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Judeo-Christian justice: *"Doth our law judge any man, before it hear him, and know what he doeth?" (John 7:51)*

Roman justice: *"To whom I answered, It is not the manner of the Romans to deliver any man to die, before that he which is accused have the accusers face to face, and have licence to answer for himself concerning the crime laid against him." (Acts 25:16)*

American justice: *"Just kill him [Osama bin Laden]" – Barack Obama*

Recently a Christian from Australia wrote to ask, "Why are American Christians so bloodthirsty? Why do they support the war in Iraq, no matter how many innocent people are made to suffer?" … Many Christians in America will blindly support whichever war their president promotes, with the assumption that his much-advertised praying guarantees us that God approves of all those bombs and missiles, and even the inevitable collateral damage.

Whereas evangelical churches used to teach compassion (in liberal doses, not conservative soundbites) and warn against responding to threats or attacks with violence, today's conservative churches urge parishioners to support capital punishment, zero-tolerance policies of all kinds, and corporal punishment to "shape the will" of babies, toddlers, and children. Someone raised in this kind of environment grows up to become an adult who's afraid to step out of line, and who naturally resents or even hates those who feel free to do so.

But most importantly, conservative Christianity in the U.S. has succumbed to that which it has, in decades past, most rigorously warned against: moral relativism. By restricting any discussion of morality to sexual behaviour, right-wing politicians have obliterated the once-central Christian teaching that the way we treat others is of paramount importance to God. Cleverly "working the room," pro-war politicians have infiltrated churches to such a degree that killings and torture are no longer within the province of morality. When morality is only about sex, no aspect of war – even the killing of entire families – can arouse criticism, much less condemnation.

In short, everything that happens in the execution of war, even that which is flagrantly in violation of the moral values that Jesus taught regarding violence and revenge, prayer for enemies and peacemaking, becomes acceptable when Jesus' teachings are compartmentalized as relevant only in our personal lives. When Jesus is sidelined, those parts of the Bible that support authority, no matter what it does to innocent people, will take precedence. This is what has happened (often with the prodding, political influence and financial support of right-wing political organizations) in many of our churches today. Unless Christians begin to speak up publicly for the teachings of Christ – the cornerstone of our faith – we will continue to slide into the kind of moral relativism that causes others to wonder why we are so bloodthirsty.

Why Are Some American Christians So Bloodthirsty? (23 October 2004)

Today's Banks Are Inherently Bankrupt: Let Them Fail Because They Inevitably Will Fail

Talk Delivered at the Festival of Dangerous Ideas
Sydney Opera House
19.00, 29 September 2012

Summary

What caused the "Global Financial Crisis" (GFC)? What will be the consequences of the actions undertaken by governments to combat it?

We've seen this movie repeatedly: the GFC is merely the latest in a long series of economic and financial crises that have punctuated the history of the past 250 or so years. Like its predecessors, it is the consequence of poor policies – in particular, the existence of legal tender laws, fractional reserve banking and central banking.

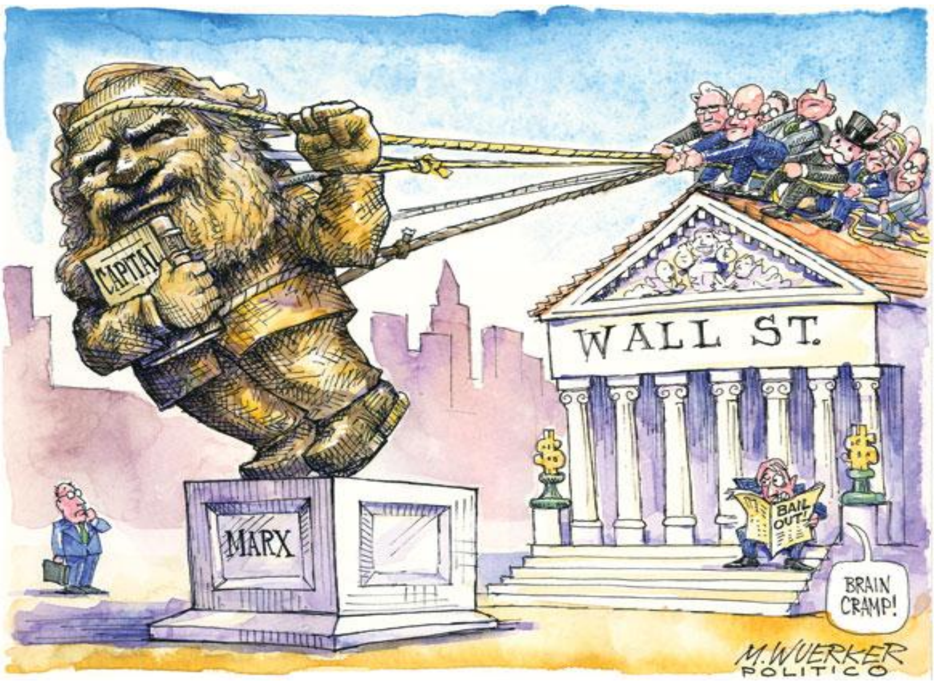
One cannot overemphasise it: legal tender laws, fractional reserve banking and central banking are creations of the state. Clearly, then, it's the intervention of government – and not any alleged defect of free people acting in markets – that causes the financial crises in Wall Street that become economic crises in Main Street. The crux and cause of the problem utterly eludes the mainstream: faulty and deeply damaging conceptions of money and banking. More generally, the GFC's eruption demonstrates yet again that "capitalism" (a term of abuse coined by Karl Marx to smear his opponents) hasn't failed; socialism has. It wasn't "extreme capitalism" (a term of abuse coined by Kevin Rudd to insult his foes) that caused the panic and bust: it was the partial, corrupted and bastardised capitalism of the "mixed economy" that he and the Western mainstream champion. Accordingly, the eradication of economic and financial crises necessitates the repeal of pernicious laws (such as legal tender) and the abolition of damaging practices (namely fractional reserve and central banking).

John Howard Is a Marxist – and So Is Almost Everybody

Let me begin my case with a modest, unremarkable and indisputable observation: John Howard is, in one fundamental respect, a Marxist. Margaret Thatcher is also a fellow-traveller with the Marxists, and Milton Friedman was a quasi-Marxist. You think I exaggerate? On what possible basis do I assert such a seemingly absurd thing? Because Howard, Thatcher, Friedman – and these days, to fair to these three, virtually everybody else – is an ardent, vocal and even fanatical proponent of a key tenet of *The Communist Manifesto*.

In section II of the *Manifesto*, published in 1848, Marx and Engels listed 10 measures that Communists would implement once the proletariat seizes the reins of power from the bourgeoisie. Let me direct your attention to the fifth demand: "centralisation of credit in the hands of the State, by means of a national bank with State capital and an exclusive monopoly."

As well as any single sentence can, that sentence describes the essence of contemporary money, credit and banking. If he were to rise from the dead today, Marx would discover that virtually all politicians and bureaucrats, mainstream economists and financial commentators, including most who claim that they favour the market, are, when it comes to money, banking and credit, faithful Marxists. Marxism has soaked so deeply into the foundations of our thinking and acting that long ago we failed to notice it; similarly, essentially Marxist policies (in the sense that they are instruments of command-and-control that favour some and punish others, and extinguish everybody's liberty) like central banking, have so thoroughly distorted out intellectual and legal lenses that we don't recognise how blind we've become – and how these interventionist institutions figuratively drive us into ditches and off of cliffs.



