RUNNYMEDE GAZETTE

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A VOTE FOR MAD KING LUDWIG

In a few days we will be invited to vote for the European Assembly … so often mistakenly described as a parliament, whereas the treaties themselves use the more realistic term.

None of the choices are remotely appetising. The three mainstream parties, plus the nationalists in Wales and Scotland, are committed to the supranational model in Europe. They offer only minor, often imperceptible, differences on what is mostly an identical corporate, neo-liberal, globalist agenda. More reasons to regard the franchise as a busted flush … that to attain meaningful democracy requires a great deal more than merely the periodic marking of a piece of paper.

Of the newer parties, we have the Greens who hate neo-liberal globalisation but love the EU, and UKIP which hates the EU, but loves neo-liberal globalisation. Neither seems to understand that neo-liberalism and the EU are foals of the same mare. Thus neither position is coherent.

After German unification, in 1871, many of the previously independent principalities were allowed to keep many of the appurtenances of that independence, at least for a while. Thus, in Bavaria, Mad King Ludwig was allowed to retain some toy soldiers as a palace guard, and to continue to spend ruinous amounts of money on his absurd fairyland castles until he became such an embarrassment that he had to be bumped off.

Fast forward to the streets of Athens, Madrid, Lisbon and elsewhere around the continent. The protests still go on, although you would never think that by following BBC news, and most other mainstream UK media. Interestingly to BBC has just investigated itself, and exonerated itself on allegations of pro-EU bias. We have to go to *Russia Today* to get a fuller picture (yes, we know *RT* has a propagandist agenda of its own)

The anti-austerity protests can gather in front of their apparent national parliaments and shout as loud as they can, wave a veritable ocean of placards. and throw all the stones and petrol bombs they can muster.

The trouble is that there's no-one in. These are now parliaments and governments in name only. Sovereignty, the ultimate power to control and determine, has been ceded to supranational entities.

The EU is not even a federal entity as is often trumpeted. In most key respects is already a unitary state, whose detailed powers of control and micro-management of its member states go way beyond anything Washington of New Delhi would be permitted to impose on the constituent states of their respective countries. The capstone on this enterprise … which is coming soon … will be fiscal unification.

We get back to the old question. Sadly, there is no network capable of organising and delivering mass ballot spoiling.

What price a vote for any of Mad Ludwig's toy soldiers?

CONFESSION WITHOUT PENITENCE

The admission, at long, long last, by the Bank of England, that virtually all our money is created out of debt by private banks and that most economics textbooks and courses are simply wrong about money, has been much trumpeted across the alternative media … such as it is in this country. There has been less comment in the mainstream media, although the *Guardian* is a pleasant and welcome exception, as recorded below.

The Bank of England paper is remarkable in its detail as to how the entire system works. It is therefore fortunate that this paper is short enough to include in this journal without too many editorial deletions.

The paper is an economic syllabus in itself. It is well worth getting up the original online and reading … no not just reading, but *studying* … in its entirety and following up on many of the citations.

What is absent from the paper is any consideration as to how things ought to be. The principle of a debt-funded money supply as the norm is a recurrent theme. The notion that such an arrangement is inherently unstable and can only lead to cyclical crises does not enter into the argument.

But it is at least something that we have got as far as this confession. Penitence will presumably have to be delayed until the next phase of the crisis.

Frank Taylor

BRING BACK IDEOLOGY: FUKUYAMA'S 'END OF HISTORY' 25 YEARS ON

Eliane Glaser; The Guardian; via Mark Barrett

Francis Fukuyama's influential essay 'The End of History?' announced the triumph of liberal democracy and the arrival of a post-ideological world. But was it just a rightwing argument in disguise? And has the demise of utopianism ushered in a 'sad time'?

In the summer of 1989, the American magazine the National Interest published an essay with the strikingly bold title "The End of History?". Its author, the political scientist Francis Fukuyama, announced that the great ideological battles between east and west were over, and that western liberal democracy had triumphed. With anti-communist protests sweeping across the former Soviet Union, the essay seemed right on the money. Fukuyama became an unlikely star of political science, dubbed the "court philosopher of global capitalism" by John Gray. When his book The End of History and the Last Man appeared three years later, the qualifying question mark was gone.

The "end of history" thesis has been repeated enough to acquire the ring of truth – though it has also, of course, been challenged. Some critics have cited 9/11 as a major counterexample. Others have pointed to the rise of Islamic fundamentalism and the Arab spring as proof that ideological contests remain.

But Fukuyama was careful to stress that he was not saying that nothing significant would happen any more, or that there would be no countries left in the world that did not conform to the liberal democratic model. "At the end of history," he wrote, "it is not necessary that all societies become successful liberal societies, merely that they end their ideological pretensions of representing different and higher forms of human society."

Fukuyama was talking about ideas rather than events. He believed that western liberal democracy, with its elegant balance of liberty and equality, could not be bettered; that its attainment would lead to a general calming in world affairs; and that in the long run it would be the only credible game in town. "What we are witnessing," he wrote, "is not just the end of the cold war, or a passing of a particular period of postwar history, but the end of history as such: that is, the end point of mankind's ideological evolution and the universalisation of western liberal democracy as the final form of human government."

Fukuyama drew on the philosophy of Hegel, who defined history as a linear procession of epochs. Technological progress and the cumulative resolution of conflict allowed humans to advance from tribal to feudal to industrial society. For Marx, the journey ended with communism; Fukuyama was announcing a new destination.

For a long time his argument proved oddly resilient to challenges from the left. Neoliberalism has been pretty hegemonic. Over the last three years, however, in a belated reaction to the 2008 bank bailouts, cracks have started to appear. Global Occupy protests and demonstrations against austerity have led many commentators on the left – including the French philosopher Alain Badiou in The Rebirth of History and Seumas Milne in his collection of essays The Revenge of History – to wonder whether history is on the march once again. "What is going on?" asks Badiou. "The continuation, at all costs, of a weary world? A salutary crisis of that world, racked by its victorious expansion? The end of that world? The advent of a different world?" He tentatively regards the uprisings of 2011 as game-changing, with the potential to usher in a new political order. For Milne, likewise, developments such as the failure of the US to "democratise" Iraq and Afghanistan, the financial crash and the flowering of socialism in Latin America demonstrate the "passing of the unipolar moment".

What remains an open question is whether these developments – dramatic as they are – will actually result in anything. Leaderless and programme-light, dissent keeps failing to cohere, fragmenting into online petitions and single-issue campaigns. Is the left going to mount a coherent ideological challenge to the right, or are these just border skirmishes? Has history ended, or not?

As some on the left have long realised, Fukuyama was performing an ideological sleight of hand. Is "western liberal democracy", as he argued, really an application of the principles of the French revolution? Or is it in fact a way of cloaking right wing politics in benignly incontestable disguise? "Man's universal right to freedom" sounds inspiring, but if you are on the right it is another way of saying economic liberalism. Besides, even that is a fiction: capitalism pretends to love free markets; in reality, it rigs markets for elites.

When he wrote "The End of History?", Fukuyama was a neocon. He was taught by Leo Strauss's protege Allan Bloom, author of The Closing of the American Mind; he was a researcher for the Rand Corporation, the thinktank for the American military-industrial complex; and he followed his mentor Paul Wolfowitz into the Reagan administration. He showed his true political colours when he wrote that "the class issue has actually been successfully resolved in the west … the egalitarianism of modern America represents the essential achievement of the classless society envisioned by Marx." This was a highly tendentious claim even in 1989.

In 2006, in the wake of George W Bush's catastrophic blunders in Iraq and Afghanistan, Fukuyama repudiated neoconservatism in a book titled America at the Crossroads. In order to keep his end-of-history thesis intact, Fukuyama argued that the neocons had gone off on a Leninist tangent of historical determinism and artificial nation-building, and had departed from the correct understanding of historical evolution as an organic byproduct of material comfort and access to consumer goods.

The "post-ideology" sleight of hand nevertheless continues. "The markets", which he hailed as the engine of progress, were and are talked about as "natural" – as if they were forces of gravity or Darwinian evolution. They are believed to impose "realistic" limits on policy; political prioritising hides behind practical references to the "public purse". "This is the sober reality I must set out for the country today," David Cameron said in June 2010, announcing his plan for cuts in public spending. "We are not doing this because we want to, driven by theory or ideology … We are doing this because we have to." Through three decades of wonkery and spin, the right has systematically constructed an ideological movement that presents itself as anything but systematic, anything but ideological.

Fukuyama distinguished his own position from that of the sociologist Daniel Bell, who published a collection of essays in 1960 titled The End of Ideology. Bell had found himself, at the end of the 1950s, at a "disconcerting caesura". Political society had rejected "the old apocalyptic and chiliastic visions", he wrote, and "in the west, among the intellectuals, the old passions are spent." Bell also had ties to neocons but denied an affiliation to any ideology. Fukuyama claimed not that ideology per se was finished, but that the best possible ideology had evolved. Yet the "end of history" and the "end of ideology" arguments have the same effect: they conceal and naturalise the dominance of the right, and erase the rationale for debate.

While I recognise the ideological subterfuge (the markets as "natural"), there is a broader aspect to Fukuyama's essay that I admire, and cannot analyse away. It ends with a surprisingly poignant passage: "The end of history will be a very sad time. The struggle for recognition, the willingness to risk one's life for a purely abstract goal, the worldwide ideological struggle that called forth daring, courage, imagination, and idealism, will be replaced by economic calculation, the endless solving of technical problems, environmental concerns, and the satisfaction of sophisticated consumer demands."

It is hard not to conclude that this passage offers an accurate portrait of our age, in which the campfire conversations of young activists merely concern relative concentrations of CO_2; the politics of nudge and solutionism are embraced by right and left alike; and the hordes camped out on the streets of Rio de Janeiro are awaiting the opening of Latin America's first Apple store.

"In the post-historical period," Fukuyama continues, "there will be neither art nor philosophy, just the perpetual caretaking of the museum of human history. I can feel in myself, and see in others around me, a powerful nostalgia for the time when history existed." Doesn't this vision seem exactly right? We appear to be losing a clear sense of both our history and our future, living in a perpetual present in which we have forgotten that things were different in the past and that there are, therefore, alternatives. (A parallel can perhaps be drawn with pop: we are in the post-postmodern age of the retro-authentic mashup. Contemporary songs - by Adele, Lady Gaga, La Roux - are simulacra of those produced in the 60s, 70s and 80s.)

I grew up in the 80s, marching against Thatcher. The left laid into the right. In 1990, when I turned 16, John Major became prime minister and the ideological clashes of British politics faded out. Major's "back to basics" campaign was against highfalutin ideology; a disavowal of politics. (In recent advice to Conservative MPs, Major told them to focus less on "ideology" and more on "issues that actually worry people in their daily lives". His rejection of the hardline right is to be applauded, but since when did daily issues have nothing to do with ideology?) Next came the triangulation of Tony Blair, his saintly transcendence of left and right; Barack Obama's call for "a declaration of independence … from ideology"; and David Cameron saying he "doesn't do isms". Politics is now a matter of technocratic optimisation, of doing "what works" and "getting the job done". In 2010, even the veteran conviction politician Shirley Williams praised the coalition government for its pledge to "work together in the national interest". "The generation I belong to, steeped in ideology and partisan commitment, is passing away," she wrote, commending a new spirit of "co-operation" over "the safe, long-established confrontation". While declaring that the old polarities no longer pertain, all the main parties have shifted to the right.

Meanwhile, the performance of confrontation continues. Popular disaffection with mainstream politics manifests as a rejection of its tribal, shouty style. PMQs is criticised for being too raucous, but that is a distracting irrelevance now that policy differences seem imperceptible. The problem is not "divisiveness" but its opposite: the lack of democratic choice.

In the recent commentary on the death of Tony Benn, he has been repeatedly described as one of the final representatives of a sharply delineated political culture. "To the modern eye he broke the mould: a brazen, aristocratic ideologue in an age of middle-class triangulation and third ways," wrote Mark Wallace, an editor at ConservativeHome. "But if those things seem so alien today, it's not because he was a one-off but because he was the last of his kind." The passing of political conviction is accepted as a given whatever one's political conviction, but it is the left that stands to lose most.

In The End of History and the Last Man, Fukuyama writes that the "enormously productive and dynamic economic world created by advancing technology" has a "tremendous homogenising power": global political harmony is the "ultimate victory of the VCR". But are consumerism and technology, as he suggests, really progressive? The internet came of age at the same time as I did. My undergraduate essays were handwritten, but in my third year I sent my first email using a green interface called Pine. My childhood correspondence fills several cardboard boxes, but during the 1990s the paper trail peters out. The rest is on email accounts owned by corporations with infantile names; some of those accounts are lost.

Is it an accident that the digital blitzing of boundaries between historical eras, work and play, this book and that, is happening at the same time as the seeming end of movements of all kinds, both cultural and political? My nostalgia for my own childhood is bound up with my nostalgia for political opposition and the material written word. I miss history, just as I miss my own history, and my childhood visions of the future. In my grander moments I feel like an embodiment of Slavoj Žižek's Living in the End Times, meandering mournfully around Spotify and fretting about the left's intellectual bankruptcy.

