A PLANNED SURVEILLANCE SYSTEM:  
THE CHINESE COMMUNIST’S IDEA OF ‘SOCIAL CREDIT’

by Betty Luks

China Watching: Beijing wants to create a nationwide ‘social credit’ system that compiles digital records of citizens’ social and financial behaviour to calculate a personal rating that will determine what services they are entitled to - and what blacklists they go on.
—- Wall Street Journal

It has come to our notice that a system of surveillance planned for the citizens of Communist China was described in English as a ‘social credit’ system. Of course it sparked our immediate interest, not only by the term used but the underlying philosophy upon which it is based. But let’s mull over this news for a while - what does all this mean? First why use the English term ‘Social Credit’ for such an Orwellian Chinese Surveillance System? A term that was coined nearly a hundred years ago and which the mainline media has avoided the use of, in relation to, and any reference to, Clifford Hugh Douglas’ writings and proposals.

Of course there are a number of serious issues involved with what has happened but I think we have to ‘start at a beginning’ in order to get our minds around it all.

Words and Meanings are Important

To begin with, let’s go back a few centuries: On pp.50-51 Owen Barfield in “History in English Words” tells us that during the 5th and 6th centuries of this era the Anglo Saxons began to stream into the British Isles from the European Continent. They brought with them old Aryan words like: dew, night, star and wind and Latin words which they had learnt as provincial subjects of the Roman Empire.

The Latin and Greek words which entered the language at this period are concerned for the most part with the dogma and ritual of the Church; such words as: altar, candle, clerk, creed, deacon, hymn, and many others.

They also brought that peculiar Teutonic variant of the Aryan tongue which forms the rich nucleus of the English vocabulary. Their arrival was followed almost immediately by their conversion to Christianity and this moment in British history was a pregnant one – for the two great streams of humanity – Teutonic blood from the one side and the old classical civilisation bearing within its dark womb the strange new Christian impulse from the other.

Barfield also noted the importance of the alteration which now gradually took place in the meanings of many old Teutonic words but we will not venture too far from the main reason for bringing this little bit of history to the readers’ attention. I want to bring out the important point that the word ‘credit’ also changed meaning over the centuries.

COMMERCIAL SENSE OF ‘CREDIT’ FIRST USED IN 15th CENTURY

Now you are wondering why on earth I should dwell on the word ‘credit’ in this monthly journal. The reason is what happened to that little word ‘credit’ over the years. The various online dictionaries tell me:

CREDIT Origin
In its commercial sense, ‘credit’ in English was first used in the 15th century: and into use in the mid 16th century (originally in the sense of ‘belief’, ‘credibility’): was from French credit: probably via Italian credito: from Latin creditum, : neuter past participle of credere ‘believe, trust’.  

