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Modern Money Mechanics as a Basis of Economic "Slavery"

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Abstract: In this article, the issues of organization of currency circulation in the United States of America are studied as an example demonstrating the enslaving power of the modern monetary system for the society through emission and circulation of monetary units. The process of banknotes emission upon the security of debt securities and the influence of deposit and credit operations on the increase of the money stock is covered briefly. In addition, the dependence of the national debt growth and inflation on the uncontrolled increase of the money stock is illustrated. In this research, the author assumes that the current process of currency emission and circulation is a special institution, which acts with the only purpose to enslave the society and use it as economic "slaves", which theory is supported by adequate conclusions.

Key words: Money · Monetary system · Credit operations · Federal Reserve System · Inflation · Banks · Debt · Default · Crisis · Slavery · Society · Government

INTRODUCTION

The modern society is based on the variety of institutions and organizations, starting with the political, legal, religious and cultural ones and ending with institutions for social classes, family values, etc. All of these structures strongly influence the development of the society as a whole and formation of visions of individuals. However, none of the state segments that accompany us during the whole life is as common and at the same time incomprehensible as the monetary system.

By now, money has become such an important element of the society's life that we cannot imagine our existence without these parts of colored paper and metal. Currently, the sense of life of most people on the planet is limited by receiving and accumulating money; they strive to earn as much as possible and it has become so important that it has penetrated into such belief concepts as religion. Money has become a goal rather than a means as it was when invented. But the humankind has forgotten about it on the background of intensive development of production powers and relations and the endless rush for satisfying people's own perpetual needs. And how is the money created? What rules regulate this process? What gives value to money? And how does it influence the level of the society life? None of these questions interests contemporary consumers.

The monetary system acting in the same scope as religion has been unconditionally accepted by the society and approved by most countries. It acts as one of the most powerful forms or parities of controlling population.

In the world, in which 1% of the population owns 60% of the total wealth (according the 2012 data of the Credit Suisse Bank), there are 29 million dollar millionaires. At the same time, 40,000 children die every day of poverty and diseases, which could have been prevented and 50% of population live for 3 dollars a day [1]. It is now obvious that something is so wrong in the current world order. And whether or not we understand it, the life source of all institutions we have created is the money. Consequently, understanding of this institution in its current form is necessary in order to clarify why we live in this manner.

If we try to understand the financial system, it initially seems to be very complex and knotty. Endless flows of complex financial terms along with terrifying mathematics put people off understanding this institution. But, actually, the complexity of the financial system is just a mask, which was created with the only purpose to hide the one of the most powerful and paralyzing the society structures, which has been tolerated by the humankind for many years.

Finally, in order to show the paralyzing effect of the monetary system on the society and the state, we will consider the processes of creation, emission and

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circulation of the most popular world currency of our time - the US Dollar. Why did we take this currency as an example? The reason is simple. Dollar is currently such an important element of the world financial system that every slightest fluctuation of the dollar affects the whole system of international financial relations.

In the USA, the functions of a central bank are assigned to the Federal Reserve System (FRS) – an independent agency, established on December 23, 1913, under the Federal Reserve Act for centralized supervision over commercial banks and regulation of the national monetary and credit system. Though the agency is called *federal*, it does not have any government share as its capital is joint and private with special status of its shares and the activity of the agency is completely independent from the President and the executive or legislative power branches [2].

So how does the emission of monetary units for circulation take place in the USA? According to the provisions of the most recent international currency conference (Jamaica, 1976), goods produced in a country and the assets of the central bank of the country must serve as security for emission of monetary units, which means that the value of money must be equal to the cost of goods produced in the country.

In the USA, the emission of dollars takes place in the following way: The US Government takes a decision that it needs a certain amount of money and applies to the Federal Reserve with a request for emission of $1 billion. FRS replies to the request of the US Government and emits the required amount of money with the reserve that the US Government will issue and submit to FRS debt interest-bearing bonds. It means that in order to emit $1 billion, the Federal Reserve purchases governmental treasury bonds at the nominal value of $1 billion, after which FRS transfers from its account to the account of the US Government $1 billion thus adding them to the US reserve. The whole *transaction* is accomplished in electronic form without any papers; actually, only 3% of the monetary reserve of the USA is represented physically. It turns out so that a billion of new money has been created virtually from nothing. Treasury bonds are debt obligations and when FRS purchases bonds for the money, which has been created from nothing, the government promises to return this money to FRS in the amount of the nominal value of the bonds and interest on them for the period of circulation of the securities [3]. In other words, the money was created out of the debt. Therefore, a counterintuitive question arises: how can value or money be created from debt?

