RUNNYMEDE GAZETTE

JULY 2012

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EDITORIAL

THE URGENT NECESSITY OF CRITICAL MASS

We are somewhere towards the end of the first stage of a massive systemic collapse. Those who complain about 'cuts' ain't seem nothing yet! It has always been maintained in these pages that the collapse will be complex, messy, episodic and protracted.. There is now mounting evidence that it could be about to turn very nasty indeed.

So, no apologies are given for reproducing three year old material in the Ian Parker-Joseph item. Its timeliness remains constant until and unless we heed the warnings. There are persistent reports emanating from a variety of sources in the US, that the oligarchs are tooling up big time for civil unrest. The whole hideous panoply of ever more invasive mass surveillance, the skies filled with spy (or worse!) drones, the demolition of civil liberties and constitutional rights, the placing of bulk orders for everything from mace, guns, water cannon and pepper spray to bodybags, and ever more aggressive policing has long been apparent. But some of these reports allege that something far nastier is in the woodwork in the shape of mass internment camps or worse.

In the UK, there are those who think the G4S debacle to be a manufactured crisis, to create a pretext to test public reaction to the military occupation of part of our capital city. It is all, of course, to make us 'safe'! This 'safety' comes. As usual, with an invoice attached. We will see how much G4S is eventually required to return to the taxpayer in compensation.

The principle of innocence before the law has always been one of our most valued liberties. Its systematic demolition over the past decade or more by such measures as Vetting and Barring, and the so-called 'Money Laundering Regulations' … that is to say we are all now considered to be guilty until we prove our innocence … paves the way for ever more draconian and invasive assumptions of the general guilt of the population. Any tampering at all with ancient liberties will usually open such a Pandora's box. There has been a great deal of such tampering in recent years.

So the oligarchs open their tool box. We have ever more 'pre-crime' investigation and detention, as reported by Big Brother Watch. We are to subjected to all embracing, warrantless mass surveillance, including measures … for which there has been no space in this edition … to invade the postal service. Dissent is increasingly traduced as 'terrorism'. The EU has a taken a sudden interest in drones, on which it is about to spend substantial sums. 'Safety' and 'security' scares multiply. Ever more invasive mass surveillance technologies … a number of them recorded in these pages over several editions … are pouring onto the market place.

Against such a backdrop any sensible person would think that ... merely as a matter of prudent self-interest and mutual protection … dissidents would be more inclined to join hands, even if only to serve as wingmen to one another.

On my recent visit to London and talks with a number of activists from different backgrounds, I found that there are quite a number thinking and talking along these lines. The problem is that … one welcome and well organised joint conference aside … it has not got much further than the thinking and talking stage.

The abiding impression was of a group of prospectors moving around a field with their metal detectors. However, with their earphones glued firmly to their heads, and always looking at the ground, there is still far too little mutual contact and communication.

THE RUNNYMEDE CONFERENCE

At some stage, we have to take those earphones off, heed one another, and start meeting and shaking hands.

By now I have talked about the Purton Declaration and forwarded it to enough people. I am almost alarmed by the lack of any criticism of it. But if anyone has a better idea as to how the organisational nuts and bolts of a dissident resistance should be arranged, then let's hear it.

The Runnymede Conference, on 26th – 28th October, will provide an opportunity for a group of dissidents from different backgrounds to meet up and engage in some deep thought as to how we move forward. Much of the agenda is still being formulated.

Please contact me for details, if you have not already had them.

Frank Taylor

PROJECT MESHNET AIMS TO BUILD A CENSORSHIP-FREE ALTERNATIVE TO THE INTERNET

Cassandra Khaw, PCWorld; via Activist Post

Imagine an Internet without censorship, an Internet built out of like-minded peers and secure connections. Born out of the r/darknetplan Reddit community's dream of developing a truly free Internet, Project Meshnet may sound like something straight out of a science-fiction novel but it's actually an idea that is slowly coalescing into reality.

The idea behind Project Meshnet is almost unexpectedly simple. In fact, there's an introductory video that explains the concept in just a few short minutes. For those interested in a slightly more technical explanation, however, here's a quick rundown: Project Meshnet works because of CJDNS, a routing engine that forwards "packets" to nodes--that is, devices on the network--for further processing instead of asking nodes that have an ID similar to that of the target's.

According to the Project Meshnet Wiki, CJDNS was designed "so that every node is equal; there is no hierarchy or edge routing." Sounds a lot like a peer-to-peer network, doesn't it?

It continues:

"*Although nodes are identified with IPv6 addresses, cjdns does not depend upon having IPv6.*

Currently, each node connects to a couple other nodes by manually configuring links over an IPv4 network (The Internet). The ultimate goal is to have every node connected directly by physical means; be it wire, optical cable or radio waves."

Funky, huh? It gets better. While still very much in the alpha stages, an experimental network by the name of Hyperboria, a network that apparently bears a resemblance to the "internet of the late 1980s," is already in place and currently supports services like Uppit (a Reddit clone) and even a Minecraft server.

If you want to learn more, you can check out the Project Meshnet site.

Cassandra Khaw is an entry-level audiophile, a street dancer, a person who writes about video games for a living, and someone who spends too much time on Twitter.

NEW INTELLIGENT BIOMETRIC SECURITY PROGRAM CAN ADAPT TO HUMAN BEHAVIOR IMAGE SOURCE

Brandon Turbeville; Activist Post

It has recently been announced by Homeland Security News Wire that researchers at the Biometric Technologies Laboratory at the University of Calgary have improved upon current commercially available biometric identification technologies to the point of creating a form of artificial intelligence capable of making decisions regarding biometric information received from a variety of different sources.

The new biometric security program works by simulating the "learning patterns and cognitive processes of the brain." The system was developed by the research and application of "neural network-based models for information fusion."

Professor Maria Gavrilova, the head of the lab that conducted much of the research for this project at the University of Calgary stated:

"*Our goal is to improve accuracy and as a result improve the recognition process. We looked at it not just as a mathematical algorithm, but as an intelligent decision making process and the way a person will make a decision.*"

What makes this algorithm different from previous systems is its ability to "learn new biometric patterns and associate data from different data sets."

This learning ability allows the system to combine information from more than one set of data measurements and subsequently to "combine features from multiple sources of information, prioritize them by identifying more important/prevalent features to learn and adapt the decision-making to changing conditions such as bad quality data samples, sensor errors or an absence of one of the biometrics."

The various "data sets" of course, include information such as fingerprints, voice, gait, facial features, iris prints, etc. This new system not only categorizes, stores, and recognizes such data but it has the ability to make actual decisions about which piece of information is the most important or effective in a given situation, and also to adapt to different environments and incidents where the features are subject to change.

Yet, although the new program being announced by the University of Calgary represents a giant step forward for biometric security systems, the truth is that these programs are not coming in the future, they are already here.

Take, for instance, the Bio-AI program created by the company M2SYS. Created under the guise of improving the biometric employee time and attendance systems currently using fingerprints, Bio-AI gathers more and more information about an individual's fingerprint each time the employee's finger is scanned.

However, much like Gavrilova's program, Bio-AI does more than simply store basic data – it actually learns about the data and the environment in which it exists, building on its knowledge each time the subject is scanned.

Because the type of technology in the public view has been increasing in sophistication at a rapid pace, it is relatively easy to understand how programs like Bio-AI and those being researched by Professor Gavrilova will eventually be implemented in a variety of applications within mainstream society. What makes the situation even more concerning, however, is the fact that the technology itself is becoming smarter.

This, in and of itself, is nothing to fear. Certainly, progress is nothing to oppose. However, the fact is that those who are presenting this technology to the world's population and subsequently implementing it within the social framework clearly do not have the best interest of the world's people at heart, nor do they care about increasing living standards through technological development. Instead, every piece of technology is used as one more block in the wall of the police state control grid.

Unfortunately, if the general public does not soon wake up to the prison bars being built all around them with devices and developments sold under the guise of convenience and security, then the debate over whether artificial intelligence is superior to the human brain may be settled long before it truly begins.

Brandon Turbeville is an author out of Mullins, South Carolina. He has a Bachelor's Degree from Francis Marion University and is the author of three books, Codex Alimentarius -- The End of Health Freedom, 7 Real Conspiracies, and Five Sense Solutions and Dispatches From a Dissident. Turbeville has published over one hundred articles dealing with a wide variety of subjects including health, economics, government corruption, and civil liberties. Brandon Turbeville is available for podcast, radio, and TV interviews. Please contact us at activistpost@gmail.com.

BIG BROTHER WATCH BULLETINS

Nick Pickles and Big Brother Watch Team

Pre-Crime comes to the Olympic torch relay

As the Olympic security operation continues to intensify, today Big Brother Watch has today revealed the cover-up by police forces across the country of 'pre-crime' home visits.

After Devon and Cornwall police confirmed to us they had visited 18 people about their intentions when the Olympic torch relay passed through the force area, we asked every other police force in the country if their officers were also visiting people.

