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Before we hit the streets

Talking about economy

99% of the population are like sheep allocated for shearing in times of peace, and slaughtered in times of war. The politicians and bureaucrats are the sheepdogs. The owners of the farm are the world's financial circles.

A book for a carpenter, a doctor, a farmer, or a student.

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Daughter: *Mom, it's a wonderful world. We have access to luxuries that even kings would never have dreamed of. They had one jester and one bard for entertainment. They got cold sometimes and wore wooden teeth in their old age. We have everything. So why is it so hard to get by in life?*

Mother: You're right -- we live in an era of abundance. We can turn out enough food and reproducible goods to satisfy the basic needs of the entire population of the earth.

D: *Exactly. And in the meantime, a person starves to death in front of a market stall with rotting bananas.*

M: Rotting ones? Why?

D: *Because those bananas won't have buyers, and in spite of that fact, they are inaccessible to the dying person.*

M: I see what you mean. I'll give you the answer. Distribution (division) of reproducible goods is flawed. That person is dying because he doesn't have any money. If satisfying one's needs depends on having money, and we have an overabundance of goods, then it is the distribution of money that must be flawed.

The situation is absurd. The story can go on. Two monkeys are eating the bananas they've picked from a banana tree, and they are wondering whether people are smarter than they are. In order to check, one goes to the city. Upon returning, it declares that people are not smarter than monkeys, because it has seen a certain stupid person who was starving to death while sitting in front of a market stall full of bananas.

D: *Is it possible to change things?*

M: Of course. The laws of economy, the ones that govern the market, are not natural laws. They rely upon social contracts which are made among people. The expression of these contracts is the law.

D: *How can the law be changed?*

M: You have to start from an analysis of the economic system and its principles (by examining them). Let's start with the things that trouble us the most: UNEMPLOYMENT and CREDIT. Do you agree?

D: *Yes.*

M: I'll start with credit. We have to distinguish two notions which are often confused -- a loan and a line of credit. Loans can be given by anyone who has money. It can be done privately. It can also be done as a business activity. That is called financial activity, and in order to do it, it is enough to register at the local municipal office and add your business to their registry.

Credit can only be issued by banks, through special authority issued by the government. Their activity is regulated by banking law.

Credit is lending non-existent money.

Therefore:
A loan provides real money.
Credit provides "empty" money.

D: *Did you make up the term "empty" money, or is that a scientifically-proven fact?*

M: This money is described in the literature as being taken from the air, or "coming from nowhere". It is definitely not my idea.

D: *How can someone "lend" something that doesn't exist? And another thing, how can someone pay for a home with this "empty" money?*

M: At the end of this book you will find "The Tale of a Goldsmith", which is a story about the origins of a worldwide scam called credit. I will try to explain two things to you:
– first of all, that you can buy something by paying with a debt -- meaning money which does not yet exist,
– secondly, that you can supply or transfer something nonexistent to someone else.

I will begin with endorsed bills of exchange -- not to be confused with bills of exchange, or simply put, payment by debt.

The laws regarding bills of exchange and checks allow payment for commodities (goods or services) with a voucher -- a paper with „I, X, hereby oblige myself to pay on this date (for example in two years) the amount of 50,000 PLN to Mr. Y or at the order of Mr. Y. Signed X." written on it.

For the bill of exchange for 50,000 PLN, I, X, receive goods from Mr. Y which are worth 45,000 PLN. Do I have goods? Yes. Did I spend money? No. What did I pay with? A debt.

This debt (bill) can be an object of sale, meaning that Mr. Y can sell it. After one year, Mr. Y suddenly needs money. He sells the bill of exchange to Mr. Z for 46,000 PLN, for example. Mr. Y earned 1,000 PLN (he sold goods worth 45,000 PLN for a bill of exchange, for which he received 46,000 PLN). Mr. Z is pleased because in a year he will receive 50,000 PLN for his 46,000 PLN. Finally, I, X, pay off the bill.

To sum up: How did I pay for the goods? With a debt -- on my future earnings. A debt, therefore, is legal tender. By issuing a bill of exchange I can also receive money (a bill of exchange loan).

D: *And what happens when the due date of the bill of exchange comes and you, X, don't have any money?*

M: If the loan maker agrees, I can pay off a new bill of exchange, this time for 55,000 PLN, for example. This type of debt settlement is the equivalent of rolling bonds, which we will talk about later.

D: *So rolling is paying one debt with another debt?*

M: Yes. And now I will tell you how you can supply or transfer something which doesn't exist to another person, by using a little story about houses on Lanzarote.

I have built five houses on Lanzarote in order to rent them out. It's a good business. Lanzarote is sunny all year round and it doesn't rain. A few other people built the same kind of houses nearby. They didn't live on Lanzarote and they asked me to manage their homes, as well. I agreed. I signed ten year-round rental agreements on all the houses -- mine and the ones under my management. My clients don't know when they will be using them. However, I wrote in the agreements that I have to be informed ahead of time when they are planning to come. I have ten houses and ten agreements. I also know that my renters only have one month of holiday time a year. I am not stupid. I sign more year-round agreements for houses numbered 11 to 100, which don't exist. I know that there will never be more than ten people coming at once (they only have one month of vacation time). I feel safe.

If it happens that more than 10 people come at once, I borrow a house from my neighbor. And he does the same. We rescue each other when we need to.

D: *What if everyone arrives at once and the truth comes out?*

M: I will go to prison for fraud. Of course, the renters can file civil lawsuits against me for damages, because if they were renting the house for a year, the money from subletting belongs to them.

Banks are in no danger of that. They are much cleverer than I am. I am breaking the law. Banks function in accordance with the law. In accordance with banking law. They do not face criminal or civil prosecution.

Banking law provides for the issuance of credit for an amount ten times higher than the sum of the actual means of payment (whether their own or deposited) which they have. If the capital (their own resources) of the bank amounts to five million m.u. (monetary units) and it has five million m.u. in deposits, it can loan ten million m.u. and give credit in the amount of 100 million m.u.

Let's compare this to my houses:

- my houses like are bank capital (five million m.u.),
- the managed houses are like deposit accounts (clients' savings),
- renting ten houses is like loaning,
- the rental of 90 fictional houses is like credit,
- neighborly help is like interbank lending.

D: *Doesn't anyone monitor these banks?*

M: They do. In Poland, there is an institution called The Polish Financial Supervision Authority (PFSA) - *Komisja Nadzoru Finansowego (KNF).* It analyzes the balance sheets of banks and ensures that the proportions of credit and loans are maintained.

D: *Where did the 1:10 index come from and what is it called in banking slang?*

M: While watching television you've certainly heard the word „leveraging", or the more scientific-sounding term *financial leverage*. So, if a bank has its own capital, covered by monetary instruments in the amount of five million euro (this is the minimum amount to found a bank in Poland, in accordance with the banking laws), and has received deposits in the form of deposit accounts for a period longer than five years in the amount of two million euro, it can lend seven million euro and issue credit in the amount of 70 million euro. American banks raised the index to 1:33, and sometimes even 1:40. This raising of the index is called leveraging. The 1:10 index, which amounts to 1:12 in Poland, results from practical experience. Issuing credit higher than that index during times of want resulted in a surplus of money in the market, which brought the threat of inflation.

Another scam used by the banks is counting the current savings of clients as part of long-term deposits. Counting current funds in the base leverage adds to banks' capacity for creating "empty" money.

D: *What does the Financial Supervision Authority say about that?*

M: I don't know. Perhaps everything in Poland is operating according to the laws that are in effect. In the world, though, the standards of bank activity have definitely not been upheld.

D: *What does it mean when a bank has lost liquidity?*

M: It means that if you go to the bank to get cash, the bank refuses to pay it out to you.

D: *Has that ever actually happened?*

M: It happened during the Great Depression in the 1930s. These days, though, central banks just print (issue) new money -- American dollars and euros, saving banks from this situation. They do it out of fear of social unrest.

D: *So do you think that the greatest evil lies in credit?*

M: No, not in credit. In interest. Credit is necessary because it replenishes the amount of cached (saved) money. The right amount of money has to be circulating in the market. If the population is saving, there is too little money in the market. These gaps are filled with credit.

D: *I see. You would like credit to be interest-free, so that private people (bank shareholders) won't earn money on it.*

M: That would be the best way, but fees can be maintained -- even in the form of interest -- for taking credit, as long as that interest goes straight to the national treasury to fund the State budget.

D: *That would be like a tax on credit. Why can't the National Bank of Poland lend money? Maybe we don't need to change anything except the creditor, and just withdraw the rights of commercial banks to give credit.*

M: Maybe, but for now the laws concerning the National Bank of Poland (NBP) and banking laws regulate the market such that NBP loans money to commercial banks, and they give loans and credit to the national government, local governments, companies, and individuals.

D: *So NBP, by lending to commercial banks, earns money on interest.*

M: Yes, it does, but it doesn't send the interest to the budget. It creates various reserves.

D: *That means that while the government is struggling to balance the budget, NBP is holding on to free resources?*

M: Yes. NBP keeps the interest they have earned because it operates under the threat of fluctuation in the price of the zloty. Whatever it earns in interest is lost in currency exchange. International agreements require exchange.

D: *There is one economic theory that claims that interest is essential. I have read that interest is payment for "deferred consumption".*

M: When I am saving, I definitely defer consumption, but Bill Gates probably does not.

D: *The revenue office and the banks probably don't, either. The managerial boards of commercial banks earn a lot, because so much responsibility rests on them. After all, they are turning over millions.*

M: That responsibility is illusory. If a bank goes bankrupt, the managers don't suffer. The only ones who suffer are the bailees.

D: *Let's come back to empty money. Am I to believe that when a bank pays my mortgage to a developer, it isn't transferring real money?*

M: That's right. The bank just informs the developer that the specified sum is in his account.

D: *And when the developer wants to withdraw the money?*

M: He gets it from deposits. But the developer doesn't want the money -- he just wants to pay a contractor, for instance. Then that "empty" money is transferred electronically in the form of an entry in an account, from the developer's account to the contractor's.

D: *So if the developer or the contractor comes to get cash?*

M: They never come to get the full amount, and the money that's paid in the form of payments and interest works so that the payment eliminates the fictional entries in the accounts, and the interest is real money. The amount of credit issued was fictional, and its repayment is fictional, too. However, the interest raises the equity of the bank. The capital of the bank increases. I can build new houses on Lanzarote or buy a yacht with it.

D: *And if everyone comes to get their money out of the bank?*

M: Banks have a way to deal with that. It insures itself against that eventuality. If everyone comes, the bank will go bankrupt, and the insurer pays money to the owners of the bank accounts.

D: *What does "bankrupt" mean?*

M: It means becoming insolvent -- assets are not enough to pay off the debts, which are, in this case, cash from the accounts.

D: *But banks never have as much money as they have recorded in their clients' accounts. You said yourself that they have empty money.*

M: Right. But nobody ever asks for that money. All banks are bankrupt in reality, but in the eyes of the law they are only bankrupt if they lose their liquidity.

D: *Is it the same all over the world?*

M: Yes, because that is how the world's financial system works.

D: *Does that mean banks take interest even though they have not actually lent anything?*

M: Yes.

D: *That's a scam.*

M: Yes, but it is legitimized by the law, so it is legal.

D: *A bank functioned very well for ten years. It collected interest from us. The owners of the bank and its managerial board did very well. And then -- a crash. Lehman Brothers collapsed. The insurer paid out the deposits (savings). Do the owners or the managers go to court?*

M: No.

D: *Do they return our stolen interest from credit?*

M: No. They sit in their yachts with gold handles bought with our interest. They rest for three months and then establish a new bank.

D: *Impossible.*

M: But true.

D: *How did the current financial crisis happen?*

M: Financial crisis is part of the present system and there is no way to avoid it. Scholars and experts say that periodic crises are inevitable in the capitalist economy, after which at all starts over again.

D: *Meaning that it is the fault of the system.*

M: Yes. The fault of a financial system based on the institutions of INTEREST and speculation.

D: *There has always been interest.*

M: No, there hasn't. Interest started to exist when money was deemed a commodity, like shoes or bread. However, money is not a commodity -- it is a symbol (a marker) of any given commodity, of the value indicated on the banknote.

D: *Looking at it logically, money isn't a commodity. After all, you can't eat it, and it isn't expended on its own (it doesn't age). Nowadays it isn't even necessarily paper, but often just an entry in a computer. It's the age of plastic money.*

M: Exactly. Money does not age and does not actually exist as an object. But it is the object of trade. The price of money is interest. We talk about inexpensive and expensive money, or of inexpensive and expensive credit. In theory, national currencies are exchanged, but in reality they are bought and sold. You can make a fortune on it. 10% of Great Britain's GDP is from sales of financial services, or mediating in the sales of monetary instruments.

D: *Can interest destabilize national economies?*

M: Yes, but not only that. The institution of interest has led to the fulfillment of the Gospel: "Whoever has will be given more, and he will have an abundance. Whoever does not have, even what he has will be taken from him." Whoever "has" establishes a bank, and whoever "does not have" takes credit. And the whole time the money from interest impoverishes the poor and makes the rich even richer. The flow of money only goes one way. Interest on deposits (savings accounts) marginally stems the tide.

We take credit, meaning we enslave ourselves to banks. Sometimes for many years. We will work and earn money for interest, not for the needs of our own families. The bank evaluated our solvency. A credit analyst determined that I can give 60% of my earnings, for thirty years, to the bank.

D: *Why are you telling me this? Everyone knows that. T.M.S.I.D.K..*

M: What is T.M.S.I.D.K. supposed to mean?

D: *Tell Me Something I Don't Already Know.*

M: Okay, fine. In the beginning you asked me why things are so bad if they are so good. That is actually one of the reasons. Credit leads to economic enslavement. Can a slave be happy? Can you slam the door and quit your job if you are threatened by a debt collector?

D: *And in addition, if we have credit problems, we fall into a credit spiral, paying for one credit with another and another.*

M: Right. And our feeling of helplessness grows. But sometimes, the debt grows because of a credit trap, not a credit spiral.

D: *What does that mean?*

M: I take a loan for ten years. I agree upon a payment schedule, for instance two thousand zloty per month. Suddenly, the value of the zloty drops, and my credit line is in Swiss Francs. Or, maybe WIBOR (the percentage rate on interbank loans) suddenly increases, and the interest on my loan increases along with WIBOR, in accordance with the terms of my agreement. My monthly payment does not even cover interest. Unpaid interest increases the size of the debt. Despite paying the bank systematically according to the payment schedule, my debt increases.

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D: *We live in constant fear of losing our jobs. Why isn't there enough work for everyone?*

M: Technological advances are driven by lazy people. They want to free you and themselves from working. They create more and more efficient machines.

In the past, a shoemaker made one pair of shoes a day. Now, a machine makes a thousand pairs an hour. It does the work of 24,000 shoemakers in one day. Now picture this: a shipment of these machine-made shoes comes to a shop, in a town of shoemakers. Shoemakers are now jobless and don't have any money. Who is supposed to buy those shoes? That's how it is in every field.

In the USA, 2% of the people are employed in agriculture, 10% in production, and 30% in services which are truly necessary to society. The rest are employed in expendable or fictional jobs, or are unemployed and looking for work.

EVERYONE HAS THE RIGHT TO A DECENT LIVING. THERE IS ENOUGH FOOD AND THERE ARE ENOUGH GOODS FOR EVERY PERSON (and not only the most basic ones).

D: *So where is the flaw?*

M: Consider this:

1. Goods (products and services) can only be got with money.

2. Money is generally given for work.

3. Machines do work for us. And though we don't work, we should receive the money owed to the machines.

A PERSON IS NOT ALWAYS A WORKER, BUT HE IS ALWAYS A CONSUMER.

WE MUST DIFFERENTIATE BETWEEN GETTING MONEY AND THE OBLIGATION TO WORK.

D: *That's true, really. I go to the supermarket. The shelves are loaded down with products. In the warehouse out back, there is a line of manufacturers. They offer bribes or whatever they have to so the store will take their products. In the shopping area there is a crowd of people willing to buy. But their carts are empty. Something is missing. Money.*

M: Precisely. What would happen if every citizen suddenly got, for example, two thousand zloty? We would buy more. We would produce more. Unemployment would go down. The economy would grow.

D: *But you can't do that. There is a risk of inflation (price increases). Demand increases (desire to buy) and prices go up.*

M: We will talk about the threat called inflation later. For now, I assure you, extra money doesn't change anything but it does improve feelings of well-being in the population.

D: *Maybe so. But what happens when we can't buy the products of our dreams (or perhaps the ones that are essential in life)?*

M: We go to the bank for credit. It's not enough that we reduce our future income -- we also pay more for those products, in interest. Paying off credit triggers feelings of long-term privation.

D: *How about something cheerful now? What does a Midas (a rich person) do with surplus money?*

M: You're saying that this Midas is a shareholder (owner) of a bank and various corporations. His profits and dividends exceed what can possibly be spent. Midas, therefore, sets out to multiply his money. Without working, of course. I will tell you how.

Midas becomes a financial investor. He invests available monetary instruments in shares of large funds. The funds operate apart from banks. They are financial institutions. They do not issue credit, but they accumulate money by way of "financial engineering". In simpler words, they speculate on currency, debts (debt securities) and other shares (stocks, futures, and derivatives). They play the stock markets and commodities markets.

I will tell you later, in detail, how large funds work. In any event, these monetary instruments accumulate dramatically.

The fortunes of Midases are comprised of real money, coming from interest and profits from various corporations, and so-called debt money, which we (all of us) will pay in the future, from our future earnings.

It operates according to this formula: Midas → fund → investment bank → commercial bank → our credit secured with collateral. Ultimately, Midas has our home until the entire loan has been paid off.

Americans couldn't pay the loans they'd taken for homes. To ensure that a circle of Midases wouldn't lose out, the central bank in the USA printed additional dollars.

