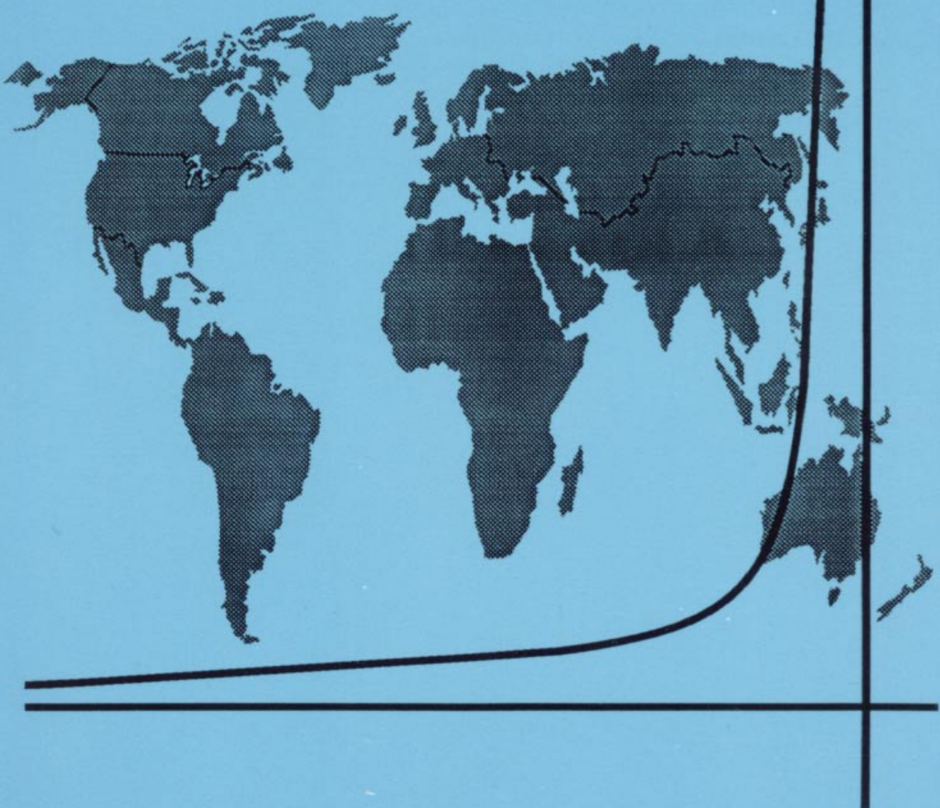
Money and Debt:
A Solution to the Global Crisis

By Thomas H. Greco, Jr.

Second Edition



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Thomas H. Greco, Jr., Publisher
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Preface

This book began as a compilation of three essays which I wrote during 1988, and which I have since revised several times. These essays comprise Parts I, II, and III. They express ideas which have been slowly taking form over the past nine years, a time during which I have focused much of my attention on fundamental research into the subjects of money and exchange.

Although I have an extensive academic background in management, finance and quantitative analysis, the understanding of economics which I gained through formal study within academia was superficial, narrowly focused and, for the most part based on premises which are questionable at best and in many cases erroneous. From the beginning, my research has been problem-centered and motivated by a growing awareness of the deepening and interrelated global problems of both human and ecological degradation, a strong desire to understand the root causes of these problems and the hope that out of these efforts might come some clues which might lead to a remedy.

The process of this research has been one of spontaneous development involving a network of numerous correspondents. I determined early-on that the orthodox economic academy had little to offer in terms of penetrating problem-centered analysis and that I would have to look elsewhere for insights powerful enough to bear fruit. For this reason I have cultivated colleagues who are for the most part extra-academic scholars and activists, and sought out materials from a broad range of religious and political, as well as academic perspectives, often finding grains of truth in what might otherwise have been discarded as biased or sectarian rhetoric. I discovered a wealth of valuable material which had been forgotten, overlooked or obscured.

I soon came to realize that the problems which we seek to solve derive from structural deficiencies and foundational flaws in many of the dominant institutions, and I concluded that only a thoroughgoing restructuring would bring about an effective solution - restructuring in not only economic matters, but throughout the whole of what we call civilization.

This work is the product of many minds. What I have tried to do is to synthesize their diverse thoughts into a coherent matrix which might begin to demystify for the ordinary reader the subject of money and global finance, and to lay out a framework for what I think to be a liberative approach to money and exchange. However, although the primary focus here is on economics, these questions cannot be adequately dealt with apart from the broader context of the social structure within which they operate.

I hope in a later volume to address these matters more adequately so that the reader can gain an understanding of the attitudinal changes and sociological shifts necessary to bring the world through its current crisis.

I am greatly indebted to my many mentors and colleagues, and to all those friends, relatives and associates through whom Divine providence has supported these efforts. May our work continue, and may it bear fruit in the form of a more healthy, happy and peaceful world in which life may prosper and humankind, in unity, may fulfill its destiny.

Introduction

The first part of this book is based on a presentation which I made at the Seventh Assembly of the Fourth World which was sponsored by the School of Living and held in Raleigh, NC in August 1988. This part deals with an analysis of the current monetary and financial situation and shows that there are fundamental flaws which during the present century have manifested in recurrent and alternating recession and inflation and, more recently, in ‘’stagflation,’’ and now in an explosion of debt worldwide.

Unlike most other analyses which have been published, this one examines the basic structure of the global monetary system, shows how it is intimately linked to debt and government finances, and identifies the engine which drives the debt explosion. It includes what I consider to be a reasonable proposal for settlement of the international debt crisis, which could, if the political will existed to implement it, quickly transform this strife-torn world.

Following the Assembly, in an effort to answer more completely numerous questions which had been raised about my proposed approaches to a solution, I went to work on Parts II and III. Part II considers the nature of money and its role in the exchange process, the problem of value measurement and the characteristics of an ideal money. It attempts to summarize and extend the work of that monetary genius, E.C. Riegel. Part III examines the confusions which result from legal provisions such as ‘’legal tender’’ and banking practices which force money to serve conflicting purposes. In it, I argue that the functions which money is said to serve should be segregated. I also make what I believe to be a novel proposal for a global objective ‘’value’’ standard. In this, the second edition, I have made extensive revisions to Part I and have substantially enlarged and elaborated Part III. Part II, except for the correction of a few typographical errors and one clarifying change in terminology, remains much the same.

The general acclaim with which the first edition was greeted was very gratifying and has provided me encouragement in my further efforts to help demystify the subjects of money and finance for the general population. I am also grateful to many of my network colleagues for their extensive and specific criticisms which I hope have made this edition a substantial improvement over the previous one.