We need to recollect that initially money appeared due to the necessity to assist commodity circulation between the participants of an exchange. The most rare goods served as money (they gained the status of exchange goods, exchange equivalent), as there was a permanent demand for them and they could be exchanged for any required goods and therefore they had value. Then, after a short evolution of money, we can trace the transfer to metal, golden and silver coins and papers secured by gold, as paper money represent a value that exceeds their real value. This means that there should be an asset, which secures the value. And, finally, the contemporary system, in which money started appearing without being secured by either gold or any produced goods. In other words, they do not cost anything and are not secured with anything. Money is just a commodity meant to be used at exchanging other goods. And such specific commodity cannot be created out of debt, otherwise it has no value.

Money emission under a debt security is not the only fact that contradicts all principles of economics. Further to our example: This $1 billion that has been created for the US Government is transferred from the FRS account to the account of the US Government at another bank. Then, another interesting procedure takes place. According to the modern money mechanics, a partial reservation is made on every money deposit made to in a commercial bank in the amount set by FRS, which is currently 10%. This means, that for a deposit of $1 billion, 10% or $100 million remains as a required reserve and the rest 900 million are the excessive reserve and can be used by the bank for new loans. Accordingly, we assume that $900 million was created out of the $1 billion deposit. Actually, $900 million were just created from nothing on top of the deposit of $1 billion, just because there is a claim for such a loan and a deposit of $1 billion has been received in order to meet the reserve claim. It turns out so that the bank now has $1.9billion according to the principles of modern money mechanics: "Banks do not use the money that has been deposited as in this case it would not be able to use it for new loans; it just creates it in addition to the deposit, which has been received to the account" [3]. Let us assume that someone borrows these$900 million from the bank and placed this money to his account at another bank. The procedure will repeat again. From this deposit, a reserve in the amount of 10% or $90 million will be taken and the rest 90% or $810 million will now be available as newly created money for further loans. This cycle of creating new money can repeat endlessly (refer to Table 1):

Table 1: Increase of money stock through credit and loan operations of commercial banks.

Banks	Deposit ($)	Required reserve amount ($)	Real increase of money stock ($)
Bank 1	1,000,000,000	100,000,000	1,000,000,000
Bank 2	900,000,000	90,000,000	1,900,000,000
Bank 3	810,000,000	81,000,000	2,710,000,000
Bank 4	729,000,000	72,900,000	3,439,000,000
Bank 5	656,100,000	65,610,000	4,095,100,000
Bank 6	590,490,000	59,049,000	4,685,600,000
Bank 7	………..	………..	………….

On the average, $9 billion of new money that is not secured with anything can be created out of the initially emitted $1 billion.

Obviously, a reasonable question arises: What gives value to the money or what is the money secured with? The answer is simple: The money that is already in circulation. In other words, the newly emitted money "steal value" from the existing one. And as the amount of money increases disregarding the demand for goods and services, the prices grow, too, thus decreasing the purchasing power of each monetary unit.

What are the consequences of such increase of the money offer? Let us carry out the mental experiment of the philosopher David Hume (who was one of the first economists) and ask ourselves, "What would happen if a kind fairy would suddenly have put money in our pockets, purses and bank deposits thus increasing twofold the total amount of money? Would we become twice as rich?" Probably, not. Because people acquire wealth through multiple goods and their abundance. The goods themselves are limited with rare resources required for their production, earth, labor and capital. The increase of the money quantity would not create these resources and not transform them into useful consumption goods. For some time, we would be thinking we have become twice as rich. Actually, the increase of money would only lead to their dissolution in the existing money stock in circulation. As the money offer grows, the demand for goods would grow, too. After that, people who have acquired such wealth would rush into spending it and this would cause twofold growth of prices for the goods proportional to the increase of money. Of course, it is quite approximated, but while the money offer grows without proportional growth of the production of goods, the money would compete with each other for the available goods, which would cause continuous growth of prices until the demand is satisfied [4].

Thus, as the money offer increases, its own value would start decreasing just as it happens with any other goods. However, the increase of the quantity of any other goods is socially beneficial, while the increase of money quantity along with the unchanging offer of resources, labor and goods is useless for the society. It does not make the society richer indeed. The increase of the quantity of consumer and capital goods influences the quality of life positively and emission of new money only results in the price increase dissolving the purchasing power of money. This process is called *inflation*, which is actually a latent tax for the society.