You still think I exaggerate? On 18 September, in an article in *The Wall Street Journal* entitled "The Magnitude of the Mess We're In/Unhappy Facts About the United States," a group of impeccably mainstream authors including a former Secretary of State and former officials in the Department of Treasury, Office of Management and Budget said the President's Council of Economic Advisors said this: "The [Federal Reserve, namely the central bank] has effectively replaced the entire interbank money market and large segments of other markets with itself. *It* determines the interest rate by declaring what *it* will pay on reserve balances at the Fed without regard for the supply and demand of money. By replacing large decentralised markets with centralised control by a few government officials, the Fed is distorting incentives and interfering with price discovery with unintended economic consequences."

"The Fed," they rightly observe, "can intervene without limit in *any* credit market—not only Treasuries and mortgage-backed securities but also securities backed by automobile loans or student loans. This raises questions about why an independent agency of government should have this power." That's putting it mildly.

These authors add: "Did you know that, during the last fiscal year, around three-quarters of the [U.S. Government's budget] deficit was financed by the Federal Reserve? Foreign governments accounted for most of the rest, as American citizens' and institutions' purchases and sales netted to about zero. The Fed now owns the largest percentage of the national debt (expressed as a percentage of GDP) in history, larger than even at the end of World War II."

The authors might also have mentioned that last year the unfunded liabilities of the U.S. Government increased by $11 trillion. Further, this year's increase will be even larger, and next year's larger still. When I say "unfunded liabilities" I mean the promises that politicians have made to voters over the years, which the politicians will fail to honour and the voters will be unable to redeem. The expert here is Professor Lawrence Kotlikoff of Boston University. For a decade, he has published research in impeccably mainstream places – including the *Bulletin* of the Fed's St Louis branch. His most recent report shows that the net present value of the U.S. Government's total unfunded liabilities rose from $211 trillion a year ago to $222 trillion this year. That's approximately 15 times the GDP of the U.S., which is a bit more than $15 trillion, and rising far more quickly than GDP. The biggest source of this tsunami of red ink in the future will be Medicare. In second place is Social Security. How can American politicians honour these obligations? They can't and so they won't. Conclusion: the U.S. Government will default – that is, it will fail to honour its promises. In the meantime, the Fed is undertaking a futile bailout-by-stealth.

In the U.S., the Fed *is* the money market; and without it, the U.S. Government simply couldn't finance itself. These mainstream authors in *The Wall Street Journal* might have added that the Fed has also displaced Fannie Mae and Freddie Mac (themselves creatures of the state) and has become, in effect, the mortgage market. The Fed is the money market, it controls the mortgage market and it is administering a bankrupt Uncle Sam. The Fed, in short, is a central planner.

The trouble is that central planning – socialism – has always failed. It is failing today and it will inevitably fail in the future. Our rulers' conception of money, banking and credit means central planning of money, banking and credit. Central planning always fails, and the mainstream's conception of money, banking and credit is failing and will continue to fail. I'm sorry: people who allege that too little centralisation and regulation caused the GFC, and that more government intervention is now needed, are either unintentionally ignorant or wilfully blind.

One Cause of the GFC: Fractional Reserve Banking

"The essence of the banking dilemma," said James Grant, the eminent financial historian, analyst and commentator, in 1990,

> is that the depositors' money is not in the vault awaiting the depositors' decision to withdraw it. Instead it is out on loan or invested in the money market. [A fraction] of the money is in the vault or on deposit with the [central bank] – these funds are called bank reserves – but only a few cents of every dollar. Depending on the [circumstances], the average bank may be prepared to ac-

> commodate a sudden demand for repayment by a sizable minority of its depositors. *Almost no bank in modern times, however, has been able to accommodate a sudden demand for repayment by a majority of its depositors.* Murray Rothbard, the economist and philosopher, has a forcible view on the institutions of fractional-reserve banking: it is "a giant Ponzi scheme in which a few people can redeem their deposits only because most depositors do not follow suit."

Modern banking resembles nothing so much as a game of musical chairs. When the music stops somebody is left stranded. I'm not saying that fractional reserve banks will at some point become bankrupt – I'm saying that they're innately bankrupt, and that they've always been bankrupt. In that sense, the title of my talk is a bit imprecise. It should be something like: Today's Banks Are Inherently Bankrupt – Recognise Their Failure Fail Because They Already Have Failed." The crisis, in the form of panic and the bank run, of which I'll have much to say, is merely the point at which the scales are lifted from some people's eyes. In short, the GFC – like its predecessors which litter the economic and financial history of the past 250 or so years – erupted because fractional-reserve banks are – that is, today's banking system around the world is – a giant Ponzi scheme.

Here's a critical point: although there's everything morally wrong with contemporary banking, in the purely positive sense there's absolutely nothing legally wrong with it. Fractional reserve banking, like the 5th demand of *The Communist Manifesto*, is so deeply embedded into the foundation of statute and regulation that virtually nobody is even aware of it. And when reprobate outsiders remind the mainstream, the insiders are irritated and dismissive rather than chastened. That fractional-reserve and central banks are state-sanctioned and government-backed Ponzi schemes makes them no less prone to implosion; it simply means (given the fervent faith that virtually everybody places in the government's promises) that financial and economic crises spread more widely and last much longer today than they did when the ruled were much better able to bind their rulers in straightjackets.

If you grasp this point, then it follows that recent decades in Australia, have not, in economic and financial terms – and as the Commonwealth Government, RBA and their sock-puppets in the media and universities strenuously insist – been truly stable. The Soviet Union's longevity, from 1917 to 1991, did not reflect the success of socialism. But its poverty and tyranny (which was blindingly obvious to any dispassionate observer) did reflect the artificiality of the conditions that socialism created. For decades, Communism in the Soviet Union was apparently stable. But it was hardly durable, as its sudden and unexpected (to the Western mainstream) implosion demonstrated. Similarly, the much-vaunted "fundamentals" of the Australian economy are hardly – despite the mainstream's ubiquitous and often strident insistence – sound. How can they be, if they rest on rotten foundations?

The West hailed the Soviet Empire's collapse as a victory of democracy. Much more profoundly, however, it culminated the moral and material bankruptcy of Marxism. As such, it should also have been regarded as a harbinger of the eventual demise of Marxism in the West – including the welfare state of credit. Since 2007, it's become obvious to the American and European man in the street that the "stability" of the past few decades was –

like the "strength" of the Soviet Union – apparent rather than real. The bitter truth is that the long Australian boom since the early 1990s has not reflected the success of the mainstream's interventionist policies. The ructions since 2007, however, have revealed the artificiality of the conditions that these policies created. Australians, in short, should not use the phrase "Global Financial Crisis" in the past tense; rather, it makes more sense to use it in the current and future tense – as something that's ongoing and will return.

What I've said thus far puts us in a position not unlike that of a seismologist or vulcanologist. Alas, these scientists cannot predict with any useful degree of accuracy WHEN the earth will shake or the volcano erupt; but then can show reasonably precisely WHERE the major fault lines and pressure points lie, and therefore WHERE the greatest damage will occur. I therefore state that the Achilles heel of the Australian economy, one that will eventually cause us great grief, just like it has in Europe and the U.S., is fractional reserve and central banking.

It's a Wonderful Life Teaches Us Everything We Need to Know About the GFC – and Far More Than the Mainstream Understands About It

The Global Financial Crisis is a movie we've seen many times before. I mean that quite literally. So to build my case, let me use as a framework for today's talk a film which many of you have probably seen several times. *It's a Wonderful Life*, starring James Stewart, was produced and directed in 1946 by Frank Capra. It is regarded as one of the most inspirational and best-loved movies of all time. But that's not my point; my point is that, far more rigorously and accurately than any mainstream economist or central banker, *It's a Wonderful Life* tells us everything we need to know about the GFC's causes, symptoms and consequences.