"The modern age was a time when human beings, alone or together, could sculpt the marble of history with the hammer of will," writes the writer and activist Franco "Bifo" Berardi. Today, this has "vanished from sight. There is no longer … a progressive temporal dimension."

As modernist housing projects fall into ruin, it is hard to recall the sincerity of Tomorrow's World or SF that is not ironically space age or steampunk. It is barely possible to articulate a utopia, even (or especially) if you are on the left. Is this because of neoliberalism's domination of the ideological landscape, or is it that we are in a post-ideological age, of which the internet is either a symptom or a cause? When every single person in a train carriage is staring at a small illuminated device, it is an almost tacky vision of dystopia. Technology – along with turbo-capitalism – seems to me to be hastening the cultural and environmental apocalypse. The way I see it, digital consumerism makes us too passive to revolt, or to save the world. If we accept it as inevitable it will indeed lead to the end of history, in more ways than one.

Is the recent challenging of Fukuyama's thesis grounds for new optimism? It is still too early to tell. "What is happening to us in the early years of the century," Badiou writes, is "something that would appear not to have any clear name in any accepted language." Fukuyama himself speculated that the absence of idealism and struggle might yet spark their rekindling: "Perhaps this very prospect of centuries of boredom at the end of history," he wrote, "will serve to get history started once again." There is a glimmer of perverse hope in the fact that boredom is a luxury most of us can no longer afford.

Eliane Glaser's Get Real is published by Fourth Estate.

DECONSTRUCTING THE "HUMAN RIGHTS" IDEOLOGY

Peter Myers; via Critical Thinking

(A subtle, erudite and thought-provoking contribution from Australia - Ed)

1. Contradiction

The great irony of “Human Rights” discourse, is that the self-appointed arbiters of Human Rights are the descendants of Conquistadores, and those they preach to, and accuse, are the newly liberated countries. Europeans, whatever their religion and flag, from Catholicism (Spain) to Protestantism (England) to Marxism (the USSR) to Human Rights (the USA), occupy the high moral ground and missionise the unwashed heathen, hiding the blood on their own hands. During the "Renaissance/Humanist/Enlightenment" period of the last 500 years, the conquistadores invaded nearly all other countries and tribes, eliminating many cultures for ever. Only Japan successfully resisted and turned the tide, and that at the cost of adopting much Western culture itself. The Japanese survival facilitated the current Confucian Renaissance of East Asia. Many centuries earlier, Japan had narrowly escaped the Mongol invasion. Europe also survived it, on account of divisions among the Mongols themselves (upon the death of the Khan). Now the rest of the world has survived the European subjugation, owing to the three great European civil wars of this century: WWI, WWII and the Cold War. The current "Human Rights" ideology is the last remnant of European hegemony.

2. A Saint with Clay Feet

The architect of the "Human Rights" ideology is Jean-Jacques Rousseau, "father" of the French Revolution and patron of the "new" methods of education, or rather de-education, in our schools in recent years. It is his ideas that Article 1 of the UN's Universal Declaration of the Rights of Man is based on.

To undermine the Old World Order, the Revolution chose to use the same dirty tricks that the Old Order used to maintain itself, which Machiavelli had described in The Prince. That is, it adopted the ethic that the end justifies the means. This is clearly stated by Rousseau in The Social Contract: "Machiavelli's Prince is a handbook for Republicans" (Penguin edition, p.118). Even Babeuf appealed to Machiavelli, in his defence during the French Revolution.

Rousseau explictly endorses violent means: "In ancient times, Greece flourished at the height of the cruellest wars; blood flowed in torrents, but the whole country was thickly populated. 'It appeared,' says Machiavelli, 'that in the midst of murder, proscription and civil wars, our republic became stronger than ever; the civil virtue of the citizens, their morals, and their independence, served more effectively to strengthen it than all their dissensions may have done to weaken it.' A little disturbance gives vigour to the soul, and what really makes the species prosper is not peace but freedom" (Social Contract, note on p.131; emphasis added).

Writers like Voltaire were de-legitimating the Old Order, the Inquisition having been unable to dam the dissent; but Rousseau was the one who drew the blueprint for the New. He had used the concept of "natural man", inspired by idyllic reports of the life of the native peoples of North America, to argue that all of Europe's institutions were wrong. The European invasion of America thus boomeranged upon Europe. Europe colonised and destroyed the native peoples, but the knowledge of those cultures, and perhaps the guilt of the destruction, undermined the Old Order in Europe. The modern communist movement began with Thomas Moore's book Utopia, written in 1515, just after Columbus' discovery of America in 1492; in her book Utopia fact or fiction?, Loraine Stobbart argues that Moore's book, far from mere fiction, was based on reports of actual Maya communities. Rousseau used "natural man" to de-legitimate the Governments, Religions and Institutions of Europe: they were all wrong.

Marx and Engels drew attention to the revolutionary impact of the New World upon the Old, in The Communist Manifesto. Yet Rousseau scarcely used "natural man" as a model for his new society; for that he turned instead to Plato's Republic. The Social Contract is peppered with references to Sparta, and draws on Plato's Republic rather than American Indian society, to design the New Order, like yesterday's Socialists and today's Radical Feminists. Voltaire attacked Rousseau for abandoning his five children; in reply, he set down his life-story in his autobiography, The Confessions of Jean-Jacques Rousseau.

Karl Marx is well known for the saying, "Workers of the World Unite. You Have Nothing To Lose But your Chains." Less well known is that Marx' word chains refers to a key sentence at the start of The Social Contract: "Main Is Born Free, But Is Everywhere In Chains". Article 1 of the Universal Declaration of the Rights of Man, made by the United Nations in December 1948, comes straight from Rousseau: it begins, "All human beings are born free". Yet in his Confessions, Rousseau admits that he placed all five of his children (born to his defacto wife Therese, when he married later in life), into an orphanage, one by one at birth, without even giving them a name, and never saw any of them again. So much for them being "born free".

In fact, nobody is born free: everybody is born into particular circumstances he/she does not choose. Rousseau justifies his action as follows: "in handing my children over for the State to educate … I thought I was acting as a citizen and a father, and looked upon myself as a member of Plato's Republic." Confessions, Penguin edition, pages 322, 333, 334, 385-7. There can be no greater indictment of Plato's Republic.

Our "liberated" society is following Plato rather than Darwin, in determining early childhood policy. The Darwinian perspective (which, in rejecting both teleology and the tabula rasa, is hardly compatible with Humanism) is today articulated by ethologist Desmond Morris, but he is a lone voice; the whole feminist movement has followed Plato's path instead. In his book The Subversive Family, Ferdinand Mount points out that the attack on the family, begun by Plato, was continued by the Church, which for 1500 years disparaged family life as inferior to celibacy. Luther liberated Christianity from monasticism, by making the home a monastery, i.e. by making "conscience" a puritanical tyrant. As Marx put it, Luther "freed man from outward religiosity while he made religiosity the innerness of the heart. He emancipated the body from its chains while he put chains on the heart" (emphasis added; note that word "chains" again). Marx saw himself as completing the attack on authority Luther had begun: "As the revolution then began in the brain of the monk, so now it begins in the brain of the philosopher"; in The Criticism of Religion is the Presupposition of All Criticism, Karl Marx Library, Vol. 5, pp. 35-37. Like the Church, the Marxist movement regarded the family as a threat, a rival source of loyalty and sustenance to the all-powerful state it sought, and which Rousseau had designed in accordance with Machiavellian principles. Ironically, though, Marx himself was married to a one-man woman who disapproved of Engels' living in sin with two women he was not married to. Marx was not exactly a one-woman man himself, so he was able to have his cake and eat it too. He was a devoted father.

Although Rousseau did not rear even one child, of his own or anyone else, his book Emile has been acclaimed by Left educators and many of its precepts (e.g. against rote learning) are followed in our schools today. The guru of the "new" education methods in our schools is a man who reared no children himself. Similarly, Plato, the originator of the idea that parents should not rear their own children, but that they should be communally reared by the State (in creches, daycare centres etc), was himself a bachelor. Similarly, for centuries celibate Catholic priests were the arbiters of family policy. Similarly, childless Radical Feminists such as Germaine Greer are the self-appointed arbiters today. The point is that the West prizes theory-builders in ivory towers over experience and trust in "Mother Nature".

The current Bishops of the Human Rights Ideology mostly consider themselves politically "Left", i.e. in the ideological stream emanating from Rousseau and the French Revolution. Yet they overlook the killing of a million people by the Jacobins etc. during the Revolution. It was the chaos of that New Order which paved the way for Napoleon, who thought nothing of killing five million in his wars of conquest. Yet Robespierre and Napoleon are often considered heroes. Where is the consistency in the "Human Rights" Ideology?

3. Avoided – the Embarrassing Questions

The West's discourse about human rights studiously avoids the big questions: (i) Where do Rights come from – God? Evolution? The generosity of a Ruler? Decision by "experts"? Decision by plebiscite? How could Darwinian evolution lead to Rights? Why is a social contract "implicit" in human but not in animal communities – baboons, kangaroos, seals?

Can parties have a contract without knowing it? If rights are not "natural" but "positive", then who decides them? A U.N. Committee? If so, on what basis? Perhaps by reference to some other U.N. document akin to a secular Bible? This kind of thinking was prominent in the draft document put to the 1994 Cairo Conference – although a U.N. document, it is similar in style to the documents of the Second Vatican Council. Having abandoned Religious Authority, we are now asked to accept Secular Authority . What has happened to democracy – the right of people to make their own mistakes? The more democracy, the smaller the constitution and the fewer the laws, because decisions can be made by plebiscite; the size and complexity of our current law attests to the absence of democracy. Do rights belong primarily to the individual or to the community (tribe, family, province etc.)? If to the individual, then they cut across all communities and threaten all traditions. Rousseau eulogised the noble savage, but the "Left" movement in the Anglo-Saxon countries regards the individual as primary, whereas all traditional societies are based on the primacy of the group – the individual must fit in, the Common Good takes precedence. The ascription of human rights primarily to the individual rather than to the community, a strong feature of the draft document of the 1994 UN Cairo Conference, is visibly associated with the decline of the American Empire, the hypocritical preacher. What other countries, then, would want to be tainted with it? It will fall with the United States. The Left tries to ride a razor's edge between Individualism and Collectivism, a contradiction expressed in Rousseau's assertion on the one hand of natural human rights (i.e. by birth), and on the other of the primacy of the General Will over individual choice.

This contradiction, according to Lee Kwan Yew (interviewed in Foreign Affairs), brought down the

USSR (and by implication may yet bring down the West), but is lacking in the Confucian countries. While the primacy of Community Rights is, as a kneejerk reaction, anathema to the Left, it is widely held in East Asia and in the more traditional societies of the world, including the Islamic ones. The Left own philosophy of Multiculturalism obliges it to respect this view – but Political Correctness triumphs over Multiculturalism. The American Right, looking to restore Order in the face of the present Chaos, is regrouping around Christianity, but the Australian Right will fail in its attempts to regroup around either Christianity or the Monarchy, and will in time regroup, instead, about the Confucian Right, thus being the first European society to move philosophically from the West to East Asia. As bankruptcy contributed to the fall of the USSR, so financial collapse will force our hand: each month for the last 10 years, our current account deficit has exceeded $1 billion, often been $1.5 billion. Each month, $1 billion or more of that is is the "net income deficit", i.e. interest payments due on our foreign debt, or dividends due to foreign investors. However we have been borrowing more to make those payments each month, like a person making his mortgage payments by borrowing more – when one day the lenders say "sorry, no more", suddenly we will have to do what the Philippines did after Marcos: pay our debts without borrowing further. Just as foreign imperialists kept Marcos in power, so with Hawke and Keating. Then our Current Account will be in balance or surplus, because we will be forced to curb imports, diverting money from them to debt and dividend payments. Most of the finance writers in our media are, like the politicians who pushed financial deregulation, traitors to the Australian people; but the interests they work for control the media, and thus public discourse: they actively guard against the true story being put. See The Philippines: Debt and Poverty by Rosalinda Pineda-Ofreneo; throughout the third world the same story is repeated. The reason that we do not feel the pain, is that it is being deferred; but it is not avoidable.

4. Sham Multiculturalism

Individual Human Rights are incompatible with indigenous authority structures. Every initiation ceremony, the basis of traditional authority and discipline, involving the endurance of pain, fear and bodily mutilation, infringes the initiates' "rights". "Progressive Left" thinking treats the family as "the locus of oppression", and therefore tries to destroy it, wrongly harming the main source of nurturance and protection in a harsh world, as Keith Windshuttle pointed out in his book Unemployment. A letter in the Canberra Times of 3/2/94 from a descendant of the Wiradjuri people pointed out the importance of respect to elders in their tradition, compared to the irreverence and discourtesy cultivated today (by the New Left, e.g. in The Little Red Schoolbook, widely influential on teachers trained in the 1970s).

When Marx pointed out how capitalism destroys all traditional practices and structures that get in its way, he approved of this because he, like the capitalists, saw them as impediments to modernity. In his 1986 ABC Boyer Lectures, Aboriginal Eric Willmot warned that a world culture – a single Universal standard – is incompatible with cultural variety (p.27).