On Monday this week we received six responses. Since then we've had a further ten. All the responses, with one exception, are identical. We can only assume someone, somewhere has supplied the forces with the template response to our request, but the detail is quite remarkable for its tone and severity. It alleges that "the release of information identifying the focus of policing activity in safeguarding public order and the prevention of terrorism could be used to the advantage of terrorists or criminal organisations."

The fact that police forces are devoting resources to pre-crime investigations about the Olympic torch relay demonstrates how utterly out of proportion the Olympic security operation has become. Rather than investigating crimes that have actually happened, the police are wasting their time questioning people about a potential protest, something that is neither a crime nor a security risk.

Do you know someone who was visited? Get in touch with Big Brother Watch

Has the Home Office abandoned Richard O'Dwyer?

Despite more than 210,000 people signing Wikipedia founder Jimmy Wales' petition,the Home Office have said that they do not intend to block the extradition of Richard O'Dwyer.

America is trying to prosecute a UK citizen for an alleged crime which took place on UK soil.

In yet another stark illustration of how one-sided the UK-US extradition relationship has become – not to mention the subservience of officials who theoretically are supposed to protect the interests of

British citizens – a 24 year old faces up to a decade in a US prison for copyright offences.

He has never been arrested or charged with an offence under UK law, his site was not hosted in the US and he has lived in the UK all of his life. Basic principles of justice have been abandoned. If there was a crime it should be investigated and tried here in the UK, like any other crime.

Richard's fate now rests on his appeal later in the year. You can sign the petition through the Big Brother Watch site.

LOCATION TRACKING OF MOBILE DEVICES GETS REALLY NOSY

Christina DesMarais, PCWorld; via John Newell

Some of us have been saying things like this for a while now, people just laugh in response. Well I know that I am not paranoid.

http://www.pcworld.com/article/256695/location_tracking_of_mobile_devices_gets_really_nosy.html#tk.nl_dnx_h_crawl

By now you likely understand that Apple, Google, your cellular carrier, and others can track your phone's location. But you probably aren't aware of the extent to which location tracking technology is evolving. Take, for instance, what's going on at Alohar Mobile.

The company has created a platform that lets developers build mobile apps that understand your behavior based on patent-pending sensing technologies. They can automatically detect the places you visit, including the names and types of locations, know when you arrive or leave, track how many times you've been there, and how much time you spent hanging out. They even understand if you're standing still, walking, or driving.

According to CNET's Rafe Needleman, who spoke with Alohar co-founder Sam Liang about the technology, it doesn't just use the GPS receiver and Wi-Fi hotspot triangulation to figure out where you are, but relies on other sensors and algorithms such as the accelerometer, compass, and statistical modelling to determine where you're likely located.

Needleman makes the point that automotive navigation apps also use a form of modelling which assumes you're on a road even if GPS radios don't exactly place you on one. Alohar works similarly: "If you're moving at walking speed, for example, it will place you on a sidewalk or in a building, not in the middle of the street. If the camera on your phone sees fluorescent light, it will try to geolocate you to an indoor location," he writes.

Having access to highly accurate location data means developers can create apps that can do cool things like sense if a person is in a car accident and call for help, or offer you deals, ads, and other information that is highly targeted according to where you spend your time. At the same time, this incessant location tracking can be disturbing to people who think companies already have too big a window into their personal data.

Want to see how it works? Alohar has developed a proof-of-concept app called Placeme that you can download for Android and iOS devices.

You should know Alohar is far from the only company working on this.

I recently wrote about several other companies active in the location tracking space, including Skyhook, Google, Wifarer, Nokia, and Broadcom, to name a few.

For example, using Wi-Fi positioning, GPS, and cell-tower triangulation to determine the coordinates of more than 100,000,000 mobile devices, Skyhook maintains profiles on all of them and knows which ones are associated with certain kinds of people. If Skyhook sees that a device shows up at Wrigley Field four times in a season, it assumes that the person using the laptop is a sports fan. Or if a laptop or smartphone is detected in an airport several times a month, Skyhook guesses that the user is most likely a business traveler.

Over time, Skyhook also figures out where all these devices live. Then, by mixing into device profiles publicly available data from the U.S. Census, for example, it adds demographic data such as age and ethnicity.

For more on the subject, check out This Smartphone Tracking Tech Will Give You the Creeps.

Follow Christina on Twitter and Google+ for even more tech news and commentary and follow Today@PCWorld on Twitter, too.

LOOKS LIKE LONDON IS EXPECTING A TERRORIST ATTACK DURING THE OLYMPICS AND ARE NOT SECURE ENOUGH TO PREVENT IT.

Paul Joseph Watson; Infowars.com; via John Newell

Whistleblower Reveals Plan To Evacuate London During Olympics; 200,000 casket linings on standby says undercover journalist who infiltrated security team

An undercover journalist going by the pseudonym 'Lee Hazledean' has blown the whistle on astounding revelations about how he infiltrated the G4S – the company responsible for security at the London Olympics – and discovered shocking plans for the evacuation of London, 200,000 'casket linings' being on standby, along with botched security procedures that leave the Games wide open to attack..

Hazledean's interview with Tony Gosling, Bilderberg.org editor and host of BCFM's Friday Drivetime, has gone viral on the web over the last few days.. Hazledean is an undercover journalist for a television program in London and has worked with news agencies on hard-hitting subjects, but when he approached the mainstream media with his bombshell story, they showed no interest.

When Hazledean asked Channel 4 News Home Affairs Correspondent Andy Davies if he would run the story, Davies said he wasn't interested and days later Channel 4 ran a puff piece about G4S which portrayed the organization as competent and trustworthy. "I sent him an email, I called, he wasn't interested and he said there's a media blackout on this kind of story, that nobody would be interested in running it," said Hazledean. In the interview, Hazledean divulges how he merely had to fill in an application form to get a job with G4S, the private company providing security for the Olympics, that he underwent no background check whatsoever, and that his personal references were not checked.

Employees are given just two days of training to run airport-style security checkpoints which include body scanners, which Hazledean said "would be turned off completely" at peak times, meaning terrorists could just walk straight into the event with ammunition or explosives and have an excellent chance of remaining undetected. "In fact, I was asked to be a would-be terrorist on the final training day and I was given a knife, a gun and an IED, and on all three occasions throughout the day I got through the metal detector and I also got through the x-ray machine scanner," said Hazledean, adding that terrorists could quite easily stage a "massacre" given the lax nature of the security.

"They're not training them properly…it's quite open to a terrorist attack very easily andI don't say that lightly," said Hazledean, adding that he witnessed G4S members doing drug deals while training classes were taking place, while others were taking surveillance photos on their cellphones of supposedly secure areas. Hazledean said a lot of the security staff were poorly qualified and that many of them could barely speak English. Hazledean also revealed how the large contingent of soldiers being brought into London for the Olympic Games included "a lot of UN troops being posted in and around London," including American and German troops. The whistleblower also revealed how unauthorized personnel were being handed G4S uniforms and that uniforms had been stolen.

http://www.infowars.com/whistleblower-reveals-plan-to-evacuate-london-during-olympics/

WILL YOU OPEN FIRE ON UK CITIZENS' ARMY PERSONNEL BEING ASKED

Ian Parker-Joseph; via Dave Barnby

'In a stunning conversation with a friend, who is a serving member of the Armed Forces, over the weekend, it was revealed that transfers to regiments and other units in the UK on home duties are being undertaken by the MOD based upon whether an individual was prepared to 'open fire' on

UK citizens during civil disturbances.'

If this is correct then the G4S debacle is perfect recipe for Peterloo (1819) event. Does anyone have any military contacts to check?

Re-visit : 'Will you open fire on UK citizens' Army personnel asked

Many of us heard about this at the time but some did not see the article below. Time to re-visit the subject I think. Wonder if the police are asked the same, then streamed to defend this 'democratically elected government' which they are told they are serving, against us! Are they getting rid of only the ones who said 'NO'.

Three years ago: Posted on March 9, 2009 by ianpj In a stunning conversation with a friend, who is a serving member of the Armed Forces, over the weekend, it was revealed that transfers to regiments and other units in the UK on home duties are being undertaken by the MOD based upon whether an individual was prepared to 'open fire' on UK citizens during civil disturbances.

I found this long and extracted conversation to be both bizarre and frightening. I will state at this point that he is someone that I have known for years, and trust implicitly. The fact that service personnel are actually being asked in special briefing sessions whether they would fire on their own nationals indicates that the rumours about the Army being put on standby are indeed very true.
Dave Barnby

Original Content at PJC Journal http://parker-joseph.com/pjcjournal/2009/03/09/will-you-open-fire-on-uk-citizens-army-personnel-being-asked/

As if to add weight to this, it was reported yesterday as a tag on a posting about UKIP by Richard North on EUReferendum that plans for Army involvement were well advanced:

Recently, from a confidential source, I received information that the MoD was buying up unusually large quantities of tear gas and other riot equipment. Clearly, it has no intention of being caught out, as it was at the beginning of the Troubles, having to ration tear gas and riot shields. Maybe they might even find a use for all those Snatch Land Rovers, when they are returned from Iraq.