The increase of money stock (the total amount of all money in circulation) if not accompanied with increase of the quantity of goods and services would inevitably cause monetary depreciation. Below, charts of the US dollar historical value and the increase of money stock are provided. The inverse relation of these indicators is obvious (refer to Figures 1 and 2) [5, 6].

This data shows, for example, that $1 in 1913 is equal to $23 in 2010. Since the time when the Federal Reserve appeared, the dollar depreciation rate has exceeded 100%. As absurd in the reality this tendency of eternal inflation is, so is absurd the complete monetary and financial system of the USA. In this system, money turns to debt and the debt is money [7].

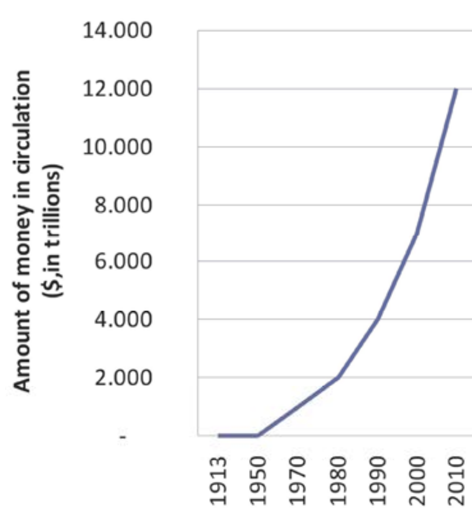

Fig. 1: The US money stock

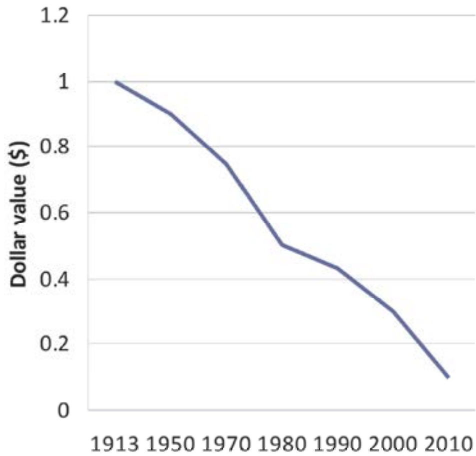

Fig. 2: Purchasing Power of the US Dollar

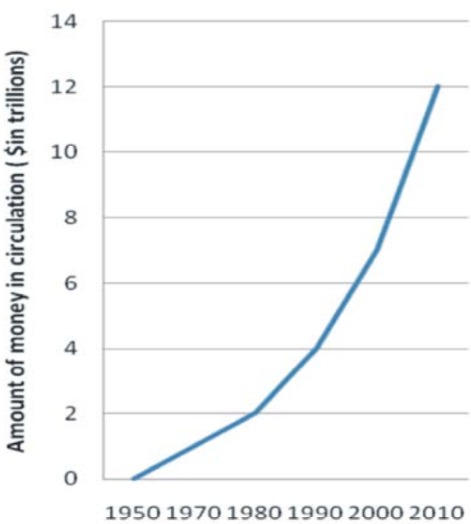

Fig. 3: The US money stock

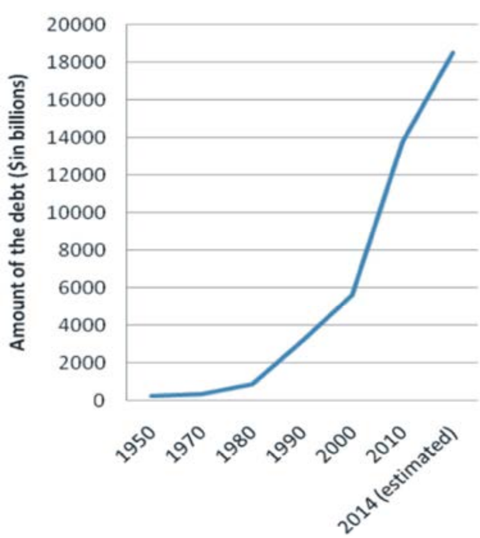

Fig. 4: The national debt of the USA

Let us proceed from the inflation to the determination of the influence of the money stock growth on the size of the US national debt. Let us consider the chart of money stock growth over the period between 1950 and 2010 and the US national debt growth chart over the same period (refer to Figures 3 and 4) [6, 8]:

These figures show a direct dependence between the increase of money stock and the growth of the national debt. So, the US national debt in 2014 is expected to equal $18 trillion while the money stock is expected to equal $14 trillion. It may seem that the more money there is, the less the debt should be. If more money appears - the debt increases and as the debt increases - even more money appears. In other words, a natural way to create money is to lend money to someone; therefore, if everyone including the state had paid off his debts, the dollar would cease to be, because every dollar that is owned by anyone was once borrowed by someone. In this case, we need to quote one of the top executives of the Federal Reserve - Marriner Ecless - who said on September 30, 1941, "When there are no debts in our monetary system, there will be no money."

