing to lend.

As economist and author Irving Fisher puts it:

"Thus our national circulating medium is now at the mercy of loan transaction of banks, which lend not money but promises to supply money they do not have."

Today people are waking up and everywhere they are asking the same question:

"How can families, small businesses, corporations, and governments all be in debt at the same time and collectively for such astronomical amounts?"

Now you have you answer, banks do not lend money they simply create it from debt and as debt is unlimited so the supply of money is also. As it turns out the opposite is also true. No debt, no money.

Today people are also aware of something else. They see around them innovation, technological advances, mineral and oil resources in one place and another along with the means using complex and large machinery to gain access to those resources and transport them anywhere in the world. This leaves people with a second question:

"Why is it that those that produce so much from their toil and ingenuity, that they too, are in so much debt?"

The answer is we are completely reliant on bank credit and whilst an individual can benefit from having no debt, if all of us did not have a debt there would be no money.

It is only the time lag between the creations of new debt money so as to satisfy existing debt money needs that provides a breath space between ever increasing magnitudes of GFC. Like the children's game of musical chairs there are no losses until the music stops. It is for this reason that in the last decade we are getting more and more unsolicited offers of credit in the letter box or when you go shopping, in addition to an interest free loan for a time, you are automatically given a credit card from a bank you have never done business with before.

Unfortunately the music is about to stop and no one, including the Australian government, can fix the financial system because it became mortally wounded once the banks began to create profit from a law that allowed them to make money from debt. The system has bled out any value that was originally in the system because production and trade can not for ever and a day always increase exponentially in a finite world.

The application of the law of physics known as the 'conservation of energy' is incompatible in the artificial world of money. Sustainable development does not (excuse the pun) lend itself to creating more debt money.

So when you hear that the economy is growing at 3 percent you think it is a flat line but the reality is that the 3 percent last year is not the same as the 3 percent this years. This is because the amount of waste and damage to the environment is increasing exponentially and money alone cannot fix these problems. As a famous Indian war chief puts it, *"Only when the last fish is caught from the rive will the white man realise you can't eat money!"*

To sustain the artificial world money, there are more western corporations resorting to paying only poverty line wagers by moving their businesses into countries that allow such things to happen. This trend is a direct result of the modern banking system where the benefits of banking go to a relatively small group of people and are not shared with those outside their circle.

If banking as an institution was 'at cost' and the objective was to do the best job possible by employing the best people on the best wages, and to thereafter seek no further profit, Bankers would be part of the solution and not part of the problem.

Usury at one time was prohibited by every major religion because it was commonly accepted to be immoral. Some beliefs are timeless.

Sir Josiah Stamp the Director of the Bank of England from 1928 to 1941 who was reputed to be the 2nd richest man in England at the time had this to say about the morality of the modern banking system. These words from this Banker with a conscience are astounding.

"The modern banking system manufactures money out of nothing. The process is perhaps the most astounding piece of sleight of hand that was ever invented. Banking was conceived in iniquity and born in sin.

Bankers own the Earth. Take it away from them but leave them the power the create money, and with the flick of the pen they will create enough money to buy it back again. Take this great power away from them and all great fortunes like mine will disappear, and they ought to disappear, for then this would be a better and happier world to live in. But it you want to continue to be slaves of the banks and pay the cost of your own slavery, then let Bankers continue to create money and control credit."

The modern banking system has been the cause of many wars past and present, and in addition to the aforementioned old banker saying:

'Create a profit make a law'

It is reasonable to say:

'Create a war makes lots of laws'.

Of course not all wars can be blamed on the corrupted within the banking world and ironically resistance of the modern banking system has resulted in war. For example the inability of the American colonists to get power to issue their own money out of the hands of George the third and the international Bankers was the prime reason for their revolutionary war.

In some respects the journey of the American people may be about to go the full circle and another revolution of a different kind is likely to occur should the Euro followed by the American dollar fall. Isn't this the real reason behind Orwellian laws such as the US National Defence Authorization Act (NDAA)? A law that allows anyone regardless of citizenship (Australians included) to be taken anywhere in the world on the basis of SUSPICION (not facts) of being a terrorist or of being an associate of a terrorist and placed in a military prison without access to a lawyer because there are no charges to be booked nor court of peers to decided on the truth of the matter:- Senator Ran Paul son of US Presidential candidate and former Governor Ron Paul, (words to the effect) from the floor of US Senate 29th November 2011 (YouTube video record of this Senate speech) ²

The American Revolution and what later followed in 1913 is an important lesson for Australians because it teaches us tells that Bankers are persistent and long term planners. This is what Woodrow Wilson the President of the United States had to say some years after he allowed International Bankers to largely control the financial system of the United States:

"I am a most unhappy man. I have unwittingly ruined my country. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men. We have come to be one of the worst ruled, one of the most completely controlled and dominated Governments in the civilized world, no longer a Government by conviction and the vote of the majority, but a Government by the opinion and duress of a small group of dominant men. "

As is the case elsewhere in the world whoever controls the volume of money in Australia is the absolute master of all our industry and commerce and when you come to understand that you begin to realise that nothing ever happens in the money world by accident but by design. The words of this paragraph are not entirely my words as I contextualised part of a speech made by another US President named James A. Garfield who was later assassinated for standing up against corruption.

² http://www.youtube.com/watch?v=anjVgWNzQnk&feature=player_embedded

Thus whilst this inquiry may honestly believe it has the power to change things and perhaps something positive will result, ultimately it is the entire financial system that controls us and what we do here may help but a little.

So where is the banking system taking us?

The Banker's waiter, a gentleman that brings them things, had this to say:

*"As we march towards a world government.... the supranational sovereignty of an **intellectual elite** and world Bankers is surely preferable to the National auto-determination practiced in past centuries."*³

When I read his words it reminded me of something someone else had said that I included in another submission to Canberra many years ago. The above statement and that below left me with the impression that **those that have a passion for power share the same mindset.**

This is an extract from the former Canberra submission:

Young stated he had few qualms about ordering someone killed in peacetime if he felt it was in the national interest. *"It is the spy who has been called upon to remedy the situation caused by deficiencies of ministers, diplomats, generals and priests,"* he said. *"We do not have to develop... the ability to produce the ready phase, the smart reply and the flashing smile. And so it is not surprising these days that the spy finds himself the main guardian of **intellectual integrity** (The Weekend Australian 22 July 2000)."*

It is my opinion that intellectual integrity is the stated claim of mind, of those that assassinate, lead coups, and resort to violence as a means to an end.⁴

³ David Rockefeller in an address to the Trilateral Commission meeting, 1991.

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http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committees?url=pjcaad/asio/subs/sub15.pdf

From a policing perspective, an administrator's perspective, perhaps the present inquiry into the changes and proposed changes to Australian banking, as we approach the next GFC after being impacted upon by the last, needs to consider these six questions that I feel are very applicable to the general scope of the inquiry:

1. Why does the Australian government choose to borrow money from private banks at interest when it could create all the interest free money it needs, itself?
2. Why create money as debt in the first place?
3. Why not create money that circulates permanently and is directly related to the store of resources a country has?
4. How can the money system that is entirely dependent on perpetually accelerating growth be used to grow a sustainable economy?
5. Isn't it logical that perpetually accelerated growth and sustainability are incompatible?
6. Isn't it logical that those that put the financial system in place have already planned for its collapse in the hope that they will acquire control over not only private assets but the sovereign assets of all countries?

I respectfully submit my submission in the hope that it will receive the favourable consideration of this inquiry and the Australian Government and the people it serves.

Yours sincerely,

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Witness 51 –Royal Commission (Fitzgerald) Inquiry

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