D: *But you said that banks lend us empty money, and now you say that it gets it from Midases.*

M: Look at it a different way. A bank has given too many loans and it is nearly insolvent. It sells the loans, meaning the debts, to investment banks. The investment banks buy them because the loans are secured with real estate. It is as if they were buying real estate. Investment banks create "packets". They throw various financial instruments together in one bag: loans, stocks, bonds, debentures, and so forth. They divide the bag in pieces and create a new type of share. They sell it to funds, whose shares are owned by the Midases.

D: *So Midases have liabilities (others' debts), mainly. These debts accumulate, because interest is counted on them. How much of our future money do they have?*

M: Worldwide financial obligations, meaning debts, are comprised of:
– national debts (bonds, debentures);
– business debts (credit, commercial loans, bonds, bills of exchange);
– mortgages;
– consumer debts.
They are two thousand times greater than the annual gross world product (GWP).

D: *How could such a huge debt have been created?*

M: It is the effect of using compound interest. That means that the interest is not counted on the amount borrowed but on an amount which gradually increases by interest. Look at how a debt grows over 100 years if we borrow 1 dollar with compound interest:

1%	$ 2.72
2%	$ 19.25
10%	$ 13,809.00
12%	$ 1,174,405.00
24%	$ 251,799,494.00

D: *But it isn't possible to pay debts like those. All the more because they keep growing. Interest is counted all the time.*

M: Yes. And that is why we talk about a financial crisis, a speculation bubble, or loss of trust from the financial markets -- it's the Midases. They are starting to lose their belief that they will ever get that money.

D: *It's very complicated. When that bubble pops, the world will be forced to change its system.*

M: Not necessarily. There have been crises before and everything started over from the beginning. There is hope, though, that we have grown enough to be able to change its foundations.

D: *What state are the Midases in now?*

M: Have you heard of the monkey paradox? Midases are in the situation of this monkey. They put a small amount in a jar, and it swelled from interest. Now, they have tried to put a hand into the jar to take it out. A closed hand won't pass through the opening in the jar, and to bring out an empty hand is like giving up on the contents of the jar. What can a monkey do? It can let go of its prize and remove its hand (amortize the debts), squeeze the prize so that not much is left in hand (hyperinflation), or break the jar (which would mean war).

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D: *Let's go back to the subject of dividing work and money. It's like a utopia. And it raises moral objections.*

M: We don't separate money and work. Wages will still be given for work. But now there are people who do not work and still have a lot of money. And not just from interest, but also dividends -- from company profits.

The world is not anyone's property. We just lease it, and use it. Mines, water, and air don't have individual owners. They belong to mankind or to nations. Discoveries, inventions, and knowledge are the achievements of humanity and belong to all of us. If all of our production and most of our services are automated and machines do the work for us, we have to have money to be able to enjoy these commodities. Douglas, who developed the theory of social credit, called this a social dividend. Every person on earth has a right to it -- from newborns to the elderly. Every week, every person should receive their part of the fortune. Those who work will also receive wages.

D: *Nobody will feel like working.*

M: That's not true. Ask yourself and your friends whether you would still do what you do if you didn't get paid for it. People who are fulfilled in life and love what they do will respond that if they had another source of income, they would keep working. Everyone would do the jobs that they loved and feel useful to society.

D: *And what about jobs that nobody wants to do?*

M: That kind of work would be paid for according to principles of supply and demand. People who are working their way up in life (for instance, those who dream of having their own home) would take on that kind of work temporarily.

D: *You're fantasizing a bit, but I like it. With dividends, people with few needs and a mission could sit in their garages with their inventions, write poems, learn to play guitar, and so forth. Families that don't have to worry about the future would have a lot of children. Nobody would be afraid of "dark days". Let's dream for a while about a world like that.*

M: Sleep on that dream, and you will see that it is quite realistic. In fact, Douglas's attempts at implementing the theory were successful.

D: *So why don't we implement it?*

M: We don't live on a desert island. If we introduce changes that are not supported by the financial circles, they will cut off our access to oil, because right now oil rules the world as its basic source of energy.

D: *Can't we be self-sufficient?*

M: Right now, no. Look how the Prime Minister of Hungary is being undermined for daring to think differently.

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D: *Why are societies stratifying more and more? There are increasing numbers of poor people, the middle class is shrinking, and the rich are getting richer. In a climate of free competition, democratic governments, human rights and slogans of equality, things should look different.*

M: You named four conditions. None of them are being fulfilled. Free competition has been replaced by monopolies and cartels under a pseudonym -- what we commonly call corporations.

There is no democracy, because democracy only exists when voters are completely, truly and objectively informed about the goings-on of the authorities and when there is no party discipline in parliament.

Voters cannot be informed if policy-makers' cupboards are filled with "classified", "secret", and "top secret" files, when the secret services operate without any control, and where blackmail, slander, provocation, corruption and lobbying function.

D: *You've got that off your chest. Now let's go back to social stratification.*

M: All right. The cause of stratification is the constant, increasingly rapid outflow of money from the wallets of the general population, into the pockets of very few people. More and more money is leaving the market. At the same time, the bank's products are growing. The circulation of money operates in a self-regulating system. Here is an example: I buy a car that costs 50,000 PLN. I take a five-year loan. I will pay 70,000 PLN from my future earnings. The bank gets 20,000 PLN. After five years, I have to buy my next car.

Is it just interest that I'm charged? No. In the price of the car, there is interest which the manufacturer pays on sales loans, which is taken to carry out his current business activities. The current economic doctrine (science) says that fixed assets (machines, or buildings) should be owned, (bought with money from the company), but that regular expenses (buying raw materials, workers' salaries) should be financed with credit.

This means that a constant stream of money (from interest) flows from the pockets of borrowers, into the pockets of the banks.

An increase in salary and other income does not catch up with this loss. We are poorer and poorer and more and more in debt.

D: *Does this only affect particular people?*

M: No. It affects entire societies and countries that run up debts in commercial banks, but also in the World Bank and the International Monetary Fund.

D: *If governments become insolvent because the taxes from their citizens don't cover the debt payments, what happens?*

M: Then large corporations buy the national wealth, like its uranium deposits or gold. The country pays its debts, but doesn't own anything anymore. It becomes an economic colony.

D: *Does that happen in real life?*

M: Yes, for instance the Americans occupy the Persian Gulf countries, and African and South American countries with rich reserves. Large corporations own mines as well as banana plantations, for example. It depends on these corporations whether residents have work or if people buy bananas from the foreign owners.

Now, when Venezuela has broken free of their domination and South American countries have created their own banks, the FBI and CIA are suddenly looking for ways to regain influence.

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D: *Let's change the subject. Why don't we talk about the second malady of our times -- unemployment. How can we ensure jobs for everyone?*

M: Perhaps you aren't referring to work but about resources for life, namely money. Production isn't being automated in order to make work. Machines are supposed to work. We free ourselves from work and then cry that we don't have any. It's ridiculous.

D: *How should that money be divided?*

M: Douglas's social credit theory, which I prefer to call the theory of social trust, solved that problem very well.

Like Gaddafi in Libya, Douglas decided that every citizen ought to receive a dividend, which is a share in the profits from shared national ownership. Gaddafi divided oil profits among the citizens. Each of them had a bank account and he ordered that they receive sums that cover the everyday expenses of Libyans. This money was not inherited, however. Douglas suggests dividing profits from the entire national production among the citizens.

D: *What is the basis for achieving these profits?*

M: Above all, scientific and technological achievements -- patents, inventions, and discoveries. All of these things contribute to the knowledge gathered by previous generations. Generally, this can be called information. As an immaterial and reproducible commodity, knowledge should not be subject to any limitations. It should be available and free of charge. It is, after all, an achievement of humankind, and its appropriation is immoral.

D: *But why do you want to give money for nothing?*

M: Because we live in an era of abundance. Everyone should have access to reproducible goods. If this access can be guaranteed to everyone through money, then everyone should have it.

The laws of supply and demand which were in effect during times of privation work differently now.

In times of privation, for instance when there was a shortage of shoes, the availability of this commodity had to be regulated by a factor. It was the price that influenced demand. If the population numbered two hundred, and there were only 100 pairs of shoes, someone had to walk barefooted.

Nowadays, we can produce commodities in unlimited amounts. At the same time, supply (production) can only be regulated by desire and ability to purchase (demand). If everyone wants to walk around in shoes, it is necessary to give everyone the means (money) to do so. If we don't do that, we will keep producing only one hundred pairs of shoes, though we would like to produce a few thousand.

D: *That's right. If there is enough bread in the world, why should someone die of hunger?*

M: If in spite of abundance and even overabundance, SOMEONE has the right to divide it, and that SOMEONE has great power.

D: *So it's all about power?*

M: Yes. Dividing money -- access to goods -- is exercising a lot of power. And power is a drug stronger than all the others known to "sheep".

This is the power that comes from distributing (dividing) money. It isn't money that rules the world, but THE DISTRIBUTOR OF MONEY. Very few people know who the distributor is. It is an *éminence grise*. It doesn't seek popularity or fame. It doesn't even care about money. It only cares about power.

D: *You're propagating a conspiracy theory.*

M: No, I'm not personifying this distributor. Maybe it is only a mechanism -- a defective and harmful mechanism.

D: *Let's go back to the allotment of money without work.*

M: Not without work, but independent of employment. The creation of jobs is a subject of constant discussion right now. What for? Because they say "no work, no pay", "you get rich through saving and work", and so on. These are slogans from times of privation. Now, in order to sell the surplus of shoes, and to supply consumers with money, there are three methods:

– create places of employment which are completely unnecessary (like propagating bureaucracy);
– give benefits (to the unemployed, disabled, social care, etc.);
– charity.

All three of these affront our humanity. Through them, the authorities "kindly" give us what we are rightly entitled to: the salary that the machines would get.

D: *What machines?*

M: The ones that work for us.

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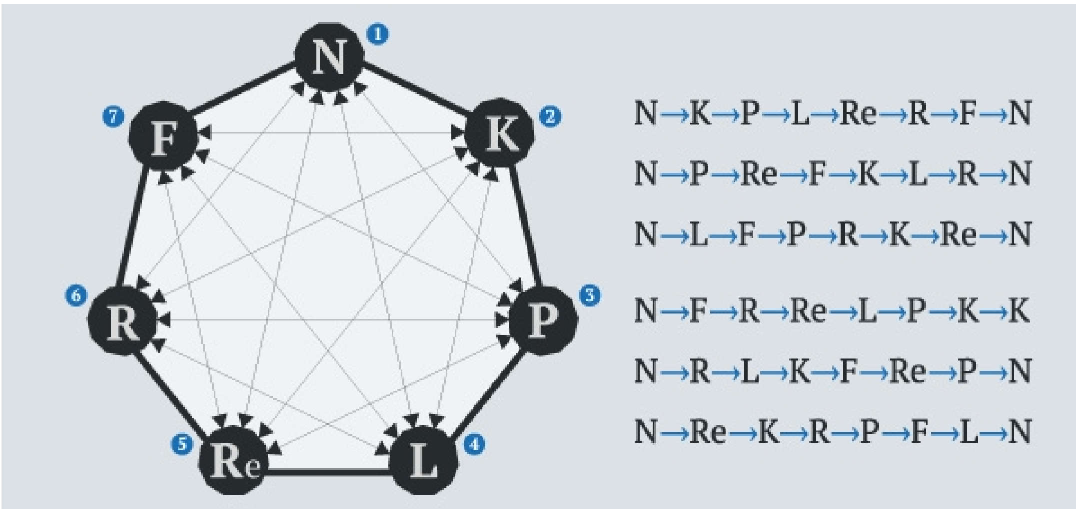
D: *Is there always less money than offered goods?*

M: Generally speaking, yes, but human welfare, or the opportunity to take advantage of the goods -- acquiring products and services -- is not only decided by the amount of money, but also the speed at which is circulates. I will sketch it out.

Let us begin by following the circulation from a teacher (T). She tutors someone and gets 100 PLN for it. As soon as possible, she spends it at a seamstress's (S) for a dress. The seamstress takes the money to a lawyer (L) for advice. The lawyer invites his girlfriend to a restaurant for dinner. The restaurateur (R) buys products from a farmer (F). The farmer gives money to his wife for the hairdresser (H), and the hairdresser pays for more tutoring from the teacher. This time, the teacher goes sooner to the lawyer -- she is expecting an inheritance. The lawyer goes to a restaurant. The restaurateur decides to get a haircut. The hairdresser orders a suit from the tailor. And so on.



N=T - K=S - P=L - Re=R - R=F - F=H – N=T

The circle of abundance

The six-point circulation of money around the entire circle means that each of the participants has sold their services to everyone else and that everyone bought commodities from all the others. As a result, each of the seven people completed six sales transactions, each for 100 PLN, which when converted to GDP means we gained a turnover of 4,200 PLN (seven people x 600 PLN). Each one sold 600 PLN and bought commodities valued at 600 PLN.

I have called this the circle of abundance. If everyone spends money quickly, everyone will be better off. Feelings of well-being will increase. Everyone will have work and access to goods. Notice that only 100 PLN was in circulation.

In an era of abundance, saving is harmful. After all, what would happen if, for instance, the tailor put the money he'd earned under his mattress for a rainy day? The circulation would stand still. It would lead to a situation where nobody sells and nobody buys. In order to revive this circle, someone would have to take a loan. The lawyer's child gets sick, so he takes a loan for the doctor. Credit stimulates movement again, but it has to be interest-free. Credit with interest sucks that interest out of circulation. Now there won't be 100 PLN, but 90 PLN. This kind of depletion of money in circulation arouses fears that things will get worse, as well as the desire to save. By saving, such a large sum of money flows out of the circle that everyone suddenly becomes poorer. Impoverishment does not mean a reduction in the state of the savings, but a decrease in feelings of well-being, and reduced access to goods.

D: *That means that if the tailor puts that money in his mattress, and the lawyer takes a loan, it's as if the bank lent the money that the tailor hid in his mattress to the lawyer?*

M: Yes. And that, right there, is empty money. The government estimated -- actually, the central bank did -- that the money temporarily at rest in "mattresses" is of a certain amount. And that money, which is not its own, is given in the form of credit.

D: *Then the basis for the leverage index 1:10 is the observation of economic life, where it seems that the amount of money in circulation is 10 times less than the amount of cached money (in mattresses).*

M: You have understood correctly. It's like the houses on Lanzarote. The activity of the manager of the houses is economically justified, because all the houses are being used. The scam comes from the fact that the profits from renting should be given to the first renter, not the administrator.

D: *Oh, so the interest that banks get actually belongs to me, because those are my savings.*

M: Yes, that's right. So either we all deserve to get interest, or it should be eliminated. In the first case, interest should go to the national budget, and in the second, the following claims will hold true:

1. Our debts will not grow.
2. Banks will not rob us.
3. The elimination of interest from deposits may discourage saving.

D: *Maybe employers should pay their workers every day. Would that speed up the circulation of money?*

M: That's a difficult question, but in my opinion it would.

D: *Mom, coming back to the circle of abundance, tell me what will happen if the teacher doesn't save the money but spends it on a dress in Paris and not the local tailor's.*

M: Money leaves the circle of abundance for good. There is hope if a German seeks the advice of a lawyer from this circle. Buying a dress in Paris is import. The sale of services by the lawyer is export. As you can see, balancing import and export maintains the status quo. A greater amount of export strengthens the circle, whereas a greater amount of import makes it weaker.

D: *You showed this circle of abundance in such a simplified form that I'm not sure whether it applies to the national economy.*

M: Graphs are always simplified because it's the only way to present a particular phenomenon in a clear, comprehensible way. The more participants there are in the circle, the wider the spectrum of satisfied needs (more types of products and services offered).

***

D: *So you are of the opinion that it would be best if economies were self-sufficient?*

M: Yes. A balanced economy is a self-sufficient one, with a definite speciality. That speciality allows for export, which can counterbalance expenditures from necessary imports.

D: *In that kind of economy, do budget deficits or national debts exist?*

M: Revenue to the budget mostly comes from taxes. Other sources may be:

– selling the national wealth,

– profits from state-owned companies and partnerships in which the National Treasury has shares.

Expenditures are costs of maintaining the country (administration, military, police, health services, and so on).

When the revenue to the treasury is lower than the expenditures of the country (taxes are not enough to maintain them), there is a shortage called a budget deficit.

A deficit is covered by taking credit from commercial banks, and issuing securities, bonds, and debentures. The national debt forms relative to the amount of loans and securities.

If securities are sold to institutions and people within the country, and the loans are taken in a domestic bank, it creates a domestic national debt. In Poland, 30% of the national debt is comprised of foreign debt (credit and bonds). This is an external debt. The rest -- 70% -- is domestic debt. The interest rate on these debts makes them grow by geometric progression.

That a domestic debt should come into existence is totally inexplicable. The money needed by the country to function should originate from the issuance of new paper money or an interest-free loan from the National Bank of Poland, as a last resort. After all, regardless of the origin of the money (be it commercial banks or the NBP), the amount and its value in the market stay the same.

D: *The domestic national debt paid to commercial banks instead of the NBP is a clever way to move taxpayers' money (from the budget), into the pockets of private bankers.*

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D: *So only NBP can issue money in Poland?*

M: Yes. That is guaranteed by the constitution. Too bad, because local money could effectively speed up regional economic development.

D: *Something tells me that you are about to enter dangerous waters, but I'll let you go ahead and fantasize.*

M: All right, so first I will tell you how local money can come into existence.

Imagine that a war has broken out. Money has lost its value, and the banks are closed. You have to live somehow. There is a bakery in the town. The baker always has a supply of flour and bakes bread. When his daughter has health problems, the baker has to call a doctor several times. During the first visit, he gives the doctor a loaf of bread. At the next visit, the doctor doesn't want more bread. How can the baker pay him?

He gives the doctor a voucher, on which he has written: "The owner of this voucher may redeem it at any time for a loaf of bread in my bakery. Baker". The doctor takes a few of these vouchers for his work. Then, he goes to the butcher's and buys half a chicken, paying with two vouchers from the baker. The butcher happily accepts them.