The Left pressed the Australian Parliament in 1993 to recognise the gay family but not the polygamous family; yet polygamy is universal in aboriginal and traditional cultures, while the "gay family" was not known to anthropology before 1970. The Left's Multiculturalism is a sham, mainly diversity of food and dancing. The Left's Social Evolutionism, with its belief in Progress, implies a rejection of the Past, except insofar as it can be used to create an "Origin" myth; other than that, the Past is a museum of privations and errors, not to be allowed today, forbidden by "standards", "consumer protection" or "welfare" laws. Even today, Aboriginal marriage practices such as marriage below the "age of consent", a European convention pronounced "Universal", are not recognised by our so-called "Multicultural" society. Nor are aboriginal punishments such as a-spear-through-the-leg, a punishment distasteful to Europeans because it is physical, while long prison terms, which emotionally harm the prisoner and nurture further crime, are deemed "Universally" acceptable. Smacking a child is an abuse because it is physical, but emotional deprivation by the withholding of affection, or by having 3-month-old babies reared by 9-to-5 "professionals" in day-care centres while mother looks after her "career", is OK. Was any churchman more hypocritical than the new Bishops of Human Rights?

5. Humanism as the Divinisation of Man

The ideology of Human Rights is a form of Humanism; but in the Green philosophy of Peter Singer, Human Rights are no longer inviolate over Nature, especially animals (mainly the "higher" cuddly ones favoured by TV watchers in cities – cockroaches and blowflies receive less empathy). Singer attacks Humanism, the notion that the more people there are, the more dominant over Nature, and the longer they live, the better; that "what's good-for-Humanity is Good". Other attacks on Humanism include John Carroll, Humanism: the Wreck of Western Culture, John Ralston Saul,Voltaire's

Bastards, and Rupert Sheldrake, The Rebirth of Nature.

In place of Christianity, Rousseau felt that a Civil Religion was required, as a belief-system (ideology) and also as a form of devotion. He advocated Deism, reminiscent of the impersonal God of Plato, an impersonal concept of divinity comparable to the Brahman of Hinduism, the Karma of Buddhism, and the Heaven or Tao of China. Accordingly, the French Revolution descecrated churches, installed a prostitute as Goddess, and held a “feast of the Supreme Being”. The Humanism in the present Postmodernist ideology, however, is based on Atheism, asserted as a dogmatic principle. This is not just a denial of the Old-Man-in- the-Sky of Genesis 1, or the Anthropomorphic God of Genesis 2, gods which, as Karl Marx argued, are fashioned in the image of man. Rather, it is a denial that there is anything greater than Man. It is a denial that there is any Human Nature, which might constrain human individuals or human societies. It is a statement that Man Makes Himself, unconstrained.

That Mankind is the Measure of All Things. That humanity is the centre of the universe. That Man is God. God cannot exist, there is no place for God, because otherwise Man’s Freedom would be constrained. (In contrast, the Left ideology of Bakunin combines Liberation with Submission to Nature. His view of Nature is almost Taoist; Confucianism is a Humanism in which the individual is subordinate to the Common Good).

“Postmodern” is just another word for “Atheist Existentialist”. This world view was out-of-date in the 1970s; but the Gay and Radical Feminist movements latched on to it, renamed it, and extended its life. They assert that the Gay Family is as natural as the Heterosexual Family. They are engaged in a calculated attempt to see how far they can go in defying Nature. So much for Charles Darwin: this philosophy, emphasising the unlimited freedom of the human will, the human Will Over Nature, is pre-Darwinian. The accusation levelled at all opponents, that they create “Essences” (reifications) is the trademark of Existentialists, and suggests an extreme Nominalism. However, they have created their own “essence”, namely Patriarchy. Ecofeminism is a form of Radical Feminism that equates Men with the destruction of Nature. Yet even though it identifies with Nature, it repudiates Human Nature. It asserts that the Gay Family is as natural as the Heterosexual Family, and supports Institutionalised Childcare a-la-Plato rather the more natural childcare by the family, such as one finds in tribal societies. This shows the same Resistance Against Nature, that Patriarchy is accused of. In Aquinas’ threefold dialectic (affirmation, negation, analogy),

Postmodernism is a Negation, pointing out that the grand theories are only partial truths. Averroes pointed to the danger of mistaking a partial truth for the whole truth. Kung Fuzi (Confucius) said that one of the first tasks of the wise ruler is the correction of Names (Essences). The Tao Te Ching says that names are always inadequate to express the things they represent. That is why the Tao can never be adequately expressed; humanity is engaged in an endless struggle to understand, by negating the imperfections or overstatements in previous formulations. The Hindu warning about mistaking the elephant’s trunk (or tail) for the whole elephant, is similar. The Confucianism and Taoism of China were secularised (demythologised) so long ago that they no longer even have an Origin Myth (creation story), an advantage today when origin myths are routinely deconstructed.

6. Tolerance and Terrorism

It is commonly thought that a society based on “Human Rights” would be Tolerant. Yet although Rousseau on the one hand declares the natural rights and freedoms of all citizens of the state, on the other hand he idolises Sparta under the tyranny of Lycurgus, and recommends the use of Machiavellian methods once the New Order is in power. Towards the end of The Social Contract, he explains that the state he proposes would have a ‘Civil Religion’, with secular dogmas obliging sociability: “Without being able to oblige anyone to believe these articles, the sovereign can banish from the state anyone who does not believe them; banish him not for impiety but as an antisocial being … “. Thus the Enlightenment, the culmination of a centuries-long struggle for freedom from the Inquisition of the Church, ends up by endorsing an Inquisition of its own: firstly on paper, in The Social Contract, and later in the flesh, in Russia and China. The unity-of-thought-and-action, called “praxis” in Marxist jargon, requires that incorrect thought cannot be tolerated, it is a threat to the New Order.

In Rousseau’s Civil Religion the one thing that would not be tolerated is intolerance! Anyone who proclaims “outside THIS church (religion) there is no salvation” would be expelled from the state: minorities would have to fit in – no “chosen people” would be allowed, except in their own state, i.e. “where the state is the church and the prince the pontiff” (Social Contract, Penguin, p.187, emphasis added). This is the self-justifying morality of the totalitarian state, the same amorality we find in the Communist Manifesto and in Trotsky’s justification of Terror: that morality is simply whatever is in the class interest of the Good class, for Trotsky (himself an intellectual, like Lenin) the Proletariat; for Germaine Greer, Women, the True Proletariat; or however the Good class is defined. If we do not tolerate the intolerant, are we ourselves not intolerant? Such are the contradictions of creating "heaven on earth". In a one-world- society constructed along Rousseau's lines, the dissidents could not be exiled – they would have nowhere to go!

Among the proponents of the "Human Rights" Ideology today are many who are or have been admirers of Lenin. Lenin's Revolution followed the Jacobin style and even gave Jacobin names to streets in Russia. Stalin is often made the scapegoat for the atrocities of the USSR, as if to exonerate Lenin, but Dmitri Volkoganov, a Colonel-General in the USSR, later Director of the Institute of Military History, in 1991 Defence Adviser to Yeltsin, writes in his book Lenin that it was Lenin, not Hitler or Stalin, who invented the term "concentration camp" (p. 234). As Volkoganov searched the Lenin archives, "gradually the creator and prophet was edged out by the Russian Jacobin. I realised that none of us knew Lenin; he had always stood before us in the death-mask of the earthly god he had never been" (p. xxx); "The idea of the concentration camp system – the State Camp Administration, or GULAG – and the appalling purges of the 1930s are commonly associated with the name of Stalin, but the true father of the Bolshevik concentration camps, the executions, the mass terror and the 'organs' which stood above the state, was Lenin. Against the background of Lenin's terror, it becomes easier to understand the methods of Stalin's inquisition, which was capable of executing someone solely on the grounds of suspicion" (p. 235).

Defenders of Lenin often claim that the Terror he instituted (via the Cheka) soon after the Revolution was necessitated by the Civil War, but this is not so. The Terror involved an ongoing brutal repression quite beyond the mere securing of control. It was an instrument of cultural revolution and an attempt to liquidate the old ruling class. Lenin was the inventor of the term "concentration camp", using it in a letter of 9 August 1918: "It is essential to organise a reinforced guard of reliable persons to carry out mass terror against kulaks [rich peasants], priests and White Guardists; unreliable elements should be locked up in a concentration camp outside the town" (Geoffrey Hosking, A History of the Soviet Union, 1992, p. 71). A Cheka official told his officers in November 1918, "We are not waging war against individual persons. We are exterminating the bourgeoisie as a class. During the investigation, do not look for evidence that the accused acted in deed or word against Soviet power. The first questions that you ought to put are: To what class does he belong? What is his origin? What is his education or profession? And it is these questions that ought to determine the fate of the accused. In this lies the significance and essence of the Red Terror" (ibid., p. 70).

That Marx and Engels themselves espoused revolutionary terrorism is shown by A. James Gregor in his article Fascism's Philosophy of Violence and the Concept of Terror, in David C. Rapoport and Yonah Alexander (eds.), The Morality of Terrorism: Religious and Secular Justifications. Volkoganov however has more sympathy for Marx: "not that Marx, to give him his due, was much taken with the idea of dictatorship. Lenin, however, regarded it as Marxism's chief contribution on the question of the state" (op. cit., p. xxxi).

Many of the most ardent advocates of Human Rights are Trotskyists, members of the International Socialist Organisation or the Democratic Socialist Party. Their hero Leon Trotsky orchestrated the Kronstadt massacre, which was not just a minor mistake, as portrayed by some Trotskyist writers; on the contrary it was the crucial way of impressing on the whole country that, although the local soviets (workers' councils) had been used to seize power, henceforth power would not belong to the soviets, that it would instead be wielded by the centre: the "democratic" centre; it meant that the union of Soviet socialist republics was a myth right from the start. In his espousal of Terror, Trotsky showed that he was as coldblooded as Stalin, even if his early expulsion gave him less opportunities for killing. Stalin's forced collectivisation was an implementation of Trotsky's policy.

In his essay Terrorism and Communism of 1920, a reply to Karl Kautsky, Trotsky wrote, "But terror can be very efficient against a reactionary class which does not want to leave the scene of operations. Intimidation is a powerful weapon of policy, both internationally and internally. War, like revolution, is founded upon intimidation. A victorious war, generally speaking, destroys only an insignificant part of the conquered army, intimidating the remainder and breaking their will. The revolution works in the same way: it kills individuals and intimidates thousands. In this sense, the Red Terror is not distinguishable from the armed insurrection of which it is the direct continuation … The terror of Tsardom was directed against the proletariat. The gendarmerie of Tsardom throttled the workers who were fighting for the Socialist order. Our Extraordinary Commissions shoot landlords, capitalists, and generals who are striving to restore the capitalist order. Do you grasp this … distinction? Yes? For us communists it is quite sufficient." How many Western academics, nonviolent in their own lives, have supported such bloodshed? Seen people like Mao as "reformers"? Not for Trotsky, turning the other cheek, the forgiveness of enemies of Nelson Mandela.

Zbigniew Brzezinski, a key member of the American establishment but nonetheless an important writer, wrote that this century's wars have killed 87 million people (soldiers and civilian casualties). In addition to these numbers, Hitler killed over 5 million Jews, 800,000 Gypsies, 2 million Poles, 6 million USSR civilians and prisoners of war, and another 2-3 million in Yugoslavia and elsewhere in Europe: about 17 million. Lenin caused the deaths of 6-8 million people: one million in the civil war, the rest in the Terror and the famine caused by the first Great Leap into socialism: the appropriation of the property of the kulaks (peasant farmers) and their destruction as a class, from which Russian agriculture never recovered. Stalin, inheriting Lenin's method of disposing of dissent, had 20-25 million killed (not counting war deaths). Brzezinski attributes 27 million deaths to Mao in the Great Leap Forward, 1-2 million during the Cultural Revolution. Pol Pot had about 1 million victims. Adding the total for all the communist countries, "the failed effort to build communism in the twentieth century consumed the lives of almost 60,000,000 human beings, making communism the most costly failure in all of history" (Out of Control, pp. 16-17). Yet "not a single Stalinist secret police functionary, concentration camp commander, torturer, or executioner has been placed on trial for Stalinist crimes" (p.15). Nor, might one add, have Lenin, Stalin or Mao been convicted of genocide. The loudest voices championing Human Rights seem strangely silent over these matters.

7. Conspiracy of Silence: The Greatest Human Rights Disaster in World History

About 30 million people starved to death in the Great Leap Forward of 1958-60, mainly in remote parts of China. Internal border guards prevented them from crossing into other parts of China. Mao was so confident that forced collectivisation would increase production, that he encouraged the people, "eat until the skin of your belly is tight"; they did – they even ate the seed grain. This was the time of the "backyard blast furnace", for which China's hills were denuded of trees. Of all the disasters of our century, the Great Leap Forward is the one least covered by the media, least known by the public outside China. There appears to be a conspiracy of silence about it, as if one must not bring this "god of the Left" down to human proportions. When the leadership of China could avoid it no longer, Mao admitted to them that he "knew nothing about economics". The running of the country was removed from him and given to Liu Shao-chi; the Cultural Revolution was Mao's comeback, his way of regaining control; for this purpose he used the young people of China, in an orgy of destruction. In the late 60s and early 70s, radical students of the West, knowing nothing of the Great Leap Forward, made Mao into a hero; all the more reason to expose him now.

