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The Battle for the Control of Money
"The Nature of Money in Modern Economy – Implications and Consequences"
by Stephen Zarlenga and Robert Poteat

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1. Introduction

The "Lost Science of Money" by Stephen Zarlenga (2002) is an eye-opener regarding the nature of money. The present paper by Zarlenga and Poteat (2016) provides a brief summary of some of the key issues related to money. These issues are of burning importance today in the Islamic world as we struggle to break free of western institutional structures which are deeply tied to interest. In the past, I have written several papers trying to present to a Muslim audience the deep insights of Stephen Zarlenga (*Lost Science of Money*), Ellen Brown (*Web of Debt and The Public Bank Solution*), and David Graeber (*Debt: The First 5000 Years*). This is a very complex and lengthy discussion, just like the book of Zarlenga (2002). I will take advantage of the opportunity presented by this paper of Zarlenga and Poteat to move the discussion forward. Instead of debate, arguments, and commentary, I will try to provide a sharp and to-the-point summary of practical implications for what needs to be done in Islamic societies. Nonetheless, there is a lot of ground which needs to be covered before we can present the key steps needed for positive change.

2. Massive Confusion Exists About Money

The Quantity Theory of Money (QTM), widely taught in universities, is blatantly false. The QTM teaches us that money is neutral; it has no effects other than on prices. In other words, money is a veil which must be lifted to uncover the workings of the real economy. The Keynesian view is a partial correction to the QTM; Keynes says that money does have real effects, both in the short run and in the long run. Insufficient money leads to recession and unemployment, while excess money leads to inflation. Currently, there exists a wide range of alternative heterodox theories of money, including the Chartalist view, Modern Monetary Theory of money as debt, State Theory of Money (Sovereign Money), Commodity Money (Gold and Silver) and many others.

3. There is *reason* for this confusion.

As Zarlenga and Poteat (2016) write: "The battle to control money has raged for millennia". An essential element in this battle is confusion about the nature of money. Those who derive extreme benefits from this system perpetuate confusions and myths regarding money. The authors correctly state that as long as the system is not understood, steps to create a fair and equitable system cannot be taken. Confusion about money exists not just because the nature of money is complex, but because there are deliberate attempts to conceal how the system works. In order to create a better system for the Islamic world, it is essential to educate Muslims about the nature of money and the financial system.

According to the standard QTM, money is linked only to prices and not to the workings of the real economy. More money means higher prices and less money means lower prices. Accordingly, money is a veil which we must look through in order to uncover the real economy. Nothing could be further from the truth. The circulation of money is of utmost importance in understanding how the economy works. The QTM is part of the effort to mislead people, and take attention away from how money actually works within an economy. In other words, QTM itself is a veil to hide the truth about money.

The QTM is just one example of numerous confusions about money which are widespread and widely believed. Understanding the present monetary system requires simultaneous understanding at two levels – the domestic currency system and the international system. The fact that the international system is exceedingly unfair is transparently obvious to all. The US Dollar is equivalent to gold in the present system, which permits the US to print any quantity of money it wants. Trillions of dollars have been printed to finance the Iraq war, bailouts of bankers and other extravagant expenses. No other country in the world can do this since such excessive printing of money would cause hyperinflation. However, since the dollar is the reserve currency for the rest of the world, this excessive printing of money has had only a trivial and minor impact on the US domestic inflation rate. Incidentally, this immediately shows how the QTM is false – the price levels in the USA have not responded to the massive amounts of money created in past decades[1]. This puts the US in a position of being able to buy up real resources, including human beings, from the rest of the world in return for printed paper. This is a key to current US political power. Understanding how this system works is essential to finding solutions to our current problems on economic, political, and social fronts.

4. Money is not Gold

A very important consequence of the research of Zarlenga (2002) and others is to lay rest to the myth that the only viable form of money is Gold. This is a natural confusion which is addressed in detail both in the current paper of Zarlenga and Poteat (2016) and much more extensively in Zarlenga's book the Lost Science of Money. It is important to understand this, since Muslims who see the serious problems with the current monetary system immediately turn to gold as the solution. I will not repeat the extensive arguments of the authors but briefly summarize them as follows.