The vouchers for bread pass from hand to hand -- from the baker to the doctor, the butcher, the farmer, the shoemaker, and so on. The subsequent bearers don't redeem their vouchers for bread, but use them for other needs.

What is this voucher? It is local money. In this case, the monetary unit isn't "zloty", but a loaf of bread. The voucher for bread became a symbol of any available commodity. And the baker became an issuer of money.

Can interest be charged on money that isn't given by a bank? No, it can't. Therefore it cannot send anyone into a debt spiral.

D: *Does this money have any kind of guarantee?*

M: The guarantee of the money is trust in the issuer. That is the general principle. It concerns every kind of money. A sovereign prince, by minting coins or issuing banknotes, guarantees their exchangeability for gold. So the trader trusts that guarantee, not necessarily the prince himself. If the issuer is a country, its citizens believe that the banknotes in circulation can always be exchanged for commodities. Proof of their trust is their acceptance of wages in that money and confidence in the economy. We experience a loss of confidence when the man selling bread refuses to accept the banknote.

D: *Under what circumstances does a loss of confidence in money happen?*

M: In situations where there is widespread uncertainty -- in times of war, revolution or large natural disasters. During the occupation in Poland, the zloty lost its value immediately. Right after losing the war, Germans used cigarettes instead of money. In situations like these, money is replaced by the most desirable items.

D: *Yeah, but Polish zloty before the war were covered by the gold standard.*

M: Right, and what about it?

D: *Can local money be created in all circumstances?*

M: No, not in all. The basic conditions of self-sufficiency have to be fulfilled. Some attempts at creating local money failed because the participants in the market were too few in number, and too homogenous.

D: *But have there been any fully successful cases in history?*

M: Yes, there have. The most prominent example of great success with local money was the story of a mayor in a small Austrian town, functioning during the Great Depression.

D: *Can you tell me that story?*

M: In 1932, the Great Depression was raging in Europe, thus in Austria. Poverty and unemployment had reached their worst levels. Michael Unterguggenberger, the distraught mayor of the small Austrian town of Wörgl, decided to implement a forgotten idea from the German economist Silvio Gesell.

Wörgl became the issuer of a local scrip called Wörgl Schillings.

The mayor started by talking to the owner of a mine that was not operating due to the crisis. He suggested that he renew production, hire workers, and pay them up front with local scrip, which the mayor would give him in the form of a deposit. The workers received pay. They bought coal and food in local stores. The owner of the mine paid off his overdue taxes. The mayor paid overdue wages to his workers. The office workers bought goods from the stores. The stores got products from farmers. The farmers started to use the services of craftsmen. The economy started to develop.

The mayor knew that if people started putting their money in their mattresses for a rainy day, the circulation would stop. For the money to be spent as fast as possible, it had to have an expiration date. So that's how it was. For keeping the money longer than a month, the holder would have to pay a fee to the local treasury. That meant that a month after the money had been issued, it would expire. In order to extend the date on the banknote, one had to pay a 1% demurrage fee. It was documented by a stamp on the banknote.

An incredible economic boom took place, which came to an end when the money was declared illegal and the mayor faced a court charge for unlawfully infringing on the banking laws regarding currency. In the year and a half when the Wörgl Schilling was in effect, unemployment had been completely eliminated, the well-being of the citizens had been secured, and numerous investments had been made. During this time, a new school, a bridge, new roads, and even a ski jump were built. After the trial, the city returned to its former state of poverty. Today, there is a monument to the mayor in his city.

D: *How on earth could such a small amount of money (supposedly 5000 Wörgl Schillings) lead to so much prosperity in the town?*

M: That's the effect of money "burning a hole in your pocket". In one month, every *Wörgl Schilling* changed hands 13 times.

D: *That's stunning. In Wörgl, the local scrip functioned alongside national money. Could it have been independent, or unexchangable?*

M: Yes. Local money can circulate independently, or alongside national currency. Polish local money, introduced during World War I in Silesia, and just after World War I in Poznan, were the only forms of payment in those areas. In Austria, however, both currencies were present in the market simultaneously.

D: *Is local money being issued anywhere now?*

M: In the United States, the state of Montana has tried to issue the Montana dollar. There have been similar attempts in California, Wisconsin, Oregon, Pennsylvania, Michigan and Massachusetts. There are also initiatives to reintroduce the peso in Spanish towns.

D: *Do these initiatives entail eliminating interest on loans?*

M: No, the authorities in Montana want to give governmental currency issuers exclusive rights to loan money and they plan to calculate interest at 10% annually. Since it is a national bank, the interest is supposed to go straight to the budget.

D: *In that case, interest is a kind of tax on credit.*

***

D: *Let's talk about money itself. Where did it come from?*

M: Money was thought up by the Phoenicians. It is the most ingenious invention of our civilization. Money was conceived of as an intermediary in exchange and as a means of gauging value.

Let's imagine Phoenician times. People came to market to exchange goods. They considered one cow to be worth three sheep. But the cow seller, who we will call A, only needed one sheep, so an exchange for three didn't suit him. Because of this, the buyer, who we may call B, gave one sheep and two vouchers which authorized the receipt of the two remaining sheep when needed. And he considered that appropriate.

After selling the cow, A has three sheep -- one in his possession and two additional animals kept by B. He doesn't need the sheep, so he exchanges one voucher for a plow, and another for corn. Now the vouchers are held by the plow seller and the corn seller. The vouchers are money. They symbolize sheep. Do they have any value? In and of themselves, no -- the value is in the object that they represent.

D: *But there aren't any sheep on banknotes now. Maybe you can switch to a higher degree of abstraction.*

M: Money is generated by sales transactions with a postponed date of receipt for the goods. It represents the right to collect goods of a value indicated on this symbol. Real money, as a right to collect goods or services of a designated value from the market, comes into being at the point of sale. The function of money as an intermediary in the exchange of goods is as follows:

1. Sale of product number one.
2. The right to collect the goods of choice, with the value of product number one.
3. The purchase of product number two, with the value of product number one.

Money is a document (paper) testifying to the right to buy -- it is an intermediary in the exchange of products, which is not product itself.

D: *Why don't you think of money as a product? When I rent out a car, I receive remuneration for it. So why can't I lend money for remuneration?*

M: The difference between a car and money is such that money doesn't get worn out, doesn't age, and doesn't lose value (except when inflation is skyrocketing). When you exchange your money for a car, it will not be worth that amount in five years, even if you never drive it. The fee for renting a car is a fee for wear. Here is an example:

A taxi driver has bought a car for 100,000 PLN. He anticipates that he will be able to drive it for 100,000 kilometers. In that case, the taxi driver should put one zloty aside in his piggy bank for each kilometer he drives, whether he has a passenger or not. If he does that, he will have enough to buy a new car when he has worn out his car. He saved up for a delayed fixed asset. The zloty in his piggy bank is depreciation. Customers have to pay as much as they do for a ride so that the taxi driver can afford depreciation -- and buy a new car in the future.

The loss of value by 1 zloty is called depreciation of a fixed asset.

Saving for a new car in the amount of 1 zloty is called amortizing a fixed asset.

Money doesn't get used, so it doesn't have to be amortized.

If a taxi driver squanders the savings from his piggy bank, he won't have money for a new car. Let's assume that he borrows money to buy one. Now, the customer will have to pay for a ride that covers:

– depreciation;
– fuel;
– other costs (social security, taxes, and so on);
– interest on the credit taken to buy the car which is being used.

In the end, the customer pays for the interest indirectly. Interest is a parasite in the body of the economy. It drinks blood but gives nothing in return.

D: *You're saying that money doesn't depreciate, but I heard in the bank that it does depreciate.*

M: In banking, there is a concept of depreciating money. That is another banking scam. Depreciation is the exchange of empty money into real money, through interest. When the amount of interest on credit is equal to the amount of the loan given, the bank acknowledges that the money has paid for itself. It has been regenerated. Notice that real money (interest) was generated by empty -- nonexistent -- money (credit).

D: *Then can money multiply independent of commodity growth?*

M: If money is a symbol of goods, then there can't be more money than goods. If there is more of it, then it simply loses value. Money, which is a marker or symbol, a certificate that states the right to receive goods of a certain value, is not a product in itself.

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D: *So what is money for?*

M: Money is an intermediary in exchange, a measure of value and a means of accumulation (saving). However, these three functions of money contradict one another. We will talk about the fact that it is an intermediary in exchange later. Let's think about measurement for now.

When we buy curtains for a window, we use a measurement -- meters. When we buy potatoes, we use measurements -- grams (or kilograms).

When we are looking at two different lengths of string, we can only tell which is longer. Measurements tell us how much longer. A meter or a kilogram always amounts to the same, wherever we are. That happens because according to social agreement, we have decided on an appropriate standard and put it in the **International Bureau of Weights and Measures (BIPM), near Paris**. Even if length is expressed in miles and weight in ounces, we can quickly and easily convert them to a more familiar system of units. Can you buy a meter or a kilogram? No. That is because they are abstract concepts -- symbols for the sizes of things.

The symbol that expresses the value of something is a monetary unit. Monetary units allow for comparisons. We compare the value of a new car with that of a used one. Units of money (złoty, dollar, and euro) are only measures. Can you have a meter? No. You can have a tape that is a meter long. Can you have zloty? No. You can have a paper (banknote) which is a symbol of the established value of something. Just as a meter is the symbol of a specified length of something. But how to measures differ? Meters, grams, liters and hours have standards. A unit of money does not. In the times when money was on a gold standard, one could accept that the measurement of a unit of money was a designated precious metal of a particular number of carats.

Presently, it is accepted that money is covered by products. How it is possible, then, that the same products have a different value in each country (it has a different price)? Cejrowski, in the program „Boso w Etiopii" (Barefoot in Ethiopia) convinced his friend to get a haircut at a hairdresser's. The price of a haircut, when converted, was 10 groszy -- 100 times less than in Poland. A curtain which is one meter long is the same length even when we express it in ells. The services of a barber should have the same value, regardless of whether it is expressed in zloty or in birrs.

The monetary standard should be based on purchasing power. In the literature, you encounter numerous attempts to express measures of value. One of them is the proposal in the 3xR theory.

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D: *What does the 3xR theory propose?*

M: The 3xR theory proposes a standard unit of measure called OM (a universal objective currency measure) based on their purchasing power. 30 OM is the equivalent of subsistence level, the basket of goods essential to survival for one month. This standard would be applied in geographical and time dimensions.

If the subsistence level in Poland is equal to 500 PLN (500 PLN = 30 OM), and the subsistence level in India is 1000 INR (1,000 INR = 30 OM), that means that one zloty equals 2 rupee, and 1 rupee is 50 gr.

In the time dimension, things would look like this: if I lend someone 500 PLN (30 OM), and he returns the debt in 3 years without interest, in the amount equaling 30 OM, which due to inflation is 1,200 PLN, I have not earned anything and he has not lost anything. The situation can be reversed. 30 OM might be the equivalent of 400 PLN after three years. It might happen that the price of one of the products in the basket, which is part of subsistence level living, has dropped rapidly.

D: *Finally a pensioner wouldn't lose anything to inflation. I've always been surprised at the way currency is converted. Now, the poorest American pensioner can live in Bangladesh at a level where he can even afford servants. And a retired citizen of Bangladesh living in America wouldn't even be able to buy bread.*

Try to use a more detailed example about the geographical aspect of the OM standard.

M: All right, I will express it in points:

1. 1 OM is the equivalent of an amount needed to survive one day in a given country at subsistence level.

2. The amount needed to live one month in a particular currency must equal 30 OM.

3. The subsistence level in Poland amounts to 500 PLN per month, which is 30 OM.

The subsistence level in India amounts to 1,000 INR per month, which is 30 OM.

4. The earnings of a professional driver in Poland are 2,000 PLN, therefore equivalent to 4 subsistence incomes, or 120 OM.

The earnings of a professional driver in India are 2000 INR, equivalent to 2 subsistence incomes, or 60 OM.

5. It is clear that India is a poor country. The wages there are lower. The standard of living is lower.

6. When going to India, a Pole exchanges his wages, 2,000 PLN, for rupee using the OM standard. 2,000 PLN = 120 OM; 120 OM = 4,000 INR. The Pole goes to India and can live at a higher standard than an Indian (who earns only 2,000 INR).

7. And how is it now? A Pole can buy 500 dollars for 2,000 PLN. He goes to India and sells 500 dollars for 100,000 INR. A Pole can live in India at a standard 50 times higher than his Indian peers. The Pole has 100,000 INR at his disposal, and the Indian has 2,000.

D: *You gave a good example, from your own experience.*

***

D: *Let's go back to money as a medium of exchange.*

M: Okay. In the literature, the role of money is most often compared to a circulatory system in an economic organism. I will make another comparison. Listen.

The goal of the Phoenicians was to simplify the transfer of products and services from those who had too much of a given product to those lacking it -- meaning from a manufacturer to those in need. The economy is creating products in amounts greater than its own needs and trading the surplus. This mechanism was facilitated by the use of "oil" -- money. If we covered everything in "Teflon" we wouldn't need the oil. Since the idea of Teflon is a song of the future, we are still using oil. But the first hints of Teflon are already visible. We exchange information on the internet for free. We don't buy it or sell it, and in spite of that, we supply it and take it. For free. The exchange mechanism was secured with Teflon. For now, though, oil, or money, dominates. But instead of oiling the mechanisms of the economy at the right time and in the right amounts, it is being drunk, slept on, and swum in. We are all sucking more of it out (by saving) and the cogs are wearing down.

D: *Right, the "oil" isn't a product. But on the other hand, you are talking about sucking it out, and I am thinking that the banks and large funds aren't sucking money out with interest and speculation, but they are pumping it out and completely draining the mechanism. Is it possible to establish what the proper amount of "oil" is?*

M: Scholars have begun to research, gauge and determine the right amounts of "oil" to allow the mechanism to move with a predictable level of efficiency. Unfortunately, they have not found the right means of measuring the effectiveness of the economic mechanism. But the one and only correct measure is the well-being of individual people and entire societies -- not GDP, not measures of economic growth, but a general feeling of economic safety.

D: *How can one objectively measure well-being?*

M: Very easily: using Napoleon's gauge, researching the increase or decrease in petty crime. Why is it that people don't have to lock the doors in their homes and cars in Switzerland or Norway? Why would you mug an elderly lady for her 50 PLN if you have enough money for the disco or for beer?

You can also use other gauges, like the increase or decrease of private debts, indicators of demographic growth, rations of the amount of living space per citizen, and so on.

***

D: *Try to give me more arguments that attest to the fact that money is not a commodity.*

M: You husband takes 5,000 PLN and goes shopping. He comes back after two days. You ask him what he bought and he tells you that he has bought 7,000 PLN. Is he crazy? No. He bought euro for 5,000 PLN, and in two days the euro appreciated by 20% (that happened in October of 2011). Then, he sold the euro and he got 7,000 PLN. Doesn't that seem absurd to you? Your husband took advantage of the universal treatment of money (currency) as a commodity. For certificates (banknotes) that allow him to obtain products for 5,000 PLN, he received certificates that allow him to obtain products for 7,000 PLN. Your husband profited, but someone else had to lose -- someone who has supplied the market with products valued at 7,000 PLN and can now only get products valued at 5,000 PLN. Real money in circulation cannot be multiplied. Only debt money, meaning certificates entitling one to products from the market that will be created in the future.

D: *What was the source of my husband's profits?*

M: Currency speculation.

D: *So what else is speculated on in financial markets?*

M: Mostly securities and other derivatives.

D: *Can you tell me something else about them, or is it really complicated?*

M: No, it's rather simple, but you have to understand basic financial instruments, bonds and options, or futures. I will start with bonds.

Bonds can only be issued by governments, local governments, and legal persons. They cannot be issued by natural persons. Bonds are the equivalent of a bill of exchange. So when the government doesn't have money, it emits papers on which it is written "the bearer of this paper, for 100,000 PLN, will receive 110,000 PLN in three years when he returns it." The government went into debt, secured by bonds, which are a legal, formal obligation to pay back an amount that is higher than what was borrowed.

D: *When the time comes to buy them back, the government buys them.*

M: Not necessarily in cash. Generally they pay with new bonds. This procedure is called rolling over bonds.

D: *Can you explain?*

M: Yes, I can. Instead of buying the bonds back for the 110,000 PLN which I referred to earlier, the government issues new bonds worth 110,000 PLN plus interest. The interest is usually higher than in the previous issue. This time, the government goes into debt for another three years, and obliges itself to pay back 130,000 PLN.

D: *The owner of the bonds must be happy about that. He doesn't have any trouble allocating the money that he got from the buyback of the first issue.*

And now what about fixed term contracts, or options?

M: That is a bit more complicated, and I have to use a story to explain it.

Do you remember "East of Eden", by John Steinbeck? The unloved son wants to earn his father's love and help him with his financial difficulties. On the advice of a friend, he borrows a small sum of money and gives it to farmers to buy beans for seed.

He makes a contract with the farmers (an agreement). Our protagonist obliges himself to buy the entire crop of beans for 5 cents a bag. He pays the farmers a deposit for the seed -- 500 dollars. He anticipates that the harvest will be worth 2,000 dollars, in accordance with the contract. War is coming and he expects to sell the beans for 8 cents a bag, meaning he will earn 3,200 dollars on the contract. This contract is an "option". This option, the right to receive the product for a specified price, can be sold. Our protagonist sold the contract for very little profit, because the operation raised his father's moral objections (he felt that his son was exploiting the farmers). Presently, selling options doesn't arouse any moral objections, and the words speculation and speculator have lost their pejorative connotations.

In the beginning, contracts like these could be and often were advantageous to both sides. On the one hand, to the producer, they were a guarantee that the entire production would be sold for a set price. On the other hand, the contractor could make high profits but also assumed the risk.

