**Banking in Nine Words**

**1. CREDIT**

**MONEY IS MOSTLY CREDIT.**

\* Most of “money” in the US is credit.  Only about 4 percent is cash.  Of course with a line of credit you can ask the bank for cash, or with your credit you can write checks. There’s about $10 trillion posted now in various company, government, bank, and personal accounts.

**BANKS CREATE MONEY OUT OF THIN AIR.**

\* Commercial banks create money just by writing a check or credit line as a loan to a business, mortgagor, student, or other borrower.  They don’t actually loan out depositors’ or share-holders’ money.

**BORROWERS WORK HARDER THAN BANKS.**

\* The work of the bank is to judge how likely it is that the borrower will repay on time and in full—and then to keep records of this—and to assess the value of assets pledged in case of default.  The work of the borrower is to earn or otherwise obtain enough money to pay back the loan, plus interest—an agreed percentage of the total each month.

**YOUR ACCOUNT, PART OF A LONG-OVERLOOKED PYRAMID SCHEME**

\* The bank can go on creating credit this way so long as it has enough cash in reserve to cover  a fraction—usually one-tenth—of deposits it holds.  The Federal Reserve Board decides this fraction.  If more than about one out of ten depositors demand their money back at once, the bank can ask the Federal Reserve Bank for a loan to cover this.  The Fed can—out of thin air—write a credit on their books for this purpose.  If that isn’t enough, the bank can declare bankruptcy, and its line of insurance from the Federal Deposit Insurance Corporation will cover each depositor up to $250,000---unless the FDIC itself is overdrawn, which hasn’t happened yet.  But look out!---FDIC insurance funds could be exhausted by paying off failed derivative investments---billions of dollars’ worth---which now by law have been given priority over individual deposits.

**2. INTEREST**

**HOW MUCH PROFIT IS RIGHT FOR BANKS?**

\* Banks or other lenders merit compensation for their work, and for their risk in case of default on some of their loans.  This compensation can be in the form of a fee calculated to cover the work and the risk—

this is what Islamic law requires, and what was customary in medieval Christian Europe.

**INTEREST PILES ON DEBT BURDEN.**

\* But in Europe, starting around 500 years ago, banks were established which charged interest instead of fee for service and risk, and a bit of profit.  Long past the time of work (except record keeping) and risk coverage, they kept charging interest, making lenders rich without reason.  Bankers claim that loans tie up assets which they could be lending out to some other borrower, so they feel justified in charging daily interest for the life of the loan.  Lending out nine times the amount of their actual assets and collecting fees just isn’t enough.

**IF THE U.S. BORROWS AT INTEREST, IS IT SOVEREIGN?**

\* Traditionally, the United States government borrows money at interest from private investment banks usually through the Fed if its tax and other revenues are not sufficient to cover government services, investments, payments to bond holders, and other disbursements.

**DID LINCOLN DIE FOR BANKERS’ SINS?**

\* There is no reason for governments to borrow money at interest from private bankers.  Faced with having to pay costs of a civil war, Abe Lincoln refused to borrow from usurious bankers, and instead had his treasury issue credit and greenback bills by the millions—owing no interest— and the farmers, arms and uniform manufacturers, and other businesses did very well, with enough money around for full employment.  Bankers were hugely disappointed, and were not sorry to see Lincoln assassinated.

**COMPOUNDING SUCKS, LITERALLY.**

\* Compound interest is amazing: The borrower is obliged to pay interest on interest.  Typical homeowners in the end pay the bank more in interest than the amount they borrowed and  also had to pay back.  On a larger scale, many poor countries borrowing a billion to enable “development” end up selling off state-owned industries and infrastructure just to meet interest charges.

**3. BALLOONING**

**COMPETITION IS KING.**

\* If interest on loans is around 5 percent, borrowers have to earn 5 percent more than they used to, in order to pay back interest as well as principal.  Debt forces people to work harder or smarter to cover interest on their borrowed funds.