(continued on next page)
Credit - Online Etymology Dictionary.
Credit - 1520s, from Middle French crédit (15c.) “belief, trust,” from Italian credito, from Latin creditum “a loan, thing entrusted to another,” from past participle of credere “to trust, entrust, believe” (see credo). The commercial sense was the original one in English (creditor is mid-15c.).
Credit - www.dictionary.com/browse/credit
credit -  1520s, from Middle French crédit (15c.) “belief, trust,” from Italian credito, from Latin creditum “a loan, thing entrusted to another,” from past participle of credere “to trust, entrust, believe” (see credo). The commercial sense was the original one in English (creditor is mid-15c.).
Credit - Definition of Credit by Merriam-Webster
https://www.merriam-webster.com/dictionary/credit
Credit: money that a bank or business will allow a person to use and then pay back ... The Latin word credere, meaning “to believe,” gives us the root cred.
1. the ability of a customer to obtain goods or services before payment, based on the trust that payment will be made in the future.
“I’ve got unlimited credit”
synonyms: financial standing, financial status, solvency
“the shop would be paid whether her credit was good or bad”
the money lent or borrowed under a credit arrangement.
plural noun: credits
“the bank refused to extend their credit”
2. an entry recording a sum received, listed on the right-hand side or column of an account.
“the columns should be added across and down and the total debits should equal the total credits”
a payment received.
“you need to record debits or credits made to your account”
3. public acknowledgement or praise, given or received when a person’s responsibility for an action or idea becomes apparent.
“the Prime Minister was quick to claim the credit for abolishing the tax”
synonyms: praise, commendation, acclaim, approval, approbation, acknowledgement, recognition, kudos, hat tip, glory, merit, regard, esteem, respect, admiration, adulation, veneration, tributes;
4. North American
the acknowledgement of a student’s completion of a course or activity that counts towards a degree or diploma as maintained in a school’s records.
“a student can earn one unit of academic credit”
a unit of study counting towards a degree or diploma.
“the National Certificate consists of twelve credits”
British
a grade above a pass in an examination.
acknowledgement of merit in an examination which is reflected in the marks awarded.
“candidates will receive credit for accuracy and style”
5. archaic (emphasis added…ed)
the quality of being believed or credited.
“the abstract philosophy of Cicero has lost its credit”
good reputation.
“John Gilpin was a citizen of credit and renown”
And so, from the original meaning of ‘the quality of being believed or credited’, the word acquired a commercial meaning and after another five hundred years it has come to mean financial debt.
But how clever of an English Oxford academic to translate the Chinese term for debt and what is really ‘discredit’ into ‘social credit’; to describe an authoritarian surveillance system to be used by the Chinese Communists to ‘keep tab’ on their citizens as a ‘social credit’.
And it is here that we come to the meaning of ‘philosophies’ and the policies from which they stem. It is important that you clearly understand what all this means.
A bottle containing a pink substance may have a label stating “strawberry powder” but it is the contents that are of utmost importance. What if the ‘pink substance’ is strychnine and not strawberry powder. It is important that we have a clear understanding of philosophies and the resulting policies that stem from them.
***
If we consider hottest months (rather than whole years), then the hottest January was perhaps 1896 – when people were evacuated from places like Bourke in western NSW. The hottest summer was perhaps in 1938-39; at Rutherglen in Victoria this summer was a full 2°C hotter than the ten most recent summers – including the last summer of 2015-16. Indeed, there is nothing unprecedented about recent temperatures in Australia.
Rather, there is compelling evidence that the Bureau of Meteorology remolds historical temperature data until it conforms to the human-caused global warming paradigm. 
(continued from previous page)
(continued from page 6)
The following is taken from Geoffrey Dobbs’ “What is Social Credit”:

“Social Credit is a name given to a certain movement of the mind and spirit (not an organisation) which stems originally from the mind and writings of a man of great insight and genius, the late Clifford Hugh Douglas. Its aim is to ‘bind back to reality’ or ‘express in practical terms’ in the current world, especially the world of politics and economics, those beliefs about the nature of God and man and the Universe, which constitute the Christian Faith, as delivered to us from our forefathers, and NOT as altered and perverted to suit current politics or economics, which stem from a non-Christian source.

If we define ‘religion’ as that fundamental belief about the nature of things which determines and directs a man’s life and behaviour (his life-policy so to speak), in such cases it is the ‘ideology’, whether of Left or Right or Centre, of this Party or of that, which is the man’s actual religion; his Christianity is a secondary matter, a mere opinion which he favours but does not ‘bind back’ (re-ligare) to the real world.

It was Douglas who wrote: “Christianity is either something inherent in the very warp and woof of the Universe, or it is just a set of interesting opinions.” To those who ‘adapt’ the Faith to fit their politics or their economics, it is clearly the latter.

There is all the difference in the World between changing Christianity to fit the ‘realities’ of an artificial and man-made World, and changing the World to fit the ultimate reality of the Kingdom of God. Social crediters attempt the latter. They sometimes stray from the way...

The social credit

One of its gifts to the human mind and at least the English language is the term: the social credit (without Caps.) which is the name of something which exists in all societies but which never had a name before because it was taken for granted. We become aware of it only as we lose it.