Trading options, or fixed-term contracts, can bring enormous profits in moments without investing your own money. It can also lead to huge losses, of course.

D: *Well, all right, you've explained the concept of options. But how do you make money on them?*

M: For example, like this: I offer to sell the previously-mentioned beans (contracted for 5 cents a bag) on the market for 2 cents a bag. A market player (enigmatically called an investor) shows interest in taking over the contract, playing me 2 cents for each contracted bag of beans, and assumes the contract.

D: *That actually sounds pretty simple. But you said that financial engineering, the very subtle tools of trading securities, gets so complicated that even specialists in the industry do not understand it.*

M: Yes, I'm trying to acquaint you with it in a rather simplified way. Let's start from the fact that a bank which lends too many mortgage loans to people is in danger of losing its solvency (it might go bankrupt). It sells the loans to specialized banks, meaning investment banks. The investment bank possesses various government bonds. It has also acquired fixed-term contracts in the market. In addition, it has shares in various funds. They put all of these papers into one bag and shake it up well. When it is well-mixed, it is divided into portions and sold as a new type of securities. These are called derivatives. Large funds, other banks, and investment banks obtain the derivatives. When buying derivatives, an investment bank throws them into their bag, too.

D: *Mom, this Midas who bought shares in a large fund probably doesn't have any idea what he really has.*

M: Not only does the Midas not know, but perhaps nobody really knows anymore.

D: *I can't believe what you're saying -- it's too far-fetched.*

***

D: *Maybe we had better go back to our conversation about money, and that it isn't a commodity. There used to be gold coins. Their value was based on the amount of precious metal in them. You won't tell me that gold is not a commodity, will you?*

M: Gold is a commodity, yes. We can call a gold coin a product. As long as there were only gold coins, there wasn't any such thing as trade with an intermediary of exchange (modern money). That is because it was actually still bartering: a cow → gold, gold → two sheep. Gold, this non-perishable, special product, was used in every transaction. These were not buying/selling transactions, just trading product for product.

D: *Yet everyone was accustomed to the idea that money should have coverage in gold.*

M: You're right, but gold isn't the essential thing -- it's something that leads to trust in money. The paper circulating in the market (banknotes) can to be exchanged for any given kind of goods, for one reason only: because the seller is sure that he will be able to exchange it for other goods.

Therefore, the key to effective and smooth exchanges of goods is that all the market participants put their trust in the money.

The awareness that money could be exchanged at any time into gold led the market (people) to trust banknotes. However, the full exchangeability of currency into gold is impossible now. All of the money in circulation cannot be covered by gold reserves, because there is not enough. Recently, I read in "Polityka" magazine that if all the gold mined throughout history were made into a cube, one of its sides would be 20 meters long.

A participant in the market has to trust the issuer (printer, publisher) of money. The prince who minted his own money was also the guarantor of its value. The building of trust was based on precious metal.

Today, this trust has to be built on a foundation which is different from the gold parity -- meaning on the reliability of the issuers of paper money. Every exchangeable money. If the issuer, for example NBP, stops being afraid of the threat of inflation and introduces a sufficient amount of money ("sufficient" being that which is covered by commodities) into circulation, without the mediation of commercial banks, the economy will revive. Trust in money will be stable in the market because of the certainty that although our banknotes can't be exchanged for investment gold, we can always get the products or services we desire for it, or pay taxes, and so on.

Money (a banknote) will once again fulfill its original role as an intermediary in the exchange of commodities -- the role of a symbol of things. Though it isn't a commodity itself, it will stand for potential ownership of goods.

Trust in money can thus be built without gold, if it fulfills these four conditions:
– decision-makers (the government, the issuer of the money) influence the stability of prices through prudent issuing policy;
– the current money has full coverage in commodities, and accumulated (saved) money is covered in good investments (such as real estate, infrastructure, etc.);
– money ceases to multiply through debt (interest), because monetary instruments that come from debts will be covered by commodities, which will be produced in the future;
– domestic money is no longer dependent on other currencies, due to restrictions on the neoliberal principle of free flow capital.

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D: *So what is this free flow capital?*

M: At one time, we wanted the zloty to be exchangeable. Now, we can buy any currency in the world for it, but a new problem has appeared: the price of the zloty, which can be manipulated.

We both remember the plainness of socialist times. That was because the colorful and modern spheres of life were inaccessible. Jeans and the Beatles were not available. Why didn't we have them? Because the zloty wasn't exchangeable.

In principle, free flow capital entails the exchangeability of national currencies. In reality, it means the ability to buy and sell the currency of one country for the currency of a second country. It sounds fine, and it would be fine if national currencies were not bought and sold, but exchanged according to strictly defined rates. Meanwhile, currency rates are subject to free play in the market, which creates favorable conditions for speculation.

Currently, the principle of free flow capital is such that the following scenario is possible:

1. The Bank of England obtains a specified amount of zloty from NBP and pays for it in pounds according to a particular rate.

2. In order to complete the transaction, NBP has to issue (create) new zloty and convert it into pounds. This compulsion is the result of free flow capital.

3. The Bank of England buys the zloty, because it pays to deposit it in Polish banks. Recall the times when 20% interest was paid on deposits in Poland (that was when the president of NBP was motivated by the noble cause of collecting the largest possible amount in pounds in the reserves of NBP).

4. Interest on deposit accounts in Polish banks drops.

5. The Bank of England exchanges the interest earned in zloty and the deposits in zloty into pounds, selling the zloty in the financial markets.

6. Sums of money made up of interest and differences in currency rates which occurred in the period of time between buying the zloty and selling it flow out of Poland to England.

7. An acute drainage has taken place in the Polish market. Who paid for it? Polish taxpayers, thanks to whom the Bank of England got richer.

Turnover (buying/selling) in currencies is subject to the law of supply and demand, which means that the drainage of smaller countries and weaker economies is easy and legal.

D: *Yeah, right, as long as currencies are treated like commodities, they will be speculated on like commodities. But who makes money on this practice and who loses?*

M: The sharks win and the economy of the country whose money is the object of speculation, loses.

D: *Could you give a real example of this kind of activity?*

M: I'll tell you what happened in Poland, in 2011:

1. World banks and funds own a lot of Polish monetary instruments.

2. Rating agencies announce a lack of trust in the Polish economy. They question our solvency. The zloty weakens.

3. Those who own our monetary instruments sell them in world markets. Nobody wants to buy them. The zloty weakens even more due to the law of supply and demand.

4. NBP conducts currency intervention, getting rid of reserves of foreign currency.

5. Two attempts at intervention buying do not bring about the desired effects. In October, 2011, the rate of the zloty drops by 20%.

6. Nothing changed in the Polish economy. The indicators changed. The national debt, expressed in euro, grew. Poland's share in the GWP, expressed in dollars. The prices of imported goods increased. Inflation appeared, the source of which is the situation outside of the country. Neither the government nor NBP can influence that.

External factors have lead to the creation of a spiral:

an increase in the prices of products (inflation) → a drop in consumption → a drop in production → an increase in unemployment → a drop in consumption, and so on.

Adopting and adapting neoliberal principles of free flow capital in its current form is harmful. It slows down economic development and makes it subject to the speculative activities of world financial circles (playing on an increase or decrease in the price of Polish currency), and also to irrational factors, like the opinions of rating agencies, for example, or financial market moods caused by rumors or a lack of information.

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D: *Doesn't this scheming make our national debt larger?*

M: Yes, of course it does. A drop in the currency rate of the zloty caused an instant increase in the national debt by 20% (this concerns the external debt).

D: *So the national debt is external and internal? Does an internal debt mean that we are going into debt with ourselves?*

M: It's ridiculous, isn't it? But it would be like that if the internal debt was caused by debts taken by the NBP. However, it looks different.

D: *I don't understand that.*

M: The government doesn't have money to build expressways, and the Euro games are approaching. Who do they borrow from? From open retirement funds, and from commercial banks. Both loans are burdened with interest. Why did the government lend the money? Because there wasn't enough of it in the market. Why didn't they order NBP to issue more money? In the market, there would be the same amount of money regardless of whether it can from a new issue or from loans given by banks. If NBP was only "lending" the money, the government would pay it back without interest. However, the money borrowed from open retirement funds (by issuing government bonds) or from commercial banks enlarges that debt with interest.

D: *I don't understand.*

M: If you received a gift of 10,000 PLN from me, for instance, or borrowed the same amount from a commercial bank loaded down with interest, would you have the same amount of money at your disposal in each case, the moment it reached your account?

D: *Yes.*

M: The difference would be in the further consequences of these bank transfers. I wouldn't demand that you return the money, so you could allocate your future earnings to whatever you choose. You might even give part of the gift back to me.

Money from credit burdens your future earnings. Your standard of living declines. That means that the gift does not burden your future earnings. An interest-free loan that I give you (or an interest-free loan to the government from NBP) lowers your future earnings by the amount you pay off. Credit taken from a bank (a loan given to the government by a commercial bank or an open retirement fund) reduces future earnings by the payment of the main amount as well as interest. Interest goes to the open retirement fund or to the commercial banks. In the case of Polish banks, it stays in Poland. In the case of foreign banks, it flows out of the country and makes us poorer.

If the Constitution allowed the government to interfere in the activities of NBP, it would be able to choose between ordering a new issue of money or going into debt in a commercial bank. In the first case, the potential return of new money to NBP would depend on the economic and financial situation in the country. In the second case, the government would impose higher taxes, thereby lowering the standard of living of its citizens, in order to pay the debt and interest.

D: *But mom, everyone knows that when a lot of money is printed there will be inflation.*

M: Well, dear, in the situation just described, in both cases, the same amount of money was transferred. Only the source of the money differs. In the first case, it was new money, and in the second, credit.

D: *All right, how much money should be in the market?*

M: Enough that all the full-valued goods being offered could be bought.

D: *And how does money reach the market now? Because if production is increasing, there should be more money in the market.*

M: NBP doesn't give the government money. NBP offers new money to commercial banks, either encouraging or discouraging them to use it through interest rates. Our Monetary Policy Council (Rada Polityki Pieniężnej - RPP) steers the economy according to principles of monetary policy, which consist in raising or lowering interest rates. Another instrument of monetarism is when the central bank buys the bonds of its own government. Unfortunately, NBP does not take advantage of that option.

The central bank in the USA – the Fed – encourages banks to use funds from the central bank by establishing interest rates near zero. The United States believes that that when banks have cheap money at their disposal, they are more likely to give credit, and more money will appear in the market; consumption will increase, then production, and there will be an economic boom.

NBP, by setting high interest rates (currently at 4,75%), effectively discourages commercial banks from using this money. As a result, credit became almost completely unavailable. There is too little money in the market. Consumption is gradually decreasing. Production is dying out. Unemployment is growing and we have prospects of an economic recession.

D: *I don't understand why NBP acts that way.*

M: It fears inflation. The "bugaboo" of inflation effectively suppresses all rational initiatives. I will try to explain it to you.

Inflation is raging -- the value of money is dropping, because there is too much of it in the market. In order to fix a broken mechanism, you have to limit the amount of it. But is that really the point?

This presentation of things is a relic that better fits an era of privation. In an era of abundance in reproducible goods, this mechanism does not work at all. Proof of this is Poland's current financial and economic situation. Limiting the influx of money on the market by raising interest rates, NBP will not prevent inflation. It can, however, lead to an economic recession. Let us follow the process:

1. „Financial markets" lose their trust in the zloty.
2. The zloty gets cheaper.
3. The prices of products that depend on import go up.
4. Inflation (price increases on the basis of the "basket" of goods) rises.
5. Demand (desire and ability to buy) drops.
6. Production also drops.
7. Unemployment increases.
8. The inflow of taxes decreases.
9. NBP slows inflation with its traditional method. It limits the influx of money to the market, raising the interest rate.
10. Banks limit loans.
11. Businesses lose their solvency, close, or go bankrupt.
12. Unemployment increases.
13. Demand falls.
14. Inflation falls.

Inflation caused by internal conditions (the exchange rate of the zloty) effectively limited production and consumption. It caused increasing unemployment to an economic recession. But the goal was reached -- there is no inflation. There is an economic recession.

D: *Is there any alternative scenario?*

M: Yes, the proper scenario for an era of abundance:

1. Financial markets lose their trust in the zloty.
2. The zloty gets cheaper.
3. The prices of products that depend on import go up.
4. The threat of inflation appears.
5. NBP lowers interest rates.
6. An influx of cheap money enters the market.

7. New companies appear.

8. Competitiveness improves.

9. Supply increases.

10. Prices drop.

11. Employment grows.

12. There is more inflow from taxes.

13. Cheap money (low interest) allows for payments on the national debt.

14. The economy flourishes.

15. Inflation has been controlled.

In an era of privation, inflation took place when demand (desire and ability to buy) is greater than the supply (amount of products and services offered for sale). Therefore, one of the causes of inflation is that supply is too low.

In an era of abundance, there is no such thing as limiting supply. The rise in demand (desire to buy) immediately liberates production growth and delivery to the market (growth in supply). In a balanced economy (where export = import), the influx of money to the market via an increase in demand can only stimulate economic growth, so it acts as a stimulant. Price increases effectively slow down competitiveness.

In a balanced and competitive economy, the threat of inflation doesn't exist. I'll give you another example.

From 2008 to 2011, America tripled the number of dollars in the market, meaning that banks put colossal amounts of money into the market. Did it lead to inflation? No! So they can just keep printing money as they please, and we can't.

D: *Then the Americans are good economists and managed to prevent a crisis.*

M: No, no. The move that the Americans made is incomprehensible to anyone with common sense. The Fed gave these two trillion additional dollars to commercial banks (it saved them from bankruptcy). The banks, which are afraid of the possibility of bankruptcy, are not very willing to lend money, in spite of the cash injection they got. That is why the additional money hasn't managed to radically improve the economy.

I wonder why those two trillion didn't go directly to families with debts. Indeed, the families would have paid off their loans with the money. In effect, the banks would have got back the money from the ill-advised loans they'd given, and the families would have been able to stay in their homes.

D: *This kind of policy led us to where banks have money that they don't want to let out of their hands, millions of homes that have been repossessed by banks are falling apart, and people live in canals.*

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D: *Let's go back to our own backyard. Maybe tell me the basis of NBP's independence.*

M: The independence of NBP is written into the Constitution and is intended to mean independence from the government. This regulation was supposed to prevent the temptation to issue excess money in order to fulfill election promises -- so that the short-term interests of a ruling party didn't destabilize the country's economy. Therefore, NBP is independent from the government. In accordance with the Constitution, it is only supposed to be dependent on the nation. It is supposed to represent the national interest.

D: *And who is it actually subordinated to?*

M: The activities of NBP are directed by the world financiers.

D: *Can you substantiate that?*

M: NBP is obliged to respect the basic principle of neoliberal economics regarding free flow capital. Right now, the capital that this principle refers to is very narrowly understood. It is limited to monetary instruments, meaning money and its equivalents (securities). The free flow guarantees the exchangeability of national currencies. Exchangeability means that the issuers of money (NBP, the Fed, the Bank of England, ECB, etc.) are obliged to exchange their own currencies with each other on demand. If the Bank of England demands that NBP exchange a million pounds into zloty, NBP has to comply. If it doesn't have reserves, it issues the money. That is the way London City decides how much money is issued in Poland. 80% of Polish zloty goes through the City in the form of exchange or loans.

D: *How is the exchange rate set and who does it, after which these exchanges -- or more accurately, buying and selling transactions -- are done in currencies?*

M: Supposedly, „the big four rating agencies" determine the level of trust in the financial markets about the solvency of a given country, creating demand for a particular currency. For example, if the solvency of a country drops, investors get rid of its currency. Then there is a surplus of that currency over the demand, and its price goes down. That is the information that shapes currency rates. It is hard to say how reliable it is, and how much it is dictated, for instance, by the City.

D: *NBP is independent of the government. But you are saying that the world's financial circles are the ones who are actually in control of its activities.*

M: Speculation on our currency, based on fluctuating currency rates, leads to constant depletion in our country. It is the big "investors" (market players) who benefit from it.

Viktor Orban is hated because:

– he dared to make the central bank in Hungary dependent on the government -- now the government decides on new issues of currency, and it is the government that uses it;

– he successfully limited speculation on the forint (HUF);

– he stopped the creation of internal debt -- the lending of money by the government to commercial banks;

– in doing so, he limited the creation of a budget deficit.

Currently, the dominance of import over export is the only reason for the national debt and budget deficit in Hungary. And that is the main problem with the current Hungarian government.

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D: *Do there have to be crises in the system that is currently binding?*

M: Yes, almost everyone who matters in the economic world has acknowledged that periodic crises are an inherent part of the system. Since 2006, a host of studies and detailed analyses have appeared which point to the causes of the crisis. These studies are solid, in-depth and well-documented. But they always end by expressing the total powerlessness of science to point out roads for the future.

D: *What conclusion can be drawn?*

M: It's time to implement Douglas's principle of social credit.

D: *I've read three studies about this theory, but I still don't understand all of it. Could you present it in a more schoolish way?*

M: Douglas noticed that the sum of workers' wages is always lower than the sum of the value of the products that reach the market as a result of their work. Simplifying things, I will explain it to you through an example.

In a month, a shoe factory has produced products worth 500,000 PLN. At the same time, a clothing factory has produced overcoats worth 800,000 PLN. The wages of all those employed in production and distribution amount to 1,000,000 PLN. So products worth 1,300,000 reach the market and there is insufficient money to buy them. Douglas noticed that this phenomenon was constant. He drew the conclusion that there are products which remain unsold in the market or should be gotten on credit, hence for wages which the consumer will receive in the future. Douglas believed that this continual growth of production is the result of constant technological advancement, meaning scientific and technological advancements, discoveries and inventions. He claimed that progress in civilization, due to which the offer in the market is growing, belongs to all of humanity. Therefore everyone should take part in the division of this surplus of produced goods.