**GROW OR DIE!**

\* People or businesses which can’t quite expand their earnings that much may either borrow more, or sacrifice the homes or businesses they put up as collateral for their loans.  But if most borrowers work harder and pay the extra 5 percent, the whole economy grows by almost that amount.  Thus the system—with bank loans for “helping” people and businesses—requires growth, or else it will collapse with bank failures, unable to sell foreclosed houses and businesses for their former value.  Unemployment deprives not only the unemployed, but the businesses which need their brains and toil to expand or just keep going.

**THE ECONOMY NATURALLY WILL STOP GROWING.**

\* Of course there’s a limit to growth—the earth’s oil gets scarce

 and fuel becomes too expensive, people can’t constantly work overtime without getting tired or sick or dull from lack of recreation, there’s less and less middle class out there to buy stuff, politicians are afraid to intervene or lose corporate donations, and so on.

**MORE KIDS, SHRINKING DEMAND**

\* The population may continue to grow, but with the present system fewer and fewer of those newborns will ever get educated and invested so as to succeed and be able to buy stuff, so the economy spirals down.

**RICH GET RICHER ON OUR BACKS**

\* Unemployment brings longer and longer lines to pile their resumes before employers, who pick the few who are willing to work for less.  Indeed, desperate young people commit robbery or just use or sell drugs, either way winding up in prisons.  This may increase jobs in prison construction and staffing, but that’s no way for a society to grow.  The rich get richer; the rest get oppressed.

**4. GAMING**

**MIXING BANKING AND GAMBLING**

\* There used to be two kinds of banks: commercial banks making routine loans, mostly to small and medium-sized businesses; and investment banks buying shares in businesses which their traders think will expand and profit.  They would resell these shares to customers for commissions from the customers and bonuses from the bank.  When a commercial bank merged with an investment bank the traders often took commercial deposits to gamble on some corporation to grow or beat out the competition.  The losing clients raised hell and in 1933 Senator Glass joined Rep. Steagall in creating a law which separated the two types of banks.

**BOY,  DO I HAVE A DEAL FOR YOU!**

\* Still, the bank regulators redefined the law’s terms and let the unholy mergers happen.  This corruption became so widespread by 1999 that President Bill Clinton signed a law repealing Glass-Steagall, making such corruption legal.  “Credit default swaps” like loaded dice were sold to financially strapped cities, and weird financial “products” like “mortgage-based derivatives” were given  phony triple-A ratings and sold to gullible customers including retirement funds and municipalities for big profits to banks and big bonuses to traders—and big losses to many customers.

**YOU CAN’T GO HOME AGAIN.**

\* The banks also sweet-talked millions of working class people into contracting for “subprime” mortgages with terms that duped the customers, resulting in banks taking their homes—the  prices of whole neighborhoods declining so much that owners, trying in vain to sell their homes just in order to stop their mortgage fees had to abandon their homes and mortgages.

**BAIL-OUT: ROBBING TAXPAYERS TO PAY BANKS**

\* Insider trading created losses to various big banks which could not then cover demands to withdraw customer accounts.  Several of these banks were allowed to go into bankruptcy, but the bankers quickly persuaded Congress members that if banks in trouble couldn’t borrow funds big-time to cover customer demands the whole American banking system would collapse and rival nations would take over.  So Congress “bailed them out” with huge loans at little or  no interest, much of which will never be paid back to the Fed or the Treasury.   Trillions of dollars!—while little was done to help individual investors whose life savings are now rendered worthless.  While Congress haggles over a billion or two dollars for worthy and unworthy projects, these hundreds of billions—really unimaginably huge—were written out of thin air, just like that.  No collateral; little concern about what the government should do if they were  to have nationalized those recipient companies.