The political correctness we now find in Australia has excellent pedigree: "Not to have a correct political point of view is like having no soul" (Mao Zedong, On the Correct Handling of Contradictions Among the People, 1957); "… the Communist Party has always advocated a firm and correct political orientation. … This orientation is inseparable from a style of hard struggle. Without a firm and correct political orientation, it is impossible to promote a style of hard struggle. Without the style of hard struggle, it is impossible to maintain a firm and correct political orientation." (Little Red Book, Quotations From Chairman Mao, p.147). Mao is here expressing the Marxist concept "Praxis", the unity-of-thought-and-action. You must stifle diversity of opinion, because that inhibits struggle.

8. Heaven On Earth

Germaine Greer wrote, in The Female Eunuch, "Hopefully, this book is subversive … the oppression of women is necessary to the maintenance of the economy … If the present economic structure can change only by collapsing, then it had better collapse as soon as possible. … The most telling criticisms will come from my sisters of the Left, the Maoists, the Trots, the I.S., the S.D.S., because of my fantasy that it might be possible to leap the steps of revolution and arrive somehow at liberty and communism without strategy or revolutionary discipline. But if women are the true proletariat, the truly oppressed majority, the revolution can only be drawn nearer by their withdrawal of support for the capitalist system. The weapon I suggest is that most honoured of the proletariat, withdrawal of labour" (Paladin, p.21, emphasis added; the I.S. are the International Socialists, a Trotskyist group; the other Trots may have been the Democratic Socialists).

Greer was calling on women to destroy the Family; but for what? In 1920, Alexandra Kollontai, a close associate of Lenin, published a pamphlet called Communism and the Family, republished in Sydney in 1971, in which she uses the expression "heaven on earth", in describing the Bokshevik strategy: "The red flag of the social revolution which will shelter, after Russia, other countries of the world also, already proclaims to us the approach of the heaven on earth to which humanity has been aspiring for centuries" (emphasis added). Marx himself used the expression "heaven on earth", in describing his goal, at the First International: "Someday the worker must seize political power in order to build up the new organization of labour; he must overthrow the old politics which sustain the old institutions, if he is not to lose heaven on earth, like the old Christians who neglected and despised politics”; from Qualifying Violent Revolution (speech on 8/9/1872), in Karl Marx Library, McGraw- Hill, 1971, Vol. 1, p.64 (emphasis added).

Engels explained the socialist heaven thus: “The history of early Christianity has notable points of resemblance with the modern working-class movement. Like the latter, Christianity was originally a movement of oppressed people: it first appeared as the religion of slaves and emancipated slaves, of poor people deprived of all rights, of peoples subjugated or dispersed by Rome. Both Christianity and the workers’ socialism preach forthcoming salvation from bondage and misery; Christianity places this salvation in a life beyond, after death, in heaven; socialism places it in this world, in a transformation of society; from On the History of Early Christianity, in Collected Works of Karl Marx and Frederick Engels, Progress Publishers, Moscow 1975, Volume 27 (emphasis added).

Marx’ expression “lose heaven on earth” is elucidated by Engels a little further on, as follows: ‘If, therefore, Professor Anton Menger wonders … why … “socialism did not follow the overthrow of the Roman Empire in the West”, it is because he cannot see that this “socialism” did in fact, as far as it was possible at the time, exist and even became dominant – in Christianity. Only this Christianity … did not want to accomplish the social transformation in this world, but beyond it, in heaven …”

But if there is no utopia, change will not necessarily bring improvement, and we must be careful not to judge social realities with a utopian yardstick: we must often choose between options each of which is imperfect. In both the USSR and China, the utopia turned bad. However the intellectuals in charge did relatively well – they may not have realised the extent of suffering among other classes. The approved intellectuals were called the Nomenklatura. That is, because intellectuals are a potent force for or against a political system, there had to be some way of weeding out the dissenters. The method was to create a “List” of “Approved” intellectuals suitable for positions of power. Similar “Lists” of “Approved Women” are a feature of Feminist Australia of the 1990s. The intelligensia of Brezhnev’s time was riding high, not realising that the country as a whole was going to ruin. Nugget Coombs has warned of a similar situation in Australia today (Australian Business Monthly, March 1992; ANU Reporter, 9/12/92; National Graduate, Autumn 1993).

9. The Last Word

Europeans of both Right and Left have too much blood on their own hands to dictate to others, even in the name of saving them, whether from the devil, savagery or patriarchy. Yet, mutating our ideology, we dissociate ourselves from the wrongs of the past and continue our missionising from a clean slate. It is appropriate to leave the last word on the “Human Rights” ideology to Rousseau. In The Social Contract he says that the new revolutionary society will need “a Civil Religion”. That is what it is.

BIG BROTHER WATCH BULLETIN EXTRACTS

Nick Pickles; Big Brother Watch

Traffic spies - a £312m industry

This week we published our latest report, Traffic Spies, highlighting how hundreds of councils have turned to static CCTV cameras and spy cars to raise £312m in revenue.

Many councils are continuing to use CCTV to hand out fines, despite the government publishing a Surveillance Camera Code of Practice highlighting the need to use CCTV for traffic offences “sparingly”, this research highlights that the number of CCTV cars in operation in the UK has increased by 87% since 2009.

The question must therefore be asked, if CCTV cameras are about public safety, why are local authorities able to use them to raise revenue? Furthermore, why are local authorities publishing no meaningful information about their use of CCTV for parking enforcement?

This report outlines the clear case for a ban on the use of CCTV cameras and CCTV cars for traffic enforcement. Serious problems should be tackled by the police and traffic wardens, not unfocussed and revenue-led surveillance.

In response to our report, Brandon Lewis MP, Minister for Local Government, said: “I welcome this expose by Big Brother Watch. It is clear that CCTV is being used to raise money in industrial volumes for town halls, breaking the constitutional principle that fines should not be used as a source of revenue. Unreasonable parking charges and fines push up hard-working people’s cost of living. If parking is too expensive or difficult, shoppers will drive to out of town supermarkets or just shop online, undermining the vitality of town centres and leading to 'ghost town' high streets."

A landmark week for surveillance reform

On Monday, we published our paper on surveillance transparency, calling for greater information to be made public about how surveillance powers are used. In a sign of the increasing support for more information to be public, our report was backed by former Home Secretary David Blunkett MP and former GCHQ Director Sir David Omand.

On Wednesday, the Interception of Communications Commissioner published his annual report, for the first time breaking down the use of communications data powers by the organisations using them - including the intelligence agencies. The Commissioner's report questioned whether there was institutional over-use of some powers, while also highlighting "in my view the unreliability and inadequacy of the statistical requirements is a significant problem which requires attention."

Also on Wednesday, the European Court of Justice ruled the Data Retention Directive 2006 violated our rights to privacy and rules on protecting personal data and is therefore invalid. This Directive was the basis of the Snooper's Charter, which we defeated last year. It is a landmark ruling.

Big Brother Watch's 'Time for Transparency' campaign led the way in calling for more information to be published and we will continue to campaign for the public to be given proper information about how surveillance laws are being used.

Does BT hand over data in bulk?

Nobody denies the need for companies to assist with investigations when an individual is suspected of involvement in a crime.

However, we do not believe that companies should hand over data on millions of people who are not suspected of any wrongdoing.

We know this has happened in the US.

We have one question - is it happening here?

Appearing before the Home Affairs Select Committee on Tuesday, our Director raised this issue and revealed that BT had refused to deny that it hands over data in bulk:

"I asked BT categorically, "Does BT provide data in bulk on thousands or millions of customers who are not individually named in a RIPA notice to the UK Government or its agencies and, if so, under what legal authority?" I received absolutely no substantive answer to that question and I cannot imagine, given the severity of what that entails, why they could not deny that."

We will continue to campaign to expose whether your information is being handed over by companies, in bulk, without any court process. Will you support us?

BANKS HAVE BECOME THE PERMANENT GOVERNMENT OF EUROPE

Ellen Brown; AlterNet; Web of Debt blog

(Yet another warning that when you deposit money in a bank, the actual ownership of your money passes to that bank. Arrangements are now firmly in place, through the EU and elsewhere, that in the event of further banking failures … a likely prospect … depositors are likely to lose their funds. Cyprus writ large!
The following item from 'Mish' underlines both the fragility of much European banking and the likely response to any comment or whistleblowing in the Eurozone - Ed)

Shocking new deal pushed through by elites is a ticking time bomb for taxpayers and depositors.

"As things stand, the banks are the permanent government of the country, whichever party is in

power.”

Lord Skidelsky, House of Lords, UK Parliament, 31 March 2011)

On March 20, 2014, European Union officials reached an historic agreement to create a single agency to handle failing banks. Media attention has focused on the agreement involving the single resolution mechanism (SRM), a uniform system for closing failed banks. But the real story for taxpayers and depositors is the heightened threat to their pocketbooks of a deal that now authorizes both bailouts and “bail-ins” – the confiscation of depositor funds. The deal involves multiple concessions to different countries and may be illegal under the rules of the EU Parliament; but it is being rushed through to lock taxpayer and depositor liability into place before the dire state of Eurozone banks is exposed.

The bail-in provisions were agreed to last summer. According to Bruno Waterfield, writing in the UK Telegraph in June 2013:

Under the deal, after 2018 bank shareholders will be first in line for assuming the losses of a failed bank before bondholders and certain large depositors. Insured deposits under £85,000 (€100,000) are exempt and, with specific exemptions, uninsured deposits of individuals and small companies are given preferred status in the bail-in pecking order for taking losses . . . Under the deal all unsecured bondholders must be hit for losses before a bank can be eligible to receive capital injections directly from the ESM, with no retrospective use of the fund before 2018.

As noted in my earlier articles, the ESM (European Stability Mechanism) imposes an open-ended debt on EU member governments, putting taxpayers on the hook for whatever the Eurocrats (EU officials) demand. And it’s not just the EU that has bail-in plans for their troubled too-big-to-fail banks. It is also the US, UK, Canada, Australia, New Zealand and other G20 nations. Recall that a depositor is an unsecured creditor of a bank. When you deposit money in a bank, the bank “owns” the money and you have an IOU or promise to pay.

Under the new EU banking union, before the taxpayer-financed single resolution fund can be deployed, shareholders and depositors will be “bailed in” for a significant portion of the losses. The bankers thus win both ways: they can tap up the taxpayers’ money and the depositors’ money.

The Unsettled Question of Deposit Insurance

But at least, you may say, it’s only the uninsured deposits that are at risk (those over €100,000—about $137,000). Right?

Not necessarily. According to ABC News, “Thursday’s result is a compromise that differs from the original banking union idea put forward in 2012. The original proposals had a third pillar, Europe-wide deposit insurance. But that idea has stalled.”

European Central Bank President Mario Draghi, speaking before the March 20th meeting in the Belgian capital, hailed the compromise plan as “great progress for a better banking union. Two pillars are now in place” – two but not the third. And two are not enough to protect the public. As observed in The Economist in June 2013, without Europe-wide deposit insurance, the banking union is a failure:

[T]he third pillar, sadly ignored, [is] a joint deposit-guarantee scheme in which the costs of making insured depositors whole are shared among euro-zone members. Annual contributions from banks should cover depositors in normal years, but they cannot credibly protect the system in meltdown (America’s prefunded scheme would cover a mere 1.35% of insured deposits). Any deposit-insurance scheme must have recourse to government backing. . . . [T]he banking union—and thus the euro—will make little sense without it.

All deposits could be at risk in a meltdown. But how likely is that?

Pretty likely, it seems . . . .

What the Eurocrats Don't Want You to Know

Mario Draghi was vice president of Goldman Sachs Europe before he became president of the ECB. He had a major hand in shaping the banking union. And according to Wolf Richter, writing in October 2013, the goal of Draghi and other Eurocrats is to lock taxpayer and depositor liability in place before the panic button is hit over the extreme vulnerability of Eurozone banks:

European banks, like all banks, have long been hermetically sealed black boxes. . . . The only thing known about the holes in the balance sheets of these black boxes, left behind by assets that have quietly decomposed, is that they're deep. But no one knows how deep. And no one is allowed to know – not until Eurocrats decide who is going to pay for bailing out these banks.

When the ECB becomes the regulator of the 130 largest ECB banks, says Richter, it intends to subject them to more realistic evaluations than the earlier "stress tests" that were nothing but "banking agitprop." But these realistic evaluations won't happen until the banking union is in place. How does Richter know? Draghi himself said so. Draghi said:

"The effectiveness of this exercise will depend on the availability of necessary arrangements for recapitalizing banks ... including through the provision of a public backstop. . . . These arrangements must be in place before we conclude our assessment."

Richter translates that to mean:

The truth shall not be known until after the Eurocrats decided who would have to pay for the bailouts. And the bank examinations won't be completed until then, because if any of it seeped out – Draghi forbid – the whole house of cards would collapse, with no taxpayers willing to pick up the tab as its magnificent size would finally be out in the open!

Only after the taxpayers – and the depositors – are stuck with the tab will the curtain be lifted and the crippling insolvency of the banks be revealed. Predictably, panic will then set in, credit will freeze, and the banks will collapse, leaving the unsuspecting public to foot the bill.