The implications of putting the Army on the streets, though, are horrendous. Currently, the Army is riding on the crest of a wave of public approval but, as it did in Northern Ireland, sentiment can very quickly turn. The ramifications for the campaign in Afghanistan might be significant. An Army which is sent out against its own people is not likely to attract much support for its other activities.

But there is not much prospect of the Army disobeying orders. As we saw in the 2001 Foot and Mouth epidemic, it went to work with a will, engaging in illegal activities, intimidating ordinary people and conspiring with the civil authorities to enforce false arrest. It will do so again if ordered, with the back-up this time of the Civil Contingencies Act which makes legal much of what was illegal back in 2001.

It goes a long way to explain why our servicemen and women are not getting the equipment they need in the war zones, lack of transport, lack of helicopters, lack of personal protection equipment. We know for instance that there are several hundred Italian made soft personnel vehicles in storage in the UK for use here, bought by the MoD to replace the snatch Land Rovers, but never sent to Iraq or Afghanistan, and the fleet of 8 Chinooks that was due to be dispatched this month are now to be kept in the UK.

We believe that this Government is looking for that confrontation with the people in order to invoke the Civil Contingencies Act and make use of the plethora of authoritarian laws it has prepared over the 12 years in control.

It continues to introduce new rules, rulings and guidelines on a daily basis designed specifically to inflame the anger in the population, hoping that they will eventually snap and take to the streets.

Armed with this latest knowledge, I would advise extreme caution and suggest that we heed the words of warning from Leg-Iron.

> If we don't riot, Labour are likely to be obliterated in a general election.
> If we do riot, there won't be one.

This Government is looking for a fight. Don't give it to them.

This trend needs to be discussed at the highest levels, the very idea that the Government is plotting against its own people is repugnant in the extreme, and I would like to call for confirmation that this disgusting process of briefings is indeed being undertaken.

UPDATE: The Daily Express is reporting.

TOP secret contingency plans have been drawn up to counter the threat posed by a "summer of discontent" in Britain.

The “double-whammy” of the worst economic crisis in living memory and a motley crew of political extremists determined to stir up civil disorder has led to the extraordinary step of the Army being put on standby.

The Questions that really needs to be asked here is this.

*Is the Army legally entitled to support a Government no longer wanted by the people?.
*Would the Army comply with such orders on the British Mainland?

I want to know exactly what this Government has planned for Military deployments in the UK, and whether they would be deployed against their own citizens.

It is known that many of the senior personnel in the MoD have received Common Purpose training. The content and purpose of that secret training now needs explaining.

UPDATE 10/11/09:

A new Homeland Military Command would be created by a Tory government. What? I nearly missed this, posted in The Times on 8th October. It goes on to say:

Baroness Neville-Jones, the former intelligence chief and now Shadow security minister, will today pledge a permanent armed group on standby to fight attacks more severe than the London bombings of July 7, 2005. The Rapid Reaction Spearhead Force of Army, Royal Air Force and Royal Navy personnel would also be ready to combat increasingly frequent natural disasters, such as floods and hurricanes, that have been blamed on climate change.The warning is especially powerful as it comes from a former chairman of the Joint Intelligence Committee and head of the Defence and Overseas Secretariat in the Cabinet Office.

The Conservatives would aim to establish a spearhead the size of two battalions — 2,000 to 3,000 personnel — that would be ready to spring into action. Rotating units of soldiers, sailors and airmen would be assigned to this duty.

All Armed Forces personnel would have to learn the skills required for homeland security duties. The spearhead force would take part in war game-style exercises with police, fire and ambulance to practise dealing with attacks.

Labour has boosted homeland security by creating regionally-based Civil Contingency Reaction Forces, each consisting of 500 volunteer Territorial Army and reserve troops. But the Tories fear that they would be too slow to mobilise in an emergency.

Oh my, are we at war so severe that we need troops on our streets at home? Or will it be a continuation as it is with all other anti-terror legislation, such as RIPA, SOCA and the Anti Terrorist Act that it is not so much aimed at terrorists, but as the scope creep kicks in it can and will be used on the general population. In the brave new world of the Communitarian EU, is this the formation of Britain’s Interior Ministry troops anyone?

HOW DID ATOS – LICENSED TO KILL DISABLED PEOPLE – BECOME AN OLYMPICS SPONSOR?

Disabled People Against Cuts; via Ferne Abbott

(***Based in Paris, Atos is a pan-European mutlinational with tentacles reaching into national and local administration, 'security', defence, data processing and many related fields. It looks more like some European version of Haliburton, and has a sinister ring to it. A data harvesting outfit? That such an organisation should be handling the confidential personal data of millions of benefit claimants is disturbing. Any more information is welcome … Ed)***

One might be forgiven for wondering just why and how ATOS (‘Licensed to Kill Disabled People’ by the Condems) are one of the most prominent of Olympic sponsors. How can such an odious corporation be given worldwide publicity and credibility?

In exchange for lucrative payments from the government ATOS happily continue to hound and harass disabled people into even further poverty and to drive many to suicide. Over 1 million disabled people, many too ill to work face losing their benefits or have already lost them. If you become ill or disabled in the future this could happen to you, even if you've worked and paid National Insurance contributions most of your life.

People with life-threatening illnesses, some with terminal cancer, and mental health conditions live in fear of their forthcoming ATOS assessments acknowledged as totally flawed by CAB, McMillan Cancer charity and a host of others. The tick-box computer assessment system takes no account of real life problems people face or the complexity of many long-term illnesses and disabilities. Yet within minutes this process which violates the fundamental medical principle of 'first do no harm' can strip disabled people of essential benefits and rob them of their lives.

Real-life horror stories of assessments and outcomes now abound and can be read in papers on an almost daily basis yet still the government refuse to halt or change these vicious tests. Some of the reports are little short of torture. A woman forced to try to walk to prove she couldn't who fell onto the ground and had to be helped up again crying by her mother.

Another woman forced to try to walk down a long corridor also to prove she couldn't walk. People waiting for major heart surgery or those who have had numerous heart attacks killed by the stress of the assessments and being told they are fit to work.

A Grimsby Fisherman suffering from horrendous blood clots and open ulcers and struggles to walk who has been told by specialists at two hospitals he would be risking his life if he went back to work lost his disability benefits.

A more recent case is that of a Dundee man found fit to work who is deaf, blind and tube-fed and who needs 24 hour care. How could anyone with such profound impairments be found fit to work?

Yet this is how ATOS treats disabled people.

The BMA Local Medical Committee Conference recently voted unanimously for an end to these notorious Work Capability Assessments as Scottish GPs did earlier this year. Dr Stephen Carty has likened the UK Government's welfare reform crackdown on disabled people to the "barbarism" of the Nazis.

The cost of these sometimes murderous assessments to the taxpayer are enormous as appeals rocket costing a predicted £50 million in tribunal costs in 2012 alone. The backlog of cases has reached epidemic proportions with tribunals sitting even on Sundays to try to reduce the 10 month backlog of cases. Yet even if a claimant wins their appeal against their assessment, and most do, the treadmill experience of being retested can start again immediately for no justifiable reasons.

As the blood of disabled people continues to drip steadily from the hands of our Olympic sponsors they should hang their heads in shame at the terror they are causing to those who deserve support not victimisation from our welfare state.

If you would like to join us in expressing your disgust at ATOS and its sponsorship of our Olympics then please email their CEO at Thierry Breton at thierry.breton@atos.net. Contact DPAC for more information

HOW THE BANKS BROKE THE SOCIAL COMPACT, PROMOTING THEIR OWN SPECIAL INTERESTS

Prof. Michael Hudson Global Research

URL of this article: www.globalresearch.ca/index.php?context=va&aid=28938

Banks Weren't Meant to Be Like This. What will their future be – and what is the government's proper financial role?

The inherently symbiotic relationship between banks and governments recently has been reversed. In medieval times, wealthy bankers lent to kings and princes as their major customers. But now it is the banks that are needy, relying on governments for funding – capped by the post-2008 bailouts to save them from going bankrupt from their bad private-sector loans and gambles.

Yet the banks now browbeat governments – not by having ready cash but by threatening to go bust and drag the economy down with them if they are not given control of public tax policy, spending and planning. The process has gone furthest in the United States. Joseph Stiglitz characterizes the Obama administration's vast transfer of money and pubic debt to the banks as a "privatizing of gains and the socializing of losses. It is a 'partnership' in which one partner robs the other." Prof. Bill Black describes banks as becoming criminogenic and innovating "control fraud." High finance has corrupted regulatory agencies, falsified account-keeping by "mark to model" trickery, and financed the campaigns of its supporters to disable public oversight. The effect is to leave banks in control of how the economy's allocates its credit and resources.