‘Credit’ is another word for ‘faith’ or ‘confidence’, so we can also call it the Faith or Confidence which binds any society together - the mutual trust or belief in each other without which fear is substituted for trust as the ‘cement’ of society. Law and order is a part of it, but only a small part. King Alfred, called The Great, claimed that in his Kingdom of Wessex any woman or child could walk the length and breadth of it without fear of harm, although under the pagan Danes rape, murder and robbery were the common places of the times. But under Alfred Wessex was a Christian Kingdom, and though no society can exist without some social credit, it is at its maximum where the Christian religion is practised, and at its minimum where it is denied and derided.

The social credit is thus a result, or practical expression, of real Christianity in Society, one of its most recognisable fruits; and it is the aim and policy of social crediters to increase it, and to strive to prevent its decrease. There are innumerable commonplace examples of it which we take for granted every day of our lives:

How can we live in any sort of peace or comfort if we cannot trust our neighbours?

How could we use the roads if we could not trust others to observe the rule of the road? (And what happens when they don’t!)

What would be the use of growing anything in gardens, farms or nurseries if other people would grab it?

How could any economic activity go forward - whether producing, selling or buying - if people cannot, in general, rely upon honesty and fair dealing?

And what happens when the concept of the Christian marriage, and the Christian family and upbringing, is abandoned?

We see, do we not? - that Christianity is something real with desperately vital practical consequences, and by no means a mere set of opinions which are ‘optional’ for those to whom they happen to appeal.

Of course, social crediters are not the only people who are trying to promote the social credit. Most decent, sane people instinctively do so, including many God-fearing people of other religions, and even some atheists who were brought up in Christian homes and are living on the moral capital of their parents or teachers. But social crediters are the only people who are consciously engaged in it, and know where they are going, so that they can point the way to those who are unconscious.

There could be no hope for us all if the vast majority of people did not unconsciously share in, and seek to promote, the social credit.

Social Discredit, Conscious and Unconscious

Just as there are social crediters, conscious and unconscious, trying to build up the social credit, so there are others social discrediters trying to destroy it and break it down, at present, with all too much success. The conscious ones include the communists and other revolutionaries, who quite openly seek to smash all the links of trust and confidence which enable our society to function until the Day of the Revolution dawns - the Day when all the services which support us break down, and chaos, misery, poverty, hunger and terror take over, and the rule of the most ruthless, violent and cunning can be established, and if necessary, maintained by ‘continuous revolution’.

(continued on next page)
But it is the unconscious social-discreditors who are responsible, in the West, for the present success of the conscious ones. Among these are many who operate the mass ‘media’ and the education system, who would deny that they were Marxists or atheists (though there are plenty who wouldn’t), whose language is often moralistic, or even ‘Christian’ but whose practice and policy are destructive of the social credit.

**WHAT IS A GENUINE DEMOCRACY PAULINE? by Betty Luks**

The news reports are that Pauline has ‘dumped’ One Nation’s 2018 Bundamba candidate Shan Ju Lin because of her ‘anti-gay’ comments and Pauline insists she will not let people trash her or her party.

Excuse me Pauline, I don’t think this issue is about you and your party, I think it is about Shan Ju Lin seeking to represent the people of the Queensland electorate of Bundamba.

We must always keep the fact firmly fixed in our minds, that **genuine democracy is decentralised control of policy making.** This is in harmony with the Christian philosophy that all power and authority should arise from within the Individual, who should have the greatest possible self-determination.

There are two basic philosophies in the world, each diametrically opposed to the other; obviously these two philosophies and the policies arising from them, result in two different types of organisation. All organisation has to do with the association of individuals.

In his *Tragedy of Human Effort*, Douglas writes:

“The general principles which govern association for the common good are as capable of exact statement as the principles of bridge-building, and departure from them just as disastrous.”

**Why do individuals associate?**

Human society is essentially an organisation, and to be successful organisation cannot be a haphazard affair, but as Douglas says, a definite science.