What Happened to Nationalizing Failed Banks?

Underlying all this frantic wheeling and dealing is the presumption that the "zombie banks" must be kept alive at all costs – alive and in the hands of private bankers, who can then continue to speculate and reap outsized bonuses while the people bear the losses.

But that's not the only alternative. In the 1990s, the expectation even in the United States was that failed megabanks would be nationalized. That route was pursued quite successfully not only in Sweden and Finland but in the US in the case of Continental Illinois, then the fourth-largest bank in the country and the largest-ever bankruptcy. According to William Engdahl, writing in September 2008:

[I]n almost every case of recent banking crises in which emergency action was needed to save the financial system, the most economical (to taxpayers) method was to have the Government, as in Sweden or Finland in the early 1990's, nationalize the troubled banks [and] take over their management and assets ... In the Swedish case the end cost to taxpayers was estimated to have been almost nil.

Typically, nationalization involves taking on the insolvent bank's bad debts, getting the bank back on its feet, and returning it to private owners, who are then free to put depositors' money at risk again. But better would be to keep the nationalized mega-bank as a public utility, serving the needs of the people because it is owned by the people.

As argued by George Irvin in Social Europe Journal in October 2011:

[T]he financial sector needs more than just regulation; it needs a large measure of public sector

control—that's right, the n-word: nationalisation. Finance is a public good, far too important to be run entirely for private bankers. At the very least, we need a large public investment bank tasked with modernising and greening our infrastructure . . . . [I]nstead of trashing the Eurozone and going back to a dozen minor currencies fluctuating daily, let's have a Eurozone Ministry of Finance (Treasury) with the necessary fiscal muscle to deliver European public goods like more jobs, better wages and pensions and a sustainable environment.

A Third Alternative - Turn the Government Money Tap Back On

A giant flaw in the current banking scheme is that private banks, not governments, now create virtually the entire money supply; and they do it by creating interest-bearing debt. The debt inevitably grows faster than the money supply, because the interest is not created along with the principal in the original loan.

For a clever explanation of how all this works in graphic cartoon form, see the short French video "Government Debt Explained," linked here.

The problem is exacerbated in the Eurozone, because no one has the power to create money ex nihilo as needed to balance the system, not even the central bank itself. This flaw could be remedied either by allowing nations individually to issue money debt-free or, as suggested by George Irvin, by giving a joint Eurozone Treasury that power.

The Bank of England just admitted in its Quarterly Bulletin that banks do not actually lend the money of their depositors. What they lend is bank credit created on their books. In the U.S. today, finance charges on this credit-money amount to between 30 and 40% of the economy, depending on whose numbers you believe. In a monetary system in which money is issued by the government and credit is issued by public banks, this "rentiering" can be avoided. Government money will not come into existence as a debt at interest, and any finance costs incurred by the public banks' debtors will represent Treasury income that offsets taxation.

New money can be added to the money supply without creating inflation, at least to the extent of the "output gap" – the difference between actual GDP or actual output and potential GDP. In the US, that figure is about $1 trillion annually; and for the EU is roughly €520 billion ($715 billion). A joint Eurozone Treasury could add this sum to the money supply debt-free, creating the euros necessary to create jobs, rebuild infrastructure, protect the environment, and maintain a flourishing economy.

MISH FINED 8,000 EUROS FOR QUOTING FRENCH BLOG

Mike "Mish" Shedlock; Mish's Global Economic Trend Analysis; via Activist Post

A few days ago I learned, via a French blog, that I was fined 8,000 euros for quoting a French blogger. I would have known earlier, but the letter notifying me of the fine was sent in French.

In an earlier express letter packet, I could make out a few of the words, in particular noting a summons to appear before a tribunal in France. Needless to say, I did not go.

Let's backtrack to my blog post that started it all.

On August 15, 2011, I posted BNP Paribas leveraged 27:1; Société Générale Leveraged 50:1; Sorry State of Affairs of U.S. Banks; Global Financial System is Bankrupt

In that post I quoted Jean-Pierre Chevallier on his Business économiste monétariste béhavioriste blog, that BNP Paribas leveraged: 27! I also cited Chevallier's Société Générale leveraged: 50!

Société Générale took exception to the numbers and came up with its own set of numbers. According to SG, its leverage was 9.3%.

A day or so later, Chevallier redid his calculations and I added this addendum.

Addendum:

Société Générale disputes the numbers and new calculations using the banks' numbers are 28:1 or perhaps 23:1 not 50:1 as noted on Forex Crunch.
My position has not changed much. Something is seriously wrong at Société Générale. Banks do not plunge out of the blue on rumors. I do not know the precise leverage, but shares are acting as if Société Générale has severe capital constraints (which of course they will deny) and/or other major problems.

Société Générale was not happy to say the least. They wrote the SEC (in English) complaining about my blog. The lengthy complaint went along the lines "I should accept as fact any numbers given to me by Société Générale".

French Banking Primer

On September 2, 2011, the Wall Street Journal chimed in with A French Banking Primer

The effects of a system that 'encourages excessive financial leverage'.
By its own account, Credit Agricole's tangible common equity is just 2.1% of its assets—which means its €1.6 trillion balance sheet is leveraged nearly 49-to-1. Credit Agricole argues that €500 billion of that should be netted out because of its hybrid banking/insurance business model, which still leaves it leveraged 33 times.
BNP Paribas and Societe Generale are somewhat less leveraged, at 24 and 23 times their tangible equity, respectively. As a group, these three banks have some €4 trillion in assets on their balance sheets, supported by €129.3 billion of tangible common equity. By contrast, J.P. Morgan Chase and Bank of America have nearly $4.4 trillion in assets between them, supported by $253 billion in tangible common equity. That's a leverage ratio of 17 for the U.S. banks versus nearly 27, on average, for the French big three.
An IMF report in July offered one explanation for why French banks remain so heavily leveraged compared to their U.S. counterparts. The authors note "the bias of the present system" in France, "which encourages excessive financial leverage, and contributes to a dearth of equity financing for innovative projects and an inefficient allocation of resources." Among France's peculiarities, the IMF cites France's high financial-sector corporate tax rates and generous credits and subsidies to debt-financed investments, which effectively reward borrowing over equity financing or retained earnings.
According to the Bank for International Settlements, the French banking system's total exposure to the riskiest euro-zone countries is $671.7 billion (€489.9 billion) as of March. That figure is equal to nearly 7% of all banking assets in France, more than a quarter of France's 2010 GDP and more than three times the combined equity of France's three biggest banks, which together account for 65% of the country's total banking assets.

Those facts did not stop Societe Generale from whining to the SEC.
My SEC contact said that he was obligated by agreement to pass on the complaint, adding something along the lines of "French banks were notorious about filing frivolous complaints".

Summoned to French Witch Hunt

I received one more express letter from France, in English, telling me subsequent letters would be in French and that I had to respond to the complaint in French.
I received a few more correspondences, totally in French, but did not scan them or translate them, although I could make out a few words in one of them, specifically noting that I was personally summoned to a witch hunt.

8,000 Euro Fine

The tribunal ruled "Mish is a Witch".
A few days ago I received an email about my fine, and an offer of support from the French blog Les-Crises. Here is the email.

Hi Mish,

I'm Actuary, and I've created the blog Les-Crises.
My post of the day is to criticize our AMF, explaining why they are wrong: [GROS DÉLIRE] Quand l'AMF sanctionne les blogueurs plutôt que les financiers!

The decision if really incredible. I'd like to help you.
Regards Olivier Berruyer Paris, France

The title translates roughly to "Gross Delirium: The AMF sanctions bloggers rather than financial corporations!" I asked my friend Pater Tenebrarum at *Acting Man* for a synopsis. With thanks to Pater:

The French authorities accuse Chevalier of 'knowingly disseminating false information' about SocGen and you to have disseminated it further on 'Chevalier's urging', although you should have known better and it was your duty to check if his numbers were right (that is the basis for fining him 10,000 and you 8,000 euros).
Les-Crises shows that Chevalier wasn't 'falsifying' anything. He merely did not use the so-called 'risk weighting' of assets in his calculations (whereby e.g. Greek sovereign debt has 'no risk') . What he did was calculate a kind of leverage ratio, apparently following a standard for calculation very similar to one laid down by Alan Greenspan some time ago.
Les-Crises points out that Chevalier did not 'invent' any numbers - he used only data published by SocGen. Chevalier never asserted that his calculations represented a 'tier 1' ratio according to the Basel rules with their risk-weighting - it always was a 'Chevalier leverage ratio' so to speak, calculated using SocGen's publicly available balance sheet data.

Banksters Strike Back

Today a second article came out regarding the witch hunt, this time in English: France: Banksters Strike Back Against Bloggers

Societe Generale was not happy with Jean Pierre Chevallier's blog and lodged a complaint aith the the French financial market supervisory authority, Autorité des marchés financiers (AFM), and the AMF has now astonished Mr Chevallier and a lot of others, including this blogger, by upholding the complaint and fining Jean-Pierre Chevallier €10,000 for publishing "inexact" information which might influence the share price.
Mr Chevalier intends to appeal against the AFM verdict and says he is also planning to sue the AFP for making false and defamatory accusations against him.
The AMF has also fined Mike Shedlock €8,000, of Mish's Global Trend Analysis, published in the USA, for the same offence against Societe General. Shedlock reported the Chevallier analysis.

No Jurisdiction

The Witch hunt is now over and I was fined nearly as much as Chevallier. It's absurd enough to fine someone for a quote, and even more so when the facts are accurate.

The AFM has no jurisdiction over me, so they won't collect. As a US citizen living in the US, I am not subject to the absurdities of French laws, or French witch hunts. All they get from me is a vow to never go to France. Best wishes to Chevallier in his fight against absurd fines and bureaucratic madness gone wild. Hopefully he can use the article from the WSJ in his defense.

CORRUPT TO THE CORE, THE FIRE POWER OF THE FINANCIAL SYSTEM. THE DESTRUCTIVE IMPACTS OF FINANCIAL MARKETS

Colin Todhunter; Global Research

Url of this article: http://www.globalresearch.ca/corrupt-to-the-core-the-fire-power-of-the-financial-system-the-destructive-impacts-of-financial-markets/5377262

The enormous power and destructive influence of financial markets became apparent after the global economic collapse of 2008. This event revealed a need for bringing the sector under democratic public ownership; failing that, stronger regulations for financial markets at the very least. But political will has been lacking on both counts. The sector enjoys massive financial resources and successfully translates them into political influence.

Many ordinary people might be wondering why governments have not curtailed the criminality of the financial sector on the back of the economic crisis which it created. Instead, billions of dollars, pounds and euros have been handed over to the sector, and governments continue to grant banks free rein and thus dictate national economic and social policies.

If bankers and financiers are to be able to stuff their bulging suitcases with taxpayer handouts and to further loot economies, it is essential for them to have politicians in their pockets. One way by which this is achieved is shown in a new report, which indicates that the financial industry spends more than 120 million euros a year on lobbying in Brussels and employs more than 1,700 lobbyists to influence EU policy-making.

The report, 'The fire power of the financial lobby' has been released by Corporate Europe Observatory, ÖGB Europabüro (Brussels office of the Austrian Trade Union Federation), and AK EUROPA (Brussels office of the Austrian Chamber of Labour) .

Kenneth Haar from Corporate Europe Observatory says:

"Reform has proved difficult, and these numbers are an important part of the explanation. The financial lobby's fire power to resist reform has been evident in all significant battles over financial regulation since the collapse of Lehman Brothers."

The report shows the financial industry commands tremendous lobbying resources and enjoys privileged access to decision makers. The financial sector lobbies EU decision-makers by means of over 700 organisations, including companies' public relations offices, business associations, and consultancies.

This figure outnumbers civil-society organisations and trade unions working on financial issues by a factor of more than five. And the imbalance is even greater when numbers of staff and lobbying expenses are compared. The report shows that the financial lobby massively outspends other actors by a factor of more than 30. In order to arrive at a safe estimate, the survey used the most conservative figures. The actual numbers – and the imbalance between different interests – are thus likely to be far higher. This underestimate is mainly due to the lack of a mandatory register of lobbyists at the EU level that would provide reliable information for proper monitoring.

The report also shows the presence of the financial industry in the EU's official advisory groups that play a key role in helping to shape policy. And, here too, the financial lobby is massively over-represented here: 15 of the 17 expert groups covered by the study were heavily dominated by the financial industry.

Oliver Röpke, from ÖGB Europabüro said:

"This situation represents a severe democratic problem that politicians must act on swiftly. A first step is to adopt effective rules on lobbying transparency and strong ethics rules against undue influence."

Amir Ghoreishi from AK EUROPA said:

"The fact that the financial lobby is so dominant in advisory groups reveals that the European Commission feels that people representing the financial industry should be allowed to set the agenda. An arms-length principle should be applied immediately."

The report is a damning indictment of the sector's political influence. The sector continues to rake in unimaginable profits, while sucking the life out of economies. Ordinary people continue to pay the price via the privatization of public assets and 'austerity'.