D: *You take that to mean that before implementing, for example, an assembly line, the same people created 1,000 pairs of shoes for the same wages that they had after the improvement when their productivity grew to 1,500?*

M: That is more or less how it should be understood. Of course, it is a major simplification, but you have understood it rightly and that is why I will ask you a question: who has the right to acquire those additional 500 pairs of shoes?

D: *Since the effects of progress are the shared property of the entire nation, the entire nation should benefit from them.*

M: Right, and that's what Douglas called a social dividend. That surplus production should lead the government to issue additional money so that people can obtain those products.

The division of this money should take place fairly and should be divided among all the citizens, from newborns to the elderly.

D: *That means that Douglas separated ownership of money from the source of its creation in the form of work. If I have understood correctly, he acknowledged that a full-value source of goods should be fully covered by money so that the goods can be acquired without needing to take credit.*

M: Exactly. Instead of the gold standard, there would be a buying power standard. That means that there ought to be enough money that it can be exchanged for the desired products or services at any time

D: *That's fantastic. A world without consumer credit (current credit) and an economic safeguard for every citizen. Maybe then I would choose to have four children because I would get five dividends in my account.*

M: Exactly, and your husband could sit in the garage 24 hours a day and work on his *perpetuum mobile.*

D: *And we have come back to our dreams. A world where people aren't forced to work.*

M: Of course, in order to implement the principles of social credit, a basic condition has to be met: the money issuer cannot be independent of the body that directs the economy, meaning the government. It also cannot be dependent on the world's financial circles. Because the dividends would be paid out with a new issue. According to the principle, technological advances allow for the reproducibility of goods, but money must also appear in the market after the reproduction of goods so that they can be acquired.

D: *Has Douglas's theory ever been tested in practice?*

M: Yes, it was implemented in Japan before the Second World War.

In the 1930s, rapid industrial development took place in Japan, while it lagged behind in the rest of the world, with the exception of Germany. In 1941, Japan became the leading economic force in East Asia, and its growing export was supplanting local production from America and England. However, Japan had very few natural resources. What was the secret of its success?

In 1929, Japan decided to implement Douglas's financial model, which suggests creating a fair monetary system, based on government issue of interest-free national money and credit, which was enthusiastically received by Japanese industrialists and the government.

From the times of its founding in 1882, the largest shareholder in the Bank of Japan (Nippon Ginko) had been the Japanese Imperial Court. The transformation of Nippon Ginko into a national bank, done solely for the purpose of the national interest, occurred in 1932. The reform of the central bank was completed in February of 1942, when it was declared that the bank was a special corporation of a national character, and assumed the task of controlling currency and finances to ensure full utilization of national potential. The bank was authorized to give unlimited loans to the government, and also subscription and absorption of government bonds. A legal system of maximum limits on the issue of banknotes was approved. That way, the bank could carry out issues of money which were adequate to the armaments industry and the government. On the other hand, the supervision of the government over the bank was obviously strengthened. The government could nominate and control the president and directors and instruct them, as well as endorse a wide range of bank matters, including changes to the bank rates, the issue of currency and bank accounts.

When the yoke of usury was thrown off, Japan started to develop economically. From 1931 to 1941, factory and industrial production grew in turn by 140% and 136%, whereas the national earnings and GDP grew by 241% and 259%, respectively. This incredible growth significantly raised the economic development in the rest of the industrial world. In the job market, unemployment decreased from 5.3% in 1930 to 3% in 1938.

Of course, this kind of development in Japan was not convenient to the USA and the Federal Reserve, creating money in the form of a debt laden with interest. That is where the economic sanctions came in, and then the engagement of Japan in World War II, with its tragic consequences. Of course, the post-war monetary system in Japan was -- in accordance with the wishes of the world financial circles -- established on debt.

D: *That's really too bad, but I'm still not satisfied with what I know about social credit theory. Can Douglas's theory be implemented now without any changes, just like in Japan?*

M: In my opinion, no. Economic conditions have changed in the world. Plastic money has come into use. Information about people's resources (savings) and about production value is significantly fuller and it can be obtained almost instantaneously. Douglas postponed the payment of dividends to the end of each year. It only came into effect after being balanced. In current conditions, it could happen monthly.

Douglas anticipated paying dividends in cash paid to accounts, but also in the form of discounted sales of products (at reduced prices). I won't describe the forms, because I don't think the whole game with discounts is necessary (those interested in discounts can consult "additional notes"). A dividend should appear in every citizen's account each month. The amount would be dependent on the growth of value of goods, which have a chance of being acquired -- the goods which fulfill actual needs. It wouldn't be necessary to count production in amounts that surpass the level of satisfying needs. For instance, additional production of 1,000 loaves of bread a day in a town inhabited by 100 people is certainly surplus (or redundant) production.

D: *Yeah, nobody will eat more than they can. But what about shoes, for example? Does human greed know no bounds? Did Douglas take the psychological aspect of the whole problem into account?*

M: Why do you have so many shoes? Because fashion changes. In fact, you only actually wear your five favorite pairs. The chance of satisfying a particular need at any time reduces the hunger for possession. Or maybe it doesn't? Let's implement social credit and we'll see. Remember, though, that Douglas's theory doesn't limit consumption. If there are people who want to acquire products, the products appear on the market and the issuer supplies money to acquire those products. It seems that people would overcome their greed by themselves.

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D: *I think that the greed of the Midases is unlimited. They are constantly thinking about how to multiply their wealth.*

M: But do you know what the wealth of a Midas consists of?

D: *Houses, cars, jewelry, stocks, shares in large funds.*

M: Okay, part of the wealth you named is in the form of material possessions. Aside from land (property), they undergo depreciation. Maintaining them is costly. You can even claim that having material possessions gradually makes us poorer. As they age, they lose their value, and at the same time, maintaining them can absorb large sums of money. And what about the rest of the wealth -- money and its equivalents? Do these grow for the Midases just by virtue of ownership? Or do they also undergo depreciation?

D: *Tell me, using an example, what a Midas does with the dividends from a corporation that deals in oil, for instance, or what film stars do with the millions they make.*

M: Above all, a Midas wants his surplus monetary instruments to increase continually. To increase them effectively, he exchanges his current money for debt securities. In layman's terms, he simply lends it. So a Midas doesn't have available monetary instruments, though he owns others' debts. The loans he gives are documented in shares of debt securities. These are mostly shares in large funds. This Midas isn't lending directly to the Joneses, but entrusts his money to professionals (large funds) and they are the ones who lend it out. They know how. They buy government bonds, lend to investment banks, and receive various shares in return, like the famous derivatives. The real wealth of Midases is debts, meaning the money that they are supposed to get in the future. So it isn't real money that exists right now. It is money that the Midas will get from future earnings of a debtor. And the rights to these future earnings are growing exponentially. The Midas has more and more money due -- future payments. It is money which is *de facto* virtual.

D: *Explain to me more precisely how the virtuality of this money works. After all, everyone thinks of Midases as being extremely rich. In rankings of the richest people in the world, their wealth counts the value of all those debt securities. So in the end, are they rich or not?*

M: I can see that I need to use a more lucid example of virtuality.

Imagine that you've won 10 million PLN in the lottery. You have become a Midas. You decide that you're not going to revel it away and that you and your family will always be rich. So you go to a financial advisor and ask what you should do.

He suggests that you should put your money in a large fund because in his opinion, the bank interest on deposits is too low. Large funds give significantly higher profit. You are cautious, so you pay only 5 million into the fund and this is the course of history that your savings take:

1. The fund buys securities, mainly bonds. Because it wants to be regarded as safe, it buys 15-year government bonds.

2. Through the fund, your money reaches the government of country X. In country X, a national debt forms.

3. Your money is lent, so you will get it back in 15 years.

4. You are sure that you will get it back significantly enlarged.
5. So what makes up your wealth?

It is the awareness that in 15 years, you will get a lot of money. Your wealth is in debt securities bought by a large fund. Will you really get that money in 15 years? Are you really rich? No, but you have the awareness of being rich. And that is all that matters.

Imagine that your grandmother saved all her life. She didn't trust banks. Every time she saved something up, she would exchange it for dollars. She always bought the dollars from the same person, whom she trusted. She felt provided for in case of hard times.

After her death, you wanted to sell the dollars. They turned out to be counterfeit. Grandma was only rich in her own mind. Like a Midas with debt securities (bonds, etc.) which in fact he doesn't need. He has enough current assets for a lavish life. And even if the bonds are never bought (the country might announce its insolvency, a war might break out) he feels like a billionaire and the people around him think the same.

Midas has debt securities, money which has never yet existed. Money to buy these papers will be created from future sales of production, and from future taxes of citizens in debt-laden countries. So it is totally virtual wealth.

D: *But a Midas doesn't have to wait until the maturity date, right? He can sell the papers earlier, so he can sell the debt and get real money.*

M: Yes, that's true. The turnover in debt securities -- or the transfer of the profits from the debt to a new party -- gives the mistaken impression that debt itself, which is treated like a product, is something real. The trading of debts brings enormous profit to the brokers. I told you before that 10% of Great Britain's GDP is comprised of profits from it.

D: *Can it really be that more has been bought and sold in the financial market than in the commodities market?*

M: Yes. 99.98% of the value of all transactions comes from financial markets. Only 0.02% of all world trade is trade in products.

D: *Debt trade will probably stop if Midases start doubting that the debts will ever be paid.*

M: That is where the financial crisis comes in. He lent the Polish government a million dollars, for example, for bonds, and now he finds out from the rating agencies that we won't be able to pay that debt off. Nothing -- neither the sum borrowed, nor the interest.

D: *Now I understand what Tusk meant when he said that Poland has to rebuild the trust of the financial markets. It means we have to convince the Midases that we will pinch our pennies and raise taxes so much that we will pay off all the debts. Will the Midases really get all their money?*

M: That's impossible. The world debt -- the debts of governments, companies, mortgages, and consumer debts -- are 2,000 times higher than the value of the gross world product (GWP). Financiers have called it a speculation bubble. Of course there is no way that kind of debt will be paid off.

If the bubble breaks, and we get wiser, we will finally stop treating money like a commodity. Interest and speculation will disappear.

D: *Meaning that financial markets will disappear.*

M: Yes.

D: *Mom, you want to send Wall Street and London City out to pasture!*

M: Judging by the size of their salaries, they must have been working very hard, so it seems to be a good time for a rest.

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D: *If the wealth of the Midases grows from increases in the value of the debt securities, that means the rest of the population has debts that are growing. Now I understand why millions of Poles live in fear of debt collectors.*

M: This fear is built into the system.

D: *We live in economic uncertainty. Everyone wants to secure themselves for the future. Our authorities decided that if our retirement fund contributions go to an open retirement fund, the pensions will be fantastic and we will live like German pensioners. Do you think that putting our contributions into an open retirement fund guarantees us a safe old age?*

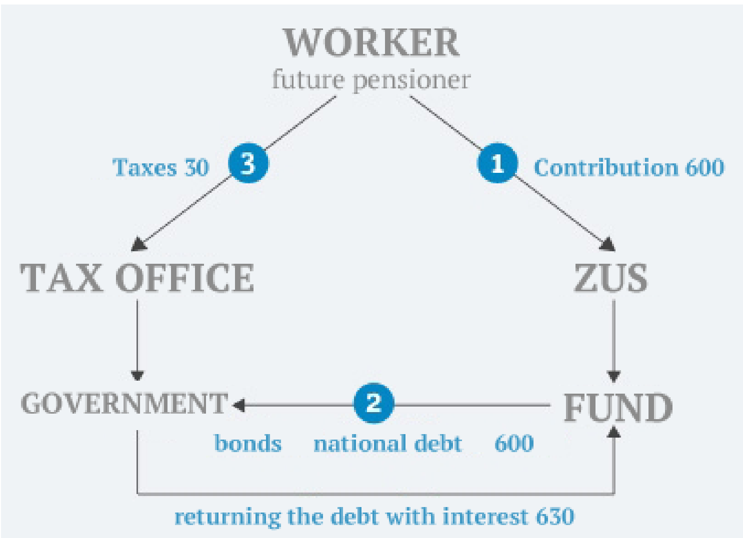
M: Only Professor Balcerowicz and a diminishing number of his supporters think so. Open retirement funds function like any other large fund. Their activity is burdened with the same risk.

D: *Don't say it. The open retirement funds invest 70% of our retirement contributions in government bonds. Do you think that the government won't buy these bonds back from the open retirement funds? The procedure is that we pay contributions to the open retirement fund, and it lends them to the government with interest. Then the government buys back the bonds, and the fund earns interest on them, and so my retirement grows in the amount of the interest.*

M: What money does the government use to buy back the bonds and pay the interest?

D: *What do you mean 'what money'? From taxes. I know, I know -- now you'll ask me where the government gets taxes. From me, of course. That means I pay for the interest on my own taxes.*

M: Right. It's ridiculous! If you want, I will sketch it out.



What arises from this diagram? I paid 600 PLN through the mediation of ZUS (the national social security system) to an open retirement fund. The fund lent the money to the government (the government issued bonds; for my 600 PLN it gives back 630). At the same time, I paid tax in the amount of 30 PLN. This tax went to the national budget. Then the government bought back the bonds and paid 630 PLN for my part. Now I have 630 PLN in my open retirement fund. Where did it come from? I paid 600 PLN directly, and 30 PLN came from my taxes. Look at arrows 1 and 3 on the graph. Both come from your salary and in effect end up in the open retirement fund.

D: *So who earns money on open retirement funds?*

M: Their managers.

D: *The risk associated with open retirement funds is not very high. They put my money in Polish securities.*

M: For now. In accordance with a European Union directive, Poland is obliged to allow open retirement funds to buy debt securities from other countries.

D: *Oh hell, so what can we do?*

M: If I wasn't worried about the legal consequences, I would tell you to work on the black market.

D: *Why does the government go into debt in open retirement funds or in commercial banks, when it doesn't have enough money? Can't they order NBP to give them an interest-free loan?*

M: We've already talked about that. The NBP can give interest-free loans to the government, but it doesn't want to. It uses its independence as an excuse.

D: *That means that it functions to the detriment of the country! And nobody is threatened with a State Tribunal!*

***

D: *Let's move away from these depressing subjects and go back to my favorite theory -- that of Douglas. You mentioned that Douglas analyzed the accumulative function of money and its influence on the market. What is that, actually?*

M: Do you remember the circle of abundance? Any money withdrawn from circulation lowered the well-being of all the participants in the market. Saving -- accumulating money -- does not encourage economic development. Money should burn a hole in your pocket. All types of saving are harmful.

D: *You have probably forgotten about all of the principles that have been drilled into us since childhood: "you get rich through saving and work", "no work, no pay", "there's no such thing as a free lunch", "work and pray".*

M: I'm glad you're quoting them. Can you sense how false they are?

D: *Exactly. So what should these slogans be?*

M: The more you spend, the more you earn. The more you buy, the more you sell. Don't save.

D: *All right, but if I want to buy a house, I won't buy it with one month's salary.*

M: Of course not. That is why it is important to create a parallel money system. Accumulated money that is dedicated to saving. And that is one of the greatest challenges that the economy faces. Douglas suggested that all investments and the acquisition of things for long-term use should be financed with credit -- interest-free credit. He suggested that the decision to grant credit should be made by a social body created for that purpose. I don't agree with this point in his theory, because leaving decisions of a financial character to a group of people creates opportunities for corruption. A mechanism should be created which automatically regulates these matters instead of leaving the decisions to subjective evaluation.

D: *That means that all the while you have not been thinking about changing people's awareness but instead about a self-regulating economic mechanism.*

M: I want to restructure people's awareness, but just in case, I would like to protect myself with an objective and effectively-functioning mechanism that forces appropriate behavior and choices from people.

D: *That sounds like a new kind of slavery to me.*

M: It's not new. We've been slaves all along. You can only hope that the new slavery will be milder.

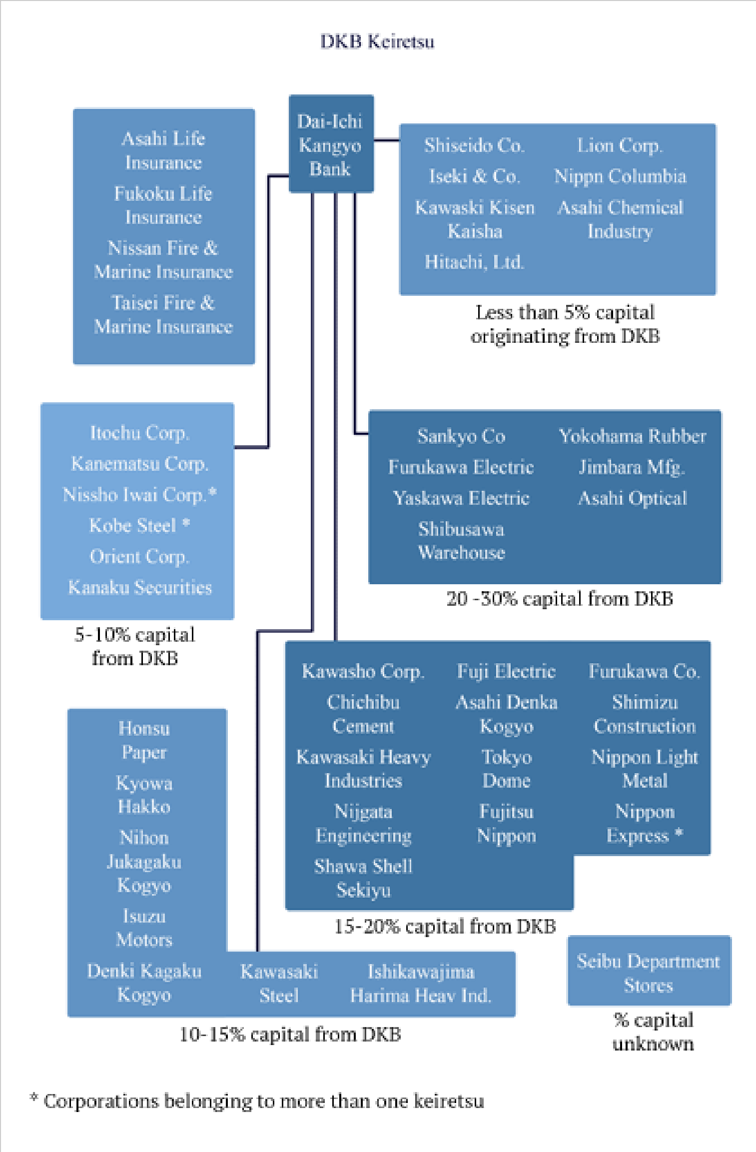
***

D: *You say that we are sheep allocated to be shorn. Who is actually shearing us?*

M: To this question your initial answer might be that it's the government, with taxes and contributions to the ZUS retirement and health care system, and banks with their interest on credit. But that is a very superficial diagnosis. Others take part in the shearing and in a different order than you might have thought. Above all, the large funds shear us. It is a very sophisticated technique -- so sophisticated that we do not feel it directly. Large funds use mainly "financial engineering". We have to remember that when a large fund is getting richer, someone else has to be getting poorer. We, the sheep, are getting poorer. The financial circles are getting richer. Funds speculate on whatever they can: on currency (currency fluctuations), commodities (commodities markets), debt securities (bonds, debentures) and stocks (stock exchanges). They also earn money on privatization transformations (fusions), bankruptcies (buying the assets of a collapsed company for next to nothing), the creation of holding companies and finally on the turnover in derivatives and other similar papers (the biggest scam).