**Why do individuals associate?**

In answering this question it is essential that we draw attention to the fact that what is termed “Civilization” was unknown at one time in human history. Mankind at one period lived the life of wanderers. The only unit was the family, or possibly the tribe. Civilisation resulted from the nomadic life being exchanged for the settled, permanent community life. Various historians have given slightly different versions of how Civilization started, but they are all agreed that it was the result of individuals discovering that by living in permanent communities, they could obtain results which otherwise were impossible of attainment.

All the mass media subject us to a continuous stream of selective reports of acts or words of social discredit: murders, rapes, thefts, violence to persons and property, sadism, sexual perversion, kidnapping, blackmail, bad faith, corruption, quarrels, offensiveness, callousness, blunders, and endless political diatribe and chicanery, which we know is having a cumulative effect, notably on the young who are without defence against it, especially as its effect is too often reinforced in school…” ***

**‘Society’ is a Device for the Benefit of Individuals**

Although obscured by the complexities of modern Civilisation, the primary objective of social life remains what it was originally: to obtain greater security and freedom for the individual. It is of fundamental importance that we realise clearly that society is a device which exists for the benefit of individuals, that society is built up from the individual and that all organisations which have been evolved through social life are for the purpose of serving the requirements of individuals.

L. D. Byrne has written:

“The reason individuals associate is in order to gain some common objective which would be impossible or more difficult for them to attain if they worked for it separately. The conviction that by association they can gain the objective they desire, brings these individuals together as a group, co-operating to a pre-determined end. This is true of any association of individuals. It is true of a factory, of a temperance league, of a nation or of society as a whole.

To the degree that the individuals forming such associations are convinced that they attain the objective or objectives for which they are associating, the group will function vigorously. It will progress and be successful. But if it fails to yield to its individual members the results which they expect from their association, these individuals will become dissatisfied with the association and the group will tend to break up. It is the operation of this ever-increasing dissatisfaction with the results of the present social system which we are witnessing on every hand – and which is leading to the rapid disintegration of civilization.”

**ORGANISATIONS:**

**Two main types to achieve results intended**

Where there is Monopoly of any description, the Individual loses his greatest power – the right to contract out in favour of another alternative. It is necessary to grasp the fact that there are two main types of organisations to give the individual the policies he decides upon – political organisations and economic organisations.
In order that the individual shall have complete sovereignty in respect of all policy making, it is essential that these organisations be not permitted to become Monopolistic. Where there is Monopoly of any description, the Individual loses his greatest power – the right to contract out in favour of another alternative.

The type of association described by Byrne is the result of voluntary association. Individual members of the association are free to leave the association if they are not satisfied with the results being obtained. In such associations organisations are designed specifically to get members of the association the results they desire. We can perhaps best contrast the types of organisation we are studying, by picturing them diagrammatically.

The democratic organisation can be pictured as a circle with a centre. In such an organisation, which, let us recall, is the result of a philosophy which conceives of all power as arising within the Individual, there is decentralisation of power. In our diagram we can visualise the people as forming the circumference of the circle and bringing pressure upon their various institutions at the centre to get them the results desired.

They next elect a committee, which is charged with the responsibility of ensuring that the members can play cricket under the best possible conditions. We can note here that the members don’t tell the Committee how to get them the results they want; they simply judge by results. Now, if the Committee feels that cricket is an inferior game to golf and tries to insist that all members of the club shall play golf, obviously the members will protect their rights by simply leaving the club – contracting out. The most effective control that the individual can have over any organisation is the freedom to withdraw his support of that organisation if it does not give him what he wants.

**Douglas has commented as follows in The Big Idea:**

“Genuine democracy can very nearly be defined as the right to atrophy a function by contracting out. It is essentially negative, although contrary to the curious nonsense that is prevalent about ‘negativeness’, is none the less essential for that reason. The power of contracting out is the first and most deadly blow to the Supreme State.”

We can thus see that where there is compulsion of individuals, compelling them to do things they do not want to do, we get a different type of organisation from the type we have been studying. This type of organisation can be shown diagrammatically as a pyramid. In this type of organisation a few people at the apex of the pyramid have all power and authority. There are various strata in the pyramid, all comprised of groups of people who are controlled by the stratum above.