"The stench emanating from the financial system is a product of the decay of the entire profit system. That system must be replaced by a higher socio-economic order in which the vast wealth created by the collective labour of the world working class is deployed to meet human need. The expropriation of the banks and finance houses, placing them under public ownership and

democratic control, is the first step in implementing such a program." Nick Beams (1)

Read the full report here:
http://corporateeurope.org/sites/default/files/attachments/financial_lobby_report.pdf

Note:
1) https://www.wsws.org/en/articles/2013/02/08/pers-f08.html

THE TRUTH IS OUT: MONEY IS JUST AN IOU, AND THE BANKS ARE ROLLING IN IT

The Bank of England's dose of honesty throws the theoretical basis for austerity out the window

David Graeber; theguardian.com; via Inquring Minds

Back in the 1930s, Henry Ford is supposed to have remarked that it was a good thing that most Americans didn't know how banking really works, because if they did, "there'd be a revolution before tomorrow morning".

Last week, something remarkable happened. The Bank of England let the cat out of the bag. In a paper called "Money Creation in the Modern Economy", co-authored by three economists from the Bank's Monetary Analysis Directorate, they stated outright that most common assumptions of how banking works are simply wrong, and that the kind of populist, heterodox positions more ordinarily associated with groups such as Occupy Wall Street are correct. In doing so, they have effectively thrown the entire theoretical basis for austerity out of the window.

To get a sense of how radical the Bank's new position is, consider the conventional view, which continues to be the basis of all respectable debate on public policy. People put their money in banks. Banks then lend that money out at interest – either to consumers, or to entrepreneurs willing to invest it in some profitable enterprise. True, the fractional reserve system does allow banks to lend out considerably more than they hold in reserve, and true, if savings don't suffice, private banks can seek to borrow more from the central bank.

The central bank can print as much money as it wishes. But it is also careful not to print too much. In fact, we are often told this is why independent central banks exist in the first place. If governments could print money themselves, they would surely put out too much of it, and the resulting inflation would throw the economy into chaos. Institutions such as the Bank of England or US Federal Reserve were created to carefully regulate the money supply to prevent inflation. This is why they are forbidden to directly fund the government, say, by buying treasury bonds, but instead fund private economic activity that the government merely taxes.

It's this understanding that allows us to continue to talk about money as if it were a limited resource like bauxite or petroleum, to say "there's just not enough money" to fund social programmes, to speak of the immorality of government debt or of public spending "crowding out" the private sector. What the Bank of England admitted this week is that none of this is really true. To quote from its own initial summary: "Rather than banks receiving deposits when households save and then lending them out, bank lending creates deposits" … "In normal times, the central bank does not fix the amount of money in circulation, nor is central bank money 'multiplied up' into more loans and deposits."

In other words, everything we know is not just wrong – it's backwards. When banks make loans, they create money. This is because money is really just an IOU. The role of the central bank is to preside over a legal order that effectively grants banks the exclusive right to create IOUs of a certain kind, ones that the government will recognise as legal tender by its willingness to accept them in payment of taxes. There's really no limit on how much banks could create, provided they can find someone willing to borrow it. They will never get caught short, for the simple reason that borrowers do not, generally speaking, take the cash and put it under their mattresses; ultimately, any money a bank loans out will just end up back in some bank again. So for the banking system as a whole, every loan just becomes another deposit. What's more, insofar as banks do need to acquire funds from the central bank, they can borrow as much as they like; all the latter really does is set the rate of interest, the cost of money, not its quantity. Since the beginning of the recession, the US and British central banks have reduced that cost to almost nothing. In fact, with "quantitative easing" they've been effectively pumping as much money as they can into the banks, without producing any inflationary effects.

What this means is that the real limit on the amount of money in circulation is not how much the central bank is willing to lend, but how much government, firms, and ordinary citizens, are willing to borrow. Government spending is the main driver in all this (and the paper does admit, if you read it carefully, that the central bank does fund the government after all). So there's no question of public spending "crowding out" private investment. It's exactly the opposite.

Why did the Bank of England suddenly admit all this? Well, one reason is because it's obviously true. The Bank's job is to actually run the system, and of late, the system has not been running especially well. It's possible that it decided that maintaining the fantasy-land version of economics that has proved so convenient to the rich is simply a luxury it can no longer afford.

But politically, this is taking an enormous risk. Just consider what might happen if mortgage holders realised the money the bank lent them is not, really, the life savings of some thrifty pensioner, but something the bank just whisked into existence through its possession of a magic wand which we, the public, handed over to it.

Historically, the Bank of England has tended to be a bellwether, staking out seeming radical positions that ultimately become new orthodoxies. If that's what's happening here, we might soon be in a position to learn if Henry Ford was right.

http://www.theguardian.com/commentisfree/2014/mar/18/truth-money-iou-bank-of-england-austerity
http://www.youtube.com/watch?v=IJXZTyGY0wI&list=UUr_dQZ0irQdRiwVatkuHPcA

MONEY CREATION IN THE MODERN ECONOMY

Michael McLeay, Amar Radia and Ryland Thomas; Bank of England Quarterly Bulletin 2014

(***These excerpts have been somewhat edited – Ed))***

• This article explains how the majority of money in the modern economy is created by commercial banks making loans.
• Money creation in practice differs from some popular misconceptions — banks do not act simply as intermediaries, lending out deposits that savers place with them, and nor do they 'multiply up' central bank money to create new loans and deposits.
• The amount of money created in the economy ultimately depends on the monetary policy of the central bank. In normal times, this is carried out by setting interest rates. The central bank can also affect the amount of money directly through purchasing assets or 'quantitative easing'.

Overview

In the modern economy, most money takes the form of bank deposits. But how those bank deposits are created is often misunderstood: the principal way is through commercial banks making loans. Whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money. The reality of how money is created today differs from the description found in some economics textbooks:
• Rather than banks receiving deposits when households save and then lending them out, bank lending creates deposits.
• In normal times, the central bank does not fix the amount of money in circulation, nor is central bank money 'multiplied up' into more loans and deposits. Although commercial banks create money through lending, they cannot do so freely without limit. Banks are limited in how much they can lend if they are to remain profitable in a competitive banking system. Prudential regulation also acts as a constraint on banks' activities in order to maintain the resilience of the financial system. And the households and companies who receive the money created by new lending may take actions that affect the stock of money — they could quickly 'destroy' money by using it to repay their existing debt, for instance.

Monetary policy acts as the ultimate limit on money creation. The Bank of England aims to make sure the amount of money creation in the economy is consistent with low and stable inflation. In normal times, the Bank of England implements monetary policy by setting the interest rate on central bank reserves. This then influences a range of interest rates in the economy, including those on bank loans. In exceptional circumstances, when interest rates are at their effective lower bound, money creation and spending in the economy may still be too low to be consistent with the central bank's monetary policy objectives. One possible response is to undertake a series of asset purchases, or 'quantitative easing' (QE). QE is intended to boost the amount of money in the economy directly by purchasing assets, mainly from non-bank financial companies. QE initially increases the amount of bank deposits those companies hold (in place of the assets they sell). Those companies will then wish to rebalance their portfolios of assets by buying higher-yielding assets, raising the price of those assets and stimulating spending in the economy.

As a by-product of QE, new central bank reserves are created. But these are not an important part of the transmission mechanism. This article explains how, just as in normal times, these reserves cannot be multiplied into more loans and deposits and how these reserves do not represent 'free money' for banks.

Introduction

'Money in the modern economy: an introduction', a companion piece to this article, provides an overview of what is meant by money and the different types of money that exist in a modern economy, briefly touching upon how each type of money is created. This article explores money creation in the modern economy in more detail. The article begins by outlining two common misconceptions about money creation, and explaining how, in the modern economy, money is largely created by commercial banks making loans.

The article then discusses the limits to the banking system's ability to create money and the important role for central bank policies in ensuring that credit and money growth are consistent with monetary and financial stability in the economy. The final section discusses the role of money in the monetary transmission mechanism during periods of quantitative easing (QE), and dispels some myths surrounding money creation and QE.

Two misconceptions about money creation The vast majority of money held by the public takes the form of bank deposits. But where the stock of bank deposits comes from is often misunderstood. One common misconception is that banks act simply as intermediaries, lending out the deposits that savers place with them. In this view deposits are typically 'created' by the saving decisions of households, and banks then 'lend out' those existing deposits to borrowers, for example to companies looking to finance investment or individuals wanting to purchase houses In fact, when households choose to save more money in bank accounts, those deposits come simply at the expense of deposits that would have otherwise gone to companies in payment for goods and services. Saving does not by itself increase the deposits or 'funds available' for banks to lend. Indeed, viewing banks simply as intermediaries ignores the fact that, in reality in the modern economy, commercial banks are the creators of deposit money.

This article explains how, 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.

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. In that view, central banks implement monetary policy by choosing a quantity of reserves. And, because there is assumed to be a constant ratio of broad money to base money, these reserves are then 'multiplied up' to a much greater change in bank loans and deposits. For the theory to hold, the amount of reserves must be a binding constraint on lending, and the central bank must directly determine the amount of reserves.

While the money multiplier theory can be a useful way of introducing money and banking in economic textbooks, it is not an accurate description of how money is created in reality. Rather than controlling the quantity of reserves, central banks today typically implement monetary policy by setting the price of reserves — that is, interest rates. In reality, neither are reserves a binding constraint on lending, nor does the central bank fix the amount of reserves that are available. As with the relationship between deposits and loans, the relationship between reserves and loans typically operates in the reverse way to that described in some economics textbooks. 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 by the Bank of England. 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 Bank of England. The rest of this article discusses these practices in more detail.

Money creation in reality

As explained in ‘Money in the modern economy: an introduction’, broad money is a measure of the total amount of money held by households and companies in the economy. Broad money is made up of bank deposits — which are essentially IOUs from commercial banks to households and companies — and currency — mostly IOUs from the central bank. Of the two types of broad money, bank deposits make up the vast majority — 97% of the amount currently in circulation. And in the modern economy, those bank deposits are mostly created by commercial banks themselves.

Around 6% of the currency in circulation is made up of coins, which are produced by The Royal Mint. Of the banknotes that circulate in the UK economy, some are issued by some Scottish and Northern Irish commercial banks, although these are fully matched by Bank of England money held at the Bank. 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.

This description of money creation contrasts with the notion that banks can only lend out pre-existing money, outlined in the previous section. Bank deposits are simply a record of how much the bank itself owes its customers. So they are a liability of the bank, not an asset that could be lent out. A related misconception is that banks can lend out their reserves.

Reserves can only be lent between banks, since consumers do not have access to reserves accounts at the Bank of England.

Other ways of creating and destroying deposits

Just as taking out a new loan creates money, the repayment of bank loans destroys money. For example, suppose a consumer has spent money in the supermarket throughout the month by using a credit card. Each purchase made using the credit card will have increased the outstanding loans on the consumer’s balance sheet and the deposits on the supermarket’s balance sheet.

The fall in bank lending in the United Kingdom since 2008 is an important reason why the growth of money in the economy has been so much lower than in the years leading up to the crisis.

In practice the central bank holds other non-money liabilities. Its non-monetary assets are mostly made up of government debt. Although that government debt is actually held by the Bank of England Asset Purchase Facility, so does not appear directly on the balance sheet.

Banks making loans and consumers repaying them are the most significant ways in which bank deposits are created and destroyed in the modern economy. But they are far from the only ways. Deposit creation or destruction will also occur any time the banking sector (including the central bank) buys or sells existing assets from or to consumers, or, more often, from companies or the government.

Banks buying and selling government bonds is one particularly important way in which the purchase or sale of existing assets by banks creates and destroys money. Banks often buy and hold government bonds as part of their portfolio of liquid assets that can be sold on quickly for central bank money if, for example, depositors want to withdraw currency in large amounts.

(1) When banks purchase government bonds from the non-bank private sector they credit the sellers with bank deposits.

(2) And, as discussed later in this article, central bank asset purchases, known as quantitative easing (QE), have similar implications for money creation.

Money can also be destroyed through the issuance of long-term debt and equity instruments by banks. In addition to deposits, banks hold other liabilities on their balance sheets.

Banks manage their liabilities to ensure that they have at least some capital and longer-term debt liabilities to mitigate certain risks and meet regulatory requirements. Because these ‘non-deposit’ liabilities represent longer-term investments in the banking system by households and companies, they cannot be exchanged for currency as easily as bank deposits, and therefore increase the resilience of the bank. When banks issue these longer-term debt and equity instruments to non-bank financial companies, those companies pay for them with bank deposits. That reduces the amount of deposit, or money, liabilities on the banking sector’s balance sheet and increases their non-deposit liabilities.

(3) Buying and selling of existing assets and issuing longer-term liabilities may lead to a gap between

lending and deposits in a closed economy. Additionally, in an open economy such as the United Kingdom, deposits can pass from domestic residents to overseas residents, or sterling deposits could be converted into foreign currency deposits. These transactions do not destroy money per se, but overseas residents' deposits and foreign currency deposits are not always counted as part of a country's money supply.

Limits to broad money creation

Although commercial banks create money through their lending behaviour, they cannot in practice do so without limit. In particular, the price of loans — that is, the interest rate (plus any fees) charged by banks — determines the amount that households and companies will want to borrow. A number of factors influence the price of new lending, not least the monetary policy of the Bank of England, which affects the level of various interest rates in the economy.