In light of some of the reactions to the first edition, I see a need to clarify several points. These are things which were at least implicit in the body of the text but which appear not to have come through to some readers as strongly as I had intended. First of all, I believe that “the end is inherent in the means” and I therefore advocate nothing but voluntary and non-violent action in bringing about change. Secondly, I believe that monopoly and special privilege established by law are ultimately harmful to all, even those who ostensibly benefit therefrom. I, therefore, favor the elimination of all such legal statutes by means provided for in the Constitution of the United States and established in American tradition. Thirdly, I believe in the sovereignty of the individual person and the rule of conscience, and that no state authority has the right to conscript either his/her person or property. Fourthly, I favor free and unencumbered experimentation with exchange mechanisms, including alternative currencies and barter and reciprocal trade associations, ‘’value’’ standards, accounting units and cooperative ownership structures, and voluntary choice in using any of them. Finally, in keeping with the foregoing, I do not advocate government prohibitions of usury or any other financial practices. Rather, I favor the withdrawal of government from the marketplace and the elimination of statutes which allow some to have unfair advantage over others. When there are truly free markets to provide buyers and sellers with alternatives, and contracts are entered into voluntarily, there will be no need for restrictive regulation by government.

Money and Debt: A Solution to the Global Crisis

Part 1 - Political Money and the Debt Imperative: Why the Budget Can't Be Balanced

The Debt Crisis

The whole world today seems to be awash in a sea of debt which threatens to drown us all. Many Third World countries, despite their huge increases in production for export, are unable to pay even the interest due on their accumulated indebtedness to Western banks and governments. In the U. S., the levels of both public (government) and private debt are increasing at alarming rates. The Federal budget deficits of recent years far exceed anything thought possible just a decade ago. Why is this happening and why is it a problem? In order to understand that, one must first understand some financial facts of life.

The "Magic" of Compound Interest

Suppose you were to deposit a single dollar in a bank account which pays 6 percent annual interest. After one year your account balance would have grown to $1.06, a modest sum and nothing to get very excited about. If you left that amount intact, by the end of the second year, your balance would be a bit over $1.123. After three years, your balance would be $1.191. And so on, each year the principal would be increasing, so the amount of interest earned would increase. Over a period of a few years, the amounts do not seem startling; still, your deposit balance would double in about 12 years. And it would continue to double every 12 years. In just 30 years you would have 5.74 times your original amount. Still, in absolute terms, these amounts do not seem very large. Over a longer time frame however, it is a different story. In 100 years, a single dollar grows to be $339.30. Suppose your great grandmother had made a deposit of $100 one hundred years ago, to be left for her descendants today. If she had done that you would be the inheritors of the tidy sum of almost thirty four thousand dollars. If your great great great grandmother had done the same two hundred years ago, you and the other members of your family would share a family fortune of over 11.5 million dollars.

Still more startling are the figures which would prevail if the rate of interest had been ten percent per annum. At that rate, a single dollar grows to $13,780.65 in one hundred years. Great grandma's foresight in investing one hundred dollars would have rewarded you with a legacy of almost 1.4 million dollars, and great great great grandma's legacy (after 200 years) would be an unbelievable 18.9 billion dollars (that's right, billion). One would not think that such modest sums could grow at such modest rates to become such enormous amounts. Such is the magic of compound interest.

Table A shows the figures for growth at compound interest up through 270 years. It will be noted that at 6% per annum interest, the amount grows by a factor of 1.76 every 10 years; at 10%, it grows by a factor of 2.59 every 10 years. Figure 1 shows this growth graphically. It can be seen that the curves accelerate upward, shooting more rapidly toward infinity as time goes on. Such mathematical relationships are known a exponential functions.

What has all this to do with reality? Unfortunately, it has far too much to do with reality. Interest rates of 6% and 10% are well within the range of actual practice - consider savings accounts paying 6% or 7%, prime bank rates of 9% to 10%, mortgage rates of 11% to 14% and credit card rates of 18% to 24% or more. Is it reasonable to expect such conditions to continue indefinitely? In nature, exponential growth is always temporary; it either levels off or collapses.

The Long-term Growth of Debt

Figure 2 shows the total public and private debt for the United States from 1916 to 1976 as reported by the U. S. government. This includes the debts of all levels of government, businesses and consumers. It can be seen that this curve looks remarkably similar to the compound interest curves of Figure 1. Figure 3 shows the same information plotted on a logarithmic scale. An exponential function plotted on such a scale shows as a straight line, the slope of which represents the growth rate. It will be noted that the growth rates were slower in some periods and faster in others. It can be seen that the rate of growth was higher than normal during the war years of the teens and the forties, due presumably to heavy government borrowing to finance the wars, and during the Depression years of the thirties, the total debt actually declined. But over the entire period of 60 years, it can be shown that the total debt grew at an average annual rate of about 6.6%. This rate of growth far exceeds the rate of inflation of the currency, population growth, or growth in real output of the economy.

Robert Blain estimates that total debt amounted to only 28% of Gross National Product (GNP) in 1790 ("United States Public and Private Debt: 1791 to 2000," *International Social Science Journal*, UNESCO, November, 1987. Paris). Total debt was 170% of GNP in 1916, 213% in 1976, and 227% in 1984. These data suggest that there is some sort of debt imperative built into the financial structure, and indeed there is, as we shall see.