**MISSION FAILURE**

\* In the big scheme of national economics, the role of banks is to provide credit to people and businesses to energize their talents to produce and distribute what’s needed for the society to thrive.  The purpose of the 2008 bailout of the banks was to make credit available when banks had exhausted their resources on bad investments, dividends, salaries, and bonuses now scattered among thousands of the elite, and unrecoverable.  That condition of making credit available to persons and businesses could have been done by the US Treasury writing checks to every person in the country, as, for example, Alaska does with its oil revenues.  Most would be transferred through sales and customers paying off bills to businesses in need of money.  But instead the Congress believed that the established institutions—private banks—were the only way to go.  They ruled through TARP (Troubled Asset Relief Program) that the US buy specially issued bank bonds—backed by nothing—to provide the credit needed by the productive elements of the country.  Ironically, the banks have been sitting on most of that money after transferring much of it to their officers, traders, and shareholders—waiting, perhaps, for a time when they can get more interest on loaning it.

**BAIL-IN: SWINDLING JOE DEPOSITOR**

\* The banks of Europe had no Congress to rewrite their drained reserves.  So where is some credit that might be directed toward them?  The central bank of central banks—the private and largely secret Bank of International Settlements, in Basel, Switzerland—has just condoned wholesale theft of depositors’ money world-wide.  BIS declared that deposits in the Bank of Cyprus were the equivalent of bank stock shares whose value and disposition were decided by the bank’s directors, and that this rule applied to all member banks.  Thus when a bank has too few reserves to cover demands for withdrawal, it “bails itself in” using depositors’ funds.

American depositors are not protected from bail-ins, even under the new Dodd-Frank banking rules.  Similarly, the new rules give “creative” derivative investments such as grab-bag mortgage packages priority over citizen deposits when it may come to cashing in assets in the case of bank failure.

**STATE-OWNED CENTRAL BANKS**

\* The US Federal Reserve Bank system (The Fed) is owned by about 3000 private banks including giant banks like Bank of America, and by law are guaranteed a 6 percent profit on their stock in the Fed.  In contrast, 40 percent of the central banks of the world including China’s and Russia’s are state-owned, not private as in the US and most of Europe.  These public central banks create the money of their respective countries, interest-free with no need to be bailed out.  The retail banks of those countries accept deposits from individuals which are guaranteed by the state, hence no need for bail-ins either, so long as the nation functions.

**5. SCRIP**

**TALENT DOWN THE TUBES**

\* The modern money system is a monopoly that traps most people.  Maybe half the adults in the US have abilities which are going unused and unrewarded because there are no businesses to pay them for engaging that talent—and those enterprises are strapped because it may be too hard to get money to buy or rent what they need to expand or change so as to hire these underutilized people.  The result may be thousands of communities which are drab and stagnant, with many people struggling or thieving just to get by.  Not only are cities like Stockton and Detroit declaring bankruptcy for lack of revenue, but 44 states also have severe budget shortfalls and are considering bankruptcy procedures.

**THE DOLLAR TOLERATES NO RIVALS.**

\* The US Treasury Department controls the World Bank and the International Monetary Fund which loans money to poor countries for “development” along lines friendly to the American corporate empire and its European friends.  The modern money system is dominated by the US Dollar, threatening regimes which don’t use it for international trade with economic and military sanctions.  Very likely, the predominant cause of the massive US-NATO attack on Libya was that their leader, Muammar Gaddafi, was well on the way to establishing an independent All-African currency, the “dinar”, backed by tons of gold in the capitol.

**SOCIABLE DEBT**

\* Back home, the dollar is not quite a monopoly.  It’s true that dollars are “legal tender” which governments must accept in payment of taxes, but you can accept my written I.O.U.—scrip—in payment for your services or the stuff you sell me.  It’s delayed barter, except among friends my IOU or “I owe the bearer” can serve as credit for many exchanges among friends of friends.  People have been exchanging things for promises from the dawn of commerce.  Legal tender is needed only for some goods, like new cars, offered from outside the circle of friends or community.

**FEDERAL RESERVE: FRIEND OR FIEND?**

\* Dollars are no guarantee of getting value for your payment.  You can no longer turn them in for gold or silver, only for more paper in bonds for future credit or paper dollars.   The issuer     is not the US Treasury, but the Federal Reserve Bank, privately owned, a “trust me” situation—  the same central bank which bailed out failing banks with their investment branches, but ignored the plight of depositors and mortgagors.  It is an unbalanced, competitive system, regulated by the big players.