Thus, we have found out that money appears from debts through loans, which are based on reserves and the reserves originate from bank deposits. Due to the system of partial reservation, the initial deposit creates an amount nine times as large, thus depreciating the money stock and making prices to grow. And as this money is created from debts and chaotically circulates in trade, people have become separated from their real debts. Consequently, the depreciation occurs in that sphere, in which population has to work for peanuts in order to pay off debts and earn some small money for living.

In the context of the above, it is worth recollecting one very important element of the whole structure, which element reflects the fraudulent nature of the modern money system – it is the interest. Because FRS is a commercial bank and, as we know, it lends money on condition of interest payment. Government when borrowing money from FRS, just like any other client who borrows money in a commercial bank, is obliged to return it after some definite period with interest accrued. In other words, every emitted dollar must be returned back to Federal Reserve with interest. So, if all money has been borrowed from FRS and multiplied by other banks through their loans, then only the total of the loans is the money stock and where should the money to cover interest is to be taken from? The answer is, "From nowhere, it does not exist." Because the quantity of money that we owe the bank is always larger than the quantity of money in circulation. This is why inflation will exist eternally and its rate will keep on growing. And, in order to return the amount of the loan with interest, the government has to apply for new loans in order to pay off current loans. Consequently, it is logical that defaults, crises and bankruptcy are the constituent elements of the system, which guarantees that major part of the society will always suffer from the endless deficiency of monetary notes. This is where the whole idea lies – our income will inevitably become the income of the bank. And it turns out so that defaults are inevitable because it is the cornerstone of the contemporary monetary system.

The population is not capable to realize the paralyzing nature of the system, because we cannot stop playing the game of eternal wealth and permanently rushing for enrichment and accumulation of capital. All the above-said brings us to the original question: why and with what purpose was this system created? Initially, the dollar was invented in order to avoid high interest rates on loans offered by European banks during the civil war in the middle of 19thcentury. As a free currency, independent of the debt, it was called *banknote*. After that, a document circulating between private American and European banks appeared. It read: "... slavery is but the owning of labor and carries with it the care of the laborers, while the European plan, led on by England, is that capital shall control labor by controlling wages... It will not do to allow the greenback, as it is called, to circulate as money any length of time, as we cannot control that..." [9] At that time, the predecessors of the creators of the contemporary bank system knew what the establishment of this monetary unit could lead to in the form, which we have just reviewed.

The system of the Federal Reserve, which has expanded its influence and practice over the major part of banks in the world, is the system of modern economical "slavery" as we understand it out of the research provided within this work. What do usually people that are in debt do? They start working to pay off the debt. But, if the money is created from loans, the society will never be able to get rid of them. And here lies the concept – to cause population to be afraid to lose their property and permanently struggle for more, permanently staying in debt and with inflation integrated into the system combined with inevitable deficiency inside the money reserve itself, which is caused by interest that cannot be paid off and keep the population directly dependent from the monetary system. Citizen of contemporary developed countries are just like millions of squirrels that rotate their wheels supplying their empires with energy, which will be available only to the elite group sitting on the top of the pyramid. Finally, whom do we actually work for? For banks. Money is created in banks and ends in banks [10].

Physical slavery requires that slaves must have a roof over their heads and food, which are to be provided by their master. Economical "slavery" requires that people must provide themselves with all necessary things and pay on top of that the tribute to their masters in the form of paying off loans, interests and taxes. This is the most genius deception of the society that has ever existed in the history. It hides in the invisible war against the population. In this war, debt is the weapon used for conquering and enslaving the society and the debt interest is the ammo. Thus, we have come to the definition of economic "slavery" as a form of perfect control of the society through the organization of a monetary system based on debt and endless deficiency, bankruptcy and crises. As this money mechanics system perfects and develops, so new forms and tactics of economic enslaving countries and populations improve.

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