Table A

FUTURE VALUE OF ONE DOLLAR
AT COMPOUND INTEREST

AFTER YEAR	AT 6% PER ANNUM	AT 10% PER ANNUM
1	1.0600	1.1000
2	1.1236	1.2100
3	1.1910	1.3310
4	1.2625	1.4641
5	1.3382	1.6105
6	1.4185	1.7716
7	1.5036	1.9487
8	1.5938	2.1436
9	1.6895	2.3579
10	1.7908	2.5937
20	3.2071	6.7275
30	5.7434	17.4494
40	10.2856	45.2593
50	18.4201	117.3910
60	32.9875	304.4821
70	59.0757	789.7483
80	105.7955	2,048.405
90	189.4636	5,313.035
100	339.3002	13,780.65
110	607.6346	35,743.46
120	1,088.181	92,709.36
130	1,948.765	240,464.2
140	3,489.939	623,702.5
150	6,249.946	1,617,724.
160	11,192.69	4,195,961.
170	20,044.40	10,883,240.
180	35,896.45	28,228,340.
190	64,285.03	73,217,060.
200	115,124.60	189,906,200.
210	206,170.6	492,568,000.
220	369,219.9	1,277,595,000.
230	661,216.3	3,313,753,000.
240	1,184,137.	8,595,024,000.
250	2,120,608.	22,293,280,000.
260	3,797,684.	57,823,050,000.
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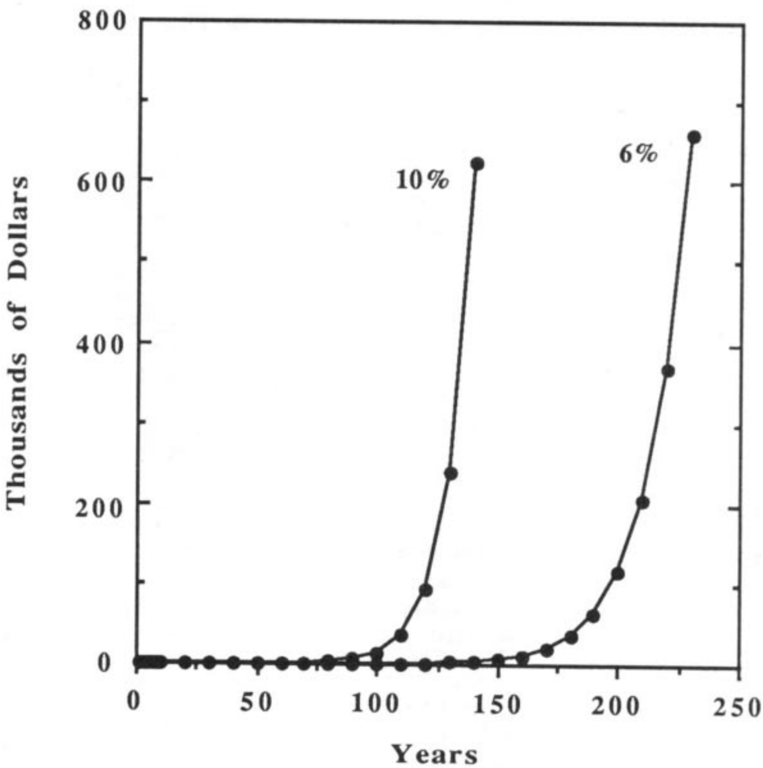

Figure 1. Growth of one dollar at compound interest.

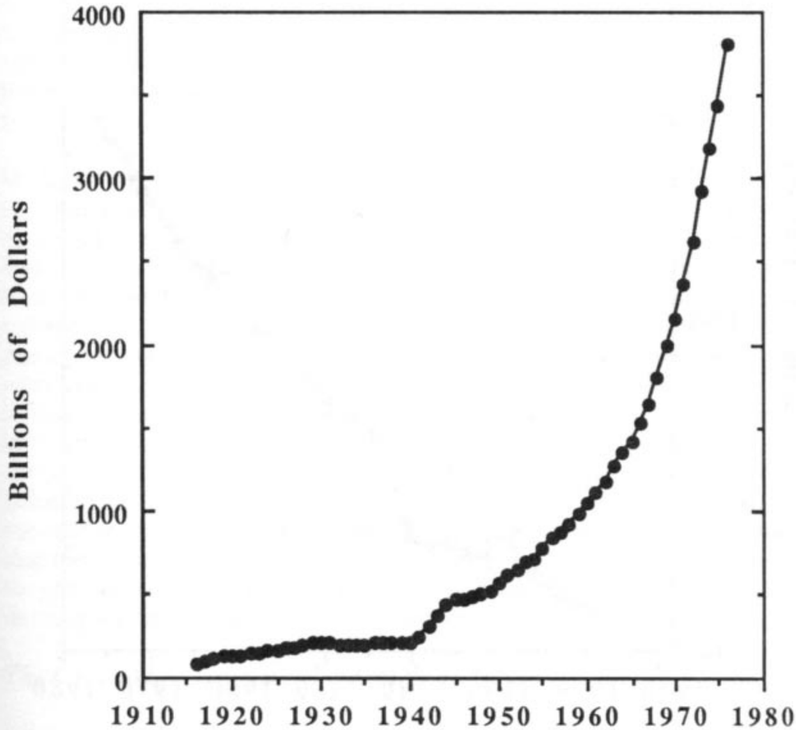

Figure 2. Total public and private debt, 1916-76.

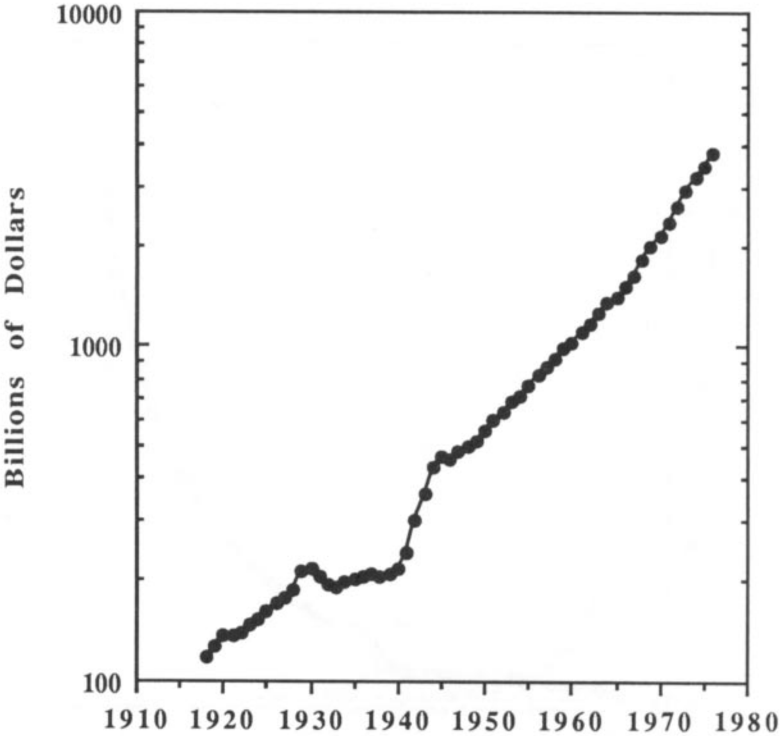

Figure 3. Total public and private debt, 1916-76. (Logarithmic scale)

Why the Federal Budget Cannot Be Balanced

One facet of the debt crisis which is getting increasing attention of late is the Federal government debt and the deficits which have become an inevitable and increasing part of the Government's budgets. At last, even some orthodox economists and financial experts are saying that there is a limit to how large the Federal debt can get and that something must be done to stem the pattern of ever-increasing budget deficits. The most notable recent action which has been taken by Congress and the President is the Gramm-Rudman Law, which calls for automatic spending reductions if the Congress and the President are not able to meet certain deficit targets over time. This is equivalent to your typical New Year's resolutions, well intended but not likely to make any real difference. It simply does not address the causes of the problem.

