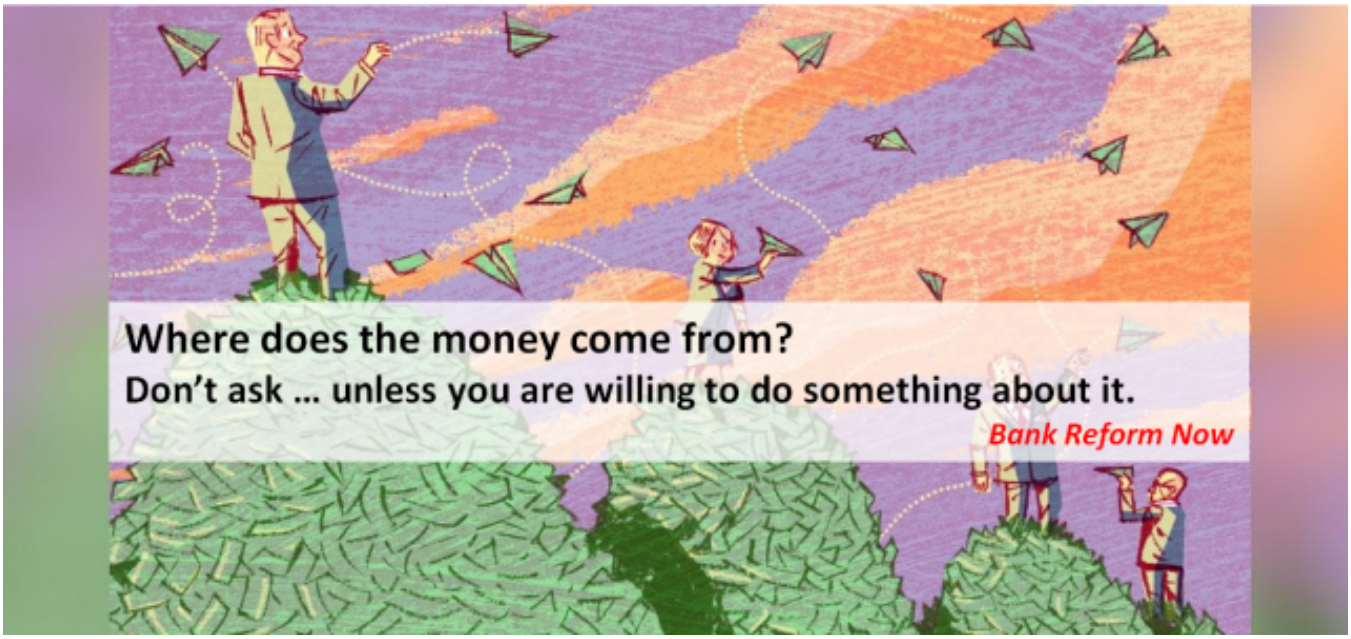
**Should Banks Be Profiting From Credit Creation?**

**Summary:**
Don't let this article slip by - you don't see this exposed in the mainstream media every day. The banks have been allowed by corrupt politicians to steal our wealth and freedoms. Adam Creighton revealed the way it's done before Hayne delivered his limited report. Spread this message far and wide. The system is corrupt and in need of structural reform. Join in with Bank Reform Now to get the job done. Stand - Unite - Make It Right.

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## Big four banks just creating piles of money

As the final report of the royal commission into financial services nears, top bankers should at least be relieved **the real source of their power — the ability to create money out of thin air — will be unaffected.**

The terms of the royal commission were set to avoid deeper questions about the structure and role

of banks, an issue of extraordinary importance which receives almost no public attention.

Yet, somewhat mysteriously, one by one central banks around the world have started revealing how money is really created, destroying the furphy that banks are "intermediaries" lending deposits out to borrowers.

**The vast bulk of money in Australia and elsewhere has been created by banks, not the government or the Reserve Bank. Unfortunately the bulk of this new money has been used to purchase existing houses and apartments rather than on ventures that would improve the capacity of the economy, which has caused massive asset price inflation.**

In 2014 the Bank of England, the UK's central bank, issued a remarkably frank article that set off a chain reaction. "Whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money," the bank said. "One common misconception is that banks act simply as intermediaries, lending out the deposits that savers place with them." This was explosive stuff, puncturing the assumption maintained in almost all economics textbooks since World War II that banks passively lent out deposits and could be ignored in economic models.

Last year central banks in Switzerland and Australia joined in. In a landmark speech in September, Reserve Bank assistant governor Chris Kent moved to clear up a "degree of confusion" about how money is created, explaining that banks create deposits when they make loans.

"Concerned citizens might be worried about what they see as the ability of private banks to create money via the extension of credit, seemingly at will," he said.

Since June 2008, the volume of money in the Australian economy has almost doubled to $2.1 trillion, or about 115 per cent of GDP. Mortgages make up the bulk of the growth: banks provide such loans in deposit accounts to their customers, while simultaneously creating an asset in their own accounts which is a record of what customers owe their bank.

"If banks create currency faster than the rate at which goods are being produced their action will cause a rise in prices which will have a perhaps disastrous effect," Hartley Withers, a former editor of The Economist, presciently wrote in 1916. The explosion in house prices in Australia, and throughout the West, has far more to do with banks' ability to create credit than population growth or negative gearing.

Globally, private sector debt has increased from the equivalent of 100 per cent of GDP in 2008 to 125 per cent, according to Oxford Economics. If the global debt surge leads to a recession, as many fear, we should blame the structure of the financial system more than anything else.