If there is any silver lining to today's debt crisis, it is that the present situation and trends cannot continue. So this is not only an opportunity to restructure banking; we have little choice. The urgent issue is who will control the economy: governments, or the financial sector and monopolies with which it has made an alliance.

Fortunately, it is not necessary to re-invent the wheel. Already a century ago the outlines of a productive industrial banking system were well understood. But recent bank lobbying has been remarkably successful in distracting attention away from classical analyses of how to shape the financial and tax system to best promote economic growth – by public checks on bank privileges.

How banks broke the social compact, promoting their own special interests

People used to know what banks did. Bankers took deposits and lent them out, paying short-term depositors less than they charged for risky or less liquid loans. The risk was borne by bankers, not depositors or the government. But today, bank loans are made increasingly to speculators in recklessly large amounts for quick in-and-out trading. Financial crashes have become deeper and affect a wider swath of the population as debt pyramiding has soared and credit quality plunged into the toxic category of "liars' loans."

The first step toward today's mutual interdependence between high finance and government was for central banks to act as lenders of last resort to mitigate the liquidity crises that periodically resulted from the banks' privilege of credit creation. In due course governments also provided public deposit insurance, recognizing the need to mobilize and recycle savings into capital investment as the Industrial Revolution gained momentum. In exchange for this support, they regulated banks as public utilities.

Over time, banks have sought to disable this regulatory oversight, even to the point of decriminalizing fraud. Sponsoring an ideological attack on government, they accuse public bureaucracies of "distorting" free markets (by which they mean markets free for predatory behavior). The financial sector is now making its move to concentrate planning in its own hands.

The problem is that the financial time frame is notoriously short-term and often self-destructive. And inasmuch as the banking system's product is debt, its business plan tends to be extractive and predatory, leaving economies high-cost. This is why checks and balances are needed, along with regulatory oversight to ensure fair dealing. Dismantling public attempts to steer banking to promote economic growth (rather than merely to make bankers rich) has permitted banks to turn into something nobody anticipated. Their major customers are other financial institutions, insurance and real estate – the FIRE sector, not industrial firms. Debt leveraging by real estate and monopolies, arbitrage speculators, hedge funds and corporate raiders inflates asset prices on credit. The effect of creating "balance sheet wealth" in this way is to load down the "real" production-and-consumption economy with debt and related rentier charges, adding more to the cost of living and doing business than rising productivity reduces production costs.

Since 2008, public bailouts have taken bad loans off the banks' balance sheet at enormous taxpayer expense – some $13 trillion in the United States, and proportionally higher in Ireland and other economies now being subjected to austerity to pay for "free market" deregulation. Bankers are holding economies hostage, threatening a monetary crash if they do not get more bailouts and nearly free central bank credit, and more mortgage and other loan guarantees for their casino-like game. The resulting "too big to fail" policy means making governments too weak to fight back.

The process that began with central bank support thus has turned into broad government guarantees against bank insolvency. The largest banks have made so many reckless loans that they have become wards of the state. Yet they have become powerful enough to capture lawmakers to act as their facilitators. The popular media and even academic economic theorists have been mobilized to pose as experts in an attempt to convince the public that financial policy is best left to technocrats – of the banks' own choosing, as if there is no alternative policy but for governments to subsidize a financial free lunch and crown bankers as society's rulers.

The Bubble Economy and its austerity aftermath could not have occurred without the banking sector's success in weakening public regulation, capturing national treasuries and even disabling law enforcement. Must governments surrender to this power grab? If not, who should bear the losses run up by a financial system that has become dysfunctional? If taxpayers have to pay, their economy will become high-cost and uncompetitive – and a financial oligarchy will rule.

The present debt quandary

The endgame in times past was to write down bad debts. That meant losses for banks and investors. But today's debt overhead is being kept in place – shifting bad loans off bank balance sheets to become public debts owed by taxpayers to save banks and their creditors from loss. Governments have given banks newly minted bonds or central bank credit in exchange for junk mortgages and bad gambles – without re-structuring the financial system to create a more stable, less debt-ridden economy. The pretense is that these bailouts will enable banks to lend enough to revive the economy by enough to pay its debts.

Seeing the handwriting on the wall, bankers are taking as much bailout money as they can get, and running, using the money to buy as much tangible property and ownership rights as they can while their lobbyists keep the public subsidy faucet running.

The pretense is that debt-strapped economies can resume business-as-usual growth by borrowing their way out of debt. But a quarter of U.S. real estate already is in negative equity – worth less than the mortgages attached to it – and the property market is still shrinking, so banks are not lending except with public Federal Housing Administration guarantees to cover whatever losses they may suffer. In any event, it already is mathematically impossible to carry today's debt overhead without imposing austerity, debt deflation and depression.

This is not how banking was supposed to evolve. If governments are to underwrite bank loans, they may as well be doing the lending in the first place – and receiving the gains. Indeed, since 2008 the over-indebted economy's crash led governments to become the major shareholders of the largest and most troubled banks – Citibank in the United States, Anglo-Irish Bank in Ireland, and Britain's Royal Bank of Scotland. Yet rather than taking this opportunity to run these banks as public utilities and lower their charges for credit-card services – or most important of all, to stop their lending to speculators and gamblers – governments left these banks operating as part of the "casino capitalism" that has become their business plan.

There is no natural reason for matters to be like this. Relations between banks and government used to be the reverse. In 1307, France's Philip IV ("The Fair") set the tone by seizing the Knights Templars' wealth, arresting them and putting many to death – not on financial charges, but on the accusation of devil-worshipping and satanic sexual practices. In 1344 the Peruzzi bank went broke, followed by the Bardi by making unsecured loans to Edward III of England and other monarchs who died or defaulted. Many subsequent banks had to suffer losses on loans gone bad to real estate or financial speculators. By contrast, now the U.S., British, Irish and Latvian governments have taken bad bank loans onto their national balance sheets, imposing a heavy burden on taxpayers – while letting bankers cash out with immense wealth. These "cash for trash" swaps have turned the mortgage crisis and general debt collapse into a fiscal problem. Shifting the new public bailout debts onto the non-financial economy threaten to increase the cost of living and doing business. This is the result of the economy's failure to distinguish productive from unproductive loans and debts. It helps explain why nations now are facing financial austerity and debt peonage instead of the leisure economy promised so eagerly by technological optimists a century ago.

So we are brought back to the question of what the proper role of banks should be. This issue was discussed exhaustively prior to World War I. It is even more urgent today.

How classical economists hoped to modernize banks as agents of industrial capitalism

Britain was the home of the Industrial Revolution, but there was little long-term lending to finance investment in factories or other means of production. British and Dutch merchant banking was to extend short-term credit on the basis of collateral such as real property or sales contracts for merchandise shipped ("receivables"). Buoyed by this trade financing, merchant bankers were successful enough to maintain long-established short-term funding practices. This meant that James Watt and other innovators were obliged to raise investment money from their families and friends rather than from banks.

It was the French and Germans who moved banking into the industrial stage to help their nations catch up. In France, the Saint-Simonians described the need to create an industrial credit system aimed at funding means of production. In effect, the Saint-Simonians proposed to restructure banks along lines akin to a mutual fund. A start was made with the Crédit Mobilier, founded by the Péreire Brothers in 1852. Their aim was to shift the banking and financial system away from debt financing at interest toward equity lending, taking returns in the form of dividends that would rise or decline in keeping with the debtor's business fortunes. By giving businesses leeway to cut back dividends when sales and profits decline, profit-sharing agreements avoid the problem that interest must be paid willy-nilly. If an interest payment is missed, the debtor may be forced into bankruptcy and creditors can foreclose. It was to avoid this favoritism for creditors regardless of the debtor's ability to pay that prompted Mohammed to ban interest under Islamic law.

Attracting reformers ranging from socialists to investment bankers, the Saint-Simonians won government backing for their policies under France's Second Empire. Their approach inspired Marx as well as industrialists in Germany and protectionists in the United States and England. The common denominator of this broad spectrum was recognition that an efficient banking system was needed to finance the industry on which a strong national state and military power depended.

Germany develops an industrial banking system

It was above all in Germany that long-term financing found its expression in the Reichsbank and other large industrial banks as part of the "holy trinity" of banking, industry and government planning under Bismarck's "state socialism." German banks made a virtue of necessity. British banks "derived the greater part of their funds from the depositors," and steered these savings and business deposits into mercantile trade financing. This forced domestic firms to finance most new investment out of their own earnings. By contrast, Germany's "lack of capital ... forced industry to turn to the banks for assistance," noted the financial historian George Edwards. "A considerable proportion of the funds of the German banks came not from the deposits of customers but from the capital subscribed by the proprietors themselves.[4] As a result, German banks "stressed investment operations and were formed not so much for receiving deposits and granting loans but rather for supplying the investment requirements of industry."