**ALTERNATIVE CURRENCIES**

\* One answer to this monopoly is community-issued currency or credit—“common tender”— promoting cooperative economics.  Various local currencies have been tried since the big-bank money system started some 300 years ago, and some have worked well.  With recent bank shenanegans there has been a surge in cooperative currencies from a few dozen in 1980 to more than 4000 today worldwide.  Some are community-based; some are business-to-business credit systems.  Some are interest-free, some are interest-free but have penalties which kick in after a few months to promote active use rather than hoarding, and some stipulate what types of actors can deal and when.

**MIX OF DOLLARS AND LOCAL CURRENCY**

\* All of these alternative currencies—from “LETS” and “time dollars” to “WIR”, “regio”, and “terra”—are designed to suit local or regional conditions rather than one-size-fits-all like dollars—in order to provide tax- and interest-relief and promote trade, creative enterprise,   and the general welfare.  Over all, this grassroots movement seeks a balanced mix of national currency with local or business sector credit.

**MONEY FROM PEOPLE WHO CARE**

\* With dollar-dominated parts of the world capitalist system crashing repeatedly it is likely that Chinese, Russian, and Latin American systems will compete, with confidence in the dollar waning.  With Argentina in 2001, bankless people, neighborhoods, and businesses organized themselves around barter and local money systems, and politically turned to national independence of the world system—this has worked well for all but hapless New York investors in the old Argentina.  Another massive bank crash is almost certain, since neither bankers nor Congress have made systemic changes.  So local, cooperative money/credit is likely to spread and strengthen, adapting to local concerns and conditions.

**6. PUBLIC-BANKING**

**THIRD PARTY WITH A PURPOSE**

\* One highly successful response to robber-baron era banking monopolies is the Bank of North Dakota (BND).  Farmers, merchants, and the general population of that prairie state became very angry at being manipulated and milked by big banks in Minneapolis and New York, which monopolized railroads, grain storage facilities, and land ownership.  They organized a political third party, elected legislators, and in 1919 passed a law establishing a state-owned Bank of North Dakota dedicated to local business development and state-wide economic prosperity. BND was a great success with Republicans and Democrats alike, and thrives to this day.

**TOGETHER WE KIN DO THIS, PARTNER.**

\* BND uses US dollars, but hardly ever borrows from the Federal Reserve, which entails interest.  Instead, the Bank acts as a central bank for the state, receiving all state revenues,   and partnering with community banks on locally-originated business loans.  It does not take individual deposits, which are the business of local banks.   BND also has large student loan and homes programs.  Interest rates are relatively low, and if, say, the state assumes 60% of a loan, it also gleans 60% of the profit when the loan is paid back.  The local bank gets to keep its 40% share of the profit as well as the fee for lining up and checking out the borrower.  So the local bank gets to make loans and modest profit which otherwise it could not make because it wouldn’t have had enough money.

**HELPING LOCAL LENDERS**

\* Because BND collects profits from local partnership loans, and doesn’t have to pay interest   to the Fed or Wall Street banks, the state budget regularly runs a surplus enabling it to reduce citizen taxes.  It is the only state with no bank failures during the 2008 national and world banking crisis.  And the system is great for community banks where people deposit their money—North Dakota has four times as many local banks and credit unions per capita compared to the US as a whole.

**ELITES WOULD DERAIL PUBLIC BANKING.**

\* With most states financially distressed, compounding their problems by borrowing money by selling bonds to New York banks and having to pay back with interest, more than a dozen states including Massachusetts and some cities and counties are considering establishing some kind of publicly-owned bank.  Half-way measures include mutual associations of towns to procure banking services, computerized systems for allocating public deposits according to the necessary legal collateral so that public deposits are distributed among local, community banks rather than having to be dumped all together in a major bank with enough collateral to accept them, and a government or government pension fund beefing up a CDFI (community development finance institution) to redirect capital to important local needs. These are all ways to democratize finance, make financial institutions more accountable to us and insure transparency.