"Now the truth of money creation has come out, and people can start to understand how the system works (they want to have some) influence over this process," says Richard Werner, a professor of economics at University of Southampton. Werner argues allowing large private businesses the power to create money without limit has fuelled financial instability, inequality and starved small business of funds.

"That's the reason for 200 years of stellar growth in Germany, because decentralised banks made the decisions locally. And they mostly lend to small firms," he said, arguing that Germany's community-bank-dominated financial system helps explain the extraordinary success of its business sector.

"If you don't have small banks, like in the UK, which is dominated by five giants, then smaller firms get little money and you get a bad economy with a lot of inequality, where too-big-to-fail banks prefer to lend for speculation which is highly unproductive," he adds.

Werner says bank loans shouldn't be allowed to purchase houses or shares. "This is not saying speculation is banned, but just saying you can't use bank credit to do it," he said. "If it doesn't add to GDP it shouldn't be allowed".

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Such changes, difficult to see without another financial crisis, would rip apart financial systems. Monetary regimes aren't forever, though, as the great economist Knut Wicksell observed in 1922: "The choice of a monetary system, of currency and credit legislation — all are in the hands of society and natural conditions are relatively unimportant."

News that banks create money raises a lot of awkward questions. Should the extraordinary revenues that arise from this licensed activity be taxed differently? There's little effort or innovation involved in creating a loan and charging a margin on the difference between the asset and liability. By creating inflation, the creation of money has effects far beyond the bank and its customer. Are incentives properly aligned?

Why do most economic models still ignore the financial system? They certainly did when I studied a range of them in Oxford in the mid-2000s.

Should there be a public option in banking to rein in the excesses of our privately owned but publicly guaranteed banking system? If the Future Fund is going to be allowed to compete with industry and retail superannuation funds, why not let Australia Post or the Reserve Bank offer basic banking services to the public?

Last year 24 per cent of Swiss voted in a referendum to curtail private banks' ability to create money.

In its arguments against the change, the Swiss National Bank hit out at alternative proposals to give ordinary Swiss the right to have a bank account at the central bank, a right, as in Australia, only available to private banks.

"Such a change would call into question the traditional, tried-and-tested division of tasks between the central bank and the commercial banks," governor Thomas Jordan said. He's right, but it's far from clear that division of tasks has led to a stable and fair financial system.

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**BRN Comments**

We've never seen this exposed like this in the mainstream media. It's time to educate the people about this crime against humanity. The BRN Yellow Vest Rally speech touched on this too (short extract & link below). We must work together to create a properly functioning Sovereign Monetary system. It's not rocket science but a politician will never offer to help you get justice. **We must band together and demand change.**

Proper reforms would bring the power back to the people and allow you to have the same or better standard of living with half the hours of paid employment.

The world's bankers and power brokers can't stand the idea of nations having a properly functioning sovereign monetary system – because it takes the power out of their hands. The Hayne Royal Commission made no mention of credit creation. The 2016 BRN Draft Royal Commission Terms of Reference featured this critical issue. It's a no-brainer - link below.

Australia's wealth is being stolen and transferred to the 0.1%. Billions of dollars every year! **Credit creation is the goose that lays the golden egg.** This country can and should have world class services and infrastructure but the resources that would pay for it are being sucked out of the people's pockets and country.

One of the critical reforms all nations must investigate is an optimised **Sovereign Monetary system.** With some clever and innovative reforms the profits from credit creation could remain with the people. This is one element of BRN's **S.U.M.I.R** proposal Dr Brandson briefly introduced at the first Yellow Vest protests in January. The other two elements to be detailed well before the Australian election in May 2019 are: a **Sovereign Wealth Fund** and a **Universal Basic Income / Citizenship Dividend / Job Guarantee.** This trio of policies together and implemented cautiously is far more powerful than the individual components operating separately. This may be the model that can

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deliver structural reforms which really serve the people's interests. More details will be released soon.

The "international rules based order" many politicians like to prattle on about is a part of geopolitical posturing that seeks to lock in a system that serves elite interests. It's time to change the rules .... and the game. This is a big job and will require intelligent politicians with guts working together with honourable people with extensive finance system knowledge. People will probably need to consider supporting decent independent political candidates. The two party system has been corrupted. Let's hope some LNP and ALP candidates decide to support you in your quest for wise reforms.

**How can the culture of banks be changed?**

1. Axe pay and bonus schemes that provide perverse incentives.

2. Banks must not indemnify lawyers, liquidators & other agents used to do their dirty work.

3. When a banker breaks the law - take their assets, take their freedom (where appropriate) and fully compensate their victims.

4. A CEO or Director may not have been directly involved in a crime but if they are involved in a cover up they should be held accountable.

5. Equality of Arms - Legislation to establish an independent bank funded specialist legal aid cell to represent bank victims when they are subject to legal action by a bank - consistent with the human rights principle "Equality of Arms." This will require banks to be responsible for their clients' legal expenses. Banks should no longer be able to use this country's justice system as a weapon. Bank victims must have timely, proportional, and equitable legal support. Banks may have to be forced into becoming "model litigants." Abuse of the law and legal processes as a weapon to financially decimate their aggrieved clients is no longer tolerable.

6. Whistleblowers must be highly regarded, protected and rewarded.

All these are stepping stones to not just an honest and fair finance sector but to a new way of life where we all get a fair go.

Join up with BRN **here** and on our **Facebook page** we need numbers now more than ever .... there is an election in May. Let's make sure this time the people win .... not a party.

**Websites For More Information:** Source - Big four banks just creating piles of money - The Australian - Adam Creighton
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**Related Links:** Yellow Vests In Australia
Draft Terms Of Reference Royal Commission Banking & Finance

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