Budgetary problems, in general, reduce to the consideration of the two fundamental factors which comprise a budget - revenues and expenditures. A deficit is simply the result of expenditures exceeding revenues. The logical process for reducing a budget deficit; the one ordinarily followed by businesses and other organizations, is to 1) increase revenues, 2) reduce expenditures, or both. Simple and straightforward. Why, then, is it not possible for the Federal government to eliminate its budget deficits?

Those who practice the "art" of politics will answer that revenues cannot be increased because the people dislike taxes and will resist attempts to increase them beyond a certain amount. And so it is. At the same time, the people demand services from the government, and each Representative is intent on looking good to his/her constituents. Again, true. Indeed, except for the "pork barrel," by which politicians feed the popular illusion that the state is the great benefactor of the people, and the pervasive wish to get something for nothing, the establishment of true grass-roots democracy should have long since become reality.

The Central Government - Central Bank Nexus

What people forget is that government can, at best, only give back to the people what it has taken from the people. The Federal budget is a grand redistribution system designed to take from some and give to others. The obvious and highly touted expenditures for welfare and social programs are but a minimal part of this redistribution, intended to feed the popular myth. By far, the greatest amounts go, not to the poor and disadvantaged, nor to popular social uses, but to various fiefdoms of privilege which have been established in various ways, including, first and foremost, the banking and financial cartel, the "military-industrial complex," the entrenched bureaucracy and special interests with friends in high places.

But this is not the root of the matter. If all were visible and above board, the various political difficulties in reducing spending or increasing revenues could be overcome if the will were actually there to do it and the people were allowed to make their own choices. In order to understand the magnitude of the problem, one must examine it from a different level, one which exposes the interconnections which exist between government finance and the monetary system.

Few people understand that this interconnection exists, much less how it operates. But once this is understood, it becomes obvious that a balanced Federal budget would spell disaster for the economy as it is presently structured. The money supply would shrink and business would grind to a halt. The subsequent depression would be awesome. Why? In order to understand that, one must first understand the nature of the present monetary system and how it operates.

Some Relevant History

Money, and the role of the government with respect to money, have been recurrent issues throughout our nation's history since colonial times. The study of this history is extremely enlightening in helping to understand not only the economic picture, but the whole panorama of historical events. Some notable episodes are Andrew Jackson's confrontation with the international banking cartel (Jackson called them "a den of vipers") over the re-establishment of a central bank (the Bank of the United States), Abraham Lincoln's issuance of currency (called "greenbacks") directly by the Treasury, which saved the cost of interest and enraged the bankers, President James Garfield's insistence that the government honor its obligation by redeeming the "greenbacks" in gold at full face value, William Jennings Bryan's "Cross of Gold" speech, and the secret maneuverings which led up to the passage of the Federal Reserve Act in 1913.

Central Banks

In the United States, the central bank is known as the Federal Reserve System. It's name implies that it is an agency of the Federal government, but in actuality, it is independent of the government, is controlled by a handful of international financiers and operates for the benefit of its members, the banks. It is actually a cartel which has increasingly tightened its grip on all monetary and financial matters within the United States, and is a key link in a global network of central banks which controls commerce world-wide. (For an excellent history and description of the Federal Reserve see Murray Rothbard's "The Federal Reserve As a Cartelization Device" in Money in Crisis[italics],Pacific Institute For Policy

Studies, San Francisco).

Interest and Usury

There is a difference between interest and usury but the distinction has been obscured. Because of its negative connotations deriving from religious prohibitions against its practice, the term "usury" has all but ceased to be mentioned. There is no telling when or where the practice of usury originated but it has been a subject of recurrent controversy and debate for at least three thousand years. It is prominently mentioned in the Bible, in the Koran and in Canon law. All of these prescribe severe punishments for its practice. Why, then, has the giving and taking of interest (usury) become standard practice, and why are almost all of us participants in it? Unfortunately, most of the historical arguments relating to the practice of usury were not based on economic analysis, but rather, seemed to come from a perspective which tried to second-guess the intentions of God. We really need to understand the effects of usury upon the economic and social life of the community.

Any attempt to initiate thoughtful dialogue on the subject of usury is almost invariably met with defensive reactions from anyone who has a savings account, annuity, government or corporate bond, or other interest-bearing investment - which includes just about all of us.

This is understandable in view of the fact that such investments usually represent the accumulated hard-earned savings of honest people, which have been put aside for the proverbial "rainy day." Add to this the fact of chronic inflation which continually eats away at the purchasing power of such financial investments and it is no wonder that there is an army of "savers" ready to defend to the death their right to collect interest on their savings.

That is how insidious the problem has become. Most people are bewildered by the subject of economics in general, and money in particular, and see no choice but to trust the "experts." Let us begin to dispel the confusion by examining the distinction between usury and interest.

The Latin words from which these English words are derived are "usura" and "interisse." Here is how the matter is explained by Sidney Homer in his book *A History of Interest Rates* (Rutgers Univ. Press, 1963):

> "The Latin noun "usura" means the "use" of anything, in this case, the use of borrowed capital; hence usury was the price paid for the use of money. The Latin verb "intereo" means "to be lost"; a substantive form

> "interisse" developed into the modern term "interest." Interest was not profit but loss. "It was from exceptions to the canon law against usury that the medieval theory of interest slowly developed. Compensation for loans was not licit if it was a gain to the lender, but became licit if the compensation was not a net gain but reimbursement for loss or expense. The doctrine of intention was overriding."

So we see that the ideas of gain and loss were of central importance in assessing the legality of a particular contract. It was to be expected that lenders would attempt to justify all charges by labeling them "interest," and over time the meanings of the terms "usury" and "interest" became confused.

The Usury Trap

The barb in the debt hook, the thing that makes it so difficult to get free once hooked, is usury. The compounding effect of interest (usury) requires only the passage of time (and the "gracious" extension of due dates by the lender) for borrowers to sink deeper and deeper into the quicksand of debt. The obfuscation of the distinction between "usury" and "interest" has been an important factor in the evolution of the present dysfunctional and inequitable monetary system.

What the bankers call "interest" cannot be justified as compensation for loss. Neither can it be justified as compensation for services rendered, since their costs in creating money/credit are slight in comparison to the rates charged. If not for their legalized monopoly, the banking cartel would not be able to sustain such high rates and competition would reduce bank profits to a reasonable fee for services.