D: *I have to say that the shearing is delicate enough that I had no idea that anything was disappearing from my wallet. Tell me who is next in line.*

M: The next in line are the monopolies and cartels, who while operating as corporations, mainly use price fixing. They gain a dominant position on the market by taking over (buying) competing companies or gaining a majority stake of their shares. They dictate the prices of the products, attaining enormous profits. Corporations operate anonymously. Generally, we do not know who the owners or shareholders are of these corporations. These corporations enter into capital groups. The connections between these companies overlap many times, like in the graph below, which shows the Japanese capital group DKB, which I got from a book by Stanisława Surdykowska ("Rachunkowość Międzynarodowa [International Accounting]" Zakamycze, 1999: 269).



Through a chain of intermediaries who are buying and selling contracts, monopolies shape the prices of key raw materials and products. In the same system, the price of oil has increased by five times its price level in the year 2000, while its consumption has risen only 10%. The beneficiaries of this price increase are not the oil producers but the network of middlemen and speculators -- various legal persons. It is very difficult to make out who is actually behind all of them.

Incidentally, high oil prices are supporting the Russian economy. They also led to the liberation of Venezuela from American influence and allowed South American economies to become independent.

D: *Who's next in line?*

M: Banks, which generally use banking laws as shearing tools. They use systems of interest on loans, credit and currency sales; they manage large funds. They use individual and group shearing methods when issuing credit to governments and government institutions (like ZUS in Poland).

D: *What else?*

M: The national tax system. In order to create financial burdens on its citizens it uses the word "democracy".

In the Polish system, the word "democracy" means the election of the governing party or coalition of governing parties. The governing party legislates on the basis of voting, which is subject to party discipline. So in reality, the parliament votes in accordance with the orders of the prime minister.

The extensive fiscal system is able to put an enormous public duty on the prices of goods (23% VAT, 19% income tax, etc.). And here are some of the taxes and fees in Poland: VAT, excise duties, local taxes, income taxes, gambling taxes, stamp taxes, farming taxes, forest taxes, mining taxes, land taxes, property taxes, inheritance and donation taxes, product taxes, emissions taxes, transaction duties, court fees and so on; then there are pension contributions to ZUS, obligatory contributions to insurance, and fees for concessions and licenses. We have around 250 types of taxes and administrative fees.

D: *And what else?*

M: Intellectual property, which operates according to legally reserved rights to everything -- brands, logos, inventions, trademarks, decorative patterns, recipes, production processes, know-how, advertising slogans, images, and so on.

While the money authors (artists) take is substantial, it still isn't much compared to the profits that corporations make as the owners of exclusive rights and licenses.

In every thing you purchase, the producer has had to pay for intellectual property and other various agreements that reserve rights to selling a particular product to a particular market.

The value of the information market, where the rights to knowledge and the achievements of civilization are sold, is colossal. I have mentioned it as the last one of the shearers, but I'm guessing that in terms of income by virtue of these laws, such as those in the pharmaceutical or computing markets, this group ranks significantly higher.

D: *So pharmaceutical companies who have a patent on a particular medicine can make profit in two ways. First, as the sole producer, it has a monopoly on the market. Second, if it decides to make the formula known to another company, the license fees for it will be so high that the competitor will set a price comparable to that of the patent owner.*

M: I believe that is exactly how it is. And the prospects aren't good, either. The big financiers already know that the speculation bubble is bound to break and that they won't ever get their debt money. The new way poor countries will pay tributes will be based on the scientific and technological superiority of rich countries. Influence from access to information, and those licenses and rights of use, will have the same disproportion as it does now.

D: *Do you think that ACTA was the first warning signal of the appropriation of information (knowledge)?*

M: That's what I think.

D: *If we were to eliminate everyone from the market who legally steals from us, how much would a product cost?*

M: I think that prices would drop by at least 80%.

D: *That's horrifying! So I pay 20% to the producer and seller when I buy a product and the rest is divided among the shearers for their mediation.*

***

D: *These shearers work anonymously, because I have never heard that I've paid something to the benefit of Mr. X. Can you tell me how this money finally reaches a real person?*

M: I should start from the idea of a "legal person". A legal person, an oddity brought to life in the 19th century, possesses all the attributes of a natural person aside from accountability. Therefore he can be a party in a buying/selling transaction, take liabilities (like credit), sue and be sued in court, and also be released from all his burdens under bankruptcy (insolvency).

The ties between real owners (real people) in a partnership can sometimes get so complicated that they are almost impossible to trace.

I will show it to you using the example of limited liability companies. This kind of company is also created by shareholders. A shareholder can be a real person or a legal person (another limited liability company, joint-stock company, etc.).

It can be like this:
Maria and Sofia created partnership A with 50/50% shares.
Charles and Adam created partnership B with these shares: Charles - 20%, Adam - 80%.
Partnership A and partnership B created partnership C with these shares: A - 30%, B - 70%.
Partnership C and partnership B created partnership D with these shares: C - 50% B - 50%.
Partnership A, B, C and D created partnership E: A - 10%, B - 20%, C - 30%, D - 40%.
Partnership E bought all of the shares in partnership A from Maria.
Partnership C bought all of the shares in partnership B from Charles.
Partnership E creates a one-person partnership F (100% shares of partnership E).
Charles buys half of the shares from partnership C, which that partnership has in partnership E.

It is the end of the year and partnership B has gone bankrupt while the other partnerships have made profits. At the end of the year, who gets the dividends -- the profit designated for division?

In spite of how it looks, this example is very simple. Reality is many times more complicated -- it is very hard to determine who (as a real person) stands at the end of this chain of corporate links.

Trade in brands additionally complicates things -- you can sell someone shares of a company, or just its name or logo. Suddenly, a brand like MRUK (a jeweler) becomes a brand of a clothing maker, TULA. TULA, which is owns a 40% share of MRUK, insidiously buys another 20% of the shares and has a controlling interest which makes MRUK dependent on it. And then it passes a resolution to take over the brand.

D: *Can this status quo be changed easily?*

M: Yes, I think it can be done very easily. Here is the solution: the parliament passes a law that changes the code of commercial partnerships and companies. The law introduces an article that a shareholder in the company can only be a real person and requires legal persons to get rid of their shares in other legal persons within three months. If the deadline is not met the National Treasury will take over ownership of the shares.

D: *That means that if a shareholder in partnership A is partnership B, then B is obliged to sell the shares to a real person. If it is not done in the established time, the National Treasury can take control of the shares. Not bad. That would be the end of anonymity. Wouldn't that be the first step to bringing back competitiveness? After all, one of the basic principles of the capitalist system is competitiveness.*

M: Yes, that would be the first step, because probably all of us know that the activities of institutions like the Office of Competition and Consumer Protection don't have any influence on the constant monopolization of the market. Removing competition from the market is very easy if you have enough resources.

D: *So tell me how to eliminate competition.*

M: Partnership A makes furniture, and partnership B does too, creating inconvenient competition. The management of A offers to buy shares from the shareholders of partnership B for a very attractive price. It is enough that owners of 51% of B give in to temptation, and A will take control of B (it will have the controlling interest).

Because of that move, A has the right to choose the management board and direct the development of partnership B. And it will do so for sure.

There are a few solutions to the problem of competition:

– lead partnership B to bankruptcy;
– enact such large surcharges to the capital that the remaining shareholders won't be able to pay and will be forced to sell their shares -- of course to A, and not for much money;
– join the two partnerships into one (fusion);
– maintain two separate, supposedly competing companies.

Of course, there are even more sophisticated methods of keeping of the appearances of market competition, like using the illegal system of dumping. Partnership A, a strong economic entity, sets prices that are lower than the cost of production (not only does it not make money, but it makes a calculated loss). Its weaker competitor B also lowers its price. But it cannot afford to pay into the product. Customers only buy products from A. Partnership B is dissolved and disappears from the market. Then A raises its prices enough to cover the losses it took earlier.

D: *By eliminating the competition, the balance in the market is unsettled.*

***

D: *And what about "the unseen hand" in the market? It should automatically bring the balance back.*

M: Well, let's have a look at the unseen hand. People believe that it allows the game of supply and demand to operate according to set rules, which inevitably lead to setting prices at a level with very little profitability.

If a new, attractive product enters the market, the producer sets a price at a level high enough to sell the entire production, while making as much money as possible. The high profit of the producer is freed by competition. The supply is increased. Prices start to fall and will continue to fall until production is no longer cost-effective. Some of the producers withdraw, and the price stabilizes at a level that guarantees low profit. The amount of production shrinks to the demand level.

That mechanism can be shown schematically like this:

1. Advertisements arouse the desire to have -- demand.

2. The producer of the novelty sets a prohibitive price.

3. Only the rich or very determined can buy.

4. The next batch of goods has a lower price, so the supply (production) is greater; the competition never sleeps, and also starts production.

5. Prices decrease and supply increases up to the limit of cost-effective pricing.

6. Demand is satisfied and stabilization follows: supply reaches the level of demand, and the price guarantees the producer low profit.

D: *Sounds pretty good. But is this the only true scenario?*

M: It would be true in the conditions of real capitalism -- that is, if these basic conditions were met:

– full competiveness: equal dispersal of capital, full and cost-free access to information, equal access to the means of production (raw materials, labor and technology), equal access to financial capital and credit;

– a ban on speculation -- on raw materials as well as monetary instruments (currencies, securities, debt securities, derivative, etc.);

– competent financial policy in central banks (issuers of money).

The epoch we are living in is an era of neocolonialism and the diktat of speculators, and not a single one of these conditions is being upheld.

D: *Why don't we implement these principles, in Poland only?*

M: Unfortunately, that's impossible. The approach where everyone has the freedom to act independently could only lead to success in conditions of Poland's economic isolation and financial independence. In the epoch of globalism and malfunctioning economic and financial systems, "the unseen hand" has been tied.

D: *I have the impression that we are talking about the Western world all the time. Europe based on the euro and America based on the dollar. We aren't talking about Africa and poor Asian countries. You say that we are living in an era of abundance but people are dying of starvation. Why is that happening?*

M: The world is ruled by economic colonialism. Poland is on the edge of that colonialism -- we are partly a colony, and partly owners of a colony.

D: *How do you interpret that?*

M: Do you remember Prime Minister Tusk's famous speech where he said that we would either sit at the table or find ourselves on the menu?

D: *I remember. And so where are we exactly?*

M: Nowhere. As a nation, do we want to sit down at the table and consume weak societies? No -- that doesn't fit in with our traditions and sense of justice. However, Mr. Tusk is acting like a participant in the rat race, out of harmony with the way the nation has established its priorities. On the other hand, we don't want to be devoured, though our government is doing everything to make us a tasty morsel. Almost all of the national wealth has been sold off and we have signed various accords that are completely disadvantageous from the national perspective. The formulas that have been tried in other parts of the world are being adapted to us.

D: *Wow -- that got you upset. But what formulas?*

M: American experts come to a poor African country to help the development of its economy and civilization and they apply the following scenario:

1. The give aid in the form of credit to build, for instance, a television factory.

2. The factory is built.

3. Income from the sales of televisions is not enough to pay off the credit and interest. In accordance with the agreement, the factory can become the property of the creditor.

4. The Americans are conciliatory and leave the factory in the hands of the locals.

5. In exchange for the credit, they demand, for example, the rights to mines, land (plantations), etc.

6. They slowly take control of the national wealth, which is aided by the corrupt dictator that they support.

7. As a result, banana plantations belong to corporations who employ locals for very little money, and all the profits from the harvests belong to the corporation.

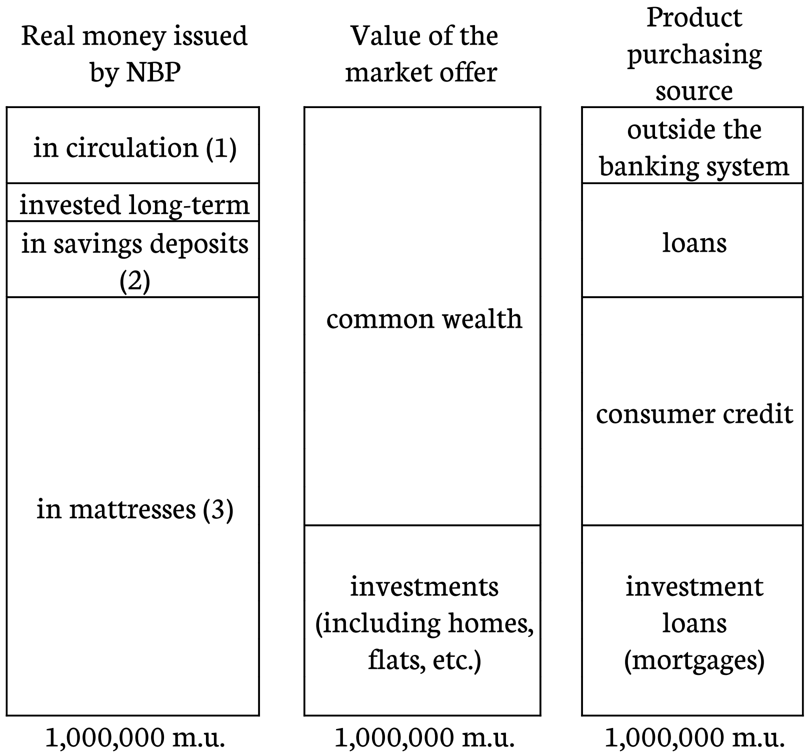
In exchange for building a television factory, the nation has been deprived of its own natural resources. They buy bananas picked at their African plantations from corporations. The only wealth in the nation is its cheap labor force.

D: *We also use our national wealth to pay off credit.*

***

D: *I have thought about what you were saying about banks and I think that you're fibbing a bit. First you say that banks create empty, nonexistent money and use it to give credit, and then in a moment you say that credit is necessary. So do banks help the economy or harm it?*

M: There's no contradiction here. I will try to present it in a highly simplified, static graph. Static means that it is a picture captured at a particular moment.



Notes:

(1) Money in circulation means cash, for example in the cash registers at retail shops.

(2) These are savings deposits for longer than 5 years and real money in the bank vaults.

(3) Current savings, formerly found in sock drawers and mattresses, and now in current accounts and partially in wallets.

In the graph, there aren't any debt securities because that is money which doesn't appear until the future.

Notice that:

– (Real) issued money is covered by products (market offer), so column 1 = column 2.

– Column 1 is divided by a proportion of more or less 1:10, according to current bank leverage, meaning the proportion of loans to credit.

– Banks create empty money (credit from column 3) in the amount equal to what is in mattresses (column 1). Mattress money cannot be in circulation because we get our salary on the first of the month and it has to last until the next payday.

The conclusion is as follows:

Banks create credit based on estimates of the amount that is temporarily excluded from circulation (savings in mattresses). Credit is given from the money we set aside.

Remember the story about Lanzarote? I rented out the same houses multiple times, because I know that the main renter only has one month of vacation time. The bank also knows that it can release a certain amount of empty money into the market because there needs to be some "until payday".

