A WEEKLY COMMENTARY

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The Price of Freedom is Eternal Vigilance

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THOUGHT FOR THE WEEK: *Taken from Charles Ferguson's "The Affirmative Intellect" (1901)*

"The history of the world is a struggle—on the whole a successful struggle—of the creative intellect against the terror and the discouragement of the external law. It is the progressive endeavour of the human spirit to make itself at home in the universe, and to fashion the stubborn things of Nature according to the uses of the soul.

The central drama of history is Christianity, which is in its broadest aspect simply the attempt to supersede the old world social order, governed by an external authority and the prepossessions of the passive intellect, by a new world-order governed by an internal authority—the faith of the affirmative spirit.

The meaning and use of the historic Church is that it has served as a mighty causeway between the old order and the new—between theocracy and democracy. It belongs to both the old and the new. For a thousand years it gestated the soul of the West in the womb of the East. The very nature of the Church, in its medieval constitution, was contradiction; it could not otherwise have done its work. Every dogma of the Church was a proclamation of liberty framed in the language of slaves. Every sacrament was a pledge of equality, making its difficult appeal in the acceptable symbols of privilege and caste.

The inner logic of the Church's great system of administration was not the permanent separation of the sacred from the secular, but the winning of a new polarity of social organization. The social ideal of the modern world was born out of the bosom of the Church. Americanism is the evolutionary product of historic Catholicism; for the quintessence of the old Catholicism was simply the attempt to establish a great social order, not by external authority and the compromise of interests, as in the "kingdoms of the world," but through the purification and the concurrence of wills.

In the last analysis there are but these two possible forms of social order—there are these two opposite and contradictory conceptions of the sanction of social law. The sanction, the force of the law, is either outside of mankind or it is within. Either it is in the nature-of-things and the arbitrary will of God, or else it is the will of the people—the heart's desire of humanity.

The idea that the will of the people could be the source of social law was born into the world with great travail. It was for ages difficult, even impossible, to conceive such an idea. The will of the people seemed so shallow and weak, or else so irrational and contradictory. But Christianity is the discovery of the infinite depth of the human will. And so for nearly two thousand years it has been possible to imagine that a multitude of men—the controlling element of a population might be brought to desire and to will with steady insistence things that are beautiful and just. The Church of the Middle Ages stood as a provisional plan of such a social system.

In the midst of a world-order based upon an opposite principle the principle of the external law—the Church wrought into concrete forms and the solid structure of institutions the democratic ideal. It was a marvellous achievement—this magnificent rough-sketching of a new world in the oppugnant (i.e. opposing; antagonistic) materials of the old.

In the sixteenth century the idea of the social law as proceeding from the sanified (i.e. to make healthful) and consentaneous wills of the people was fairly born into the secular world. The Church had poured its vital store into the lap of the nations. It had breathed out its very soul of liberty in the breath of the modern spirit. And for four hundred years democracy has wrestled for the spiritual order—for the sovereignty of the human ideal in the open arena of the secular world. The issue has commonly found a statement in terms of politics and the forms of government, but that is superficial. The issue reaches to the intimacies of life; it is revolutionary in the spheres of morals, law, art, science, and economics.

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DISCUSSION ON THE POWER OF BANKS TO CREATE NATION'S MONEY SUPPLY

Interested New Zealanders have been discussing the story which appeared in the New Zealand 'Herald' recently:

"Bryan Gould: Brash doesn't seem to understand banking" - Friday Apr 28, 2017

http://www.nzherald.co.nz/opinion/news/article.cfm?c_id=466&objectid=11845670

Bill Daly explained:

Brash was NZ Reserve Bank Governor a few years ago. Bryan Gould (NZ born) was a UK Labour member of parliament at one time and more recently associated with one of the NZ Universities. Accused by Don Brash of "peddling nonsense" Bryan Gould responded:

It is no surprise a former Governor of the Reserve Bank should seek to defend the banking system from its critics. But in denying the accuracy of points I made in the *Herald* about how the banks operate, Don Brash accused me of "peddling nonsense".

I made two basic points. First, I asserted the banks do not, as usually believed, simply act as intermediaries, bringing together savers (or depositors) and borrowers to their mutual benefit.

Secondly, I said the vast majority of new money in circulation is created by the banks "by the stroke of a pen", and they then make their profits by charging interest on the money they create.

If this is "nonsense", the "peddlers" include some very distinguished economists. My legal training has taught me the value of being able to turn to reliable authority to support what I say.

In my original piece, I referred to a *Bank of England* research paper, published in the bank's first Quarterly Bulletin 2014, which describes in detail the process by which banks create money.