The film stars James Stewart as George Bailey, a man whose imminent suicide on Christmas Eve triggers the intervention of his guardian angel. The angel shows George all the lives he has touched and how very different life in his community would be if he had never been born. George, in other words and using today's babble, has "made a difference." The film's themes are fundamental and universal: good versus evil, David versus Goliath, the love of money won't buy happiness, personal salvation through good works. Another of the film's themes is not fundamental or even true, but Westerners and their rulers apparently regard it as a bedrock of the welfare state of credit and clung to it fanatically as if it were true. That theme is: individual and national redemption by home ownership through mortgages conjured out of thin air by fractional reserve banks.

In 1947, *It's a Wonderful Life* was nominated for five Oscars but won none. Since then, the American Film Institute film has recognised it as one of the 100 best American films ever made, and placed #1 on its list of the most inspirational American films of all time. The film has come to be regarded as a classic and is a staple of Christmas television. James Stewart, the All-American Good Guy of the 1940s and 1950s, was perfectly cast in the lead role. As an aside, the Academy Award for "Best Picture" in 1947 went to *The Best Years of Our Lives*. "Best Years" had similar themes: the flawed system versus the allegedly righteous little guy, the readjustment to post-war life, and the grasping side of bankers. Both of these movies are, to our contemporary and jaded eyes, old fashioned. Both preach hope: the triumph of good in the economic as well as the moral sphere. Both claim that the little fellow can make a big difference. Both show that greed destroys.

But "Best Years" was darker morally. It is a story about which seductress wins the hero. In *It's a Wonderful Life*, the seduction is financial. It's is simultaneously a "liberal" and a "conservative" movie because it celebrates something that both American liberals and conservatives cheer until they're hoarse: the welfare state of credit. Significantly for my purposes, in a purely commercial sense *It's a Wonderful Life* was a failure. After its release in 1946 the movie barely broke even. Its studio considered that it was a financial and box office flop. The film's break-even point was $6.3 million, approximately twice the production cost, a figure it never came close to achieving in the cinemas. A biography of James Stewart published in 2006 stated: "although it was not the complete box-office failure that today everyone believes … it was initially a major disappointment and confirmed, at least to the studios, that Capra was no longer capable of turning out the features that made his films the must-see, money-making events they once were."

Let's Review the Plot

In Bedford Falls, New York, on Christmas Eve, 1932, George Bailey (played James Stewart) is deeply troubled. Fortunately, prayers from friends and family for his wellbeing reach Heaven. In heaven, Clarence Odbody, who's an Angel Second Class, is assigned to save George. Clarence, together with two head angels, review George's life. They see that it's a life of good works and sacrifice of self for others. At the age of 12, for example, George saved the life of his younger brother, Harry, who had fallen through the ice on a frozen pond. Alas, whilst saving his brother George permanently lost the hearing in one ear. A few years later, working in the local pharmacy, George noticed that his boss, the chemist Mr Gower, who is despondent over his son's death, had mistakenly filled a child's prescription with poison. George saved the poor man from irrevocably ruining his own life by inadvertently killing the child.

The guardian angels also note that, for the sake of others, George has repeatedly sacrificed his dream to travel the world and go to university. For the sake of Harry, George dutifully waits for Harry to finish high school and to replace him at the financial institution their father founded: the Bailey Building and Loan (which is akin to a credit union in Australia). On Harry's graduation night, George, now 21 years of age, discusses his future with his sweetheart, Mary. Later that evening, George's absent-minded and ne'er do well Uncle Billy interrupts them in order to inform George that his father has suffered a stroke. Shortly thereafter his Dad dies. That sad event shoves three of George's dreams – travel, university and Mary – into the background.

A few months later, Henry Potter, a slumlord, owner of the Potter Bank and the majority shareholder of the Bailey Building and Loan, tries to persuade the building and loan's board of directors to extend no more mortgages to the working poor. George, concerned for the welfare of people of modest means, persuades the board to reject Potter's proposal; but the board agrees only on condition that George run the Bailey Building and Loan. Giving to Harry the money that he (George) had saved to finance his studies at university, George yet again delays his plans – on the understanding that Harry will take the reins at the building and loan when he receives his degree at uni. When Harry graduates, he unexpectedly brings home a wife, whose father has offered Harry an excellent job. Although Harry vows to decline the offer, George cannot deny his brother such a fine opportunity. Again George sacrifices himself and his dreams for others.

George courts Mary, who has also recently returned to Bedford Falls from university. They marry soon after. As they depart for their honeymoon, they witness **a run on the bank** that leaves the building and loan on the verge of collapse. This is one of the film's most dramatic scenes, and for us the most revealing. Depositors queued all night waiting for the Bailey Savings and Loan to open; in the morning, it uttered increasingly frantic and ever less convincing assurances that all was well and that the people should go home; but, finally seeing the truth, the depositors stood their ground and insisted that they wanted to redeem their funds. Moral and material disaster beckoned. The couple quells the panic by using the $2,000 **(ca. $22,500 in today's $US)** earmarked for their honeymoon to satisfy the depositors' legal claims – namely, immediate access to their deposits.

George and Mary raise four children. George starts Bailey Park, an affordable housing project. Henry Potter tries to hire him away, offering him a $20,000 salary **($225,000 in today's $US),** along with the promise of distant business trips. Tempted, George declines Potter's offers. When America enters the Second World War, George is unable to enlist because he has a bad ear (a legacy of his sacrifice to Harry). Harry, meanwhile, becomes a fighter pilot in the Navy and destroys many enemy planes, two of which were targeting a ship full of American troops in the Pacific. For his bravery, Harry is awarded the Congressional Medal of Honor; when George bravely saved Harry, all George got was a bad ear.

A Conflict of Visions

We're only about halfway through the film. It's clear, however, that underlying *It's a Wonderful Life* – and the GFC – is a conflict of visions. Similarly, the GFC, which hasn't yet arrived in Australia, is much more than an economic and financial crisis: at its heart it's a moral crisis. In the film, some conflicts are clear. One is the allegedly plutocratic and evil banker (Henry Potter) versus the modest and virtuous banker (George Bailey); another is the distant and therefore bad bank versus the community-based (and hence good) building & loan society.

Other conflicts are more obscure: the better-off versus the worse-off, and paying rent (which the have nots unavoidably must do) versus repaying a mortgage (which the haves should aspire to do). Ultimately, though never said, the conflict at the movie's heart – and the crux of the GFC – is about monetary perdition at the hands of fractional-reserve banks – *for even the allegedly worthy savings & loan run by the supposedly virtuous banker, George Bailey, is inherently bankrupt; and that bankruptcy inevitably reveals itself. Ultimately, although there might be such a thing as a "compassionate" fractional-reserve banker, there's simply no such thing as a fractional reserve bank that can withstand a run on its deposits.*

The GFC is a consequence of a single cause: government intervention. The lesson is quite clear: you can regulate banks and bankers all you like; you can treat symptoms; and laughably, you can try to tease or even coerce allegedly sinful bankers like Henry Potter into becoming allegedly righteous ones like George Bailey. But if you leave unaffected legal tender laws, fractional reserve and central banking, then the next crisis is foreordained and simply a matter of time. This same conflict of visions is still with Americans – and, in various guises, Westerners more generally.

It's imperative that we distinguish causes and symptoms. Fractional reserve banking is a cause; mortgage and real estate bubbles are symptoms. The American real estate bubble's roots lie rather deep in history. After 1946, scores of millions of Americans sought in effect to buy (with mortgages) homes in Bailey Park rather than rent them in Pottersville. In 1946, this was one of the most topical issues facing the U.S.: would Americans – many of whom had just fought a world war and had returned to a land their politicians assured them would be fit for heroes – rent one of Henry Potter's rather seedy houses? Or, thanks to one of George Bailey's mortgages, would they own their own homes?