D: *Banks create empty money designated for credit in the amount I have saved (which is usually in a current account) and takes interest on it. But I am the one who is entitled to get it! If it weren't for mattress money, the bank wouldn't be able to give credit, and wouldn't be able to earn interest.*

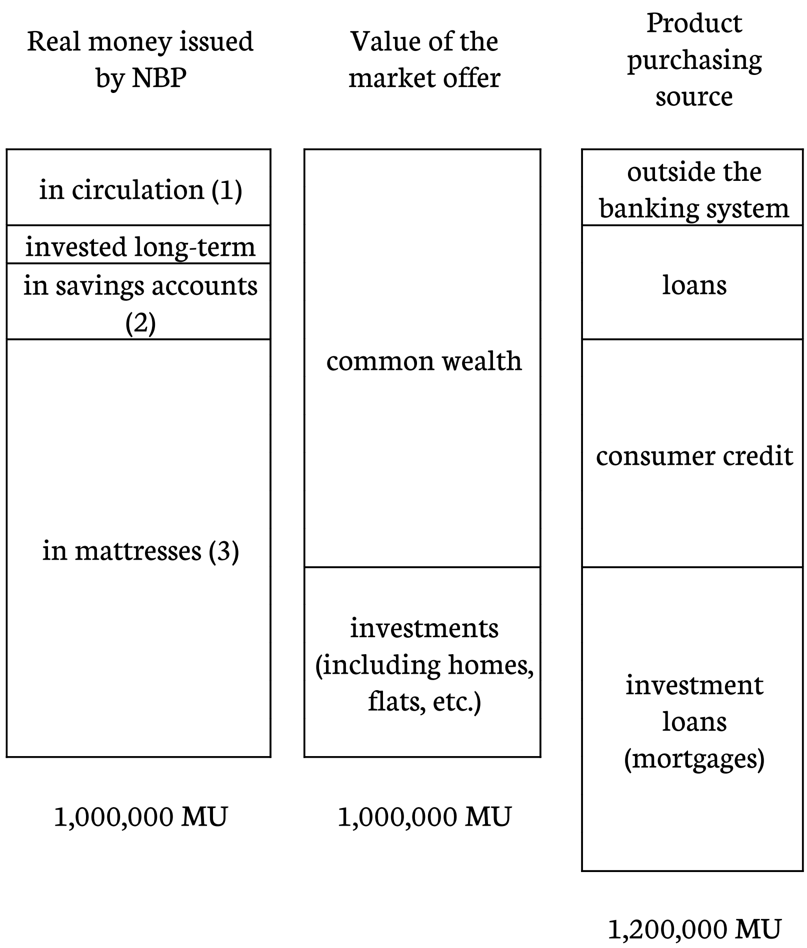
M: Yes, that is the whole fraud in it.

D: *On Lanzarote, the amounts taken for subletting the same houses were collected by the administrator, though it belonged to the original renter, who signed the year-long agreement.*

M: Of course. After all, we often encounter agreements with subletting or subleasing and we know how it works.

D: *Judging by this graph, the real estate boom in the United States and around the world led to giving consumers higher investment credit (mortgages) to buy homes than the resulting market values of that real estate.*

M: Yes. Notice that in the graph the value of the market offer is equal to the value of mortgages given. In a modernized graph, that part would look like this:



The Americans didn't maintain the proportions of 1:10 but used 1:33, and sometimes even 1:40.

They released more "empty" money than there was "mattress money", but they only increased their offer for mortgages. The effect of this surplus money led to inflation (price increases) in the real estate market, but didn't affect inflation in other sectors.

D: *But inflation associated with all kinds of products and services still exists. Is it caused by surplus money -- that too much was issued?*

M: It's good that you're asking. The cause of inflation is not a surplus of current money, but speculation, mainly on oil. We have already talked about the fact that the price of oil has risen five-fold since the year 2000, while consumption has only increased by 10%.

D: *So the cause of internal inflation in Poland is manipulation -- speculation of our national currency and global monopolizing.*

M: Just so.

D: *Don't NBP and the Monetary Policy Council see it?*

M: I have no idea.

D: *Let's go back to consumer credit. If a bank creates consumer credit higher than the amount of money in my "mattress", above the amount of issue, what happens then?*

M: I've got you, there. Nothing happens. Of course, unless you count the misfortune that comes along with interest. If it weren't for interest, this additional empty money would just stimulate the economy. In an era of abundance, it won't cause inflation.

D: *Don't exaggerate. It would only be that good if the conditions on competitiveness were upheld.*

M: You're right. Fortunately, our economy is still self-sufficient to a great degree and since it is based on small companies, it is somewhat more competitive than more advanced economies.

D: *Let's go back to credit. If credit is empty money, why don't banks want to give it right now? What are they afraid of?*

M: Well, they remember 1929 and the Great Depression in the 1930s.

D: *And what caused it?*

M: The cause was a speculation bubble and the inevitable crisis built into the system. However, the story surrounding the outbreak itself is absolutely unbelievable. A baker went to the bank to withdraw a large sum of money. At the time that amount wasn't available in the safe. They asked him to come back in two hours. When he came back he told his neighbors, without going into detail, that the bank hadn't had the money to pay out to him. The news traveled at lightening speed. A crowd of people gathered in front of the bank, demanding money. The bank brought in reserves and completed all of the withdrawals, but in spite of that, panic had already begun and spread across the country.

D: *The American government and the Fed wanted to keep Americans from doing something like that in 2008.*

M: Yes, though the situation in 2008 was more complicated than the one in the 1930s. The desperate moves of the government and the Fed are shown very well in the American film "Too Big to Fail". It tells the story that took place right after the collapse of the Lehman Brothers bank. Here is the scenario:

1. The insurance market in the USA became monopolized.
2. American banks are insured with the monopolist.
3. Lehman Brothers becomes insolvent (its assets have been overestimated) and it declares bankruptcy.
4. Clients of the Lehman Brothers bank get their deposits from the insurer.
5. The insurer keeps funds in banks.
6. Other banks are also in a state of bankruptcy.
7. The American government has a dilemma: if the rest of the banks collapse, the insurer will have to pay out the deposits. Since it keeps funds in the bankrupting banks and securities (government bonds, which nobody wants to buy), it won't have money to pay out. So if the rest of the banks fail, the insurer will too, and won't pay a cent. Money will disappear from the market.

8. The government gave up and exerted pressure on the Fed. The Fed printed more money and reinforced the banks. The insurance Moloch was too big to fail.

D: *Why did the US government have to put pressure on the Fed? Is it as independent as NBP is in Poland?*

M: The Fed is even more independent, because it is a private bank -- a central private bank, whose majority shareholders (real persons) are unknown by name. The minority shareholders are 7,000 American commercial banks.

D: *But in spite of their reinforcing the banks, they are still exercising great caution about giving credit.*

M: Yes. Do you have a current account and a savings account in the bank?

D: *Not a savings account. I listen to what you tell me. Saving is harmful.*

M: All right, so you only have a current account. You hear about the speculation bubble, and about various bankruptcies of banks and companies. You start to worry. You think: I had better transfer my money from my account to my mattress.

If more people think that and all go to the bank for their money, what will happen? Does the bank have enough money to pay out all of the deposits? No! In order to avoid panic, the bank lends cash in the interbank market, from NBP and other banks. And maybe they will save themselves. But if the whole country is seized by panic?

Banks don't give credit because they are afraid of losing their solvency (the situation where they don't have the money for current withdrawals). So the bank, first of all, is afraid of your demands. Secondly, in anticipation of a recession, it rates customers' creditworthiness much more cautiously. It has increasing numbers of high-risk loans. Therefore, it gives up on colossal but uncertain profits from interest. And brings back the 1:10 proportion.

D: *That is because new money didn't appear in the market, despite the fact that 2 trillion dollars were pumped into American banks by the Fed. This injection of new money didn't encourage banks to renew credit activity. The banks have used the money to rebuild their own liquidity (solvency). And correct the leverage indicator, like from 1:40 to 1:20.*

M: You know, I have a hard time understanding the American government and the Fed. If those 2 trillion dollars had been given to debt-laden Americans, this money would have reached banks in the form of repayment for overdue installments on loans, and Americans wouldn't lose their homes.

D: *Probably you do not understand the issue entirely.*

M: Probably, probably.

D: *Europe is printing and pumping, too.*

M: They are, too -- which is why the idea of an ingenious 10-year-old Dutch boy is entirely realistic and truly fantastic.

D: *What idea?*

M: The boy sent a one-page submission with a drawing to a competition by the European Central Bank, "How to save Greece". He wrote three things. Greece should issue drachmas. Greeks buy drachmas for their euro. With these Euro, Greece pays its debts, and the drachma becomes the official Greek currency.

D: *Right, okay, but so many extra euro is flowing into banks.*

M: So what? The ECB is eagerly printing them. They'll print fewer.

D: *Printing, issuing...and what about this inflation?*

M: Nothing. The money doesn't go into circulation. It remains in the virtual sphere. Because it is in the hands of people who don't need it at all. The fact that the debt securities they have (Greek government bonds) will change into real money only means moving an entry from the debt securities account to one in a money account, and that doesn't change anything in the real world.

D: *We have two financial worlds: a real one and a virtual one.*

M: Yes. In the virtual one, the currencies to whom the debt securities are payable are multiplying like rabbits. The mother of these rabbits is financial engineering, and the large funds are their father.

D: *It's time to neuter them.*

The Emperor is naked

Forget everything that you've ever learned about economy and finance. Forget about your beliefs. Become like a newborn child, whose mind is a *tabula rasa*.

And now look around.

Economy is a simple science. However, it has been wrapped in various contradictory theories and complex mathematical models, and bedecked in insular, purportedly scientific language. It is all done so that during discussion a normal citizen hears "Don't bother, man, it's really complicated, sometimes incomprehensible, even to the authorities in the economic field".

Indeed, sometimes it is hard to grasp. The string of economy is tied in a host of knots -- often very intricate ones. Each knot may be ascribed to specialists and it has all become so tangled that the "uninitiated" meekly give up on this "so very complicated" subject area.

Sheep, wake up! The emperor is naked.

The roles have been reversed. Economics does not serve people. It chases its own tail. It describes and analyzes everything fantastically. It finds causes. In the end, it is powerless. Periodic crises are just built in to the system.

If so, the system needs to be changed. The system wasn't given by nature or the Creator. We make the system ourselves.

It is time to rebuild it. From the start. From its foundations. From questioning its premises.

...

And how do we, the sheep, behave in times of crisis?

The best of us, the most selfless and rebellious ones, establish numerous associations. They protest, postulate, and demand. Every group demands something different. Reform of ZUS. Reform of the justice system. Reform of the elections statute. Health care reform. Bank reform. A ban on eviction. A ban on taking children away from their mothers for economic reasons. Look at how cleverly they have divided us. This kind of fragmentation seriously weakens us. We shouldn't demand relief from the results of our situation. We should demand the elimination of the causes.

The source of all the injustice is the political/economic system. It is a system that protects a large thief, and which is ruthless to the small.

If you have read this book carefully, you already know that the truth is found in simplicity.

We all admire little Iceland. It was brave enough to declare that it wouldn't pay any debts. The world of finance humbly accepted the news. It accepted the losses. Now, it is making up for it -- it is lending huge sums of money to Iceland. With interest, of course.

History has come around a full circle, in order to repeat itself. Too bad, Icelandic friends. You are restoring the facade of the building, and it is necessary to rebuild from the foundations.

Paradoxes and absurdities

1. A person is starving to death in front of a market stall with rotting bananas.
Read or skip this commentary:

There is supply (an oversupply of bananas), there is demand (a starving person). What is missing? A bit of paper -- money. Why doesn't the central bank (in Poland, NBP) issue it?

The central bank is afraid of inflation -- price increases.

Do prices rise when a hungry person buys bananas? Or maybe prices rise when the seller throws away bananas? After all, he has to "make up for" the loss from the discarded goods.

2. The words of the Gospel: "Whoever has will be given more, and he will have an abundance. Whoever does not have, even what he has will be taken from him".

Read or skip this commentary:

A Midas lends, and a sheep goes into debt. The interest makes the Midas rich, and impoverishes the sheep.

3. First, we invented machines and automations to free us from work. And now we urgently want to work and have acknowledged that unemployment is the greatest malady of our times.

Read or skip this commentary:

If a shoe factory has made 1,000 shoemakers lose their jobs, it means that these unemployed people should receive the money that machines would get for their work.

We are not always workers, but we are always consumers.

In an era of abundance, money should be tied to the consumer, and only after that with the worker, company owner, or service provider.

Presently, the division of money to people who are not working takes place through:
1. creating workplaces (not work); so-called hidden unemployment;
2. welfare benefits (for unemployment, social care, disability, etc.);
3. charity (the most humiliating way of giving someone something to which he is legally entitled).
4. The aim of economics, in science and practice, is not acting for the well-being of people and societies, but is concerned with maintaining indicators.

Read or skip this commentary:

GDP growth and the reduction of the national debt or the budget deficit are more important than people's well-being. The golden calf of the economy has become economic growth, which leads to:

1. consumerism -- stimulating artificial needs;

2. planning the aging of goods;
3. wasteful exploitation of natural resources;
4. degradation of the natural environment (turning the Earth into a giant garbage dump).

5. The internal national debt does not exist. One cannot borrow from oneself.

An internal national debt is a clever way of transferring our taxes to the pockets of shareholders (owners) of banks, funds, and other financial institutions.

Read or skip this commentary:

The country has constitutionally removed its own right to issue national currency (zloty). It has passed on this authority to the supposedly-independent National Bank.

Instead of paying for the construction of, say, expressways using a new issue of currency or an interest-free loan from NBP, the government goes into debt in one of the commercial banks. This national debt is constantly growing, and is being paid off with our taxes.

The threat of inflation (price increases) cannot justify this procedure. Since it is necessary to pay for the construction of expressways, additional money will be found and it is not important whether it comes from NBP or from a commercial bank.

6. Access to credit is easy for the rich and difficult for the poor. The more you need it, the higher the interest is.

No comment.

7. Party discipline, which is in effect when the parliament votes, is inconsistent with the idea of democracy.

Read or skip this commentary:

I choose my neighbor as a member of parliament. I know his views well. In the Sejm, he votes contrary to these views. Party discipline.

What is the point of this farce? The Prime Minister, the leader of the ruling party, makes the decisions -- the parliamentary majority (the ruling party) enacts them.

Quite like in the times of the Polish People's Republic.

8. Switzerland pegged the currency rate of the franc to the euro. And we aren't allowed to?

No comment.

9. America's Fed, the central banking system, tripled the dollar reserves in the financial markets within two months. Where is the inflation?

No comment.

10. Our economic "soul", external factors (mainly a decrease in the value of the zloty).

Read or skip this commentary:

NBP enthusiastically aids this process, by raising interest rates (effectively lowering the flow of money into the economy).

Excellent cooperation between the world and our native financiers.

Something for the cabaret actor

It is time to end the jokes about meaningless tripe. It's high time for things that are truly funny.
I will present you with a few absurd scenes, taken from real life, and you write the sketches.

Scene 1
The court takes a child away from her mother because her "economic situation" doesn't allow her to ensure the child proper conditions. The child ends up in a foster home, for which the government pays 1,500 PLN a month.
I suspect that our government wants to improve its GDP indicators. Welfare for the mother is a burden on the system, and hiring foster parents reduces unemployment statistics.

Scene 2
Reporters put up a monument to a pensioner who paid for a stipend for a young, talented person from his village after selling his property and using the interest he got from the bank. From 100,000 PLN he has 5,000 PLN in interest. The stipend amounts to 500 PLN per month (2 months are vacation time).
The mother of the young, talented person had to remodel her home after a flood. She took 100,000 PLN in credit, and in the first year she has already had to pay 13% interest to bank X, which is 13,000 PLN.

No comment.

Scene 3
A husband/father who is stricken with alcoholism receives a state pension of 600 PLN per month.
He has to drink 0.5 liter per day. 0.5 liter costs 20 PLN. 30 days x 20 PLN = 600 PLN. The value of the spirit according to the price of production amounts to 5 PLN per liter. The rest is excise tax and VAT. In that manner, our ill citizen gave 570 PLN back to the budget (he drank 6 liters of spirit at 5 PLN each, which makes 30 PLN).
The humiliated wife/mother asks (read: asks a clerk) for social aid. She receives 200 PLN, 5 kg of flour and 2 kg of groats. The foundation belonging to the First Lady and the Prime Minister's wife also send holiday packages with contents that coincide with their own visions about poverty.

Scene 4
Nona, the neighbor, washed my windows before Christmas, in return for the fact that she often leaves her little dog with me (due to an abandonment complex -- the dog's, not hers). We are both single, so we organized Christmas Eve dinner together and invited a few acquaintances, including Know-it-all. At the table, we talked about our friendship and how we help each other. Know-it-all asks if we have been paying tax on it. What tax? Well, the one for free services. You didn't pay Nona for the windows and she didn't pay you for keeping the dog. And you got gains from it. If you didn't pay tax, then it was done on the black market. Where is your patriotism? You don't think about GDP at all! Oh no. The priest said that not paying taxes is a sin. What should we do, Know-it-all? Report it in our tax returns under "miscellaneous income"? What amount should be written? What do you mean what amount? The going rate. Call 3 or 4 cleaning agencies and calculate the average,

and that's it. You know, Know-it-all? I would rather pay Nona. She'll pay me the same and everything's okay. Okay? Then it would be a freelance agreement between real persons who do not carry out regular business activity. At the time of payment for services one should pay tax, a contribution to the healthcare system, and ZUS. We have to register at ZUS first? Of course. So what can we do, Know-it-all? Make an agreement but not pay for it? There won't be any unpaid services and there won't be any ZUS to pay, because in your case, there will only be income when cash was paid. Wonderful, thanks, Know-it-all. Now I can go to confession. But wait a minute. You have had Christmas Eve dinner with us and you haven't paid for it. You have income from free gastronomic services. Ha, ha, ha, long live the black market!

Scene 5
A little sheep (A) takes a loan from the bank to go to Lanzarote on vacation. In the plane, she meets another sheep she knows, with a sheepdog's tail (B). A conversation between them takes place:
Little sheep with the sheepdog's tail (B): Hey, how are you doing?
Other little sheep (A): I'm going to Lanzarote to recharge my batteries, because I have a lot of work ahead of me.
B: Why do you have to work more?
A: I have to pay off the loan I took for this vacation. And where are you going?
B: My awful boss forced me to go to a conference on Lanzarote. I'm so angry -- I had to get up at 3 in the morning and I will have to bake in the sun for seven days because the conference lasts 2 hours a day.
A: What kind of conference is it?
B: It's a training session called "How to make someone who's been skinned ask for more torture."
A: Are you a butcher?
B: No, a credit advisor.