The amount of money needed by an economy expands rapidly in a growing economy. Gold cannot keep pace. Historically, it has always been supplemented by money creation to allow the economy to grow. In situations where this was not done, economic damage in the form of deep and serious recessions have resulted. Furthermore, the price of gold has not been stable, notwithstanding assertions to the contrary by authors who support gold.

5. Sovereign Money

To understand the nature of money, it is necessary to remove the misconception that money derives value from being backed by gold, or by any other valuable commodity. In fact, money derives value from the authority of the state. The definition due to Aristotle is endorsed by Zarlenga and Poteat (2016): "Money exists not by nature, but by law." It is the guarantee of the state that "money will be legal tender in all transactions" that creates value in money. Money comes into being by state decree and the force of the law. In his book, The Lost Science of Money, Zarlenga provides a large amount of historical evidence to illustrate and explain this connection between money and sovereign authority.

This understanding of money has several radical implications. First, because money is created by sovereign authority, only the state should have the power to create money. Second, because money is a public good, useful for all, the benefits from money creation should be made available to the public, and not restricted to any small group. This is the central

(1) See Harvey (2011) for a popular exposition, and Werner (2012) for a deeper and more technical discussion.

message and reform that is needed to create a good monetary system for use in Islamic countries. There are many myths that have been manufactured to prevent the public from coming to this realization. Not one but many major barriers have been created in the public mind so that they would reject any move towards such a system.

5.1 The Myth of Corrupt Governments

There is no doubt that there is a lot of corruption in many governments. However, public and private institutions are run by people coming from the same society, and so there is no differential between public and private corruption. Just as government officials can cheat, so private shopkeepers can dilute the milk. If we look at the history of the past fifty years, we find that private sector corruption has been responsible for a huge amount of world-wide damage. The global financial crisis, caused by criminal profit seeking by the private sector, led to millions being homeless and hungry in the richest countries in the world. There is very strong evidence that carpet bombing and wars in Iraq, Libya, Afghanistan and Syria were all done to protect private oil interests and provide profits to the private sector(2). Thus, the idea that governments are somehow more corrupt than the private sector is contrary to historical facts.

5.2 Government control of money supply will lead to hyper-inflations

Since Zarlenga and Poteat (2016) have already addressed this issue, I will not discuss it further. It is worth noting that the QTM tells us that money does not matter. If this was believed, then there would be no harm in turning over money creation to the state. So the myth of governments causing hyperinflations has been created to prevent us from thinking about placing the control of money in the hands of the government. Actually, government control of money provides the most effective solution to problems of unemployment, but this key economic insight has been buried and forgotten in this debate.

(2) See Washington's Blog (2012).

5.3 The Government already controls the money supply

This widespread myth based on the deposit multiplier and the fractional reserve has been explored in papers discussed in detail in Zarlenga and Poteat (2016). This can be called the theory of "exogenous" money, where money is created outside the control of the private sector. In fact, this myth conceals the real nature of modern money, which is mainly bank credit. This is called "endogenous" money – that is, money which is created by the private sector. The orthodox and dominant economic theories endorse exogenous money, while heterodox economists generally favor the endogenous money theories.

6. Bank Created Credit as Money

After disposing of the myths about money, we must consider the nature of money as it exists today. In the wealthier economies, the majority of the money is created by banks. The nature of the fractional reserve banking system is such that they are required to keep a certain amount of cash – say 5% – of the total amount of credit that they extend. So if a bank has cash in its reserves of 5,000 Rupees, it can extend credit of 100,000 Rupees. The extra 95,000 is credit which is created by the banks.

Even though bank credit is dramatically different from state-issued money in both its origins and on its effects upon the economy, standard textbooks of monetary theory pass over this difference in silence and consider both as equivalent monies. This issue is of great importance from the Islamic perspective. This is because the real nature of money has not been put forth before the religious scholars, and they have given rulings about money without understanding the difference between credit created by the bank and genuine money created by the government. It seems likely that credit creation would not be permissible Islamically since the bank is lending what it does not have. When customers come to demand the money the bank has created, the bank borrows – either from other banks or from the Central Bank – in order to fulfill this demand. This transaction, selling something which is not in your possession, is explicitly prohibited in Islamic teachings(3).

(3) This has been narrated in the teachings of the Prophet Muhammad (pbuh). See Abu Dawud al-Sijistani (2009, 5: 362-364, *ḥadīth* no. 3503 and 3504).