When the Great War broke out in 1914, Germany's rapid victories were widely viewed as reflecting the superior efficiency of its financial system. To some observers the war appeared as a struggle between rival forms of financial organization. At issue was not only who would rule Europe, but whether the continent would have laissez faire or a more state-socialist economy.

In 1915, shortly after fighting broke out, the Christian Socialist priest-politician Friedrich Naumann published Mitteleuropa, describing how Germany recognized more than any other nation that industrial technology needed long-term financing and government support. His book inspired Prof. H. S. Foxwell in England to draw on his arguments in two remarkable essays published in the Economic Journal in September and December 1917: "The Nature of the Industrial Struggle," and "The Financing of Industry and Trade." He endorsed Naumann's contention that "the old individualistic capitalism, of what he calls the English type, is giving way to the new, more impersonal, group form; to the disciplined scientific capitalism he claims as German."

This was necessarily a group undertaking, with the emerging tripartite integration of industry, banking and government, with finance being "undoubtedly the main cause of the success of modern German enterprise," Foxwell concluded (p. 514). German bank staffs included industrial experts who were forging industrial policy into a science. And in America, Thorstein Veblen's The Engineers and the Price System (1921) voiced the new industrial philosophy calling for bankers and government planners to become engineers in shaping credit markets.

Foxwell warned that British steel, automotive, capital equipment and other heavy industry was becoming obsolete largely because its bankers failed to perceive the need to promote equity investment and extend long-term credit. They based their loan decisions not on the new production and revenue their lending might create, but simply on what collateral they could liquidate in the event of default: inventories of unsold goods, real estate, and money due on bills for goods sold and awaiting payment from customers. And rather than investing in the shares of the companies that their loans supposedly were building up, they paid out most of their earnings as dividends – and urged companies to do the same. This short time horizon forced business to remain liquid rather than having leeway to pursue long-term strategy.

German banks, by contrast, paid out dividends (and expected such dividends from their clients) at only half the rate of British banks, choosing to retain earnings as capital reserves and invest them largely in the stocks of their industrial clients. Viewing these companies as allies rather than merely as customers from whom to make as large a profit as quickly as possible, German bank officials sat on their boards, and helped expand their business by extending loans to foreign governments on condition that their clients be named the chief suppliers in major public investments. Germany viewed the laws of history as favoring national planning to organize the financing of heavy industry, and gave its bankers a voice in formulating international diplomacy, making them "the principal instrument in the extension of her foreign trade and political power."

A similar contrast existed in the stock market. British brokers were no more up to the task of financing manufacturing in its early stages than were its banks. The nation had taken an early lead by forming Crown corporations such as the East India Company, the Bank of England and even the South Sea Company. Despite the collapse of the South Sea Bubble in 1720, the run-up of share prices from 1715 to 1720 in these joint-stock monopolies established London's stock market as a popular investment vehicle, for Dutch and other foreigners as well as for British investors. But the market was dominated by railroads, canals and large public utilities. Industrial firms were not major issuers of stock.

In any case, after earning their commissions on one issue, British stockbrokers were notorious for moving on to the next without much concern for what happened to the investors who had bought the earlier securities. "As soon as he has contrived to get his issue quoted at a premium and his underwriters have unloaded at a profit," complained Foxwell, "his enterprise ceases. 'To him,' as the Times says, 'a successful flotation is of more importance than a sound venture.'"

Much the same was true in the United States. Its merchant heroes were individualistic traders and political insiders often operating on the edge of the law to gain their fortunes by stock-market manipulation, railroad politicking for land giveaways, and insurance companies, mining and natural resource extraction. America's wealth-seeking spirit found its epitome in Thomas Edison's hit-or-miss method of invention, coupled with a high degree of litigiousness to obtain patent and monopoly rights.

In sum, neither British nor American banking or stock markets planned for the future. Their time frame was short, and they preferred rent-extracting projects to industrial innovation. Most banks favored large real estate borrowers, railroads and public utilities whose income streams easily could be forecast. Only after manufacturing companies grew fairly large did they obtain significant bank and stock market credit.

What is remarkable is that this is the tradition of banking and high finance that has emerged victorious throughout the world. The explanation is primarily the military victory of the United States, Britain and their Allies in the Great War and a generation later, in World War II.

The regression toward burdensome unproductive debts after World War I

The development of industrial credit led economists to distinguish between productive and unproductive lending. A productive loan provides borrowers with resources to trade or invest at a profit sufficient to pay back the loan and its interest charge. An unproductive loan must be paid out of income earned elsewhere. Governments must pay war loans out of tax revenues. Consumers must pay loans out of income they earn at a job – or by selling assets. These debt payments divert revenue away from being spent on consumption and investment, so the economy shrinks. This traditionally has led to crises that wipe out debts, above all those that are unproductive.

In the aftermath of World War I the economies of Europe's victorious and defeated nations alike were dominated by postwar arms and reparations debts. These inter-governmental debts were to pay for weapons (by the Allies when the United States unexpectedly demanded that they pay for the arms they had bought before America's entry into the war), and for the destruction of property (by the Central Powers), not new means of production. Yet to the extent that they were inter-governmental, these debts were more intractable than debts to private bankers and bondholders. Despite the fact that governments in principle are sovereign and hence can annul debts owed to private creditors, the defeated Central Power governments were in no position to do this.

And among the Allies, Britain led the capitulation to U.S. arms billing, captive to the creditor ideology that "a debt is a debt" and must be paid regardless of what this entails in practice or even whether the debt in fact can be paid. Confronted with America's demand for payment, the Allies turned to Germany to make them whole. After taking its liquid assets and major natural resources, they insisted that it squeeze out payments by taxing its economy. No attempt was made to calculate just how Germany was to do this – or most important, how it was to convert this domestic revenue (the "budgetary problem") into hard currency or gold. Despite the fact that banking had focused on international credit and currency transfers since the 12th century, there was a broad denial of what John Maynard Keynes identified as a foreign exchange transfer problem.

Never before had there been an obligation of such enormous magnitude. Nevertheless, all of Germany's political parties and government agencies sought to devise ways to tax the economy to raise the sums being demanded. Taxes, however, are levied in a nation's own currency. The only way to pay the Allies was for the Reichsbank to take this fiscal revenue and throw it onto the foreign exchange markets to obtain the sterling and other hard currency to pay. Britain, France and the other recipients then paid this money on their Inter-Ally debts to the United States.

Adam Smith pointed out that no government ever had paid down its public debt. But creditors always have been reluctant to acknowledge that debtors are unable to pay. Ever since David Ricardo's lobbying for their perspective in Britain's Bullion debates, creditors have found it their self-interest to promote a doctrinaire blind spot, insisting that debts of any magnitude could be paid. They resist acknowledging a distinction between raising funds domestically (by running a budget surplus) and obtaining the foreign exchange to pay foreign-currency debt. Furthermore, despite the evident fact that austerity cutbacks on consumption and investment can only be extractive, creditor-oriented economists refused to recognize that debts cannot be paid by shrinking the economy, or that foreign debts and other international payments cannot be paid in domestic currency without lowering the exchange rate.

The more domestic currency Germany sought to convert, the further its exchange rate was driven down against the dollar and other gold-based currencies. This obliged Germans to pay much more for imports. The collapse of the exchange rate was the source of hyperinflation, not an increase in domestic money creation as today's creditor-sponsored monetarist economists insist. In vain Keynes pointed to the specific structure of Germany's balance of payments and asked creditors to specify just how many German exports they were willing to take, and to explain how domestic currency could be converted into foreign exchange without collapsing the exchange rate and causing price inflation.

Tragically, Ricardian tunnel vision won Allied government backing. Bertil Ohlin and Jacques Rueff claimed that economies receiving German payments would recycle their inflows to Germany and other debt-paying countries by buying their imports. If income adjustments did not keep exchange rates and prices stable, then Germany's falling exchange rate would make its exports sufficiently more attractive to enable it to earn the revenue to pay.

This is the logic that the International Monetary Fund followed half a century later in insisting that Third World countries remit foreign earnings and even permit flight capital as well as pay their foreign debts. It is the neoliberal stance now demanding austerity for Greece, Ireland, Italy and other Eurozone economies.

Bank lobbyists claim that the European Central Bank will risk spurring domestic wage and price inflation of it does what central banks were founded to do: finance budget deficits. Europe's financial institutions are given a monopoly right to perform this electronic task – and to receive interest for what a real central bank could create on its own computer keyboard.

But why it is less inflationary for commercial banks to finance budget deficits than for central banks to do this? The bank lending that has inflated a global financial bubble since the 1980s has left as its legacy a debt overhead that can no more be supported today than Germany was able to carry its reparations debt in the 1920s. Would government credit have so recklessly inflated asset prices?