First, they say:

> One common misconception is that banks act simply as intermediaries, lending out the deposits that savers place with them...[that] ignores the fact that, in reality in the modern economy, commercial banks are the creators of deposit money...Rather than banks lending out deposits that are placed with them, the act of lending creates deposits - the reverse of the sequence typically described in textbooks.
>
> "Bank deposits make up the vast majority - 97 per cent of the amount [of money] currently in circulation. And in the modern economy, those bank deposits are mostly created by commercial banks themselves.

They then go on to say:

> Another common misconception is that the central bank determines the quantity of loans and deposits in the economy by controlling the quantity of central bank money - the so-called 'money multiplier' approach...[but that] is not an accurate description of how money is created in reality...Banks first decide how much to lend depending on the profitable lending opportunities available to them - which will, crucially, depend on the interest rate set... It is these lending decisions that determine how many bank deposits are created by the banking system...The amount of bank deposits in turn influences how much central bank money banks want to hold in reserve [to meet withdrawals by the public, make payments to other banks, or meet regulatory liquidity requirements], which is then, in normal times, supplied on demand by the [central] Bank.

It is a pity (and a surprise) that Don Brash seems unaware of these findings in one of the most important research papers published in recent years.

If he would care to proceed with his charge of "peddling nonsense", I could introduce him to the authors of the paper, with whom I have corresponded, and he could put that charge directly to them.

He argued (and apparently regards as clinching) that it cannot be the case that banks create money, since otherwise, he says, why would they bother to do anything other than write cheques to themselves?

This simply betrays a failure to understand the process described in the *Bank of England* paper. As that paper says, "Commercial banks create money, in the form of bank deposits, by making new loans". When a bank makes a loan, for example to someone taking out a mortgage to buy a house, it does not typically do so by giving them thousands of pounds worth of banknotes. Instead, it credits their bank account with a bank deposit of the size of the mortgage. At that moment, new money is created.

For this reason, some economists have referred to bank deposits as 'fountain pen money', created at the stroke of bankers' pens when they approve loans.

Commercial banks create money, in other words, by placing loans [or credits] into the bank accounts of borrowers. They then charge interest on, and demand security for and repayment of, those loans.

They have no capacity to create money in any other way or for any other purpose [though the central bank can pursue "quantitative easing" to increase the money supply if it thinks that is needed].

But the capacity they do have is hugely important. I concluded by asking whether it was wise to entrust such wide-ranging powers - so significant in their impact on the whole economy - to the banks, and then to arrange that the only person able to regulate that impact was himself a banker - the Governor of the Reserve Bank.

That concern is surely heightened if a former Governor seems not to understand what is really happening.

- *NZ Herald*

Thanking Bill for the "interesting exchange"

Wallace replied:

That Dr. Brash should give this contradictory opinion about the creation of money by bank lending is rather strange. Perhaps the Establishment just prefers not to "confuse" the uninstructed public about such matters inasmuch as it might lead to doubts and questions of an awkward nature best left unearthed. I have no doubt that Mark Carney, former Governor of the Bank of Canada, recently promoted to Governorship of that "Bank of all Banks" (the Old Lady of Threadneedle Street), the Bank of England, is more than aware of the money creating function of banks. I am not so sure about his predecessor. Possibly some appointments can be of a more political rather than professional nature and the permanent bureaucracy is depended upon for management behind the scenes.

Not long ago, I read about a paper delivered just prior to the 20th century that discussed the creation of credit as money by the banking system. These matters were the subject of discussion at the Ottawa hearings on banking and commerce in Canada in 1923 and at the Macmillan Committee in Britain in 1930. (C.H.) Douglas testified at these hearings and at a similar hearing in New Zealand in 1934—not to mention before the Agricultural Committee of the Alberta Farmers Government. Both he and Keynes participated in the Macmillan hearings. At the Canadian hearings in 1923, Bank of Canada Governor Graham Towers both acknowledged and described the process. When banks extend loans the loan precedes the deposit. That we should still be debating this matter seems somewhat incomprehensible.

Banks Monetize the Real Credit of Borrower or Public

In making loans the banks create credit against, or monetizes, the real credit of the borrower, private or public, backed ultimately and respectively by the assets of the borrower or real credit (i.e., productive capacity) of the nation with the tax-payer being the ultimate surety for the loan. When credit is extended it is for a specific purpose and when it is used to purchase whatever goods or assets desired, the money goes to the vendor and passes back to the producer where it is promptly cancelled when the producer's original production loan is repaid. This ends a credit cycle.