Debt-Money

The present global monetary system has institutionalized usury and put the money issuing power into the hands of a small banking elite. Money, in most countries, is based on nothing of real value; it is what is known as "fiat" money. The central banks limit the amount of money (actually credit) in circulation and manipulate the interest rates which are charged for "borrowing" it. It is a ludicrous but sad fact that the creation of the medium of exchange (the issuance of money) requires the people to go into debt to the banks. those who benefit from the status quo are unwilling to acknowledge that the problem is structural; they will discuss only changes in policy (how to operate the system), avoiding any suggestion that the system might be inherently unfair, unstable, unsound and in need of revision or reform.

The Business Cycle Explained

In the present monetary system, most of the money consists of bank credit; a small percentage is in the form of circulating notes, i.e. paper bills. Money is created when a bank authorizes a loan and is extinguished when the loan is repaid. Since the amount of money in circulation is controlled by the Federal Reserve Board, and since the banks lend it into circulation and demand usury on every dollar of it, the money supply must be continually expanded to allow the usury to be paid. If the money supply is not expanded enough to offset the rate of usury, it forces default by some borrowers since there is not sufficient medium of exchange in circulation to provide all borrowers with the means to pay. This medium of exchange, which the loan contract stipulates as the form of payment, cannot be grown on farms, it cannot be dug out of the ground, nor can it be produced in shops or factories. It cannot be produced by individuals, no matter how diligent their efforts or how great their skills. It can only be created by the Federal Reserve System and the banks, which have been given the "legal" monopoly over the creation of money.

Basically, the Business Cycle arises from what I call "the something-for nothing syndrome," which in its most insidious form manifests as usury. Now the practice of usury has been institutionalized and become the very foundation of our monetary system. When money is kept in short supply and all of it is "loaned out" at interest, an imbalance is created. Where does the money come from with which to pay the interest? In order to keep the money supply from shrinking over time as interest and principal payments are made, more money must be created and more loans made. If the money supply is not expanded at a rate equal to the interest rate, some borrowers must of necessity default on their loans; the result is bankruptcies, foreclosures, unemployment, and depression.

Money Growth vs. Real Growth

When a tight money policy is being advanced by the FED it causes many debtors to default on their loans. The subsequent consequences are foreclosure by the banks and seizure of any property which has been pledged as collateral. On the other hand, if the System does allow the money supply to increase by the amount of usury required, inflation will usually result. This occurs because the growth in production of real goods and services in the economy does not normally match the yearly usury rate. If economic output is growing at a rate of say 3 percent per annum, any rate of interest greater than this charged by the banking system will result in inflation. If the average usury rate is 12% per annum, and the money supply is expanded by this amount, the aggregate production must also grow by this same percentage or more. If it doesn't, the dilution of the currency will manifest as a general increase in prices. Even if the rate of economic growth were to match the average usury rate, the productive worker would see no benefit from his increased productivity since the monetary means of its acquisition would have been accrued to the bankers in the form of interest payments. It is unreasonable to expect the natural economy to expand at the rates of usury demanded in the present system and to be driven by the artificially imposed mathematical rigor of the compound interest formula. Further, it provides that the total growth which does occur will accrue to the well-placed and privileged few but leave the majority worse off than before.

Since almost the entire money supply consists of currency or bank credit which has been borrowed into existence (and upon which the banks collect interest continuously), it is impossible for the people, in the aggregate, to ever get out of debt, for to do so under the usury system would require the payment back to the banks of more money than there ever is in existence, and would furthermore, leave the economy without any medium of exchange. The result is a virtual economic serfdom in which debtors, struggling to avoid default, are forced into an unhealthy competition with one another. It is a situation which is very much like the game of "Musical Chairs," but in this case it is far from a harmless game.

Dysfunctions of the Debt-Money System

The usury/debt-money system creates several dysfunctions and difficulties. First, it is an engine which forces inappropriate growth. The global ecological crisis is primarily the result of the debt-money system. The fact that the money, which is created out of thin air, bears an interest burden, applies pressure to the global economy to grow at a rate equivalent to the interest rate. More and more real wealth must be created upon which to base the necessary expansion of the money supply.

As shown earlier, the compound interest formula is an exponential function. That means that a debt bearing interest will grow at an accelerating rate over time. If one of your ancestors, instead of investing one hundred dollars at the founding of our country 200 years ago, had borrowed that same amount at the rate of 10 percent per year, you, his descendants would owe a debt of almost 19 billion dollars today.

Nature just doesn't work that way. Until recently, population growth and industrialization have allowed sufficient economic expansion to mask the worst effects of this absurd financial structure. Also, competitive conditions prevented interest rates from being raised to the extremes we have today. Now the limits of population growth and industrialization have been reached and the problems are becoming acute. Competitive restraints on central banks have all but been eliminated and the ownership of real wealth worldwide is ever more rapidly being concentrated into fewer and fewer hands.

Secondly, the system contaminates the social climate by (1) forcing people to devote excessive energy to the production of superfluous goods, distracting their energies from spiritual and cultural fulfillment, even while leaving vast numbers of people on the verge of starvation, (2) concentrating wealth in the hands of those who have money or control money, rather than allowing talent and industriousness to reap its proper reward, and (3) making failure inevitable for some and bringing people into conflict with one another.

Thirdly, the arrangement between governments and central banks allows governments to spend virtually as much as they wish without having to answer to their citizenry. They do this by deficit spending and inflation of the currency. If they were to be deprived of this power, the ability of states to wage war would be vastly curtailed.

It is a curious fact that in recent decades the monetary system has not been more of a popular political issue than it has. Actually, it is not so hard to understand once one sees that those who operate the system have found an ingenious way to mask its basic flaws. That strategy basically consists of using the government as "borrower of last resort" to put money into circulation. This is the only thing that has kept the system from collapse. This is quite evident from the Depression of the thirties which was an acute symptom. Keynsian economics and government deficit spending did not cure the disease, they just made it easier to live with - for a time. Now time is running out; a real cure must be found. Alternatives to the debt-money system must be developed and implemented if peace and freedom are to be preserved.

Credit Restriction Follows Credit Expansion

It is almost certain that the next few years will bring economic convulsions similar to those experienced during the 1930s. We have already had our stock market crash of October 19, 1987. If history repeats itself, a "depression" will soon follow. Following the stock market crash of 1929, the economy experienced both a shrinkage in the money supply and a reduction in its velocity of circulation. These events were not accidental but followed from a combination of monetary policies and quite predictable economic behavior.