It's a Wonderful Life opened in cinemas in December of 1946. Within months, Levittown appeared. Levittown is a town located in Nassau County, on Long Island close to New York City. It gets its name from its builder, Levitt & Sons, which was founded by William Levitt, who built the district from scratch as a fully-planned community between 1947 and 1951. William Levitt is considered the father of modern suburbia, and Levittown was the first mass-produced suburb. It is widely regarded as the archetype for post-war suburbs throughout the U.S. – and, less directly, Australia, Canada and other Western countries. Across the U.S. at that time, suburbs were springing into being, sustained by motorways financed in Washington and by mass-produced motor cars built in Detroit. The returning soldiers, sailors and airmen knew what they wanted: security and stability. That, they were convinced, meant home ownership, and if that meant a mortgage from George Bailey and embracing the new-fangled "suburb," then so be it. Today, many people regard *It's a Wonderful Life* is an exercise in nostalgia. But to Americans in 1946, the movie identified the future: Bailey Park, a subdivision in suburbia. And to make it happen, the U.S. Government intervened cumulatively and massively: Fannie Mae and Freddie Mac were the most visible tips of a massive interventionist iceberg. Below the surface lurked FRB and the Fed.

Despite its superficially unsubtle script, the movie is profound on several levels. It's about a conflict of visions. On the surface, and most evidently, it's about Henry Potter's vision versus George Bailey's vision. But there is a third vision, which turns out, temporarily, to be the triumphant vision – and the route, much more recently, to many families' ruin. The third vision is barely perceptible, certainly by male eyes and ears, yet for women it may be the movie's core vision. Appropriately, it is subtle yet powerful.

The third vision is George's wife's, Mary Bailey's, vision. She wants for her home the old derelict house introduced in the rock-throwing sequence. She wants to convert an abandoned, falling-down mansion with rotting foundations, broken windows and a leaking roof into a dream home. She wants to buy a money pit, to turn a sow's ear into a silk purse – and she wants George to pay for it. George hasn't nearly enough money, but no matter: in one of the film's most memorable romantic scenes, George promises to lasso the moon for Mary. She lassos him instead. And she does it with a mortgage.

Back to the Film's Plot

On Christmas Eve, George's absent-minded Uncle Billy is on his way to Potter's Bank in order to deposit $8,000 of the Building and Loan's funds. That's *depositors'* money, of course; but the allegedly righteous George, like all fractional reserve bankers, misappropriates (that is, lends) depositors' funds. Uncle Billy encounters and greets Henry Potter (who has the newspaper reporting Harry's military heroics) and taunts him by reading the headlines aloud. Potter angrily snatches the paper, but Uncle Billy inattentively allows Potter to snatch the money as well as the newspaper. Potter opens the paper, notices the money and keeps it. When a frantic search turns up nothing, and with a bank examiner due to arrive later that day, a desperate George appeals to Potter for a loan. Potter coldly turns George down, swearing out a warrant for his arrest for **bank fraud.** *This is enormously significant: in 1946, Frank Capra, the movie's producer, still understood that fractional reserve banking was morally wrong. George Bailey is a superficially nice fellow doing a profoundly bad thing. Today, of course, almost nobody sees the distinction.*

George verbally unloads his frustrations upon his family, and proceeds to drink himself silly at the bar owned by his friend, Giuseppe Martini. Why on earth does George act like a guilty man? Is it because he *is* guilty – that is, he knows full well that he has misappropriated depositors' funds? Crashing his car, George staggers to a bridge that crosses a river. Feeling that he is "worth more dead than alive" because he has a life insurance policy, he resolves to kill himself. Before George can leap, Clarence jumps into the river and pretends that he is drowning. George rescues him, and after he does so Clarence reveals his identity as George's guardian angel.

George does not believe him, but when he bitterly wishes he had never been born, Clarence shows George what the town would have been like without him. Bedford Falls, named Pottersville, is home to sleazy nightclubs and pawn shops. Nobody builds Bailey Park. Mr Gower, the chemist, was sent to prison for poisoning the child and is a derelict. Martini does not own the bar. Uncle Billy has spent years in an insane asylum. Harry's dead – drowned because George wasn't there to rescue him – and the servicemen Harry would have saved also died. George's mother is a bitter widow and Mary a spinster.

George begs leave to live again. His prayer answered, he runs home joyously, where the **authorities are waiting to arrest him for bank fraud.** Mary, Uncle Billy and a multitude of townspeople arrive with more than enough money to save George and the Building and Loan. George's friend Sam Wainwright sends him a $25,000 line of credit (that's $285,000 in today's $US) by telegram. Harry also arrives in order to support his brother. George finds a copy of *The Adventures of Tom Sawyer* which contains the inscription, "Dear George: Remember no man is a failure who has friends. Thanks for the wings! Love, Clarence." A bell rings, and his youngest daughter remembers that that means an angel has earned its wings. George finally realises that he truly has a wonderful life.

It's a Wonderful Life pits a compassionate lender (namely George Bailey) against a heartless lender (Henry Potter). It's also about slums (owned by Henry) versus subdivisions (financed by George). Pottersville – that's Bedford Falls if George had not lived – is a forbidding jungle of bars, lewd stage shows, pawnshops and prostitutes. The film seems to say that only allegedly good and virtuous lending, i.e., mortgage money from George and community-based institutions like the Bailey Savings and Loan, can save Bedford Falls from becoming Pottersville.

Economically, of course, this is utter nonsense: a fractional reserve lender such as the Bailey Savings & Loan is not a means to financial and economic heaven. Quite the contrary: *as we've already seen – and as the film itself showed* – to follow the garden path of fractional reserve banking is inevitably to take the road to bankruptcy. That all deposit-taking institutions are protected by the state is symbolic – and hugely significant. All fractional reserve banks necessary require massive support from the state. As a result, fractional reserve banking doesn't just ruin banks: it hastens the inevitable bankruptcy of the state. Today we're witnessing that truth that before our very eyes.

It's at this point that prudential regulators should begin to shift in their seats. For decades after the 1930s, they regarded the scenes of bank runs in *It's a Wonderful Life* as entertaining but purely historical. They insisted that the bank run longer bore any semblance to reality. Deposit insurance, they smugly assured us, made bank failures a thing of the past.

The Federal Savings and Loan Insurance Corporation was created as part of the National Housing Act of 1934 – just two years after the fictionalised events depicted in *It's a Wonderful Life*. The U.S. Congress created the FSLIC order to insure deposits in savings and loans like George Bailey's. Congress created it a year after the Federal Deposit Insurance Corporation, which insured deposits in commercial banks like Henry Potter's.

Wasn't the Government's Deposit Insurance Supposed to Eliminate Bank Failures?

I have emphasised that fractional reserve banks are always – because they are innately and inherently – bankrupt. It can take a long time, but that bankruptcy eventually becomes apparent. A passage in an academic research paper entitled "Money and Modern Bank Runs," written by David Skeie and published by the Federal Reserve Bank of New York in August 2004, manages somehow to be simultaneously soporific and hair-raising. Skeie stated

> Runs at state-insured thrifts [that is, s and l's] in Ohio and Maryland in the mid-1980s are noted as the first bank runs since the Great Depression in which customers were lining up for physical withdrawals, demonstrating that currency runs have not been typical of bank runs in the era of modern payment systems. Moreover, deposit insurance does not protect large depositors who are beyond the coverage limit, and withdrawals by these depositors are often decisive for a bank collapse.

This passage lets slip a deeply embarrassing truth: government-mandated and supported deposit insurance did not, in fact, halt bank runs and failures after the Great Depression. The runs on savings and loans that occurred in Ohio and then Maryland in 1985 were essentially no different from the one on Bailey Savings and Loan depicted in *It's a Wonderful Life*. Depositors waited all night for the thrifts to open; in the morning, these financial institutions uttered pompous and mendacious assurances that all was well and that the depositors should go home; and the depositors stood their ground and insisted that they wanted to redeem their funds. The only twist was the consequent shuttering of the S&L (typically after closing hours on a Friday) by the government's prudential regulator (the FSLIC), and the forced merger of the failed institution with a larger one over the weekend. On the Monday morning, when the failed institution reopened under the new banner, nobody, the government thought, should be the wiser.

