

## Cause of crises, intensifier of crises: The Ponzi Scheme Monetary System

**Our monetary system is anything but sustainable. It causes a permanent, effortless redistribution from bottom to top. It has been collapsing for centuries, about every other generation, only to start all over again. In addition, it causes the obligation to economic growth, invalidates democracy and market economy and it even abets wars. The monetary system functions as a cause of crises and as their intensifier at the same time. Nevertheless, the mass media hardly ever cover issues in regard to our monetary system, its flaws and possible alternative options. Our monetary system is characterized by two major problems. Let's look into these problems as well as possible alternatives in detail.**

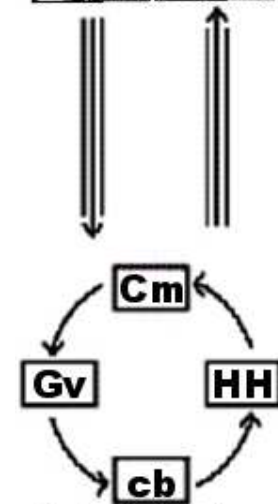
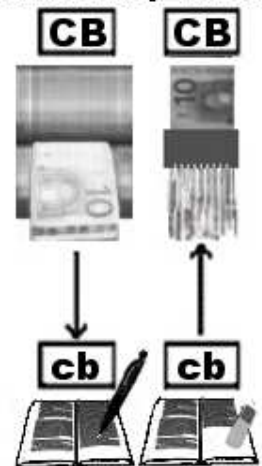
### Problem #1: Money is created by loans:

The monetary circle is open - as illustrated in the adjacent graph – with the central bank at the beginning and the end of it. The second link in the chain are the commercial banks, but for better comprehension we summarize the first two and respectively the last two links of this chain simply as “bank”. Now, let us imagine a country, so small that it only has one bank being the central bank and the commercial banks at the same time. The bank triggers the circulation of money by means of granting loans to other participants of the monetary circle, i.e. companies, government and private households. The bank gives loans in form of self-printed money which circulates for a while before the first instalments have to be repaid. Little by little, the entire sum will have to be paid back. However, the circulating amount of money will not decrease, which is due to the fact that the bank continues to issue loans, even before old debts are being repaid. As a result, the amount of money in circulation always has to be in equilibrium with the total debt of society. If everyone was free of debt there would be no money available! That is, however, what the situation would look like without interest rates; with them it becomes even more complicated: Since the bank as sole source of money wants more money back than had been given out originally – including land charge as well as interest rates –, there will be more debt than money! However, loans can be paid back because new, higher loans bring money for the interest rates of previous loans into circulation. For compensating interest rates with regard to new loans, other loans have to account for more money to be put into circulation. For these loans even newer loans have to be taken out ... this can be carried on for decades...

Our monetary system functions like a ponzi scheme. It actually is a ponzi scheme! Admittedly there are beautiful mathematic models in which it is derived, that the earnings of money creation by the banks flow back into circulation and therefore money for the interests was not actually missing, but they are very far from reality, at least in the long run (see under Problem No. 2, interest rate). Apart from that, what always applies is: If everybody pays back their debt, there is no money anymore! In reality, there are a central bank and many commercial banks in each country (i.e. currency area). The central bank (often) loans its self-printed money exclusively to commercial banks which in turn give out loans to the government, to companies and private households. Furthermore, not only do commercial banks distribute loans, but, in addition to the central bank, they create money themselves. Although the commercial banks are not allowed to print currency, they are able to create book money within certain limits (a multiple amount of the central bank money). The book money which has been a creation of commercial banks (as mentioned in the explanation above, only disregarding the fact that banknotes are not used for payments anymore), is NOT a legally valid medium of exchange, as it only may be created by the central bank as cash and also as book money. From a juristic point of view it is just the demand on the statutory means of payment, however, from an economic point of view we are talking about the term money, simply because it is universally accepted as means of payment. Also loans partly disbursed in cash are enabling book money creation by commercial banks (“Refinancing at the central bank”), the crucial point being the average demand for cash and legal barriers („fractional reserve banking“).