Given the fact that the present monetary system is based on debt, the money supply must expand and contract in accordance with expansion and contraction in the amount of outstanding debt. During the expansionary phase of the business cycle, debt and money are both expanded. It typically begins with an easing of credit conditions by the banks. Making it easier to borrow on relatively favorable terms (low interest), the banks are able to induce some of those in need of capital to borrow. This puts some new money into circulation, which then gets spent on goods and services required to satisfy the pent-up demand from the previous phase of the cycle. When business seems to be expanding, other companies see the possibility for expansion of sales and profits. They too may be induced to borrow, thinking that their new profits will exceed their interest costs. There is little concern about their ability to repay loans. The monetary expansion is the result of both a willingness by the banks to lend and an inclination by individuals and organizations to borrow.

When there is a lot of money in circulation and people are spending freely (velocity is high), business is expanded. At some point, as human and capital resources approach full utilization and more money is siphoned off as profit and interest, costs begin to rise. At the same time, the available collateral becomes "loaned up" and increasing amounts of interest and principle come due. With increasing rates of inflation, the banks raise interest rates and begin to tighten up on credit. Business begins to fall off. As money begins to become increasingly scarce, there is a tendency to hold onto it. Debtors must turn it over to the banks as fast as they get it to stave off bankruptcy and foreclosure. A dollar paid against a debt disappears from circulation. The money supply tends to shrink because debts are being repaid faster than new debts are being incurred.

It is interesting to note that, in the aftermath of the 1987 market crash, the Federal Reserve System authorities, in response to federal government urgings, expressed their commitment to "provide liquidity." In simple terms this meant that the banking system was ready and willing to lend new money into circulation to prevent a chain-reaction of defaults and the kind of deflation which occurred in the 1930s. It seems that there is a general understanding today that the Great Depression was "caused" by the policies of the central bank which provided an inadequate money supply. But that is not enough to assure that the central bank will not again do the same thing. Further, as we have seen, the money supply is dependent upon not only the willingness of banks to lend, but also upon the willingness of potential borrowers to incur new debt. When the economic signs are unfavorable, individuals and businesses, seeing profit opportunities reduced and money difficult to come by, are unwilling to risk going deeper into debt. Their real wealth is declining in (monetary) value and any assets which are not already encumbered by debt are not likely to be risked by assigning them as collateral on new loans. Most everyone tries to avoid debt and maintain liquidity. Money, like any commodity when it is scarce, tends to be hoarded. The willingness of banks to lend, therefore, is no guarantee that deflation can be avoided. Maintenance and expansion of the money supply within the "debt-money" system requires, in addition, willing borrowers.

Government, Borrower of Last Resort

The greatest factor in keeping the monetary and financial systems viable over the past 50 years has been the role of the Federal Government as borrower. But this has only been the last desperate attempt to keep a flawed system from total collapse. It is widely held that the Great Depression was ended by the institution of the Keynesian prescription of "pump priming," or short-term deficit spending. But this is not an accurate account of what actually happened. In reality, it can now be seen that the government did not "prime" the pump, it provided a source of money. Government became the "borrower of last resort." When others refused to borrow or were refused credit by the banks, the Federal Government borrowed money into circulation. This began with the institution of the New Deal programs by which the Government began to borrow money and then spent it into circulation. These amounts, however, were relatively modest. It took World War II to provide an excuse for the really huge deficits required to pump up the money supply to adequate levels. The subsequent cold-war and "red herring" threat of the "Communist menace" has kept the game going.

Total public and private debt in the U. S. has grown at an average annual rate of 6.3% between 1922 and 1984. This is shown in Figure 4, which also shows the debt of the Federal government in relation to a 6.3% constant growth line projected from the 1922 level of $140.2 billion. It will be noted that Federal government debt began falling off shortly after the end of World War I but total debt, because of high levels of private borrowing, kept pace with the 6.3% growth line up until 1929. Beginning in 1931, Federal government debt began to increase again but it did not cross the 6.3% growth line until 1942. From that time on, total debt maintained its steady growth rate of about 6.3% until around 1968. From that time to the present, the rate of growth in both Federal government debt and total debt has accelerated to over 10% per year. This is a reflection of the higher "interest" rates which the monetary authorities have been purposefully maintaining. Table B shows that if the total debt continues to rise at this rate it will exceed $39 trillion by the end of the century, a figure almost 5 times the 1984 level.

Figure 4.

Total Public and Private Debt 1916-1984 (Top line)

Federal Gov't Debt (U.S.) 1916-1985 (Bottom line)

Compared with 6.3% annual growth line projected from 1922 (straight lines)

(logarithmic scale)