What is it about deposit-taking institutions that alleges (and as the mainstream insists) requires government control in the form of government support? In what sense can a bank possibly be "sound" when one whisper of doom, some faltering of public confidence, should quickly bring the bank to its knees? In what other industry does a mere rumour or hint of doubt swiftly bring a mighty and seemingly solid firm to the brink of collapse? What is there about banking that confidence should play such a decisive and overwhelmingly important role?

We know the answer: it lies in the nature of the contemporary banking system, in the fact that both commercial banks and have far less liquid cash on hand than there are demand claims to cash outstanding. "Obviously," said the economist Murray Rothbard, "such a system, which is considered fraud when practiced by other businesses, rests on a confidence trick: that is, it can only work so long as the bulk of depositors do not suddenly try to retrieve their money. The confidence is essential, and also misguided. That is why once the public catches on, and bank runs begin, they are irresistible and cannot be stopped."

And so it has proved. The savings and loan débâcle in the U.S., roughly between 1985 and 1992 (commonly dubbed the S&L crisis), comprised the failure of ca. 750 out of the country's 3,234 savings and loan associations (that's almost one-quarter of the total). In those years, in effect, the consequences of George Bailey's style of lending came home to roost. We know what ultimately caused the crisis: fractional reserve banking. What triggered it? Most S&Ls made long-term mortgage loans at fixed rates of interest using ultra-short-term money. When rates rather suddenly rose, their liabilities increased and their assets sagged; many S&Ls could not attract adequate additional capital, and so their underlying insolvency became apparent. While not strictly speaking part of the savings and loan crisis, for similar reasons many commercial banks in the U.S. also failed during these years. Between 1985 and 1994 more than 1,600 banks insured by the Federal Deposit Insurance Corporation (FDIC) were closed or received financial assistance ("bailouts") from the FDIC.

U.S. General Accounting Office estimated that the cost of the S&L crisis was ca. $160 billion – that's almost $400 billion in 2012 dollars. That figure does not include FSLIC funds used before 1986 or after 1996; nor does it include losses by state governments. When one does include these losses, the total (in 2012 $US) comes to ca. $750 billion. *Fractional reserve banks, as we now know, are inherently bankrupt. It is impossible to "insure" a firm, even less so an industry, that is inherently insolvent.* Hence fractional reserve banks, being inherently insolvent, are uninsurable. And hence the government's deposit insurance schemes are doomed to fail.

Quis cusodiet ipsos custodies is a Latin phrase traditionally attributed to the Roman poet Juvenal. Literally translated, "who will guard the guardians?" Some political philosophers have broadened the question to ask: who governs the governors? Today we should focus our attention and ask: who rescues the financial institutions that the state created in order to rescue bankrupt financial institutions? The S&L crisis bankrupted the Federal Savings & Loan Insurance Corp. On several occasions in 1986, 1987 and 1988, Congress recapitalised it with taxpayers' money; however, by 1989 it had become so hopelessly insolvent that even the Congress recognised that it was too broke to fix. In that year it abolished it, and the FSLIC's savings and loan deposit insurance responsibility was transferred to the Federal Deposit Insurance Corp.

What about the FDIC? Although it has never admitted it and likely will never admit it, the GFC has bankrupted it. In March 2008, a memorandum to its board of directors showed that at the end of 2007 the balance of its Deposit Insurance Fund, which it used to bail out banks, was $52.4 billion. That represented a reserve ratio of 1.22% of its exposure to insured deposits, which totalled ca. $4.3 trillion. The fund is mandated by law to maintain a balance equivalent to 1.15% of insured deposits. In March 2008 the FDIC projected that by the end of that year the reserve would grow to $55.2 billion, a ratio of 1.25%. As of June 2008, however, the DIF had a balance of $45.2 billion; and 9 months later, in March, 2009, the DIF's balance fell to just $13 billion. That represented a reserve ratio of 0.27% -- less than a quarter of the legally-required ratio. In the second quarter of 2009, an analysis conducted by Saxo Bank reported that additional bank failures had reduced the DIF's balance to just $648.1 million; further, the FDIC's own estimates of the imposition that additional failed banks would place upon the DIF exceeded that amount. By definition, an organisation that is unable to service its obligations as and when they fall due is then it is bankrupt. Without financial legerdemain, in 2008 the FDIC was unable to service its obligations; it was therefore bankrupt.

The situation is probably worse than the FDIC is prepared to admit, according to ex-regulator William Black, author of a book entitled *The Best Way to Rob a Bank Is to Own One* (University of Texas Press). According to Black, "the FDIC is sitting there knowing that it has both the residential disaster and the commercial real estate disaster [and] knowing it doesn't have remotely enough funds to pay for it." Black is not surprised that more bank haven't failed, but he says that we should be upset that more bank haven't failed. In 2009-2010, the banking industry used its considerable political muscle to persuade Congress to extort the Financial Accounting Standards Board to gimmick the accounting rules so that banks do not have to recognize their losses.

Recent FASB rule changes allow banks to value assets at inflated ("bubble") values that have nothing to do with their market value. As a result, reported bank capital is greatly inflated. According to Black, even insolvent banks are reporting plenty of capital. Furthermore, he contends that the FDIC is "intentionally keeping foreclosures down because it knows it does not have enough money to pay off depositors who are insured by the FDIC."

The FDIC is required to maintain a Deposit Insurance Fund (DIF) of 1.25 per cent of insured deposits. As of 30 June 2010, the DIF held negative $15.2 billion, standing behind $5.4 trillion in so-called insured deposits. That's negative 0.28 per cent.

The FDIC's kitty is effectively empty. But fear not! Two politicians, Chris Dodd and Barney Frank, have taken care of everything. The Act of Congress they sponsored, The Wall Street Reform and Consumer Protection Act, requires the FDIC "to take steps necessary to attain a 1.35 per cent reserve ratio by September 30, 2020." So, in a decade, the FDIC will have $1.35 standing behind every $100 Americans have in the bank. That's a promise – and you have two politicians' and an Act of Congress's word on it. Should Americans bank on that promise?