    Such proposals are resisted by the big private banks as when the Federal Reserve Bank of Boston (privately owned) advised a banker-loaded state commission that a bank like BND would be inappropriate for Massachusetts.  So the commission froze the idea.  It’s up to the people to organize, come up with a suitable public-banking model, and push it through the legislature—if there is to be a Bank of Massachusetts, or even a Public Bank of Boston.

**7. DEMOCRACY**

**PEOPLE VS. CORPORATIONS**

\* By and large the people of Massachusetts want livelihoods with comfortable incomes, healthful preferably local food, free schools and libraries, cheap public transport, sound housing, non-polluting power sources, many other modest and clean amenities, freedom from prejudice and persecution, and real choice of governing policies and officials.  With conditions going in the opposite direction largely due to inordinate corporate power, people and localities would do well to protect system-critics and cooperative system builders, including cooperative money and credit.

**RESIST TOP-DOWN MODELS.**

\* “Berkshares” local currency in Western Massachusetts and initiatives like Jamaica Plain’s New Economy Transitions, with its Boston “beans” currency, set the stage for participatory local and regional governance.  A publicly-owned state or city bank, bypassing Wall Street profit-taking loans, would be compatible with local “transitions”, but BND’s top-down banking model— albeit socially and economically beneficial—is still not really democratic.  That means it could easily be corrupted to lean toward certain industries, as BND is accused of leaning toward gas-fracking ventures, and ultimately become a vehicle of big corporations all over again, short-changing the people and distorting public morality.

**NEIGHBORHOOD COUNCILS, NOT SECRET BOARDS**

\* Brazil’s bottom-up model of “participatory [city or state] budgeting” may help democratize the BND public-bank model.  That system draws hundreds of thousands of local people to assemblies and councils which set policies for public spending, tangibly improving neighborhoods and life for millions.  If BND’s standards were set and reviewed by neighborhood councils its social priorities would be safer, while minding financial efficiency.  Such considerations would be helpful in Bay Staters’ setting up our own public banks.  Those neighborhood councils might already have been formed and informed by local “transition” activities.

**8. DESERVINGNESS**

**WARNING: CORRUPTION**

\* The big bugaboo of all forms of governance anywhere in the world is corruption.  This refers to groups and influential people forming policies in banks, corporations, and government which profit office-holders at the expense of the public either by collusion with profiteers and enforcers, or by shadowy government agencies and offices which siphon funds and properties from public accounts.  It’s also when office holders redefine the aims or parameters of an agency to benefit a special interest group, not the public interest to which they were pledged.  Do cabinet secretaries deserve praise when they redefine any weapons contract as “defending our freedom”?  Do mayors deserve re-election when they redefine “development” as downtown buildup by their finance and construction friends?  Do takeover-and-strip-assets CEOs deserve their million-dollar compensation packages?

**THE HYPOCRISY OF SURVEILLANCE**

\* Transparency of all government structures and connections with private groups, and good justice systems are vital to controlling corruption.  In the Brazilian city of Porto Alegre, corruption dropped to zero when participatory budgeting started up.  Unfortunately, recent and current federal agencies are developing mass surveillance of people while mercilessly prosecuting those who would surveil agency operations—the opposite of transparency.   The Justice Department is complicit.

**REGULARIZING CORRUPTION**

\* Such a situation reflects corruption—the unwarranted gathering of money, power, and impunity by officials—governmental and corporate—at the expense of taxpayers, mortgage holders, indebted students, local businesses, workers underemployed and underpaid because of outsourcing, the great majority of honest government workers, and so on.  A key model is Wall Street security traders essentially gambling with investors’ money, for their own commissions and bonuses—“whatever you can get away with”.  Another is the “bought regulator” and “bought judge” appointed by corporate-supported mayors, governors, agency heads, and the president himself.  Another is the bank president who sees no value in any venture or service which can “grow” without profitable loans, or which cannot “grow” even with loans.