As we shall see, banks have captured the money-creation function which belongs to the state, and are making huge and unjustified profits from this function. The banks' capture of this public service puts an extremely heavy burden on the entire society. It is similar to the private capture of the provision of essential utilities like water, electricity. This allows privateers to extort huge amounts of money from the public, since everyone must buy these services, regardless of cost. This is why these services are provided by the public sector all over the world. In recent times, there was some experimentation with switching to public provision of such services, but this resulted in the predicted private extortion, and many of these privatizations were reversed. Creation of money is an essential public service and cannot be placed in the hands of the private sector for similar reasons.

7. How the Bank of England Came Into Being

The history of the world can be seen as a history of the battles to control the power of money creation. Even though it naturally belongs to the state, there have always been financiers who have sought to capture this power and take it away from the state to use it for their personal ends. An understanding of these battles is essential to understanding the nature of modern money, and the power struggles currently going on for its control globally. We provide a brief sketch of some key historical episodes. More details are available in Ellen Brown and Stephen Zarlenga books referenced earlier.

A mixed system with both public and private creation of money was in effect in 1600, when Queen Elizabeth issued relatively worthless base metal coins as legal tender in Ireland. She also annulled all other types of coinage, effectively abolishing private creation of money. This action was challenged in the highest courts, and the courts ruled in favor of the Queen, along Aristotelian lines, as follows: what the sovereign declared to be money was money, and *it was treason for anyone else to create it* (4). This is exactly in line with Islamic rulings on the private creation of money, which is declared as a *fasād fī al-arḍ* (Asmatullah, 2014)(5).

Historian of money Alexander Del Mar, cited by Zarlenga (2002), details the many conspiracies by wealthy financiers which were carried out in order to reverse this decision, to put the power of money creation back in private hands. The end result of these manipulations was the creation of a private Bank of England which was authorized to issue money on behalf of the state of England. When King William came to power in 1689, he needed money to carry out a war with France. A powerful group of financiers provided him with the required money, 1.2 million pounds on easy terms, provided that he would authorize them to charter the Bank of England, which would give them the sole power to issue money. In return for this privilege, the Bank would be obliged to provide loans to the government whenever required(6).

This led to what appears to be a completely absurd situation. The Bank of England creates money out of nothing on the authority of the sovereign state of England – this is the nature of money. However, it lends this created money to the state itself and charges interest to the state for this loan. Generously, the Bank of England offered to collect the interest itself in the form of taxes on the public. Why didn't King William print the money himself, using his own sovereign authority, and avoid interest payments and taxes on the public? This was partly due to widely believed defective theories of money which equated money with gold. King William was provided with a loan in the form of gold. The Bank of England issued notes which were believed to be backed by gold. However, the nature of the fractional reserves system is such that only a small amount of gold is required to create a huge amount of paper money. As long as the public does not understand the nature of money, and believes money must be backed by gold, they will not understand that it is possible for the sovereign to issue fiat money by decree, creating money out of nothing. There is another factor which makes for

(4) See Brown (2008, Chapter 6).

(5) *fasād fī al-arḍ* is a terminology used in a number of the verses of the Qur'ān which broadly means to act corruptly=on earth. For example, in one such verse Allah says: "Those who break Allah's Covenant after ratifying it, and sever what Allah has ordered to be joined (as regards Allah's Religion of Islamic Monotheism, and to practice its legal laws on earth and also as regards keeping good relations with kith and kin), and *act corruptly on earth*, it is they who are the losers" (Qur'ān, 2:27).

(6) See Brown (2008, chapter 6).

the necessity of gold, and that is international trade. While domestic money can be created out of nothing, this money creation can have serious repercussions internationally, and of course, purchases of foreign goods requires more than fiat currency.

However, the general template of banking remains the same to this day. Banks create money, and lend it to the government, even though it is the government which creates the value of money by its sovereign authority. While the government can create money for free, the banks charge for this privilege, and everyone in the general public pays the price in the form of taxes and interest.