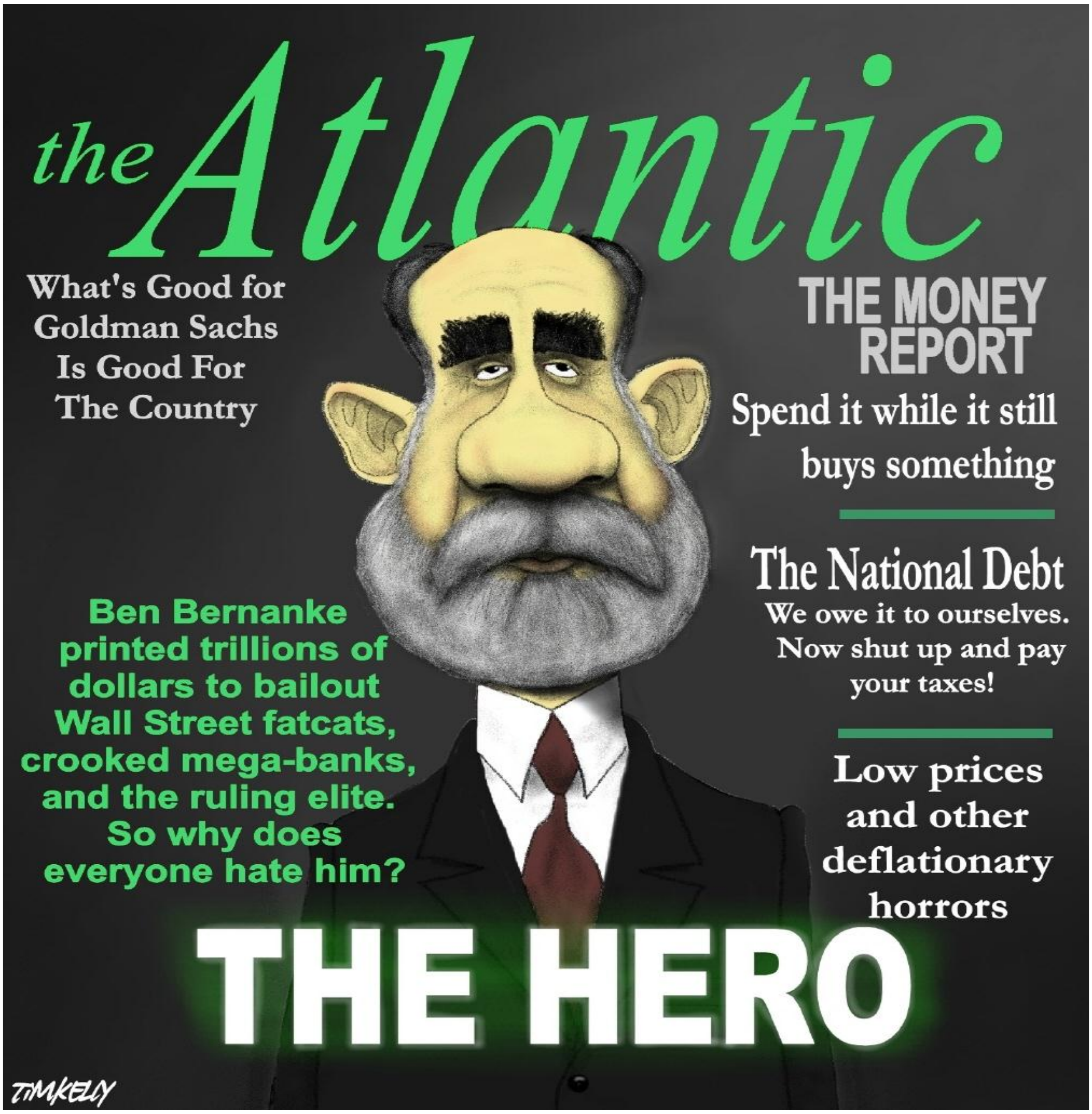
"'Deposit insurance' is simply a fraudulent racket," concluded the economist Murray Rothbard. Logic and history demonstrate that he's correct.

Secular Miracles

We have seen that fractional reserve banks are inherently bankrupt, and that the realisation that they're bankrupt triggers financial crises. We have also seen that, accordingly, any attempt to insure them is also doomed to failure – and to the bankruptcy of the insurers. What, then to do?

Central banks seem to be their last lines of defence. For decades, Westerners, and not least Australians, have been deeply and fervently religious people. Most zealous of all are politicians and their sock puppets in the universities and mainstream media. Their faith in their high priests, namely central bankers, is utterly astounding. This faith is not just in something that they cannot see: it is in something that does not (because it cannot) exist. The adherents of this secular religion accept without a murmur – never mind anything resembling a coherent thought – the idea that their high priests in the temple – central bankers in Martin Place, for example – can somehow conjure something – namely capital

– out of nothing. So compelling is this vision – hallucination is probably a better word – that they fervently hope that the central bank can invoke their impenetrable liturgy and thereby solve the problem of recession and bear markets.



Alas, the central bank's phoney money cannot create a real economy. It certainly does, however, conjure an increasingly phoney economy. In October 1987, Alan Greenspan created something out of nothing. Participants in the stock market cheered and reversed the plunge in the U.S. market that had prompted Easy Al's intervention. In 1990 he created something out of nothing in order to combat the S&L crisis – which, it bears repeating, the government's interventionist policies caused. During the 1990s he continued to create something out of nothing – and, greatly boosted by great and destabilising technological change, inflated the Internet Boom. When it burst, and purportedly to combat the bust, he created masses of something out of nothing – and, helped by innovations in financial engineering, inflated the residential real estate bubble. By the time the real estate bubble burst, Easy Al had retired and Ben Bernanke had taken his chair. To combat the GFC, Bernanke has created unprecedented amounts of something out of nothing. As with so many things, the mainstream has causality exactly back to front: stimulus is consequence of the bust, whose cause the mainstream ignores; instead, stimulus causes the boom which begets the bust, over and over again.

What is this something created out of nothing? The priests dub it "liquidity," but that erroneously implies that it is tangible, physical stuff. In fact, it's an intangible – an accounting entry. The Fed simply credits banks' accounts at the central bank. In the plainest English, and as described by prominent mainstream economists and former Treasury officials a recent article ("Unhappy Facts About the United States," *The Wall Street Journal*, 18 September 2012) the Fed is simply giving money – I repeat giving money – to the banks.

How much has the Fed given to American banks and foreign banks with significant operations in the U.S.? Approximately $1.5 trillion dollars: these deposits by the Fed in commercial banks have exploded from ca. $5-10 billion in September 2008, when WashingtonMutual and Lehman Brothers imploded, to ca. $1.5 trillion today. But there's more: the Fed pays interest on these balances to the banks. It's not much (one-quarter of one per cent); still, that's a free gift to the banks of $3.5 billion per year. And it doesn't end there: the Fed simply decrees that these funds it deposits in commercial banks are reserves. What does that mean? It means that the banks can, if they so choose, through the fractional reserve process, create much more something (namely loans) out of this nothing (these reserves). As a very rough rule, one dollar of reserves can create ca. $10 of loans – that's up to $15 trillion of loans. At a rate of interest of (say) 3%, those reserves, if all were conjured into $15 trillion of loans, would generate ca. $42 billion of gross income per year for the banks. I've mentioned William Black, author of a book entitled *The Best Way to Rob a Bank Is to Own One* (University of Texas Press). It's worth adding Warren Buffett's quip about bankers: it's they who should be wearing the balaclavas.

Why is the Fed doing these things? By now it should be clear: it's an indirect way to bail out bankrupt entities – such as fractional reserve banks and the U.S. Government. The problem, of course, which a child of average intelligence can understand but a central banker apparently cannot, is that this "liquidity," these "reserves," is simply "funny money." I therefore say again: the central bank's phoney money cannot create a genuine economy or a lasting recovery. It certainly does, however, conjure an increasingly phoney economy. The Federal Reserve System has conjured vast amount of "liquidity" and has given it to the descendants of Henry Potter (most of George Bailey's descendants, remember, were by then mostly bankrupt or had been merged into Potter's Bank). The fiat money has, figuratively speaking, rolled off the digital presses.

In the early 1990s, the Bank of Japan, that country's central bank, did much the same thing. Why? In order to combat a recession which fractional reserve and central banking caused. Since the early 1990s, and with varying degrees of ardour, it has continued this policy. No doubt it thought that this policy would work. What has this policy wrought? Two lost decades. Since mid-2007, Ben Bernanke has assured the world that this policy would work. The result, to put it mildly, has fallen short of the expectations he created.

Remember that the Bailey Building and Loan was saved only when Mary, George Bailey's wife, started to distribute her honeymoon money like there was no tomorrow – in any reprise of *It's A Wonderful Life,* Ben Bernanke will clearly play the role of Mary. Mary apparently rescued the Bailey Savings and Loan. This honeymoon money had presumably been given to her by friends and relatives. That money could *temporarily* relieve *some* of the pressure, but it couldn't render sound an inherently illiquid institution. Mary luckily had enough donations to redeem the deposits of those depositors who were *at the head of the queue; notice, however, that she didn't have enough to redeem the deposits of everybody in the queue – and never mind all depositors.* The intractable and inevitable problem remains: by definition, the fractional reserve banking system creates more loans than depositors can redeem at the same time. It creates vastly more debt than the savings which underlies it. It's like a game of musical chairs – there are more participants than chairs; inevitably, then, when the music stops somebody is left stranded.