**Private banks give out loans to the country which is going to be created by themselves**

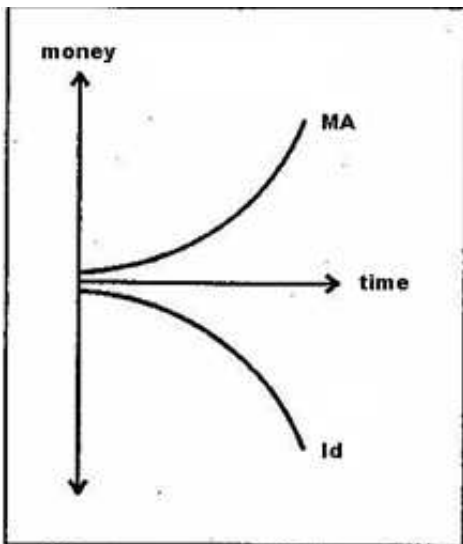
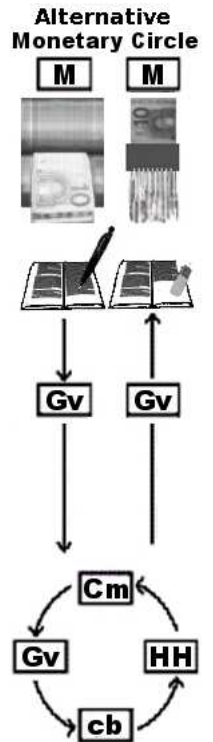
**Monetary Circle**



CB: Central Bank  
 cb: Commercial Banks  
 Cm: Companies  
 HH: Households  
 Gv: Government  
 M: Monetative

**The Monetative and Fullmoney as a possible solution:**

Currency is being created without having to be paid back, and of course also without interests having to be paid for it. The reformed central bank transfers newly created currency to a federal account, from where it enters the circulation via public expenditure. Since politicians were tempted to start the monetary press if they could have an impact on the creation of money, the independence of the central bank is rooted more strongly in the constitution (specially that from private banks) and it becomes the fourth independent force within the country. To emphasize this, the bank could even receive a new name. Bernd Senf introduced the term “monetative” which derives from the Latin word “mones” (meaning money) and is conceptually connected to the three existing forces: legislation, executive authority and jurisdiction. If it makes sense to reduce the circulating amount of money in particular macroeconomic situations, due taxes will be collected by the monetative, whereby money will be taken out of circulation. The creation of money by commercial banks - the earnings (justified how?) out of this are a multiple of the discussed bank taxes - is to be prohibited inter alia through balance sheet regulations - catchword: Fullmoney, respectively 100% money instead of fractional reserve banking (of e.g. 10%). The chairmen of the monetative are elected by the people or the parliament, they are not appointed by the government (and certainly not by private banks).

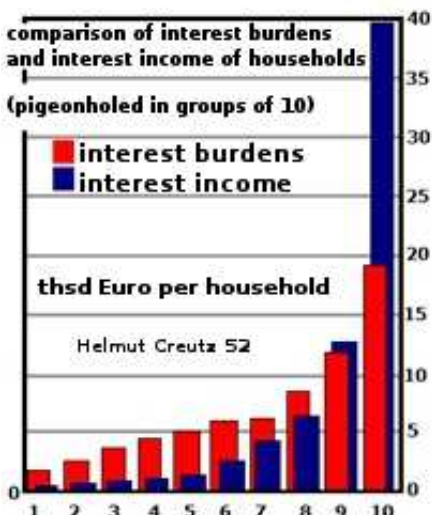


**MA: Monetary Assets and Id: Indebtedness are mirror images**

Der Nebel um das Geld (The fog around the money), Bernd Senf

**Problem #2: The Interest Rate System:**

When money is issued free of repayment and interests, the problem of interest persists: If money is neither being spent nor saved in a bank account (and therefore simultaneously loaned by the bank as broker) by some market participants, but hoarded, not everything that is produced can be consumed. Hoarded money is missing in the monetary circle and therefore also in the economic circle, which causes unemployment and the bankruptcy of companies. The withholding of money gives the owner flexibility and is made possible because, in contrast to goods, money is not under constraint to be supplied on the markets immediately, since it does not taint, decay, rust or cause noteworthy storage cost. Modest inflation is an unsuitable means of safeguarding money circulation, as it affects instantaneously circulating as well as saved money in equal measure. Apart from that it fails as a means to reintroduce the hoarded money back into circulation, as hoarding works against inflation, against the increase of the amount of money which is in circulation, thus being equivalent to a diminution of the circling amount. Thus, the effect of the planned modest inflation is automatically undone again, respectively even overcompensated. Trying to work against this with increased money creation leads to a tension between hoarding, respectively deflation on the one hand and accumulated still suppressed inflation on the other. In today's monetary system, this problem is being solved by applying interest rates, which makes hoarding unattractive. However, debts have to grow in proportion to monetary assets, according to pure mathematics, if the economy is to be thriving, if money oughtn't to be hoarded, because what one person loans, another borrows. The deposit, respectively the accumulated earnings of money creation ("seignorage") on the one hand is opposed by debt, on the other. If the interest is added to money assets, this new sum has to be interest-bearing again, in order not to be stockpiled (compounded interest). Capital is growing at an exponential rate.