Scene 6
Mr. Prime Minister, in order to regain the trust of the banksters and Midases, euphemistically referred to as "financial markets", the government must improve its GDP indicators in relation to the national debt. We cannot touch the national debt. Therefore, I suggest the improvement of the GDP and other indicators as follows:

- Pass a law saying that a professionally employed husband must pay a salary to his non-working wife for taking care of the house and taking care of the children; the result: a dramatic rise in GDP growth.
- From that salary it will be necessary to pay income tax; the result, increased revenue to the budget.
- From that salary it will be necessary to pay contributions to the ZUS system as well; the result: improved solvency.
- Credit worthiness of the family will increase (with two wage-earners); the result: the family will take a loan, which will improve consumer indicators and, indirectly, GDP.
- All of these payments (taxes, ZUS contributions, loan installments) lead the husband and father to use a firearm and take the family away to a better world, creating two jobs which can be taken by the unemployed; the result: the unemployment rate decreases.
- The government may now announce its excellent economic success.

Scene 7
Following their hearts, neighbors rebuilt the home of a fire victim. A jealous neighbor told the tax authorities about it. The controllers decided to issue a decision that the fire victim should pay tax.
They had the following choices:
- Determine that the fire victim received free services and should pay income tax on the value of these services according to current market prices. It should estimate the market value of the rebuilt home according to a taxation scale.
- If the fire victim declares that rebuilding the house was a form of donation, he should pay a gift tax, the amount of which is also determined by market value. At the same time, those who gave it, meaning the neighbors, have to prove to the tax office what the sources of the "amounts donated" were. If their earnings were too low in relation to the amount supposedly donated, they will have to pay 75% of the value of the unreported earnings.
- The fire victim may declare that he paid for the services. Then he has to show the source of the money he has paid. If he is poor and didn't have income in the past, he will have to pay 75% of the value of the unreported earnings. Those who provided the services will have to pay tax on the money they earned on building the house
Think twice before you help someone!

Scene 8
A talking head on television, this time a lady from ZUS, declared: "Dear pensioners, don't worry! You will get your pension on time. If ZUS becomes insolvent, it will be able to take credit from a commercial bank at any time, as a solvent administrative unit".
Why from a commercial bank? Why not from the National Bank of Poland? Where does the money for the interest on that credit come from? Don't worry, pensioners, not from your money. Your retirement and the interest from that credit are being covered by those who are working now.

Table talk

Conversation 1
A: The European Union has got us on our feet. Now, when things are so difficult, they still want to give us large subsidies, even higher than our payments to the EU.
B: And what are these subsidies for?
A: Mainly for innovative activities, like introducing new technologies and techniques of production.
B: Speak my language.
A: To buy modern machines and equipment.
B: Buying them where?
A: Mostly in Germany.
B: That means the subsidies go back to them and stimulate their economy?
A: Well, yes, but it's still very noble.

Conversation 2
A: The European Union also gives us subsidies for vocational training courses.
B: What kind of training courses?
A: For example, how to get a job.

B: Are there more jobs available after these courses, or do they teach you something like, "I'll get a job when I push you out of yours".
A: Don't be spiteful. They are creating jobs in vocational training companies, after all.

Conversation 3
A: The European Union also gives us subsidies for farmers.
B: When a farmer gets these subsidies, he sells wheat for a lower price, right?
A: Yes, that's one of the results of subsidies for farmers.
B: Does the EU do that for me so that I spend less on bread?
A: Actually, no. It does it so that the prices of EU food are lower than those of food produced in developing countries.
B: So that the bananas in Poland are the price of potatoes. But is anyone subsidizing the banana plantations?
A: The plantation isn't the EU. They should produce for cheap.
B: So if a potato in Poland had a proper price (unreduced), it would cost more and so would bananas.
A: Yes.
B: Judging by the price of bananas, the laborers work for starvation-level pay. I think I would feel better without the subsidies. I have the impression that the country producing bananas is a still a European colony.

THE 3XR THEORY

RADICAL, RATIONAL AND REAL
changes to the world's financial system.

Change in the world's financial system should be grounded on:
– depriving money of its attribute as a commodity,
– introducing measures of national money using a universal model,
– and dividing current money from accumulated money.
When it is not a commodity, currency will stop being an object of trade and will remain an intermediary for equivalent exchange.
The value of particular currencies should be based on purchasing power. The measure of purchasing power should be based on units -- a UNIVERSAL, OBJECTIVE CURRENCY (OM).
Dividing the function of intermediary of exchange from the function of saving will speed movement and protect the market from the removal of current money from circulation.

***

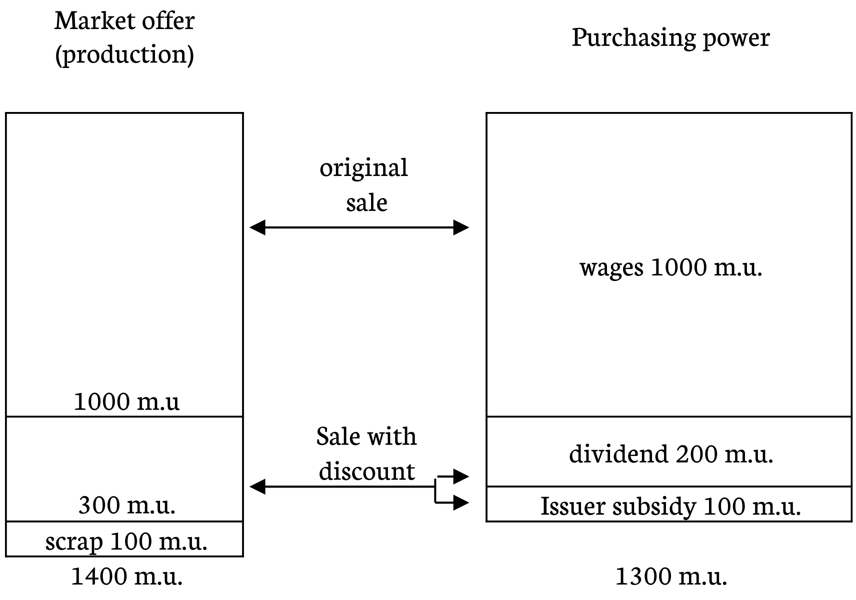
Depriving money of its attribute as a commodity means that all interest counted on deposits as well as credit will be stopped.
The OM measure removes currency speculation.
Dividing the function of money as an intermediary for equivalent exchange from caching will eliminate saving current money.
As a result of these changes, the financial would practically cease to exist, and the role of banks would be limited to the function of depositories and intermediaries for completing payments.
A secondary problem is the potential indexation of deposits balanced out, for instance, by a credit tax.
These issues should be regulated by the issuers of particular national currencies.
In the end, money will no longer be subject to the laws of supply and demand, and will be freed of prices (interest) and secure from speculation.

Commentary
The most difficult task, worthy of a Nobel Prize, will be to establish the OM model. Issuers of national currencies possess the proper tools for measuring inflation. But national "baskets" are unique to different countries. It seems that the closest ideal would be a "basket" based on a social minimum, which accounts for the features of a given country. The contents of a "basket" like this could include:

· the value of the cheapest edible oil, in an amount containing 60,000 kcal.
· the value of 30 liters of whole milk,
· the value of 100kW of electrical energy,
· 1/60 of the value of the least expensive new passenger car,
· the cost of three visits to a doctor,
· the cost of a one-day stay in the hospital.
The social minimum would be the equivalent of 30 OM.

The theory of social credit

Clifford H. Douglas, who developed the theory of social credit, based it on the observation that the sum of the wages paid to the workers in a company is always lower that the value of the produced goods (production).At a macro scale (the entire economy), that relation held true as well. Douglas conjectured that part of the production has to remain unsold or gotten on credit.A scholarly, econometric justification and proof of this observation was presented in a 400-page work by Diane Boucher, a Canadian economist.
Douglas believed that the explanation for this imbalance is constant technological advancement. Because of it, the volume and value of production is gradually increasing, though wages, salaries and other payments are not keeping up with it. The desire to obtain goods is not accompanied by the means of obtaining them (the consumer wants to have a particular commodity, but doesn't have the money to buy it). Douglas thought that the imbalance should be leveled out by supplying consumers with money. Consumers, not workers.
If the source of constant production growth is technological advancement, and the progress developed by past generations belongs to all citizens, that additional production belongs to everyone. Therefore all citizens should be paid dividends (extra money as a share of the profits), so that they can obtain goods that come from production growth.
Douglas's second proposal came from this -- the issuer of money must observe market behavior and regulate the flow of new money.
The economic conditions that Douglas functioned in have changed significantly. Perhaps the principles of social credit and dividend payment would have to be adjusted to the realities of modern times. This concerns the third proposal in particular, which is the method by which dividends are counted and paid. In Douglas's opinion, a production surplus should be sold at a discount, meaning at a cost lower than that of its manufacture. Simultaneously, he suggests that issuer of money should level out the losses incurred by a producer or distributor after applying the discount. According to Douglas, the sale of surplus production at a discount eliminates defective, unwanted goods from the market. The consumer won't buy superfluous things even at a discount. In order to explain it, I will use a graph:



Value of production 1400 m.u.
Value of wages – initial purchasing power 1000 m.u.
Value of unsold production in the first phase 400 m.u.
Value of unsold production, designated for discount 400 m.u.
Value of sales with discount 300 m.u.
of which: the consumer pays with dividends 200 m.u.
issuer subsidy to the price 100 m.u.
Unsold production, scrap (no interested buyers, surplus, defective, etc.) 100 m.u.

This part of Douglas's theory is the most difficult to understand and implement. Its complexity results from the fact that in Douglas's times, there was no access to current information about the amount of money in circulation nor about the value of the market offer. In modern times, when this information is relatively complete and can be obtained almost immediately, this part of Douglas's theory can be modified and adapted to the present situation.

The doctoral club

This brochure does not aspire to the appellation of an academic work. That is why it does not contain footnotes and references to sources.

There are no academic works which solely concern the third wave of civilization. In order to fill this gap, I am including the following appeal.

Graduates of economic universities, doctoral students, academics without complexes and, above all, capable autodidacts who are uncontaminated by outdated theories -- you stand before a great opportunity to take part in the creation of a new paradigm of study. Write your theses to please your supervisors and chew over passé theories; get your academic titles. But meanwhile, create new economic models, work out new simulations of events, harness econometrics and statistics, computer programs, and your own imagination. Anticipate difficulties and look for solutions to them. The old ones have had their day. Look for new roads. Fame awaits you. But above all, we, the sheep are waiting. You have a mission to complete. Feel the blues. Feel the passion.

Share your achievements with us at www.glosulicy.pl and www.jestesmyzmiana.pl.

Forget about authorities. Become authorities yourselves. For those who are still not convinced, and for inquisitive readers, there is a list of recommended books at the end of this publication.

A list of insults

I would like to help out my adversaries a bit. I am including a list of invectives for free use.

- A poorly-educated, dangerous madwoman.
- A demagogic, superficial, and absolutely false view of reality.
- Communist and socialist ideas with the addition of paranoia.
- Woman, go back to school.
- Unpalatable and indigestible.
- The ravings of a sick mind.
- Who do you think you are?
- Who is behind this?
- Populistic ramblings from a disturbed imagination.
- Completely untrue and foolish, but unfortunately, it reads well.
- The ultimate science fiction.
- A pile of rubbish; long-forgotten theories dusted off.
- The list of insults included did all of the evaluation for me of this "brochure".
- A born prophetess.
- The shortest review: "oh, those awful bourgeois".
- Simpleminded and populist -- an apt continuation of the theories of our "world economist", Andrzej Lepper.
- Amateurish, crude, and chaotic.

The Tale of a Goldsmith (summary)

In the olden days, anything functioned as money if it fulfilled two conditions: it was portable and acknowledged as exchangeable for goods like food, clothing, or shelter. Most often it took the form of shells, feathers, seeds, or pretty stones. Some cultures chose a metal for this purpose -- gold and silver, due to their rarity and malleability. In time, this form of money became more common, also due to the fact that goldsmiths had begun to create coins, standard units of a weight and purity attested to by a certificate.

In order to protect their supplies of the precious metal they used, goldsmiths built safes. For a small fee, they allowed rich neighbors some space inside, so that they wouldn't have to worry about their valuables, either. Soon, it turned out that the depositors rarely came to pay out their gold, because it was more convenient to pay with vouchers made out by the goldsmith. They were light and handy, and a particular amount could be written on them. Because of that, it wasn't necessary to carry heavy gold or count little coins for large purchases.

In the meantime, the goldsmith developed his new business: he started lending gold for a small fee. Along with the popularity of trading vouchers issued by the goldsmith, some clients began to ask for loans, also in this convenient form. The goldsmith came up with an idea that he would give vouchers that were not only secured by his gold, but by that of his clients -- of course, without their knowledge. After all, they came to withdraw from the treasury so rarely that they certainly wouldn't want to pay everything out suddenly. The idea took off and then the goldsmith earned much more money.

However, the depositors started to suspect that the goldsmith, who had started calling himself a banker, was living in luxury because he had embezzled their gold. They threatened to withdraw their deposits if the goldsmith didn't tell them where he'd gotten so much money. The goldsmith admitted to his procedure and the depositors forced him to share the profits of the lent gold with them.

From that time on, the goldsmith-banker paid low interest to the depositors, and lent the gold for a high interest rate and kept the difference between the amounts. However, greed pushed the banker to do another reproachable thing.

Since nobody except the banker knew how much gold was really deposited in the bank, he decided to earn money on interest, while issuing bank vouchers for gold that in reality he did not have (creating money from nothing). He based the idea on the assumption that all of the people who had vouchers would never come to pay out gold at the same time. It was a great success, because the banker's activities coincided with the beginnings of European expansion to other continents, when there was a greater need for money.

However, one day, the banker's worst nightmare came true -- the people, seeing the wealth of the goldsmith, had once again begun to suspect embezzlement, and did a bank run, demanding immediate withdrawals of their gold. This led to the collapse of the bank, of course, and destroyed confidence in bankers. They did not do what would have seemed the most rational course of action -- they did not outlaw the procedure. Bank credit had driven the conquest of the world. Governments wanted to conquer new continents to expand their territories and collect larger and larger duties. So instead of prohibiting usurious activities, it legalized a system which would increase the solvency of banks in case of bank runs. First of all, bankers agreed to observe limits of fictional money that they lent. Initially, this limit was 1:2, then later 1:9, meaning they could lend nine fictional dollars for every one that they actually had deposited in a vault. Secondly, in case of a bank run, the central bank could support banks with injections of real money.

This system of protection meant that the bubble would only break if there were runs on several banks at once.

Quotes

Money is a new form of slavery, and distinguishable from the old simply by the fact that it is impersonal -- that there is no human relation between master and slave.

Leo Tolstoy

I believe the time will come in this country when they will actually blame you and me and everyone else connected with this Congress for sitting idly by and permitting such an idiotic system to continue.

Congressman Wright Patman

Anyone who believes exponential growth can go on forever in a finite world is either a madman or an economist.

Kenneth Boulding

The greatest shortcoming of the human race is our inability to understand the exponential function.

Albert A. Bartlett, physicist

One thing to realize about our fractional reserve banking system is that, like a child's game of musical chairs -- as long as the music is playing, there are no losers.

Andrew Gause, Monetary Historian

We are absolutely without a permanent money system. When one gets a complete grasp of the picture, the tragic absurdity of our hopeless position is almost incredible, but there it is.

Robert H. Hemphill, Credit Manager of the Federal Reserve Bank, Atlanta, GA

That is what our money system is. If there were no debts in our money system, there wouldn't be any money.

Marriner S. Eccles, Chairman of the Federal Reserve Board

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

Reginald McKenna, former Chairman of the Midland Bank of England

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

Irving Fisher, economist and writer

Banking was conceived in iniquity and was born in sin. The Bankers own the earth. Take it away from them, but leave them the power to create deposits, and with the flick of the pen they will create enough deposits to buy it back again. However, take it away from them, all the great fortunes like mine will disappear and they ought to disappear, for this would be a happier and better world to live in. But, if you wish to remain the slaves of Bankers and pay the cost of your own slavery, let them continue to create deposits.

Sir Josiah Stamp, Director of the Bank of England (the second richest man in Britain at the time)

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

Mark Mansfield, economist and writer

Permit me to issue and control the money of a nation, and I care not who makes its laws.

Mayer Anselm Rothschild, banker

The process by which banks create money is so simple the mind is repelled.

John Kenneth Galbraith, economist

Each and every time a bank makes a loan, new bank credit is created -- new deposits -- brand new money.

Graham F. Towers, Director of the Bank of Canada

Some of the biggest men in the United States, in the field of commerce and manufacture, are afraid of somebody, are afraid of something. They know that there is a power somewhere so organized, so subtle, so watchful, so interlocked, so complete, so pervasive, that they had better not speak above their breath when they speak in condemnation of it. Woodrow Wilson, former US president

In essence, the present creation of money, out of nothing by the banking system, is similar - I do not hesitate to say it in order to make people clearly realize what is at stake here - to the creation of money by counterfeiters, so rightly condemned by law. In concrete terms, it leads to the same results. The only difference is that those who benefit from it are different people.

The 'miracles' performed by credit are fundamentally comparable to the 'miracles' an association of counterfeiters could perform for its benefit by lending its forged banknotes in return for interest.

In fact, without any exaggeration, the current mechanism of money creation through credit is certainly the "cancer" that's irretrievably eroding market economies of private property.

Maurice Allais, French economist and engineer, winner of the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel in 1988

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I am also grateful to Dr. Szczęsny Górski for showing me an invaluable source of information -- the periodical "Michael".
I would like to thank the editorial staff of "Polityka" magazine for "Niezbędnik inteligenta pt. Trzęsienie kapitalizmu".
Thank you to the entire staff of Głos Ulicy ("Street's Voice").
And finally, I would like to thank my sister, Wanda, and my brother, Kazimierz, for their astute comments and constructive criticism.

Izabela Litwin

What next?

Look for solutions on our web pages **www.glosulicy.pl**, **www.jestesmyzmiana.pl** and in the next brochure in this series. It will contain definite suggestions for changes in the social contracts which serve as the basis of the economy, divided into a program for Poland and a program for the world.

Share your suggestions with us and send questions to our email address: ***redakcja@glosulicy.pl***

Further reading

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