The credit is ephemeral and does not have an extended lifespan. Indeed, it is cancelled in respect of all costs including those for capital. However, this involves a premature cancellation because money should be created at the rate of production and cancelled at the rate of consumption and real capital only depletes, depreciates or obsolesces over a variable and often extended period of time—sometime over many years, decades or possibly even centuries.

The consumer is being rightly charged for capital depreciation but not properly credited for capital appreciation which greatly exceeds its rate of depreciation. If as Douglas claims, the true cost of production is consumption then we should have a continued decline in retail (ultimate) prices because our total production greatly and increasingly exceeds our actual consumption.

Banks' False Claim to Ownership of Credit

The banking system provides a vast and essential accountancy service for society in processing the countless transactions made in the modern economy. The problem lies not in the creation of credit by the banks but in their false claim to the ownership of the credits which they create to monetize the real wealth of the community, which wealth, they, the banks, do not create. They thereby appropriate the communal capital or Cultural Heritage by placing a perpetual debt burden or mortgage on society. What Karl Marx would have done by outright expropriation, the banking system does by a means of financial legerdemain. While this artificial debt bears a burdensome tribute of interest, the interest is a consequence and not the primary cause of economic injustice. The primary cause is the debt itself which constitutes a theft of our Cultural Heritage or Birthright, which should be realized in increased economic independence, falling prices, increasing leisure and freedom from dissension, waste and war.

What Douglas discovered is that all businesses in the modern capital intensive economy are creating costs and prices at a rate increasingly in excess of the rate at which they are paying out effective incomes—incomes which are required to liquidate the costs of production by means of consumer purchase. We can carry on only by the creation of ever growing debt for additional production and/or to facilitate consumer access to existing production. We as a society cannot access what we produce without first producing something else in order to earn incomes available to purchase goods produced in the past, which incomes will be cancelled and not available to purchase the goods upon which we are currently working, of which our current incomes will nevertheless be accounted as a cost to be registered in future prices.

Today, as the inherent deficiency of consumer incomes grows exponentially, we as consumers are required increasingly to pledge future incomes to liquidate current costs—and to run faster and faster on a treadmill of increasing effort in order to service ever expanding debt which sabotages our actual marvellous increases in actual physical production efficiency. *(continued on next page)*

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Attempting to compensate for this intrinsic deficiency of domestic purchasing-power by exporting in excess of importing is impossible for all nations and is the fundamental cause of international friction eventuating in war.

Outstanding debt accounts for existing bank balances. Because private debts must be repaid and are cancelled in the process, the State borrows increasingly and rather than repaying these public debts Governments simply "roll them over" into new and increasing debts. This increases the flow of money payments via the State for its policies and programmes and suits the purposes of "planners" who regard the public debt as a means of "managing" the economy.

The British were considered "incapable of making a revolution themselves" so it was determined to make one for them by other means. Concrete or direct action is readily discernible, while few citizens are able to detect and understand changes made by means of abstract and obscure legerdemain. ***

THE TIPPING POINT: SOCIAL CREDIT AND THE ALT RIGHT COULD BE INEVITABLE by Brian Simpson

We know that an alternative political/economic/financial position such as social credit is held by a small minority of the population. But, what happens as more people hear about the doctrine and word spreads? Scientists have now shown that a minority opinion, once reaching 10 percent of the population grows fast and soon becomes the dominant paradigm:

https://www.sciencedaily.com/releases/2011/07/110725190044.htm.

A team of scientists at Rensselaer Polytechnic Institute, who are members of the Social Cognitive Networks Academic Research Center (SCNARC) at Rensselaer, used computational and analytical methods to discover the tipping point where a minority belief becomes the majority opinion. According to SCNARC Director Boleslaw Szymanski,

"When the number of committed opinion holders is below 10 percent, there is no visible progress in the spread of ideas. It would literally take the amount of time comparable to the age of the universe for this size group to reach the majority. Once that number grows above 10 percent, the idea spreads like a flame."

The globalist elite are gloating about Le Pen's likely defeat in the second round of the French presidential elections. This will be seen as the end of populism and the peoples' acceptance of their globalist masters (similar to Greece). Immigration will be ramped up to beyond breaking point.

Yet the globalists should not be so cocky since the overall first-round vote for populists was almost a majority. There are a lot of unhappy people out there. The liberal migration-mad Macronians will only produce more of the chaos that is presently engulfing France. When believers in globalisation are no longer safe, they will turn away and reach a tipping point. Globalism has nowhere to go but down. So, even though the times are dark, don't give up hope and be of good cheer.

Aim to win over that 10 percent! ***

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