**IT’S THE SYSTEM, STUPID!**

\* Muck-raking pundits and ardent reformers and their organizations may seek to replace the corrupt officials and policies, but others take their places in the enduring system.  Republicans and Tea Partyers may seek authoritarian solutions, which usually turn out to increase corruption.  Local and regional participatory initiatives piggy-backing on existing cooperative governments and enterprises may be the only workable solution in sight.

**9. TRANSFORMATION**

**SUPPORT NETWORKS NOT TAXED**

\* These will be attacked and undermined by surveillance, corporate media, and government enforcers.  So moral principles with popular education and adoption through participation will be necessary for success, as with the civil rights campaigns of Martin Luther King days.  Neighborhood support networks will be necessary to provide necessities for both strikers and staffers of new cooperative enterprises.  Local currencies may be key, since they are not taxed if properly or cleverly set up.

**EXPOSE SOCIAL DARWINISM.**

\* Who deserves to profit or be paid well or to be honored and supported with necessities?  Oddly, many Americans if not many human beings put the cart before the horse—if a CEO or officer gets much money, they must have deserved it!  They are entitled to it by their admirable cleverness if not their exceptional work!  But more Americans think otherwise.  They understand the essential bias and corruption of the system, including mainstream media, and its unfairness to ordinary people—the more active and defenseless among them often winding up imprisoned or hemmed in by regulatory disadvantages.

**PARTICIPATION LIKE SUNSHINE**

\* At work, cooperatives enable employees to see one another’s circumstances and so they can judge who deserves what—usually judging that all who are engaged deserve necessities and reasonable amenities, not just for moral reasons, but pragmatically as well.  Further, participating in policy-making, they are likely  to be mindful of stability and the community amenities needed for thriving.  Usually hierarchical, banks can also benefit from cooperative organization, unless they want special crony deals or power deals with outside clients or government.  Worker ownership makes both participation and responsibility more likely, but only when coupled with a moral sense which is unafraid to stand up to unjustified rules and far-way authorities who at best are ignorant of local conditions and concerns.

**THE PSYCHOLOGY OF DEBT**

\* One person’s debt—or one group’s debt—is a shared state of mind.  Apart from the coercion of foreclosure or Mafia tactics, usury works only because the “debtor” thinks s/he owes something of value to the lender.  That “something” was originally “a certain sum of money”, but underneath may be loyal behavior, or acknowledgment of the lender’s largesse, or a period of borrower’s suffering, or any lawyer’s argument which a court might settle for.  The “money” might have greatly changed in its purchasing power because the community may have lost faith in it or discredited it—the unsavory intent of a lender such as IMF might have been revealed, the lent money itself may prove to have been ill-gotten, the lender might be defaulting on its debts, the community may have adopted a cooperative rather than competitive philosophy,    or other socially judgmental reasons.

**SYSTEM CHANGE**

\* It is only because nobody questions that Andy owes X to Bev that Andy goes on feeling guilty (if s/he is not a sociopath) if s/he falls behind in payments, and that Bev feels angry and indignant if payment is not on time and in full—unless Bev is willing to accept an alternative   for X which Andy can give.  In the US that “X” is usually money or stuff—some material thing purchasable by money, or a favor like a path to a prestigious new job.  “X” could also be a service not on the market, or access to a happier way of being like a guest or friend or family member or co-op member or simply community member—perhaps harder for many individualistic and materialistic Americans to imagine today. These options are the essence of   a new, democratic system.  And when these ways are spelled out in new laws, people tend to abide by them.

      Back in land-grant, new-community days there was a sacred balance between and integration of individual striving and community responsibility.  Those folks suffered lifetimes  of toil—and pride.  Now we are at a new socioeconomic frontier.  We are faced with system-owners who will punish change-advocates with repossession lawyers and jailers.  Still, with moral determination and community solidarity in the context of the natural world—systems change.   Public Banking is a good start.

                        —Dave Lewit    Revised 19 Nov 2013

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