At the base of the pyramid we have the great majority of the people, and their only chance of furthering themselves in this type of organisation is by intrigue and corruption. Every stratum in the pyramid must maintain its position by controlling all those below it and by making itself subservient to those above. In such organisation the worst in human beings is developed, not the best.

At this point we can examine with profit two extracts from Douglas’s *Economic Democracy*:

“The danger which at the moment threatens individual liberty… is the Servile State; the erection of an irresistible and impersonal organisation through which the ambition of able men, animated consciously or unconsciously by the lust of domination, may operate to the enslavement of their fellows…. In attacking capitalism, collective Socialism has largely failed to recognise that the real enemy is the will-to-power, the positive complement to servility…..” (Chapter 3).

It might be observed here that the will-to-power does not only manifest itself through the manipulation of the financial system. “A little consideration will at once suggest that this type of organisation carried to its furthest limits is pyramid control in its simplest form, and it is clear that successive grades or ranks decreasing regularly in the number of units comprising each grade, until supreme power and composite function is reached and concentrated at the apex, are definite characteristics of it.

The next step is to split the functions of the higher ranks so that each unit therein becomes at the head of a separate little pyramid, each of which as a whole furnishes the unit composing a larger pyramid; in every case, however, eventually concentrating power and responsibility in one man, representing the power of finance and of control over the necessities of life.” (Chapter IV)

“Since the analysis of existing conditions, which we have undertaken, shows that any centralised administrative organisation is certain to be captured by some interest antagonistic to the individual, it seems evident that it is in the direction of decentralisation of control that we must look for such alteration in the social structure as would be self-protective against capture for interested purposes… To be effective… against positive centralisation, positive decentralisation will have to come – decentralised economic power is necessary.” (Chapter VII) 

***

**“Who Called the Cook a Bastard”** by Brig. C. Stanton Hicks - a personal account of a one man campaign to improve the feeding of the soldier - $10.00 posted to anywhere in Australia from PO Box 27 Happy Valley SA 5159
**CLIMATE SCIENCE:**

**GROUPTHINK HAS DESTROYED INTELLECTUAL FOUNDATIONS**

Determine how hot last year was, relative to the historical record. Their method, however, is subjective. They neither simply combine all the temperature series and just provide us with the overall average for each year, nor do they choose a subset based on the most complete and longest records. Rather they have a somewhat contrived method, full of intent and post-truth science. I’ve written about this extensively, but my concerns are dismissed – not on the basis of rational argument, but on the authority of the institution that is the Bureau of Meteorology.

When all 1,655 maximum temperature series for Australia are simply combined, and truncated to begin in 1910 – thus avoiding problems of equipment change associated with Stevenson screen installations – the hottest years are 1980, 1914, 1919, 1915 and 1940, respectively. A linear trend line through this reconstruction gives a rate of warming of 0.4 degree Celsius per century – less than half that reported by the Bureau.

I’m still working-up my reconstruction for the entire continent based on just the longest and highest quality temperature series.

**Skeptical Climate Scientists Coming In From the Cold?**

Richard Lindzen, the Alfred P. Sloan Professor of Meteorology at MIT and a member of the National Academy of Sciences who has long questioned climate change orthodoxy, is skeptical that a sunnier outlook is upon us.

“I actually doubt that,” he said. Even if some of the roughly $2.5 billion in taxpayer dollars currently spent on climate research across 13 different federal agencies now shifts to scientists less invested in the calamitous narrative, Lindzen believes groupthink has so corrupted the field that funding should be sharply curtailed rather than redirected.

“They should probably cut the funding by 80 to 90 % until the field cleans up,” he said.

“Climate science has been set back two generations, and they have destroyed its intellectual foundations.”

Keep reading here: http://tinyurl.com/zns2uzg

---

**Source:** Joanne Nova’s website

**Richard Lindzen: Axe climate science funding. Groupthink has destroyed intellectual foundations.**

How things change. This article has a straightforward tenor, asks questions of both sides of the climate debate and discusses whether skeptics might finally be given a seat at the government funded table (so to speak).