8. Private Control of Money Creation

Ellen Brown and Stephen Zarlenga provide details of the many battles fought between the state and private financial interests for the control of money creation. There have been many victories and losses on both sides, and an essential element in the battle has been deception – the public in general, and politicians and rulers in particular, have not understood the nature of money, and have allowed banks to acquire the privilege of printing money without realizing the power that they have given to the private sector banks. We omit this long and complicated history, even though it is of great importance to understanding the current structures of financial institutions.

In the modern world, the power of money creation has been taken away from governments and given to private banks. This has happened gradually since the movement for financial liberalization started in the 1980's. However, the process has been gaining momentum. We now discuss the consequences of this takeover and privatization of a vital public service. The first important point to note is the creation of many myths about money to conceal the nature of the system.

The Myth of Financial Intermediation: According to the widespread common public understanding, the banks gather money from diverse sources and make it available to investors. Thus, they perform a vital function. Funding investments is essential for the growth of an economy. This myth then justifies the earnings of the banks as a return for the service they provide.

The Truth of Money Creation: In fact, banks do not lend money which they gather from depositors. They *create* the money they lend. Suppose a bank has a deposit of $1,000 and makes a loan of $5,000. It does so by simply opening an account in the name of the borrower and making an electronic entry for $5,000 in that account. This money is not taken out of the money deposited; it is created out of nowhere. What happens when the borrower demands money, in cash, which the bank does not have? The bank simply borrows from the Central Bank, which is required by law to cover such emergencies. The interest rate on borrowing from the Central Bank is much lower than the rate at which loans are made, so the bank makes a profit on this deal.

The Truth about Investments: Even if banks create money, and lend it at interest, they can perform a useful function if they fund productive investment. However, over the past thirty years, there has been a dramatic increase in "financialization". That is, loans are provided for property, stocks, derivatives and fancy financial instruments, which earn profits but do not create productive capacity in the economy. Keynes recognized that banks provide loans on a speculative basis, looking for a quick and high return, rather than funding long term productive projects which would produce a benefit for the nation. He stated that: "Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done" (Keynes, 1936, 159).

9. The Function of Banks

The myth of financial intermediation has been invented to distract attention from the real function of banks. When we think about banks gathering money from depositors to give to investors, the real function of banks is completely hidden from public view. Strangely enough, these functions are ignored by economic textbooks, and macroeconomic models make no mention of the banking sector. Yet, banking is at the heart of modern economies, and understanding the real function of banks is essential to understanding contemporary economic events.

The core and central function of banks is the creation of money. This money is created when the bank gives a loan to a borrower. The banks earn profits by lending money that they don't have and earning interest on the loan. The fractional reserve system allows the banks to maintain cash reserves which are only a small fraction of the money they lend. If there is a cash demand on the bank which is more than their reserves, they borrow from other banks, or from the central bank, to meet this demand. The inter-bank borrowing rates are low compared to commercial rates, which ensures that banks always make profits. They borrow money at low rates to lend to others at higher rates, and even then, they only borrow a small fraction of what they lend – the rest of the money is artificial money created by the bank.

While this is a very lucrative business, there is one fly in the ointment. Money can only be created if borrowers demand loans. There is a huge potential demand for investment loans on a participatory basis – people would like to invest in business, and pay back out of the returns generated. However, the modern institutional structure does not conform to this type of lending. This is because banks are lending money which they don't have, and therefore they cannot afford profit loss sharing. This explains why we don't see *mushārakah* contracts in Islamic banks, which work on the same principles. It is not only the institutional structure which does not favor profit-loss sharing, there is also a conservative banker mindset. Financing of real and productive investment projects involves taking certain types of risks and acquiring certain types of specialized knowledge which bankers don't have experience with. This means that one major source of demand for credit, which is for productive investments, is not available to bankers.

Nonetheless, banks must make loans in order to carry out their business of money creation. But throughout the ages, creditors have insisted that they should receive payment with interest, regardless of the circumstances of the borrower – whether or not the borrower is in distress, and whether or not his business made a profit. Uncertainties of the real world and the weak financial position which leads to borrowing, ensures that some borrowers will end up in distress. Bankers take advantage of this distress to seize collateral and to effectively enslave borrowers, ensuring that they provide financial benefits to banks far in excess of the amount borrowed. Islamic laws address precisely this problem and provide a beautiful solution. However, genuine Islamic solutions do not suit the mindset and framework of modern financial institutions. Instead of making radical changes required to the institutional structures, Muslim economists have focused on making radical modifications to the Islamic laws in order to create "Islamic" equivalents to western financial institutions.