From the S&L crisis until 2007, Western governments, bankers and their prudential regulators convinced themselves that the contemporary banking system had, thanks not least to electronic payment systems and credit cards, finally eradicated this 1930's bank run scenario. These days, fewer and fewer people – indeed, hardly anyone except major drug dealers – rely upon actual cash (currency and banknotes). So, they assured themselves, the old-fashioned bank run cannot torpedo the fractional reserve banking system. For every digital dollar withdrawn from one bank, it is instantly deposited in another bank.

But the underlying problem remains, and in mid-2007 it resurfaced in the form of a new kind of bank run: an institutional lender's refusal to roll over (that is, renew) loans to institutional borrowers. That, in a nutshell, felled Bear Stearns in the U.S. in 2007 and Northern Rock in Britain in 2008. These institutions thought that they could roll over their debts with other institutions. But once their creditors belatedly realised that Bear and the Rock were unsound, it was game over and they were in the same position as George Bailey minus his wife's honeymoon money.

Since mid-2007, ca. 400 American banks have failed. The FDIC's chairwoman has said that the GFC is "nothing compared with previous cycles, such as the savings-and-loan days." She's simply wrong: adjusted to current dollars, the banking crisis during the Great Depression cost about $100 billion; the S&L crisis was $750 billion, and the current crisis? Ca. $6-8 trillion. Our overlords are simply incapable of learning, and each crisis, even adjusted for GDP and the Fed's incessant inflation, is bigger than the last.

Rebutting a Silly Criticism

Before I proceed to my conclusion, let me briefly forestall a silly criticism – one I've heard a thousand times – of my logic and reasoning. The mainstream and the powers that be will chant it in unison: it's "extreme." And because it's allegedly extreme, it's not worthy of rebuttal or even discussion.

The English word radical stems from the Latin *radicalis*: "of or having roots." Radicalism means "going to the origin or essence." A radical seeks to identify the causes of problems. The English word "extreme," on the other hand, comes from the Latin *extremus*, meaning "outermost, utmost, farthest, last." The English word "extremist" dates from 1840 – about the time of Karl Marx and Friedrich Engels. If a radical seeks to identify the causes of problems, then an extremist is a person who causes, or who ideas cause, problems. Karl Marx was an extremist; so too, therefore, are his heirs.

In this talk we've seen that decentralisation and voluntary human action by large numbers of autonomous actors – in a word, the "market" – hasn't failed. When it comes to money and banking, the market doesn't exist and hasn't existed in a century or more: so how can it fail? What has failed? Karl Marx's fifth demand in *The Communist Manifesto*. The centralisation of credit and the monopolisation of money in the hands of the state, and coercive action by governments – that's what's failed. To advocate the desocialisation and decentralisation of money and banking – that is, to promote voluntary human action among consenting adults – that's not extreme: Marxism is extreme. To advocate the separation of church and state, surely all would agree, is not extreme: quite the contrary, it's a pillar of modernity. So why is it extreme to the advocate the separation of the state on the one hand and money and banking on the other? The critics of liberty have things exactly back to front: to insist that money and banking become even more centralised and socialised, and that it enrich the few and punish the many, now *that's* extreme!

Clinging to the government's words and promises, custodians of capital have also turned to extremism. In the bond markets, for example, they regard U.S. Treasury securities as "risk-free yield." In fact, as James Grant has put it, they're actually yield-free risk. Buying the securities of irredeemably bankrupt entities – now that's extreme!

Humility is not extreme; hubris is extreme. It's not extreme to remind ourselves that no individual, and no small committee of individuals, possesses the omniscience and omnipotence required to know allegedly appropriate rates of interest – and to use certain of these rates, such as the Overnight Cash Rate, as means of centralised command and control. Yet a small committee in Washington, as well as cognate committees in London, Sydney, Ottawa and elsewhere, presumes to know. The committee in Washington is headed by a man to has confessed – indeed, virtually boasted – that before he ascended to the Fed's Open Markets Committee the sum total of his managerial experience was managing 70 or so academics (the Department of Economics at Princeton University) and sitting on his local school board. In the real world, he's never managed so much as a school tuck shop or a corner milk bar. Yet, guided by his statistical models he purports to steer the U.S. economy. If that's not hubris, I don't know what is; and if that hubris isn't extreme, then just what is it? Exactly the same points apply to the governors of the Bank of England and the RBA. I'm no extremist, but Ben Bernanke, Sir Mervyn King and Glenn Stevens certainly are!

Conclusion: God Bless the Bank Run!

Many Australians dislike banks. And a tiny few rightly despise their rulers. But most Australians lead busy lives, putting food on the table and a roof over their heads and so on, and so can't say exactly why they dislike banks. I hope my talk today, which shows the tight links between banks and the welfare-warfare state, convinces them why everybody should dislike banks and loathe the state. Our conception of money, banking and credit means central planning of money, banking and credit. Central planning always fails, and our conception of money, banking and credit is failing and will continue to fail.

Unless they're students of the economics of Mises, Rothbard and Hoppe, and of the financial journalism of Jim Grant, virtually nobody will watch *It's a Wonderful Life* and draw inferences about economics and finance – and still less fractional reserve banking and the GFC. That's a pity. I've tried to show in this talk that the film can teach us much about the causes, symptoms and consequences of the GFC – much more than the mainstream seems to know about it.

Clearly, government intervention causes the financial crisis in Wall Street that becomes an economic crisis in Main Street and in the suburbs. In reaction to each crisis which its poor policies have caused, governments do predictably stupid things – which make the next crisis longer and even costlier. We have seen, in Jim Grant's words, "Almost no bank in modern times has been able to accommodate a sudden demand for repayment by a majority of its depositors. Murray Rothbard, the economist and philosopher, has a forcible view on the institutions of fractional-reserve banking: it is 'a giant Ponzi scheme in which a few people can redeem their deposits only because most depositors do not follow suit.'" We've seen that fractional reserve banks are inherently bankrupt. Moreover, in a futile effort to backstop innately bankrupt banks, governments' deposit insurance and central banks make matters even worse.

It's very unlikely that William White, the chairman of the OECD's Economic Development and Review Committee and for years a senior official at the Bank for International Settlements, would agree. Yet his and my prognoses are not dramatically different. According to *The Weekend Australian* ("Financial Storms on the Horizon," 15-16 September),

> White pours scorn on the economic policies being pursued by the world's major central banks. Days after the European Central Bank agreed to buy Spanish and Italian government bonds to keep their borrowing costs artificially low, and the U.S. Federal Reserve agreed to unleash a third round of quantitative easing, White [said that central banks] are providing "false comfort" to government and threatening the stability of the financial system.
>
> "The more (ECB president Mario) Draghi and (Federal chairman Ben) Bernanke say, the less likely their governments will prosecute any of the reforms that would foster real economic growth," he says, suggesting the spectacle of economies hinging on the decisions of a handful of bureaucrats is pathetic and "extremely unhealthy."
>
> "The Canadians and the Nordics are very worried about their debt levels," White says. He notes Australian households' debt levels and house prices are among the highest in the world. He suspects countries such as Canada, Australia and those in Scandinavia, whose banks *appear* – a word he stresses – to have survived the financial crisis, have yet to develop the symptoms of their economic excesses. "Their crises are still to come," he says.