How debt creation has fuelled asset-price inflation since the 1980s

Banking in recent decades has not followed the productive lines that early economic futurists expected. As noted above, instead of financing tangible investment to expand production and innovation, most loans are made against collateral, with interest to be paid out of what borrowers can make elsewhere. Despite being unproductive in the classical sense, it was remunerative for debtors from 1980 until 2008 – not by investing the loan proceeds to expand economic activity, but by riding the wave of asset-price inflation. Mortgage credit enabled borrowers to bid up property prices, drawing speculators and new customers into the market in the expectation that prices would continue to rise. But hothouse credit infusions meant additional debt service, which ended up shrinking the market for goods and services.

Under normal conditions the effect would have been for rents to decline, with property prices following suit, leading to mortgage defaults. But banks postponed the collapse into negative equity by lowering their lending standards, providing enough new credit to keep on inflating prices. This averted a collapse of their speculative mortgage and stock market lending. It was inflationary – but it was inflating asset prices, not commodity prices or wages. Two decades of asset price inflation enabled speculators, homeowners and commercial investors to borrow the interest falling due and still make a capital gain.

This hope for a price gain made winning bidders willing to pay lenders all the current income –

making banks the ultimate and major rentier income recipients. The process of inflating asset prices by easing credit terms and lowering the interest rate was self-feeding. But it also was self-terminating, because raising the multiple by which a given real estate rent or business income can be "capitalized" into bank loans increased the economy's debt overhead.

Securities markets became part of this problem. Rising stock and bond prices made pension funds pay more to purchase a retirement income – so "pension fund capitalism" was coming undone. So was the industrial economy itself. Instead of raising new equity financing for companies, the stock market became a vehicle for corporate buyouts. Raiders borrowed to buy out stockholders, loading down companies with debt. The most successful looters left them bankrupt shells. And when creditors turned their economic gains from this process into political power to shift the tax burden onto wage earners and industry, this raised the cost of living and doing business – by more than technology was able to lower prices.

The EU rejects central bank money creation, leaving deficit financing to the banks

Article 123 of the Lisbon Treaty forbids the ECB or other central banks to lend to government. But central banks were created specifically – to finance government deficits. The EU has rolled back history to the way things were three hundred years ago, before the Bank of England was created. Reserving the task of credit creation for commercial banks, it leaves governments without a central bank to finance the public spending needed to avert depression and widespread financial collapse.

So the plan has backfired. When "hard money" policy makers limited central bank power, they assumed that public debts would be risk-free. Obliging budget deficits to be financed by private creditors seemed to offer a bonanza: being able to collect interest for creating electronic credit that governments can create themselves. But now, European governments need credit to balance their budget or face default. So banks now want a central bank to create the money to bail them out for the bad loans they have made.

For starters, the ECB's 489 billion euros in three-year loans at 1% interest gives banks a free lunch arbitrage opportunity (the "carry trade") to buy Greek and Spanish bonds yielding a higher rate. The policy of buying government bonds in the open market – after banks first have bought them at a lower issue price – gives the banks a quick and easy trading gain.

How are these giveaways less inflationary than for central banks to directly finance budget deficits and roll over government debts? Is the aim of giving banks easy gains simply to provide them with resources to resume the Bubble Economy lending that led to today's debt overhead in the first place?

Conclusion

Governments can create new credit electronically on their own computer keyboards as easily as commercial banks can. And unlike banks, their spending is expected to serve a broad social purpose, to be determined democratically. When commercial banks gain policy control over governments and central banks, they tend to support their own remunerative policy of creating asset-inflationary credit – leaving the clean-up costs to be solved by a post-bubble austerity. This makes the debt overhead even harder to pay – indeed, impossible.

So we are brought back to the policy issue of how public money creation to finance budget deficits differs from issuing government bonds for banks to buy. Is not the latter option a convoluted way to finance such deficits – at a needless interest charge? When governments monetize their budget deficits, they do not have to pay bondholders.

I have heard bankers argue that governments need an honest broker to decide whether a loan or public spending policy is responsible. To date their advice has not promoted productive credit. Yet they now are attempting to compensate for the financial crisis by telling debtor governments to sell off property in their public domain. This "solution" relies on the myth that privatization is more efficient and will lower the cost of basic infrastructure services. Yet it involves paying interest to the buyers of rent-extraction rights, higher executive salaries, stock options and other financial fees.

Most cost savings are achieved by shifting to non-unionized labor, and typically end up being paid to the privatizers, their bankers and bondholders, not passed on to the public. And bankers back price deregulation, enabling privatizers to raise access charges. This makes the economy higher cost and hence less competitive – just the opposite of what is promised.

Banking has moved so far away from funding industrial growth and economic development that it now benefits primarily at the economy's expense in a predator and extractive way, not by making productive loans. This is now the great problem confronting our time. Banks now lend mainly to other financial institutions, hedge funds, corporate raiders, insurance companies and real estate, and engage in their own speculation in foreign currency, interest-rate arbitrage, and computer-driven trading programs. Industrial firms bypass the banking system by financing new capital investment out of their own retained earnings, and meet their liquidity needs by issuing their own commercial paper directly. Yet to keep the bank casino winning, global bankers now want governments not only to bail them out but to enable them to renew their failed business plan – and to keep the present debts in place so that creditors will not have to take a loss.

This wish means that society should lose, and even suffer depression. We are dealing here not only with greed, but with outright antisocial behavior and hostility.

Europe thus has reached a critical point in having to decide whose interest to put first: that of banks, or the "real" economy. History provides a wealth of examples illustrating the dangers of capitulating to bankers, and also for how to restructure banking along more productive lines. The underlying questions are clear enough:

* Have banks outlived their historical role, or can they be restructured to finance productive capital investment rather than simply inflate asset prices?
* Would a public option provide less costly and better directed credit?
* Why not promote economic recovery by writing down debts to reflect the ability to pay, rather than relinquishing more wealth to an increasingly aggressive creditor class?

Solving the Eurozone's financial problem can be made much easier by the tax reforms that classical economists advocated to complement their financial reforms. To free consumers and employers from taxation, they proposed to levy the burden on the "unearned increment" of land and natural resource rent, monopoly rent and financial privilege. The guiding principle was that property rights in the earth, monopolies and other ownership privileges have no direct cost of production, and hence can be taxed without reducing their supply or raising their price, which is set in the market. Removing the tax deductibility for interest is the other key reform that is needed.

A rent tax holds down housing prices and those of basic infrastructure services, whose untaxed revenue tends to be capitalized into bank loans and paid out in the form of interest charges. Additionally, land and natural resource rents – along with interest – are the easiest to tax, because they are highly visible and their value is easy to assess.

Pressure to narrow existing budget deficits offers a timely opportunity to rationalize the tax systems of Greece and other PIIGS countries in which the wealthy avoid paying their fair share of taxes. The political problem blocking this classical fiscal policy is that it "interferes" with the rent-extracting free lunches that banks seek to lend against. So they act as lobbyists for untaxing real estate and monopolies (and themselves as well). Despite the financial sector's desire to see governments remain sufficiently solvent to pay bondholders, it has subsidized an enormous public relations apparatus and academic junk economics to oppose the tax policies that can close the fiscal gap in the fairest way.

It is too early to forecast whether banks or governments will emerge victorious from today's crisis. As economies polarize between debtors and creditors, planning is shifting out of public hands into those of bankers. The easiest way for them to keep this power is to block a true central bank or strong public sector from interfering with their monopoly of credit creation. The counter is for central banks and governments to act as they were intended to, by providing a public option for credit creation.

WALL STREET'S PROTECTION RACKET OF COVERT DERIVATIVES: JPMORGAN DERIVATIVES PROP UP U.S. DEBT; WHY THE SENATE WON'T TOUCH JAMIE DIMON

Ellen Brown; Global Research; Web of Debt

URL of this article: www.globalresearch.ca/index.php?context=va&aid=31505

When Jamie Dimon, CEO of JPMorgan Chase Bank, appeared before the Senate Banking Committee on June 13, he was wearing cufflinks bearing the presidential seal. "Was Dimon trying to send any particular message by wearing the presidential cufflinks?" asked CNBC editor John Carney. "Was he . . . subtly hinting that he's really the guy in charge?"

The groveling of the Senators was so obvious that Jon Stewart did a spoof news clip on it, featured in a Huffington Post piece titled "Jon Stewart Blasts Senate's Coddling Of JP Morgan Chase CEO Jamie Dimon," and Matt Taibbi wrote an op-ed called "Senators Grovel, Embarrass Themselves at Dimon Hearing." He said the whole thing was painful to watch.

"What is going on with this panel of senators?" asked Stewart. "They're sucking up to Jamie Dimon like they're on JPMorgan's payroll." The explanation in a news clip that followed was that JPMorgan Chase is the biggest campaign donor to many of the members of the Banking Committee.