In the modern economy there are three main sets of constraints that restrict the amount of money that banks can create.

(i) Banks themselves face limits on how much they can lend. In particular:

• Market forces constrain lending because individual banks have to be able to lend profitably in a competitive market.

• Lending is also constrained because banks have to take steps to mitigate the risks associated with making additional loans.

• Regulatory policy acts as a constraint on banks' activities in order to mitigate a build-up of risks that could pose a threat to the stability of the financial system.

(ii) Money creation is also constrained by the behaviour of the money holders — households and businesses. Households and companies who receive the newly created money might respond by undertaking transactions that immediately destroy it, for example by repaying outstanding loans.

(iii) The ultimate constraint on money creation is monetary policy. By influencing the level of interest rates in the economy, the Bank of England's monetary policy affects how much households and companies want to borrow. This occurs both directly, through influencing the loan rates charged by banks, but also indirectly through the overall effect of monetary policy on economic activity in

The remainder of this section explains how each of these mechanisms work in practice.

Any given individual bank can freely lend and create money without limit. That is because banks have to be able to lend profitably in a competitive market, and ensure that they adequately manage the risks associated with making loans.

Banks receive interest payments on their assets, such as loans, but they also generally have to pay interest on their liabilities, such as savings accounts. A bank's business model relies on receiving a higher interest rate on the loans (or other assets) than the rate it pays out on its deposits (or other liabilities).

Interest rates on both banks' assets and liabilities depend on the policy rate set by the Bank of England, which acts as the ultimate constraint on money creation. The commercial bank uses the difference, or spread, between the expected return on their assets and liabilities to cover its operating costs and to make profits. In order to make extra loans, an individual bank will typically have to lower its loan rates relative to its competitors to induce households and companies to borrow more. And once it has made the loan it may well 'lose' the deposits it has created to those competing banks. Both of these factors affect the profitability of making a loan for an individual bank and influence how much borrowing takes place.

For example, suppose an individual bank lowers the rate it charges on its loans, and that attracts a household to take out a mortgage to buy a house. The moment the mortgage loan is made, the household's account is credited with new deposits. And once they purchase the house, they pass their new deposits on to the house seller. The buyer is left with a new asset in the form of a house and a new liability in the form of a new loan. The seller is left with money in the form of bank deposits instead of a house. It is more likely than not that the seller's account will be with a different bank to the buyer's. So when the transaction takes place, the new deposits will be transferred to the seller's bank. The buyer's bank would then have fewer deposits than assets. In the first instance, the buyer's bank settles with the seller's bank by transferring reserves. But that would leave the buyer's bank with fewer reserves and more loans relative to its deposits than before. This is likely to be problematic for the bank since it would increase the risk that it would not be able to meet all of its likely outflows. And, in practice, banks make many such loans every day. So if a given bank financed all of its new loans in this way, it would soon run out of reserves.

Banks therefore try to attract or retain additional liabilities to accompany their new loans. In practice other banks would also be making new loans and creating new deposits, so one way they can do this is to try and attract some of those newly created deposits. In a competitive banking sector, that may involve increasing the rate they offer to households on their savings accounts. By attracting new deposits, the bank can increase its lending without running down its reserves. Alternatively, a bank can borrow from other banks or attract other forms of liabilities, at least temporarily. But whether through deposits or other liabilities, the bank would need to make sure it was attracting and retaining some kind of funds in order to keep expanding lending. And the cost of that needs to be measured against the interest the bank expects to earn on the loans it is making, which in turn depends on the level of Bank Rate set by the Bank of England. For example, if a bank continued to attract new borrowers and increase lending by reducing mortgage rates, and sought to attract new deposits by increasing the rates it was paying on its customers' deposits, it might soon find it unprofitable to keep expanding its lending. Competition for loans and deposits, and the desire to make a profit, therefore limit money creation by banks.

Managing the risks associated with making loans

Banks also need to manage the risks associated with making new loans. One way in which they do this is by making sure that they attract relatively stable deposits to match their new loans, that is, deposits that are unlikely or unable to be withdrawn in large amounts. This can act as an additional limit to how much banks can lend. For example, if all of the deposits that a bank held were in the form of instant access accounts, such as current accounts, then the bank might run the risk of lots of these deposits being withdrawn in a short period of time. Because banks tend to lend for periods of many months or years, the bank may not be able to repay all of those deposits — it would face a great deal of liquidity risk.

In order to reduce liquidity risk, banks try to make sure that some of their deposits are fixed for a certain period of time, or term. Consumers are likely to require compensation for the inconvenience of holding longer-term deposits, however, so these are likely to be more costly for banks, limiting the amount of lending banks wish to do. And as discussed earlier, if banks guard against liquidity risk by issuing long-term liabilities, this may destroy money directly when companies pay for them using deposits.

Banks also guard against liquidity risk by holding liquid assets (including reserves and currency), which either can be used directly to cover outflows, or if not can quickly and cheaply be converted into assets that can. Although if banks purchase liquid assets such as government bonds from non-banks, this could create further deposits.

Individual banks' lending is also limited by considerations of credit risk. This is the risk to the bank of lending to borrowers who turn out to be unable to repay their loans. In part, banks can guard against credit risk by having sufficient capital to absorb any unexpected losses on their loans. But since loans will always involve some risk to banks of incurring losses, the cost of these losses will be taken into account when pricing loans. When a bank makes a loan, the interest rate it charges will typically include compensation for the average level of credit losses the bank expects to suffer. The size of this component of the interest rate will be larger when banks estimate that they will suffer higher losses, for example when lending to mortgagors with a high loan to value ratio. As banks expand lending, their average expected loss per loan is likely to increase, making those loans less profitable. This further limits the amount of lending banks can profitably do, and the money they can therefore create.

Market forces do not always lead individual banks to sufficiently protect themselves against liquidity and credit risks. Because of this, prudential regulation aims to ensure that banks do not take excessive risks when making new loans, including via requirements for banks' capital and liquidity positions. These requirements can therefore act as an additional brake on how much money commercial banks create by lending..

So far this section has considered the case of an individual bank making additional loans by offering competitive interest rates — both on its loans and deposits. But if all banks simultaneously decide to try to do more lending, money growth may not be limited in quite the same way. Although an individual bank may lose deposits to other banks, it would itself be likely to gain some deposits as a result of the other banks making loans.

There are a number of reasons why many banks may choose to increase their lending markedly at the same time. For example, the profitability of lending at given interest rates could increase because of a general improvement in economic conditions. Alternatively, banks may decide to lend more if they perceive the risks associated with making loans to households and companies to have fallen. This sort of development is sometimes argued to be one of the reasons why bank lending expanded so much in the lead up to the financial crisis. But if that perception of a less risky environment were unwarranted, the result could be a more fragile financial system. One of the responses to the crisis in the United

Kingdom has been the creation of a macroprudential authority, the Financial Policy Committee, to identify, monitor and take action to reduce or remove risks which threaten the resilience of the financial system as a whole.

As the households and companies who take out loans do so because they want to spend more, they will quickly pass that money on to others as they do so. How those households and companies then respond will determine the stock of money in the economy, and potentially have implications for spending and inflation.

There are two main possibilities for what could happen to newly created deposits. First, the money may quickly be destroyed if the households or companies receiving the money after the loan is spent wish to use it to repay their own outstanding bank loans. This is sometimes referred to as the 'reflux theory'. For example, a first-time house buyer may take out a mortgage to purchase a house from an elderly person who, in turn, repays their existing mortgage and moves in with their family. As discussed earlier, repaying bank loans destroys money just as making loans creates it. So, in this case, the balance sheet of consumers in the economy would be returned to the position it was in before the loan was made.

The second possible outcome is that the extra money creation by banks can lead to more spending in the economy. For newly created money to be destroyed, it needs to pass to households and companies with existing loans who want to repay them. But this will not always be the case, since asset and debt holdings tend to vary considerably across individuals in the economy.(5) Instead, the money may initially pass to households or companies with positive holdings of financial assets: the elderly person may have already paid off their mortgage, or a company receiving money as a payment may already have sufficient liquid assets to cover possible outgoings. They may then be left holding more money than they desire, and attempt to reduce their 'excess' money holdings by increasing their spending on goods and services. (In the case of a company it may instead buy other, higher-yielding, assets.)

These two scenarios for what happens to newly created money — being quickly destroyed or being passed on via spending — have very different implications for economic activity. In the latter, the money may continue to be passed between different households and companies each of whom may, in turn, increase their spending. This process — sometimes referred to as the 'hot potato' effect — can lead, other things equal, to increased inflationary pressure on the economy. In contrast, if the money is quickly destroyed as in the former scenario, there need be no further effects on the economy.

This section has so far discussed how the actions of banks, households and companies can affect the amount of money in the economy, and therefore inflationary pressure. But the ultimate determinant of monetary conditions in the economy is the monetary policy of the central bank.

One of the Bank of England's primary objectives is to ensure monetary stability by keeping consumer price inflation on track to meet the 2% target set by the Government. And, as discussed in the box on pages 22–23, over some periods of time, various measures of money have grown at a similar rate to nominal spending, which determines inflationary pressure in the economy in the medium term. So setting monetary policy appropriately to meet the inflation target should ultimately ensure a stable rate of credit and money creation consistent with meeting that target. This section explains the relationship between monetary policy and different types of money.

In normal times, the Monetary Policy Committee (MPC), like most of its equivalents in other countries, implements monetary policy by setting short-term interest rates, specifically by setting the interest rate paid on central bank reserves held by commercial banks. It is able to do so because of the Bank's position as the monopoly provider of central bank money in the United Kingdom. And it is because there is demand for central bank money — the ultimate means of settlement for banks, the creators of broad money — that the price of reserves has a meaningful impact on other interest rates in the economy. The interest rate that commercial banks can obtain on money placed at the central bank influences the rate at which they are willing to lend on similar terms in sterling money markets — the markets in which the Bank and commercial banks lend to each other and other financial institutions.

Changes in interbank interest rates then feed through to a wider range of interest rates in different markets and at different maturities, including the interest rates that banks charge borrowers for loans and offer savers for deposits. By influencing the price of credit in this way, monetary policy affects the creation of broad money.

This description of the relationship between monetary policy and money differs from the description in many introductory textbooks, where central banks determine the quantity of broad money via a 'money multiplier' by actively varying the quantity of reserves. In that view, central banks implement monetary policy by choosing the quantity of reserves. And, because there is assumed to be a stable ratio of broad money to base money, these reserves are then 'multiplied up' to a much greater change in bank deposits as banks increase lending and deposits.

Neither step in that story represents an accurate description of the relationship between money and monetary policy in the modern economy. Central banks do not typically choose a quantity of reserves to bring about the desired short-term interest rate. Rather, they focus on prices — setting interest rates. The Bank of England controls interest rates by supplying and remunerating reserves at its chosen policy rate. The supply of both reserves and currency (which together make up base money) is determined by banks' demand for reserves both for the settlement of payments and to meet demand for currency from their customers — demand that the central bank typically accommodates.

This demand for base money is therefore more likely to be a consequence rather than a cause of banks making loans and creating broad money. This is because banks' decisions to extend credit are based on the availability of profitable lending opportunities at any given point in time. The profitability of making a loan will depend on a number of factors, as discussed earlier. One of these is the cost of funds that banks face, which is closely related to the interest rate paid on reserves, the policy rate.

In contrast, the quantity of reserves already in the system does not constrain the creation of broad money through the act of lending. This leg of the money multiplier is sometimes motivated by appealing to central bank reserve requirements, whereby banks are obliged to hold a minimum amount of reserves equal to a fixed proportion of their holdings of deposits. But reserve requirements are not an important aspect of monetary policy frameworks in most advanced economies today.

A looser stance of monetary policy is likely to increase the stock of broad money by reducing loan rates and increasing the volume of loans. And a larger stock of broad money, accompanied by an increased level of spending in the economy, may cause banks and customers to demand more reserves and currency. So, in reality, the theory of the money multiplier operates in the reverse way to that normally described.

QE — creating broad money directly with monetary policy

The previous section discussed how monetary policy can be seen as the ultimate limit to money creation by commercial banks. But commercial banks could alternatively create too little money to be consistent with the economy meeting the inflation target. In normal times, the MPC can respond by lowering the policy rate to encourage more lending and hence more money creation. But, in response to the financial crisis, the MPC cut Bank Rate to 0.5% — the so-called effective lower bound.

Once short-term interest rates reach the effective lower bound, it is not possible for the central bank to provide further stimulus to the economy by lowering the rate at which reserves are remunerated. One possible way of providing further monetary stimulus to the economy is through a programme of asset purchases (QE).

One of the Bank of England's primary objectives is to ensure monetary stability by keeping inflation on track to meet the Government's 2% target. Milton Friedman (1963) famously argued that 'inflation is always and everywhere a monetary phenomenon'. So changes in the money supply may contain valuable information about spending and inflationary pressure in the economy. Since money is essential for buying goods and services, it is likely to contain corroborative information about the current level of nominal spending in the economy. It may also provide incremental information about future movements in nominal spending, and so can be a useful indicator of future inflationary pressure. Finally, the behaviour of money may help to reveal the nature of the monetary transmission mechanism, especially when monetary policy is operated through 'quantitative easing' (QE).