We've seen in this talk that as a matter of simple logic one cannot insure an innately bankrupt entity against bankruptcy. Hence schemes of deposit insurance enacted in the U.S. during the Great Depression – and, more generally, the various "reforms" that national governments, the Bank of International Settlements, etc., have imposed since 2008 to regulate banks – are total wastes of time. To forcibly place halos upon bankers, to try to turn a Henry Potter into a George Bailey, is misguided. It simply ignores the cause of the problem. This conclusion is hardly radical. Nor is Kenneth Rogoff. A professor of economics at Harvard, he's as mainstream as they come. In "Financial Regulation Isn't Fixed, It's Just More Complicated" (*The Guardian*, 10 September 2012), he wrote:

> People often ask if regulators and legislators have fixed the flaws in the financial system that took the world to the brink of a second Great Depression. The short answer is no. Yes, the chances of an immediate repeat of the acute financial meltdown of 2008 are much reduced … But, otherwise, little has fundamentally changed. Legislation and regulation produced in the wake of the crisis have mostly served as a patch to preserve the *status quo*. Politicians and regulators have neither the political courage nor the intellectual conviction needed to return to a much clearer and more straightforward system.

Alas, since 2007 the mainstream has relentlessly and ever more fanatically attacked symptoms, and has left causes unaddressed and unrecognised. Perhaps that's their intention: for to treat symptoms is to leave unaffected banks' and governments" gargantuan privileges; to recognise causes, on the other hand, will attract attention these privileges and to the relationship (scratch my back and I'll scratch your) between banks and governments. To attack and remove these privileges is something that governments will never do.

What does a cleaner and more straightforward system, as Kenneth Rogoff dubs it, entail? How to get there? What's clear is how NOT to get there: revere the *status quo* and excuse or otherwise excuse the crises it inevitably causes. That approach necessitates a fair degree of hubris and delusion. In 1990 – that is, roughly in the middle of the S&L crisis – the U.S. Comptroller of the Currency claimed

> the national banking system is fundamentally sound. That conclusion is based on a substantial increase in capital levels, especially equity capital levels, relatively strong earnings, and an improvement in overall credit quality among the majority of national banks during the past 18 months.

If I hadn't told you that an American uttered those words more than twenty years ago, you would likely (and reasonably) have believed that an Australian banker or regulator or economist or politician or financial journalist uttered them just the other day. That's their standard boilerplate: the Australian banking system is sound, blah, blah, blah, twenty years of continuous growth of GDP, blah, blah, blah.

One option – the mainstream option – is to revere the *status quo* and excuse the crises they inevitably cause. A second option – the Ron Paul option – is properly to diagnose the monetary, financial and economic distemper of our times and openly to agitate for the overthrow of the welfare state of credit. Given that diagnosis, we could say to fractional reserve and central banks: "spare us your credit bubbles and artificially low rates of interest. Your false rates emit sham signals into the marketplace: above all, they don't tell the truth about time." It'll fall upon deaf ears, but here's my wish to central bankers. In particular, here's my plea to the board of the RBA when it meets on Tuesday: "don't impose upon us your artificially-low rates of interest. Indeed, don't impose any rate at all: instead, step aside, keep your hands to yourself and let individuals' time preferences, and therefore the supply of and demand for genuine savings, set rates of interest. Then, at long last, we could put our economic, financial and above all moral house in order."

But the fulfilment of that wish necessitates the repeal of the Reserve Bank Act 1959, and as amended. If that occurred, banks would be treated like any firm in any other industry. In short, if they can't meet their contractual obligations they will be required to go under and perhaps to liquidate. It would be instructive to see how many banks would survive if the government's massive props were finally removed.

Absent the meddling of government, deposit-taking and lending would be distinct operations, perhaps but not necessary undertaken by separate entities, and would be simplicity itself. The fact that banks have created unsound credit would be discovered – and I believe punished – through the actions of free people emitting accurate signals. It would not be a pretty sight. But the truth hurts, and the alternative – the status quo – will hurt just as much, and perhaps even more. If you don't believe me, perhaps you'll believe a former U.S., Secretary of State, officials in the U.S. Treasury, OMB, etc. In *The Wall Street Journal* a week or so ago, they concluded: "[America's economic and financial] problems are close to being unmanageable now. If we stay on the current path, they will wind up being completely unmanageable, culminating in an unwelcome explosion and crisis. … Why wait for disaster? The future is now."

A third option is to do nothing. Let us, like Ron Paul, properly diagnose the Marxist distemper of our times – and simply observe the inevitable result of fractional reserve and central banking. Figuratively, let us go to the cinema, buy our popcorn, find good seats and watch the disaster movie. Literally, let us anticipate – and laud – the bank run. Specifically, let's praise the good old fashioned bank run, and anticipate its electronic variants. So I say: "when the banks again totter, when their inherent bankruptcy becomes apparent to all, let them collapse.

The mainstream, remember, relentlessly confuses causes and effect. It's not that doing nothing will hurt many people – fractional reserve and central banking has already hurt them. The bank run is not the cause of the pain: it is the consequence of FRB and central banking, and FRB and central banking are the causes of the pain. Informed by Grant, Mises and Hoppe, perhaps a few might learn something from the bank run. "A banking panic," says James Grant, "exposes the essence of modern banking as no lecture, book or diagram can do." Rothbard has written a brief ode in prose to the bank run:

> It is a marvellously effective weapon because (a) it is irresistible, since once it gets going it cannot be stopped, and (b) it serves as a dramatic device for calling everyone's attention to the inherent unsoundness and insolvency of fractional reserve banking.

To draw an analogy from another classic film, the banking panic lifts the curtain to reveal to Dorothy that the omniscient and omnipotent Wizard of Oz is merely a shyster from Kansas. Liquidity is not capital, and central bankers simply cannot turn water into wine. Indeed, central bankers are simply government bureaucrats. Like all interventionists, they meddle and make a mess of things.

The 1930s witnessed a marathon of bank runs in the U.S. – but none in Australia and Canada. Over the next several decades, the conviction took root that enlightened legislation had eliminated the possibility of another national banking crisis. It's true: a revisitation of the Great Depression has not – yet – occurred. On the other hand, there has been the savings and loan crisis and the ongoing GFC. The S&L crisis was an emblematic event: it and its effects lingered for years, not months, and the cost was measured in the scores and probably hundreds of billions of dollars. The GFC, too, is an epochal occurrence: it and its effects continue, and the cost is in the order of $4-8 trillion in the U.S. alone – and counting.

Grant wrote on the eve of the S&L crisis: "What has been lacking in American banking in recent years is the bank run. And when it has not been lacking – as in the rescue of the Continental Illinois Bank in 1984 – it has been frightening." Thanks to the collapse of Washington Mutual in September 2008 – a bigger collapse than Lehman Brothers – the bank run is no longer lacking in contemporary American history. It's still lacking in Australia and Canada; and so the mainstream concludes (as the American mainstream did until recently) that it's virtually impossible. In diametric contrast, I believe that it's probable. Recall my earlier point about seismologists or vulcanologists. Alas, they cannot predict with any useful degree of accuracy WHEN the earth will shake or the volcano erupt; but then can show reasonably precisely WHERE the major fault lines lie, and therefore WHERE the greatest damage will occur. Like California, so Australian banking: someday the big one will strike.

To make my case, I've leaned heavily on one film, *It's a Wonderful Life*, and mentioned another, namely *The Wizard of Oz*. I'll end my case on an upbeat note, by adapting to my purposes the words of Gordon Gekko from his famous speech in the movie *Wall Street*, released in 1987:

> I am not a destroyer of banks but a liberator of them … The point is, ladies and gentleman, that the bank run – for lack of a better word – is good. The bank run is right. The bank run works. It clarifies, cuts through, and captures the essence of the utter fraudulence of fractional reserve and central banking. Modern banking, in all of its forms, has exemplified the downward plunge of mankind. The bank run – you mark my words – will reveal the sickness at the heart of modern money, credit and banking; it will also help to consign that other malevolent entity, the welfare-warfare state, to oblivion.

Thanks for your time.

Chris Leithner