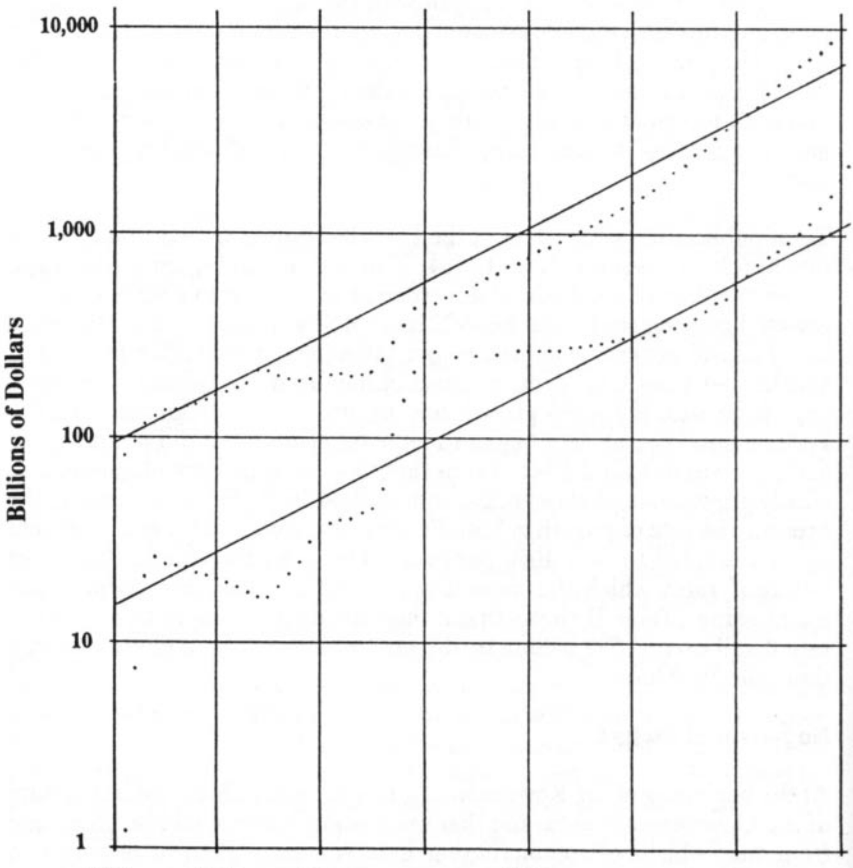

Table B

TOTAL PUBLIC AND PRIVATE DEBT OF U.S.A. - Projected 1977 to 2000			
YEAR	TOTAL DEBT IN BILLIONS OF $		
	Blain method[1]	@ 6.68% [2]	@ 10.23%[3]
1976	3800(actual)		
1977	4179	4054	4188
1978	4699	4324	4617
1979	5289	4613	5089
1980	5908	4921	5610
1981	6578	5250	6184
1982	7197	5601	6816
1983	7684	5975	7514
1984	8576	6374	8282
1985			9130
1986			10063
1987			11093
1988			12228
1989			13479
1990			14858
1991			16377
1992			18053
1993			19900
1994			21935
1995			24179
1996			26653
1997			29380
1998			32385
1999			35698
2000			39350

(1) See Blain, Robert, "U. S. Public & Private Debt: 1791 to 2000"

(2) Average annual rate of debt growth, 1950 TO 1968: 6.68%

(3) Average annual rate of debt growth, 1968 TO 1984: 10.23%

No balanced budget

At the beginning of the Keynsian era, few people realized the true nature of the Government's role, and that once begun there would be no escape from the "whirlpool" of increasing indebtedness. Present attempts to balance the budget are not to be taken seriously. It will take more than a balanced budget amendment or Gramm-Rudman law to solve the problem. As long as money is based on debt, there can be no balanced budget without wrecking the economy. Attempts by the Federal government to abdicate its role as "borrower of last resort" will bring about a liquidity crisis of unprecedented proportions. I believe that more and more people are waking up to the real nature of the game and are refusing to be caught in the debt/usury trap. If government doesn't borrow money into circulation, who will? The prospect for the future is ever increasing budget deficits and a growing national debt, bringing about an ever increasing interest expense (which amounts to a redistribution of wealth from the poor to the rich), and higher taxes to pay the interest.

What Next?

How long can this go on? Who can say? The stock market crash of October 1987 is probably an early warning sign of financial collapse, but collapse is not the worst-case scenario. Additional time may be bought at the cost of an increasingly restrictive legal climate and the further concentration of power. Interestingly, the power of the FED has continued to grow. The "Monetary Control Act" of 1980 was a huge step which virtually completes the long march toward economic totalitarianism. This Act (1) brought all depository institutions under the control of the Federal Reserve System, and (2) expanded the definition of collateral held by member banks, allowing them to purchase (and monetize) government-backed mortgages (VA and FHA), corporate bonds, and the obligations of states, counties, municipalities, and foreign governments. (CRC Bulletin #287, May 1986.)

These measures can keep the system afloat by forcing the people to bear the burden of uncollectible debts, either directly through government guarantees and foreclosure and seizure of collateral, or indirectly through currency inflation. The prospect is for further expatriation of industry from the First World nations to the less restrictive climate of the less developed countries (LDCs), with their cheap non-unionized labor and lack of restrictions on environmental pollution and destruction. The fact of this centrally controlled global economy will become increasingly manifest in the political sphere with the further elimination of national distinctions, the suppression of ethnic diversity and the obliteration of laws and practices designed to maintain the integrity of national and local economies. World federation is now a reality in the economic and financial realm. Even the Communist bloc has recently joined the union. The Cold War is over and the Iron Curtain has crumbled. The political reality is that we appear to be headed, not toward a democratic world federation of self-governing nations and communities but toward a global mass society ruled by a financial elite.

At some point, most of the Third-World debt must be recognized as being uncollectible and written-off of the banks' books. When domestic austerity has been pushed upon them to the limit of popular tolerance, and there can be no further sacrifice of domestic consumption in favor of expanded exports, the debtor nations will be offered other terms. At that point, the banks will probably take direct control of their public lands and natural resources. The current vogue of "debt for nature" swaps should be given close scrutiny. It is quite likely that these measures will further concentrate land ownership and lead to the eventual despoliation of areas which they purport to protect. The money monopoly and land monopoly reinforce one another and indeed are aspects of the same problem.

How Secure Is Social Security?

Another interesting sidelight to this matter of disposal of the debt came to my attention recently when I received the June 10, 1988 newsletter from Senator Moynihan of New York. Senator Moynihan, in this newsletter, was, in all sincerity, I'm sure, patting himself on the back for his role in a "conspiracy" to, in his words, "put the Federal budget back in the black, pay off the privately-held government debt, jump start the savings rate, and guarantee the Social Security Trust Funds for a half century and more."

Now, why do you suppose, they would want to pay off the privately held debt? As of 1985, the latest year for which complete figures are available, only 17.4% of the debt was held by U. S. government agencies and trust funds, another 9.7% was held by Federal Reserve Banks, the remaining 72.9% was held by "private" investors which breaks down as follows: 20.2% held by banks, insurance companies, money market funds and other companies, 10.8% by state and local governments, 8.6% by individuals, 11.6% by foreign and international holders and 21.7% by "other miscellaneous investors."

In brief, the plan, which began to be implemented in early 1983, is to use the huge amounts of money collected from the Social Security tax to buy U. S. government bonds. Senator Moynihan's "good news" is that the budget deficits will be reduced to zero by 1993 and that the revenues from Social Security will be sufficient to retire the privately held debt by the year 2010. "It is entirely feasible," he says, “that, at that point the whole of the national debt will be owned by the Social Security Trust Funds.”

I’m sure he meant that to reassure us but to me it does quite the opposite. As the Senator himself acknowledges, “you can’t eat Treasury bonds.” Indeed, the bonds can only be paid off out of then current tax revenues. Even if it were possible to reduce the budget deficits to zero and begin using the Social Security revenues to retire the privately held bonds, it would simply leave the then retirees holding the empty bag of uncollectible debt. What has been accomplished by this measure is the appearance that the budget deficits are being reigned in. The deficits now being reported are net after the social security surplus. Thus, the government has reported a deficit for 1987 of $150 billion. In actuality, the deficit was $170 billion. Fortunately, this ploy has been exposed. Estimates for 1988 and subsequent years have been provided by the Congressional Budget Office and are shown in Table C. (Reported in the Rochester Democrat & Chronicle, Sept. 19, 1988.)

The Role of War

Wars provide an excuse for governments to borrow money (credit) into existence. New Zealander, Don Bethune captures the irony of this in his statement:

> “During wars there is no restraint on credit creation to produce destructive devices which are delivered free to the current enemy’s home territory.”