It’s so blandly normal in tone it is a bit wildly rare! (Almost like real journalism?) How often do we see Judith Curry and Michael Mann in the same article as Bjorn Lomborg and Will Happer?

Most skeptics are optimistic that the Global Freeze on skeptical scientists may be finally coming to an end. But not Richard Lindzen, the carefully spoken man, with decades of experience, who lets loose…

**Skeptical Climate Scientists Coming In From the Cold?**

Richard Lindzen, the Alfred P. Sloan Professor of Meteorology at MIT and a member of the National Academy of Sciences who has long questioned climate change orthodoxy, is skeptical that a sunnier outlook is upon us.

“I actually doubt that,” he said. Even if some of the roughly $2.5 billion in taxpayer dollars currently spent on climate research across 13 different federal agencies now shifts to scientists less invested in the calamitous narrative, Lindzen believes groupthink has so corrupted the field that funding should be sharply curtailed rather than redirected.

“They should probably cut the funding by 80 to 90 % until the field cleans up,” he said.

“Climate science has been set back two generations, and they have destroyed its intellectual foundations.”

Keep reading here: http://tinyurl.com/zns2uzg

---

**KEEPING YOU IN THE LOOP**

from Jennifer Marohasy

At the beginning of each new year, we are encouraged to make some new resolution, or other. The idea is usually to seek to improve on our current situation through a worthy intent. However, intent can be the enemy of truth, because too often it provides a goal, without the discomfort of proper analysis – or even honest reflection.

Also, at the beginning of each new year the Australian Bureau of Meteorology publishes their annual climate statement. For at least the past decade the intent has been to emphasise that the Earth is warming – and it’s our fault. Of course, there is no one place in Australia where the mean temperature of the continent can be measured; so the Bureau relies on a reconstruction to
The government got a taste of the potential backlash a year ago, when it forced losses onto the bondholders of four small banks. One victim made headlines when he hung himself and left a note blaming his bank, which had taken his entire €100,000 savings.

**Goldman Sachs Weighs In**

It is not just the small savers that are at risk. According to a July 2016 article titled “Look Who’s Frantically Demanding That Taxpayers Stop Italy’s Bank Meltdown”:

“The total exposure of French banks and private investors alone to Italian government debt exceeds €250 billion. Germany holds €83.2 billion worth of Italian bonds. Deutsche bank alone has nearly €12 billion worth of Italian bonds on its books. The other banking sectors most at risk of contagion are Spain (€44.6 billion), the U.S. (€42.3 billion) the UK (€29.8 billion) and Japan (€27.6 billion).

. . . All of which helps to explain why banks and their representatives at the IMF and the ECB are frantically demanding a no-expenses-spared taxpayer-funded rescue of Italy’s banking system”.

It could also explain why Goldman Sachs took it upon itself to propose a way out of this dilemma: instead of buying Italian government bonds in their quantitative easing program, the ECB and the central bank of Italy could buy the insolvent banks’ nonperforming loans.

As observed in a July 2016 article in *The Financial Times* titled “Goldman: Italy’s Bank Saga – Not Such a Big Deal,” Italy’s NPLs then stood at €210bn, and the ECB was buying €120bn per year of outstanding Italian government bonds as part of its quantitative easing (QE) scheme. The author quoted Goldman’s Francesco Garzarelli, who said, “by the time QE is over – not sooner than end 2017, on our baseline scenario – around a fifth of Italy’s public debt will be sitting on the Bank of Italy’s balance sheet.” Bringing the entire net stock of bad loans onto the government’s balance sheet, he said, would be equivalent to just nine months’ worth of Italian government bond purchases by the ECB.

Buying bank debt with money generated by the central bank would rescue the banks without cost to the taxpayers, the bondholders or the government. So why hasn’t this option been pursued?

**The Inflation Objection**

Perhaps the concern is that it would be inflationary. But UK Prof. Richard Werner, who invented the term “quantitative easing” when he was advising the Japanese in the 1990s, says inflation would not result. In 2012, he proposed a similar solution to the European banking crisis, citing three successful historical precedents.