Picture this: If Joseph had invested one Pfennig for Jesus at an interest rate of 5%, until today the accumulated amount would be worth as much as a bulk of gold weighing as much as the earth – times 200 billion! Only the richest 10-15% of the population profit from interest rates, because small savers also have to bear higher interest burdens (40% on the average of all goods) hidden within consumer prices (lower income means a bigger share of income

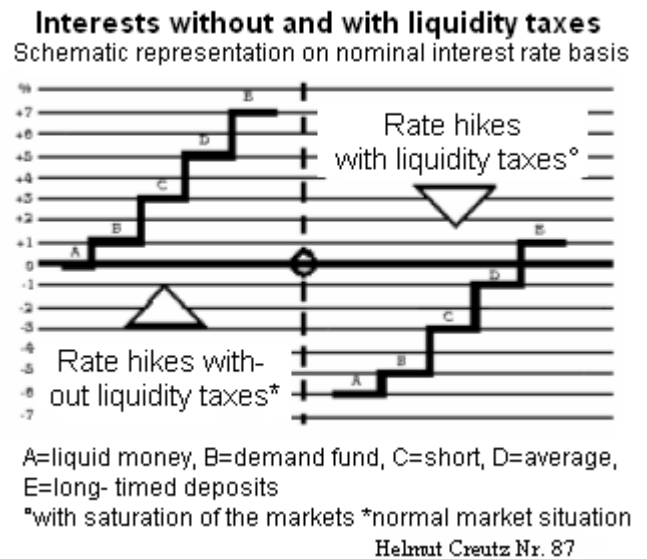
to be consumed). The hidden interest in consumer prices is achieved through the so called calculatory interest that all capital goods have to yield, because capital goods that do not promise to yield this calculatory interest will not be invested in by entrepreneurs in the first place. Therefore, despite uncertainty for the single entrepreneur, the macroeconomic supply gets tightened sufficiently to enable the gain of calculative interest for the total of all companies. Otherwise, less and less money is provided for investments into real economy, which brings us back to the problem of hoarding.

Speculation is not the under-lying reason for the crisis, but the continuation of the ponzi scheme monetary system with distinct papers ("shares instead of banknotes"). Speculation partly delays the crisis, partly elongates and worsens it. Interest earnings covered through real economy can only increase to a certain point; afterwards there is a change to speculation for the purpose of further increment. So, money gets hoarded within the speculation circle and therefore it is not at real economies' disposal anymore. Thus it looks to the outside as if growth could continue forever, although it is not based on real economies anymore. Banks carry on granting credits which heighten the tension till the crisis breaks out. Speculation bubbles are a form of hoarding already existing money, additionally they are fed with newly created cash. Tensions build up more and more, and then money is hoarded even on a greater scale: Banks are sitting on their money, they park it on their accounts at the central bank, and newly created money doesn't come into contact with real economy at all.

The point of view, that interest is the compensation for the momentarily abandonment is opposed by the fact that money is (resp. should be) a publicly contrived means of exchange for trading purposes, which can not be deprived of the circulation of money. Only imagine, that a car driver demands rates in order to not blockade the traffic! The interest recipient demands this "Anti-blockading-fee" and the law is on his side. Apart from that, the argument of compensating for temporary renouncement is typical circular reasoning: Savers could otherwise invest their money by founding their own company or invest in shares directly themselves, and earn dividends that way instead of interest. The dividends on the other hand are the calculative interest hidden within consumer prices to a very great extent. Furthermore, everlasting exponential economic growth is assumed as well.

**Free Money as a possible solution:**

Interest bans are being circumvented (or again, money is being hoarded), as history and also the present show. So, in the free money concept, interest is not exactly abolished but mitigated. In this concept, the costs of the bank, including loan losses, are carried by interests, which the debtor has to pay. The interest of the depositor (respectively of banks' money creation in the present system), however, does not have to be paid. The depositor only receives the amount deposited by him earlier (at a constant stable monetary value reached through monetary reforms). Now one has to face up to the question, why potential depositors should invest their money without receiving interest. This question is easily answered as the depositor would otherwise suffer losses, because in the free money concept taxes are levied on money (on cash as well as on book money that continues to exist as legal tender issued from the monetative without interests). However, this tax is not applied on long-term savings. (on short term savings at minor rate). The money tax amounts to a few percent per year and everybody has to pay it, but the amount becomes lower (than these few percent per year), the faster money is being spent or saved (and saving means to lend it to someone with the bank as broker). If, for example, money circulates 25 times per year at a tax of 5%, on average not 5% but  $5/25 = 0.2\%$  of the turnover is realised.