Furthermore, it should not be overlooked that wars provide a mechanism for destroying “free,” unencumbered property and replacing it with assets encumbered by debt and therefore under the control of the financial powers who hold the mortgages. Thus, the rebuilding of the German and Japanese infrastructures, which had been destroyed in World War II, allowed the banks to gain tremendous leverage over those economies.

When I first encountered the notion of war being used as an excuse for credit expansion, I could not take it seriously. But the process must be at least partially conscious for people to say such things as “the War got us out of the Depression.” Credit expansion may not be the intention, but the structure of the system makes it necessary, and war is its ultimate justification.

Money must be changed, as Don Bethune says, “from a debt-generating commodity on loan from the finance industry, to a social mechanism belonging to, and under the control of, the community....” Money must be demonopolized and depoliticized. All concentrations of power inevitably work to the detriment

Table C

**SOCIAL SECURITY SURPLUS
AND THE
REAL BUDGET DEFICIT: 1987 - 1994**

In billions of dollars

YEAR	REPORTED DEFICIT	SOC. SECURITY SURPLUS	REAL DEFICIT
1987 (actual)	150	20	170
1988 (est'd.)	155	39	194
1989 (prjctd)	148	52	199
1990 "	136	63	199
1991 "	131	74	206
1992 "	126	86	212
1993 "	121	99	220
1994 "	121	113	234

of society and the “community.” I do believe that “power corrupts” and any government which is not based on community control and consensus process must inevitably become oppressive. There is more than ample experience to show that governments always inflate the money, either by issuing it directly or indirectly in collusion with financial powers. People can be free only if money and banking are free and under local community control.

The Body Politic Begins to Stir

Already there are signs of rebellion. Citizens in this country and abroad are exerting pressure on their governments, partly through the political process, but mostly by direct action. One result is the refusal of some Third-World debtor nations to continue to make payments on their debts to Western banks. This will likely spawn more CIA engineered coups and military interventions by U.S. and allied forces.

In this country, as in others, there is a massive tax revolt underway which has gone largely unreported by the media. Its most important aspect is in the form of the free or “underground” economy, i.e. all the private transactions which are invisible to, and uncontrolled by, the state. As the free economy continues to grow, statist attempts to tax it will become increasingly repressive. It is likely that a new currency will be issued to flush out private stashes and that, eventually, an attempt will be made to institute a completely centralized, electronic cashless system.

In addition to the above, there is active discussion of the monetary system and a broad-based effort to abolish the Federal Reserve System. This too has been largely ignored by the media. Some pertinent facts are:

1. There is a national movement which is challenging the constitutionality of the Federal Reserve System and the monetary monopoly, and is seeking to make it a political issue.

2. The National Conference of State Legislatures has 4 times voiced its concern over the monetary system and has called for the states to act to challenge it.

3. The legislatures of 5 States (Arizona, Alabama, Indiana, Idaho and Utah) have passed resolutions calling for repeal of the Federal Reserve Act and 12 more are considering it. (CRC Bulletin #287, May 1986).

4. During 1987, the Legislature of the State of Washington voted to hold a

referendum on a proposal to have that State bring suit in U.S. Supreme Court challenging the constitutionality of the Federal Reserve System. The 1987 elections included the referendum, and while it did not pass, proponents managed to garner 36% of the vote in favor of the referendum - this with minimal resources to mount only a very modest informational campaign, and "slanted and inaccurate information" put out by the Washington (state) Bankers Assn. ("Honest Money for America," vol.4, #4, Dec. 1987)

Other developments of probably greater importance are 1) the rediscovery of a vast body of Monetary Freedom literature, 2) the dedicated efforts of a small corps of modern theoreticians who are exploring the nature of money and alternatives for mediating the exchange process and, 3) the growing number of alternative exchange and local currency systems which are beginning to spring up in diverse places. Models are being developed and tried. The most promising approach appears to be the creation of a network of locally controlled (credit) exchanges similar in their essentials to those developed by Michael Linton. Linton's design, called LETS, for Local Employment and Trading System provides for the facilitation of exchange within a limited area or group without the imposition of interest charges, the use of legal coercion or the establishment of any privileged class. (See Linton and Greco, "The Local Employment Trading System," *Whole Earth Review*, vol. 55, Summer 1987).

Settling the International Debt Crisis

The centrally controlled global debt-money system has resulted in an explosion of debt worldwide. The central banks of the major western countries create money (credit) on the basis of indebtedness incurred by governments, businesses and individuals. By charging interest (usury) on this "indebtedness," wealth and power have been concentrated at the top of the political and financial hierarchies.

Debtors, in the aggregate, have been placed in an impossible situation. In attempting to comply with bank demands for payment, the governments of many debtor nations have imposed austerity upon their peoples by pursuing policies which favor production for the export market at the expense of domestic consumption and investment. These policies have been causing untold suffering and have brought many to the point of actual starvation. These same policies have been the cause of much of the degradation of their physical environments as well.

The present situation is not sustainable, neither morally, politically, economically nor ecologically. Social justice, world peace and the very survival of life on this planet depend upon a complete restructuring of monetary practices and financial accounts. The situation could be remedied with relatively little pain to anyone if the following measures were to be taken.

1. **First and foremost, the present "debt-money" system should be abandoned and an entirely new monetary system instituted.** It should be: (1) based on wealth production, not debt, (2) free of monopoly control and government interference, and (3) locally managed according to broad agreements as to standards of practice subject to independent audit.

2. **Secondly, present bank claims ("debts") should be settled and eliminated within a relatively short span of time so that new, more equitable arrangements might prevail in the future.**

In the interests of a harmonious transition from the present dysfunctional monetary system to a free and equitable monetary system, it is proposed that the following terms be accepted by both "creditor" banks and "debtor" governments, businesses and individuals for repayment of credits previously extended by the banks:

1. The accrual of interest should immediately cease.

2. Repayment of principal to the banks should be rescheduled so that it takes only a reasonable percentage of income. In the case of less developed countries, domestic austerity should be eased and debt repayment reduced to a reasonable percentage of output so that it does not cause undue hardship for the population of the debtor country.

3. Repayment by less developed countries should be allowed to be made in-kind using whatever export products that have been established by that country over past years.

4. The price at which these commodities are credited against outstanding debt should be set at current market prices or at an average of recent historical market prices (over the past, say 5 years), whichever is higher.

5. Any "interest" which has been already paid or will be paid shall be counted as a repayment of principal and applied to reduce the outstanding loan balance.