One was the US Federal Reserve’s quantitative easing program, in which it bought $1.7 trillion in mortgage-backed securities from the banks. (continued on next page)
These securities were widely understood to be “toxic” – Wall Street’s own burden of NPLs. The move was highly controversial, but it worked for its intended purpose: the banks did not collapse, the economy got back on its feet, and the much-feared inflation did not result. Werner says this was because no new money entered the non-bank economy. The QE was just an accounting manoeuvre, an asset swap in the reserve accounts of the banks themselves.

His second example was in Britain in 1914, when the British banking sector collapsed after the government declared war on Germany. This was not a good time for a banking crisis, so the Bank of England simply bought the banks’ NPLs. “There was no credit crunch,” wrote Werner, “and no recession. The problem was solved at zero cost to the tax payer.”

For a third example, he cited the Japanese banking crisis of 1945. The banks had totally collapsed, with NPLs that amounted to virtually 100 percent of their assets:

“But in 1945 the Bank of Japan had no interest in creating a banking crisis and a credit crunch recession. Instead it wanted to ensure that bank credit would flow again, delivering economic growth. So the Bank of Japan bought the non-performing assets from the banks – not at market value (close to zero), but significantly above market value”.

In each of these cases, Werner wrote:

“The operations were a complete success. No inflation resulted. The currency did not weaken. Despite massive non-performing assets wiping out the solvency and equity of the banking sector, the banks’ health was quickly restored. In the UK and Japanese case, bank credit started to recover quickly, so that there was virtually no recession at all as a result”.

For Italy and other “peripheral” eurozone countries, Werner suggests a two-pronged approach: (1) the central bank should buy the distressed banks’ NPLs with QE, and (2) the government should borrow from the banks rather than from bondholders. Borrowing in the bond market fattens the underwriters but creates no new money in the form of bank credit for the economy. Borrowing from banks does create new money as bank credit. Clearly, when central banks want to save the banking system without cost to the government or the people, they know how to do it. So the question remains, why hasn’t the ECB followed the Federal Reserve’s lead and pursued this option?

The Moral Hazard Objection

Perhaps it is because banks that know they will be rescued from their bad loans will keep making bad loans. But the same moral hazard would ensue from a bailout or a bail-in, which virtually all interested parties seem to be advocating. And as was observed in an article titled “Italy: Banking Crisis or Euro Crisis?”, the cause of the banks’ insolvency in this case was actually something beyond the banks’ control – the longest and deepest recession in Italy’s history.

Werner argues that the moral hazard argument should instead be applied to the central bank, which actually was responsible for the recession due to the massive credit bubbles its policies allowed and encouraged. Rather than being punished for these policies, however, the ECB has been rewarded with even more power and control. Werner writes:

“There is thus a form of regulatory moral hazard in place: regulators that obtain more powers after crises may not have sufficient incentives to avoid such crises”.

What May Really Be Going On

Werner and other observers suspect that saving the economies of the peripheral eurozone countries is not the real goal of ECB policy. Rather, the ECB and the European Commission are working to force a political union on the eurozone countries, one controlled by unelected bureaucrats in the service of a few very large corporations and banks. Werner quotes David Shipley on Bloomberg:

“Central bank officials may be hoping that by keeping the threat of financial Armageddon alive, they can coerce the region’s people and governments into moving toward the deeper union that the euro’s creators envisioned”.

ECB and EC officials claim that “there is no free lunch” and “no alternative,” says Werner. But there is an alternative, one that is cost-free to the people and the government. The European banks could be rescued by the central bank, just as US banks were rescued by the Federal Reserve. To avoid the moral hazard of bank malfeasance in the future, the banks could then be regulated so that they were harnessed to serve the public interest, or they could be nationalized. This could be done without cost to the government, since the NPLs would have been erased from the books.

For a long-term solution, the money that is now created by banks in pursuit of their own profit either needs to be issued by governments (as has been done quite successfully in the past, going back to the American colonies) or it needs to be created by banks that are required to serve the public interest. And for that to happen, the banks need to be made public utilities.

***