That is one obvious answer, but financial analysts Jim Willie and Rob Kirby think it may be something far larger, deeper, and more ominous. They contend that the $3 billion-plus losses in London hedging transactions that were the subject of the hearing can be traced, not to European sovereign debt (as alleged), but to the record-low interest rates maintained on U.S. government bonds.

The national debt is growing at $1.5 trillion per year. Ultra-low interest rates MUST be maintained to prevent the debt from overwhelming the government budget. Near-zero rates also need to be maintained because even a moderate rise would cause multi-trillion dollar derivative losses for the banks, and would remove the banks' chief income stream, the arbitrage afforded by borrowing at 0% and investing at higher rates.

The low rates are maintained by interest rate swaps, called by Willie a "derivative tool which controls the bond market in a devious artificial manner." How they control it is complicated, and is explored in detail in the Willie piece here and Kirby piece here.

Kirby contends that the only organization large enough to act as counterparty to some of these trades is the U.S. Treasury itself. He suspects the Treasury's Exchange Stabilization Fund, a covert entity without oversight and accountable to no one. Kirby also notes that if publicly-traded companies (including JPMorgan, Goldman Sachs, and Morgan Stanley) are deemed to be integral to U.S. national security (meaning protecting the integrity of the dollar), they can legally be excused from reporting their true financial condition. They are allowed to keep two sets of books.

Interest rate swaps are now over 80 percent of the massive derivatives market, and JPMorgan holds about $57.5 trillion of them. Without the protective JPMorgan swaps, interest rates on U.S. debt could follow those of Greece and climb to 30%. CEO Dimon could, then, indeed be "the guy in charge": he could be controlling the lever propping up the whole U.S. financial system.

Hero or Felon?

So should Dimon be regarded as a national hero? Not if past conduct is any gauge. Besides the recent $3 billion in JPMorgan losses, which look more like illegal speculation than legal hedging, there is JPM's use of its conflicting positions as clearing house and creditor of MF Global to siphon off funds that should have gone into customer accounts, and its responsibility in dooming Lehman Brothers by withholding $7 billion in cash and collateral. There is also the fact that Dimon sat on the board of the New York Federal Reserve when it lent $55 billion to JPMorgan in 2008 to buy Bear Stearns for pennies on the dollar. Dimon then owned nearly three million shares of JPM stock and options, in clear violation of 18 U.S.C. Section 208, which makes that sort of conflict of interest a felony.

Financial analyst John Olagues, a former stock options market maker, points out that the loan was guaranteed by $55 billion of Bear Stearns assets. If Bear had that much in assets, the Fed could have given it the loan directly, saving it from being swallowed up by JPMorgan. But Bear did not have a director on the board of the NY Fed.

Olagues also notes that JPMorgan received an additional $25 billion in TARP payments from the Treasury, which were evidently paid off by borrowing from the NY Fed at a very low 0.5%; and that JPM executives received some very large and highly suspicious bonuses called Stock Appreciation Rights and Restricted Stock Units (complicated variants of employee stock options and restricted stock). In 2009, these bonuses were granted on the day JPMorgan stock reached its lowest value in five years. The stock quickly rebounded thereafter, substantially increasing the value of the bonuses. This pattern recurred in 2008 and 2012.

Olagues has evidence of systematic computer-generated selling of JPMorgan stock immediately prior to and on the dates of the granted equity compensation. Collusion to manipulate the stock to accommodate the grant of options is called "spring-loading" and is a violation of SEC Rule 10 b-5 and tax laws, with criminal and civil penalties. All of which suggests we could actually have a felon at the helm of our ship of state.

There is a movement afoot to get Dimon replaced on the Board, on the ground that his directorship represents a clear conflict of interest. In May, Massachusetts Senate candidate Elizabeth Warren called for Dimon's resignation from the NY Fed board, and Vermont Senator Bernie Sanders has used the uproar over the speculative JPM losses to promote an overhaul of the Federal Reserve. In a release to reporters, Warren said:

"Four years after the financial crisis, Wall Street has still not been held accountable, and that lack of accountability has history repeating itself—huge, risky financial bets leading to billions in losses. It is time for some accountability. . . . Dimon stepping down from the NY Fed would be at least one small sign that Wall Street will be held accountable for their failures."

But what chance does even this small step have against the gun-to-the-head persuasion of a nightmare collapse of the entire U.S. debt scheme?

Propping Up a Pyramid Scheme

Is there no alternative but to succumb to the Mafia-like Wall Street protection racket of a covert derivatives trade in interest rate swaps? As Willie and Kirby observe, that scheme itself must ultimately fail, and may have failed already. They point to evidence that the JPM losses are not just $3 billion but $30 billion or more, and that JPM is actually bankrupt.

The derivatives casino itself is just a last-ditch attempt to prop up a private pyramid scheme in fractional-reserve money creation, one that has progressed over several centuries through a series of "reserves"—from gold, to Fed-created "base money," to mortgage-backed securities, to sovereign debt ostensibly protected with derivatives. We've seen that the only real guarantor in all this is the government itself, first with FDIC insurance and then with government bailouts of too-big-to-fail banks. If we the people are funding the banks, we should own them; and our national currency should be issued, not through banks at interest, but through our own sovereign government.

Unlike Greece, which is dependent on an uncooperative European Central Bank for funding, the U.S. still has the legal power to issue its own dollars or borrow them interest-free from its own central bank. The government could buy back its bonds and refinance them at 0% interest through the Federal Reserve—which now buys them on the open market at interest like everyone else—or it could simply rip them up.

The chief obstacle to that alternative is the bugaboo of inflation, but many countries have proven that this approach need not be inflationary. Canada borrowed from its own central bank effectively interest free from 1939 to 1974, stimulating productivity without creating inflation; Australia did it from 1912 to 1923; and China has done it for decades.

The private creation of money at interest is the granddaddy of all pyramid schemes; and like all such schemes, it must eventually collapse, despite a quadrillion dollar derivatives edifice propping it up. Willie and Kirby think that time is upon us. We need to have alternative, public and cooperative systems ready to replace the old system when it comes crashing down.

IMF LOSES ALL FAITH IN THE EURO PROJECT

By Ambrose Evans-Pritchard; Daily Telegraph; via John Newell

The IMF is now the de facto leader of the Eurosceptic movement,

The IMF's latest report on the eurozone is an astonishing document. When the full history of this episode is written, this "Article IV Consultation" will be cited as a key exhibit.

The euro area crisis has reached a new and critical stage. Despite major policy actions, financial markets in parts of the region remain under acute stress, raising questions about the viability of the monetary union itself."

The adverse links between sovereigns, banks, and the real economy are stronger than ever. Financial markets are increasingly fragmenting along national borders.

It said the eurozone is unworkable in its current form, a half-baked currency union that spreads contagion like wildfire without the backup machinery to contain the damage:

The euro area is in an uncomfortable and unsustainable halfway point. While it is sufficiently integrated to allow escalating problems in one country to spill over to others, it lacks the economic flexibility or policy tools to deal with these spillovers.

Crucially, the euro area also lacks essential financial and fiscal policy tools to stabilise the monetary union. As the crisis has illustrated, without a strong common financial stability framework, banking problems are hard to contain and resolve in an integrated market.

Most of southern Europe is at serious risk of a "debt-deflation spiral", and the dangers are masked by the austerity taxes themselves. "This disinflationary environment in much of the periphery will make it difficult for many countries to reduce the burden of debt."

Europe's leaders have still failed to grasp the nettle:

The deepening of the crisis suggests that its root causes remain unaddressed. The crisis calls for a much stronger collective effort now to demonstrate policymakers' unequivocal commitment to sustain EMU. Only a convincing and concerted move toward a more complete EMU could arrest the decline in confidence engulfing the region."

As a result, the pernicious feedback loop between banks and sovereigns, as well as market fragmentation, have been accentuated during the crisis. In some cases, the necessary provision of ECB liquidity has led to further sovereign bond purchases by banks, deepening this link even more.

The adverse bank-sovereign feedback loops at the heart of the crisis have intensified. Concerns about banks' solvency have increased because of large sovereign exposures, particularly in periphery countries. Some sovereigns, in turn, are struggling to backstop weak banks on their own.

Intra-euro area capital flight has created deintegrating forces in sovereign bond markets, interbank markets and lending and deposit markets. There is a "drastic decline in interbank activity":

A failure of a large and systemic bank could test the ability of the ECB and crisis facilities to stem contagion. And reform slippage at the country level could have large negative spillovers throughout the euro area. The fear of euro area exit, if not countered swiftly and effectively, could spread to other economies perceived to have similar characteristics.

In other words, the process has become self-feeding and extremely dangerous. The monetary transmission mechanism has completely broken down (as the Bank of France's Christian Noyer warned earlier this week). The whole world is at risk.

The IMF exhorts the EU authorities to go all-in with Eurobonds and a genuine banking union with pan-EMU deposit guarantees.