People who do not allow money to circulate, who do not spend or save it quickly, have to pay the tariff which is levied on money possession. True, at first there are still interests earnings, because there is still a market with money on the on hand and goods on the other with the law of supply and demand - but at a plummeting interest rate which emerges from an increasing capital stock (total capital of the economy system), money cannot be hoarded anymore and therefore it ultimately has to be supplied without interest for investments. Market conditions are shifting towards money's disadvantage. The technical realisation possibilities are unproblematic as far as bookmoney is concerned; with cash it is more complicated but they have been applied in medieval times already (see yellow box).

This concept has been devised about a century ago by the merchant **Silvio Gesell**, he called it 'free-money' (meaning free of interest). It has not been tested in grand scale in modern times but in a minor one and was very successful. The best known example is from Wörgl in Tyrol during the crisis of the 1930s. Over 100 townships in Austria wanted to follow this example, but were met with a lawsuit led by the Austrian central bank, which put an end to things. A couple of regional currencies are functioning according to this principle. In medieval times – with different intentions - a similar system was used for some centuries (cue: bracteates). Here tax receipts were completely covered by the turn-over charge, which made them much higher than in the concept of free money. Scientists from Harvard university say they have found out that the times of the turn-over secured bracteates were the happiest in the history of humanity.

Deficit financing of a state can never be paid off, unless at the cost that private households and companies (or other states) are being run even deeper into debt. For example, Bill Clinton was able to reduce American national debt, but on the other hand the debt of private households rose, which as a consequence led to the real estate crisis (and the third option would have been money being hoarded, once again).

Private banks lend self-created money to the state, so that the state has the money to save them. This detour is necessary, because banks bring money into circulation only by credits. Great numbers of "drowning" debtors are pulling the banks down with them – they can go bankrupt even though they are able to create money.

Because of the ponzi scheme proceeds there exists a more and more increased and branch-intertwining monopolisation, (e.g., the media) that is camouflaged through complex ownership structures and undeclared ownership set ups.

Interest profits of the super-rich come through the crisis to some extent because tangible assets are bought.

The collapse manifests itself through depreciation of currency (for example in terms of a new currency) sometimes after a hyperinflation. A possible alternative to this is the national bankruptcy. Monetary assets and debts are devalued by this. The next round of the ponzi scheme is introduced.

Before a hyperinflation, a long lasting deflation is possible, which means that the amount of money in circulation is becoming less and less, as money is issued by credits. Through the combination of making no new debts and discharging debts, money is extracted from circulation. Deflation, meaning the general lack of money, leads to a downward spiral of unemployment and company breakdowns.

Stimulus packages counteract deflation, but can only delay the problem of excessive indebtedness into the future and enforce it (deficit financing for economic activity).

The American central bank, the Fed, was founded in 1913 by a private bank cartel and is still in private hands. A national control mechanism exists but the shareholders of the Fed are private major banks. European central banks are partly in private hands, too. One of the first central banks in history, the Bank of England, was founded in 1694, also as a private bank. Also the former German central bank, the Deutsche Reichsbank, was in private ownership with a national control mechanism - which was loosened in 1922. In 1923 Germany experienced hyperinflation.

Neoclassicism (economic school of thought, basis of neoliberalism) and Marxism are both at their hearts moneyless tenets of exchanging economy and therefore blind to the problems of the monetary system. Keynes has at least copied out the problems correctly from Silvio Gesell – and as solution he suggested money creation until hyperinflation if need be.

Times of war give ideal possibilities to give loans – at first for weapons and after that for the reconstruction process – ideally for both war parties. Whenever not even the state, the "debtor of last resort" is prepared to run into deeper debt, it still does so in case of war; therefore banks are able to continue effecting credit business. Politicians are able to canalise anger on account of the social situation towards the enemy.

International regulation of the financial markets, the Tobin tax or a currency covered by gold can not alter the dynamics of the interest rate system.

**It is well enough that people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning.** *Henry Ford*

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Dörte Diestel, Dipl.-Volksw. (certified political economist), M.Sc.

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