In practice, a key difficulty is assessing which measures of money are the appropriate ones to look at for each of the different purposes. The Bank currently constructs a number of monetary aggregates and publishes a range of data. Given the various changes in the UK monetary regime over the past 150 years, it is unlikely that a single monetary indicator perfectly captures both the corroborative and incremental information in money. The UK financial sector has also undergone various structural changes that need to be taken into account when considering the underlying link between money and spending. For example, during periods when the financial sector has grown relative to the rest of the economy (such as in the early 1980s and the 2000s), broad money has tended to grow persistently faster than nominal spending.

Narrower measures of money, such as notes and coin and sight deposits (accounts that can be withdrawn immediately without penalty) are, in principle, better corroborative indicators of spending, as these are likely to be the types of money used to carry out the majority of transactions in goods and services in the economy. The sum of notes and coin and sight deposits held by the non-bank private sector is sometimes known as zero maturity money or 'MZM'.

Broader measures of money might be more appropriate as incremental indicators of future spending and more revealing about the nature of the transmission mechanism. M2, for example, additionally includes household time deposits such as savings accounts. And M4 is an even broader measure, including all sight and time deposits held by non-financial companies and non-bank financial companies. The main article describes how QE works by first increasing the deposits of financial companies. As these companies rebalance their portfolios, asset prices are likely to increase and, with a lag, lead to an increase in households' and companies' spending. So monitoring broad money has been an important part of assessing the effectiveness of QE.

A number of econometric studies have suggested that sectoral movements in broad money may also provide valuable incremental information about spending in the economy. For example, non-financial companies' deposits appear to be a leading indicator of business investment in the economy.

One can also try and weight different types of narrow and broad money together using some metric of how much each type of money is used in transactions — known as a Divisia index. In practice, the interest paid on a given type of money is typically used as a weighting metric. That is because individuals and companies are only likely to hold money which earns a low interest rate relative to other financial instruments if it compensates them by providing greater transactions services.

Identifying the appropriate measurement of money has been complicated by the continued development of the financial sector. This has both expanded the range of instruments that might serve as money and the range of financial institutions that borrow from and deposit with the traditional banking system. For example, sale and repurchase agreements (known as repos) — where a company agrees to buy a security from a bank with agreement to sell it back later — are currently included in M4 since the claim held on the bank can be thought of as a secured deposit.

In addition, some economists have argued that a range of instruments that provide collateral for various types of borrowing and lending could also be included in a broader measure of money. Moreover, many of the non-bank institutions that hold deposits mainly intermediate between banks themselves. The deposits of these institutions, known as 'intermediate other financial corporations' (IOFCs), are likely to reflect activities within the banking system that are not directly related to spending in the economy. For this reason, the Bank's headline measure of broad money is M4ex, which excludes IOFC deposits.

QE involves a shift in the focus of monetary policy to the quantity of money: the central bank purchases a quantity of assets, financed by the creation of broad money and a corresponding increase in the amount of central bank reserves. The sellers of the assets will be left holding the newly created deposits in place of government bonds. They will be likely to be holding more money than they would like, relative to other assets that they wish to hold. They will therefore want to rebalance their portfolios, for example by using the new deposits to buy higher-yielding assets such as bonds and shares issued by companies — leading to the 'hot potato' effect discussed earlier. This will raise the value of those assets and lower the cost to companies of raising funds in these markets. That, in turn, should lead to higher spending in the economy. The way in which QE works therefore differs from two common misconceptions about central bank asset purchases: that QE involves giving banks 'free money'; and that the key aim of QE is to increase bank lending by providing more reserves to the banking system, as might be described by the money multiplier theory. This section explains the relationship between money and QE and dispels these misconceptions.

The link between QE and quantities of money

QE has a direct effect on the quantities of both base and broad money because of the way in which the Bank carries out its asset purchases. The policy aims to buy assets, government bonds, mainly from non-bank financial companies, such as pension funds or insurance companies. Consider, for example, the purchase of £1 billion of government bonds from a pension fund. One way in which the Bank could carry out the purchase would be to print £1 billion of banknotes and swap these directly with the pension fund. But transacting in such large quantities of banknotes is impractical. These sorts of transactions are therefore carried out using electronic forms of money.

As the pension fund does not hold a reserves account with the Bank of England, the commercial bank with whom they hold a bank account is used as an intermediary. The pension fund's bank credits the pension fund's account with £1 billion of deposits in exchange for the government bonds. The Bank of England finances its purchase by crediting reserves to the pension fund's bank — it gives the commercial bank an IOU. The commercial bank's balance sheet expands: new deposit liabilities are matched with an asset in the form of new reserves.

Two misconceptions about how QE works

Why the extra reserves are not 'free money' for banks. While the central bank's asset purchases involve — and affect — commercial banks' balance sheets, the primary role of those banks is as an intermediary to facilitate the transaction between the central bank and the pension fund. The additional reserves are simply a by-product of this transaction. It is sometimes argued that, because they are assets held by commercial banks that earn interest, these reserves represent 'free money' for banks. While banks do earn interest on the newly created reserves, QE also creates an accompanying liability for the bank in the form of the pension fund's deposit, which the bank will itself typically have to pay interest on. In other words, QE leaves banks with both a new IOU from the central bank but also a new, equally sized IOU to consumers (in this case, the pension fund), and the interest rates on both of these depend on Bank Rate.

Why the extra reserves are not multiplied up into new loans and broad money

As discussed earlier, the transmission mechanism of QE relies on the effects of the newly created broad — rather than base — money. The start of that transmission is the creation of other assets Topical articles Money creation in the modern economy bank deposits on the asset holder's balance sheet in the place of government debt. Importantly, the reserves created in the banking sector do not play a central role. This is because, as explained earlier, banks cannot directly lend out reserves. Reserves are an IOU from the central bank to commercial banks. Those banks can use them to make payments to each other, but they cannot 'lend' them on to consumers in the economy, who do not hold reserves accounts. When banks make additional loans they are matched by extra deposits — the amount of reserves does not change.

Moreover, the new reserves are not mechanically multiplied up into new loans and new deposits as predicted by the money multiplier theory. QE boosts broad money without directly leading to, or requiring, an increase in lending. While the first leg of the money multiplier theory does hold during QE — the monetary stance mechanically determines the quantity of reserves — the newly created reserves do not, by themselves, meaningfully change the incentives for the banks to create new broad money by lending. It is possible that QE might indirectly affect the incentives facing banks to make new loans, for example by reducing their funding costs, or by increasing the quantity of credit by boosting activity. But equally, QE could lead to companies repaying bank credit, if they were to issue more bonds or equity and use those funds to repay bank loans. On balance, it is therefore possible for QE to increase or to reduce the amount of bank lending in the economy. However these channels were not expected to be key parts of its transmission: instead, QE works by circumventing the banking sector, aiming to increase private sector spending directly.

Conclusion

This article has discussed how money is created in the modern economy. Most of the money in circulation is created, not by the printing presses of the Bank of England, but by the commercial banks themselves: banks create money whenever they lend to someone in the economy or buy an asset from consumers. And in contrast to descriptions found in some textbooks, the Bank of England does not directly control the quantity of either base or broad money. The Bank of England is nevertheless still able to influence the amount of money in the economy. It does so in normal times by setting monetary policy — through the interest rate that it pays on reserves held by commercial banks with the Bank of England. More recently, though, with Bank Rate constrained by the effective lower bound, the Bank of England's asset purchase programme has sought to raise the quantity of broad money in circulation. This in turn affects the prices and quantities of a range of assets in the economy, including money.

POSTIVE MONEY BULLETIN

Ben Dyson; Positive Money Team

Huge milestone in our campaign

When we launched the Positive Money campaign 3 and half years ago and started talking about the fact that banks create money, we were faced with disbelief and shock. A common response was: 'I don't believe you. I think you just made that up.' We had to spend a lot of time and energy to convince people that this is the way the system works.

At that time there was no official document by the Bank of England describing how the money system really works and serious factual misinformation in economics textbooks.That was a time when we could only dream of these kind of tweets from the Bank of England:

YES, it looks like it was copied from the Positive Money website... and NO, this is not a spoof … These are real tweets from the real Bank of England's twitter account!

Now, after 3 and half years of hard work, after we teamed up with the New Economics Foundation and wrote "Where Does Money Come From?" in order to have something to back our arguments, now - at last - the Bank of England has released official papers explaining that money is created by commercial banks! And there's even an official video about it!

The Bank of England is the first major central bank in the world - that we know of - to publish something as clear and explicit as this. This means a huge milestone in our campaign for a just and fair money system. Finally, there's a simple video and a paper to send to all those economists, academics, politicians and anyone shaking their head in disbelief! It should reduce drastically the time wasted in persuading people of all types to accept our analysis of the problems.

We'd like to say a BIG Thank you to all of you who helped us to get to this point!

Positive Money’s Chief Economist leaves now that Bank of England knows where money comes from...In March 2011, Andrew Jackson joined our team and has led our research ever since. He co-authored the books “Where Does Money Come From?” and "Modernising Money" and several Positive Money publications. Andrew is now starting a full-time PhD with the highly regarded Professor Tim Jackson (author of Prosperity without Growth) and will be stepping back from work with Positive Money. In a strange coincidence, on Andrew’s last day in the office, the Bank of England published the new paper mentioned above explaining exactly how money is created in the modern banking system. The paper actually references "Where Does Money Come From?", the first book that Andrew worked on. That’s a great finish to 3 years of hard work to educate people about the reality of money!

More from the Blog

It’s official! Economics students are being misinformed, says Bank of England
Positive Money’s Chief Economist leaves as Bank of England now knows where money comes from
The Bank of England dismisses the ‘money multiplier’ theory
Building a movement for change (A Report of Positive Money’s 2014 Conference)
Will Green Party in Ireland pass full reserve banking motion?
Adair Turner on the Politics of Finance on BBC Radio 4

Some good news! 16 of you have donated so far in the last 5 days to help us hire a Network Coordinator who will help build and grow the grassroots movement. You’ve helped us to increase our monthly donations by £269 and you’ve sent £50 in one-off donations so far. This is a good step forward, but we've still got some way to go. Can you help? Thank you, Positive Money wouldn't exist without your help.

We're hiring - Can you help?

We’re looking for the next full-time member of the Positive Money team. Can you help us to find them, or to fund the work they will do?

We've made huge progress since we last added someone full-time to the team (Our executive director Fran Boait, back in November 2012).

We've reached the point where even the Bank of England is tweeting that banks create 97% of the money in the economy. Adair Turner, the former head of the UK’s Financial Services Authority, has said that this is "one of the most fundamental things that needs to be taught to economics undergraduates". The book that we co-authored with the colleagues from the New Economics Foundation is now on the reading list in five UK universities. Over 49,000 people shared David Graeber’s Guardian article about the way that money is created by banks. And our conference 4 weeks ago attracted 240 people (40 of them flew in from outside the UK).

What We Need To Do:

We don't need to argue with people about whether or not banks create money any more; the Bank of England has helpfully settled that debate with their recent paper, “Money Creation in the Modern Economy”.

But now we need to show everyone how allowing banks to create money has led to the highest-ever levels of personal debt and an ever-growing gap between the very richest and the rest of us. It has made housing unaffordable, while providing subsidies and safety nets for the big banks.

We need to show that we can have a money system that works for society and not against it.

That means taking all the energy of the thousands of us involved in this movement and making sure we're working in the same direction.

So we're looking for a network coordinator who will deal with the many supporters, activists and professionals who want to contribute to the movement.

There are two ways you can help:

Help us find this person, by sending them the text and link to the job description.

We're keen to find the right person. If you have friends who might be suitable, you can copy the following text and send it to them (or just forward this whole email): Positive Money is looking for a full-time network coordinator to work with the PM team, supporters and professionals to grow the movement for a money system that works for society and not against it.

Why this is so important:

The movement is growing rapidly. We currently have 18 local groups around the UK, and another 12 forming right now. Positive Money supporters have set up sister organisations in 17 different countries, and we're trying to give them support and guidance whilst they grow. Members of political parties want our advice on how to get monetary reform into party policy. And we have people from the finance, banking, debt advice, and business sectors who want to use their expertise to strengthen the movement for reform of money and banking.

That's already more than the three of us can handle right now. So the new 'Network Coordinator' will work with us to take up more of the opportunities that are coming our way and ensure the movement grows as quickly as possible.

Help us fund this essential role

Now that Andrew has moved on we've freed up some of the budget to help pay for this new member of the team. But we're still short of the full amount, so anything you can donate will help.

Set up a donation in just 3 minutes. Commit to a Monthly Donation Now & RH Southern Trust will Double Your Donation!

The R H Southern Trust has offered to match all monthly donations set up before the end of April, for the next 12 months. That means that if you donate £10 a month by direct debit or standing order, the RH Southern Trust will donate an additional £120 to Positive Money, doubling your donation!

What If You Already Donate?

We're hugely grateful to everyone who currently donates – around half of our funding comes from individuals like you. RH Southern Trust will also match any increased monthly donations from current donors, so if you increase your donation now by £5 a month, it'll be worth an extra £10 a month to Positive Money for the next 12 months. You can increase your donation by emailing mira@positivemoney.org or replying to this email.

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