It calls for "sizeable" QE by the European Central Bank – the full monty, not the pinprick efforts undertaken so far – "preannounced over a given period of time, buying a representative portfolio of long-term government bonds". That is: do what the Fed is doing, at long last.

"If the IMF report was a film it would be a summer blockbuster to match Batman," said Gary Jenkins from Swordfish.

"It's difficult to argue with the basic thrust of the IMF's report, in the sense that if they want to save the eurozone, the politicians probably do have to take dramatic action. However I dare say that if there is going to be a move towards a full United States of Europe some people might quite like to vote on it," he said.

Indeed.

For those of us who have been gently suggesting over the years that there might be a few structural problems with monetary union, the IMF report comes as bittersweet vindication:

Adverse feedback loops are stronger in a monetary union than elsewhere. These adverse feedback loops are amplified by the absence of a domestic exchange rate that could buffer the impact of intra-euro area sudden stops on the borrowing costs of sovereigns, and that would help compensate the adverse impact of fiscal efforts on domestic demand compression by an exchange rate depreciation stimulating exports.

That is: the victim states can't break out of the trap through devaluation. They cannot offset a fiscal squeeze with exchange (or monetary) stimulus. They are suffocated:

Moreover, sovereign borrowing costs can rapidly spiral out if market anticipations turn out pessimistic, making fiscal adjustment more difficult to achieve unless the monetary authority signals the possibility of future loosening.

That is: EMU membership makes it harder to sort out public finances. This is the exact opposite of the claim we always heard from the euro missionaries, that the "discipline" would force wayward states to behave. In fact it makes it near impossible for them to keep their debt trajectories under control:

Limited labor mobility in the euro area impedes adjustment to idiosyncratic shocks. If workers move in response to differences in wages and job opportunities, they reduce disparities in unemployment rates and real wages across regions. However, while there is some evidence that labor mobility in the euro area has increased in response to the crisis, it remains fairly limited.

Only about 1 per cent of the working age population changes residence within their country in a given year, and even less move between euro area countries. This compares to about 3 per cent in the US, 2 per cent in Australia, and slightly less than 2 per cent in Canada.

We told you so here at the Telegraph. The safety valves of labour mobility and fiscal transfers in euroland are totally inadequate.

It would be very interesting to know exactly what has been going on at the IMF board over recent weeks. One hears that the White House – with the full support of China, Japan, Brazil, and others – has finally lost patience with Europe's leaders. (I use that term euphemistically, since I don't mean Monti, Hollande, Cameron, or even Rajoy, but one doesn't want to be accused of picking on a defenceless, much-maligned, and vulnerable country between Poland and The Netherlands).

The IMF could hardly be clearer. It is a pre-emptive move to pin responsibility for the coming deluge exactly where it belongs:

On those who created this doomsday machine and pushed it through as a federalist Trojan horse, with scant concern for Europe's democracies; on a second group of people who ran it for a decade with high-handed arrogance, disregarding warnings as the North-South gap grew to dangerous levels; and on a third group of leaders – led by Chancellor Angela Merkel – who now refuse to face up to the awful implications of what has happened.

The IMF is the leader of the Eurosceptic camp now.

POSITIVE MONEY BULLETIN

Positive Money Team

We're finally in the mainstream press...

Finally our message is beginning to sink in. Over the last couple of weeks a number of mainstream newspapers wrote about monetary reform, some even mentioning Positive Money by name. About time too!

First, an article appeared in The Economist making a few statements that could have been lifted from the Positive Money website, particularly with regards to the negligence of the authorities in allowing a massive explosion in money supply, which feed into house prices but not consumer prices, allowing the Bank of England and other central banks to claim that they had successfully managed the economy.

Then Financial Times published an excellent article by Martin Wolf, the Chief Economics editor, and a former member of the UK government's Independent Commission on Banking, in which he openly describes the process and even suggest a solution similar to ours: "the job of managing money needs to be delegated to an independent institution."

A few days later we spotted an article in The Independent where the author discusses the history of money creation by banks, and suggest taking the power of money creation out of the hands of private banks. And he also mentions Positive Money: "This is exactly what groups like Positive Money and Money That Works are now campaigning for. They are calling for the government to take back the power from the City and enact similar legislation to the Bank Charter Act."

And finally we've been mentioned in an article in the Guardian, where Deborah Orr explains how "The big international banks manufactured money, using very simple raw materials" and continues: "The pressure group, Positive Money, explains it well."

The Guardian article triggered a response from Daily Telegraph blogger Tim Worstall, on his personal blog, where he charmingly dismissed us as 'loons' (we've been called worse!). He put forward the simple argument that "Banks obviously can't create money, if they did then Northern Rock would not have gone bust…" It's a common question, so we answered with an explanation below of why it's entirely possible for banks to be able to create money and still run out of the stuff in the style of Northern Rock.

If banks can create money, how come Northern Rock went bust?

Of course, we're under no illusions about how much more work there is to do to get the bulk of journalists to provide some accurate analysis of the crisis and the problems with our monetary system. If you can help to support our work with a monthly or one of donation, please do - over half of our funding now comes from individuals, which makes us less dependent on larger trusts who don't always understand the need for fundamental reform of the financial system. The RH Southern Trust are currently matching any new donations, for the next 12 months, so if you start donating £10 a month now, they'll match it with an additional £120 over the next 12 months!

Other good news:

Our supporters in Durham had a stall with banners at the big event Durham Miners' Gala with two or three thousand visitors.

Ben will be speaking at the FuturePerfect festival in Sweden in August, a big festival about sustainability attended by private and public executives, experts, researchers and students wanting to engage around sustainability at a higher level to achieve change-focussed exchange.

Upcoming Events:

Shropshire, Thu 23rd August (more info coming)

More from the Blog

Paul Moore on BBC
Banks Behaving Better Shrinks the Money Supply
Key to Challenging the Power of the Banks - Michael Meacher MP
Max Keiser on How Is Money Created
PoliticsUK Interview with Ben Dyson
Why Money Disappears When Loans Are Repaid
£93 MILLION: How much the Banks Spent on Lobbying Last Year
Michael Meacher MP: Key Reform is Regaining Public Control of Money Creation
Paul Moore on the Ethics of Banking
Bob Diamond: It's Easier to Blame Him than Reform Banking, but…
Be Angry at Bankers, Be Angrier at Economists
What To Do About The Barclays LIBOR Scam?
Eurozone Unemployment Hits Record High
Financial Times gets it!
Eleven Arguments Against Interest Rate Adjustments
BANKING VS DEMOCRACY: How Power Has Shifted from Parliament to the Banking Sector
King Warns Britain Will Not Recover For Five Years
Why Create Another Problem When You Already Have One?

The Planet-Sized Financial Casino That Rules Our Lives

Another week, another banking scandal. If you've seen the papers you'll have seen Barclays boss Bob Diamond falling on his sword and professing his love for Barclays, the bank at the centre of a scandal about manipulating interest rates. Politicians have been expressing their moral indignation that a bank – a bank, of all things! – could do something that wasn't entirely in the public interest. And yet, for the fifth year since the banking crisis started, the media once again managed to cough up a million words of analysis whilst completely and utterly missing the point.

So what if Barclays manipulated Libor, the interest rate statistics that influences how much interest people pay on millions of mortgages, loans and other financial contracts? We've given the banking sector a monopoloy on creating the nation's money supply, in the form of those numbers that appear in your account. Rather than getting angry that we've been slightly overcharged for the privilege of borrowing this money from them, maybe we should be getting angry that we've been put in a position where we are – collectively – forced into a position of debt to the banking system.

We have to stay focused on what the real problem in banking is. We need to tackle the creation of money, by private profit seeking-banks, for their own short-term interest. A system like this will never work well for society or ordinary people.

So here's four things you can do to make a difference:

1) Sign a petition for an independent judicial inquiry into the banking crisis. A major, independent, judicial inquiry into what actually has been going on at the big banks will help keep up the pressure for reform, so below is a quick petition that you can sign to call for this inquiry. Please join us in signing the Good Banking Forum's petition. And forward to a friend.

2) Tell Your Friends Why this is the Tip of the Iceberg. E-mail a link to the documentary "97% Owned" to your friends and colleagues. It contains information that are crucial to understand the current crisis. Everyone who cares about what's going on in the world needs to see it. Ask your friends to forward on to their friends and colleagues to help spread the message faster.

3) Read up on exactly why banks have so much power. This new report from Positive Money explains how power has shifted from parliament to the banking sector, and explains what needs to change to reserve this shift.

Read BANKING VS DEMOCRACY

4) Move Your Money

Do the simplest thing you can do - move your money to more ethical bank. Do not support the harmful activities of the big banks anymore. See where and how to move on the Positiver Money website

Save the date: Saturday 26th January 2013

- for the next Positive Money conference, near Holborn, London. This conference will be more interactive with more workshops/breakouts, and a drinks reception afterwards. More details to be confirmed; booking will be open around September time.

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