10. Bankers' Stratagems

The main and central concern of banks is to make more and more loans, from the money they create from nothing. This is an extremely profitable business because the good they manufacture has zero cost of creation, yet they charge a hefty price to sell it. However, as mentioned earlier, they can manufacture money only when there is demand for it. Bankers employ a lot of different strategies in order to generate demand for loans. As a result, people acquire the habit of taking interest based loans, and the amount of debt in the society increases, sometimes dramatically.

It is very important to understand that a situation where money is scarce and hard to get, is very pleasant for bankers. The greater the scarcity of money, the easier it is for bankers to sell their product. Also, in such situations, it is also possible to put a greater price for providing this service. This price is the interest rate. The higher the commercial interest rate, the more profit the banks make, provided that there are borrowers who are willing to borrow at that rate.

The interests of the bankers are in conflict with the needs of the society and the nation. In order to have economic prosperity and growth, money should be easily available to finance good productive projects. At the same time, one has to ensure that money is not available to finance socially harmful activities. In order to protect the interests of the bankers, textbooks of modern economic theory project the myth that the most productive activities are the ones which have the highest returns. Thus, textbooks teach that the interests of the bankers are aligned with social interests. The bankers will provide loans to finance activities which have the highest payoffs, and which are the most beneficial socially. This is emphatically not true. In fact, the highest payoff to society comes from investing in people – providing for basic social needs, health, education, and jobs. However, there is no private profit in these investments. Furthermore, if the government does a good job of providing for needs, then a large portion of the populace will have no need to borrow from the banks. Economic distress, high taxes, unemployment, low productivity, etc. are in the interests of the financiers as they create situations where people are forced to borrow. With exigent needs, they will even be willing to borrow at high interest rates.

Not only is public prosperity bad for bankers, but also investment in future productivity is not very profitable. The investments which are the most socially beneficial, like education, have very long run payoffs with a lot of variability. Productive investments in genuine medium or short term projects tend to have low returns. Real work brings honest returns of say 5 to 10 percent. However, there are many strategies that banks can use to earn far higher returns. One of the most common is to create speculative fever. If people start buying stocks or properties, then these start appreciating in value. Seeing this price appreciation leads more people to become interested in buying. If prices of lands or stocks appreciate at 25%, while bank loans have interest of 10%, people become interested in taking loans to buy stocks or land. As more people take loans to buy, prices appreciate even faster, creating an even greater incentive for people to take loans. There are two factors which make this speculative cycle extremely dangerous. One is the ability of banks to create money at will. This means that once the price boom starts, if people want to get in on the apparently easy profits available, money will be made available to them by banks. The second is the use of leverage. You can use $100 to buy $1000 worth of stocks on the margin. If the stock appreciates only 1%, you make a 10% gain on your money. This process of leveraging pours petroleum on the fires of speculation, and ultimately leads to collapse. A technical exposition of the various stages of this speculative cycle is available in the form of Hyman Minsky's Financial Fragility Hypothesis.

One very important point which is missed by many analysts is that bankers have no skin in the game. The money that they lent did not exist in the first place. So if there is a complete collapse of the financial system, the bankers lose nothing. It appears to the world that the bankers loaned money, and are now not getting anything back. This generates enough sympathy to allow governments to bail out the banks. But in fact, the banks created the money they lent at zero cost. Hiding the mechanism of money creation is essential to playing this game, since after the collapse, the banks generally get the government to refund their losses on the pretext that the world will collapse if the financial institutions fail.

11. Some Crucial Historical Facts

We have described the big picture of how current financial institutions are built on exploitation through interest based debt. We now describe very briefly how the opposing interests of banking and the public have shaped economic events since the twentieth century.

The Great Depression of 1929: While minor banking crises were a routine occurrence, the biggest system wide financial crisis that the world had ever seen occurred in 1929. More detailed expositions of the causes are available from many sources, so here we just provide a very brief introduction. In the roaring 20's, banks managed to provide huge amounts of credit to buy stocks, lands, houses, and even commodities on installments. The price appreciation of the stocks became unsustainable and the stock market crash wiped out many banks. The modern system of money creation depends on credit created by banks to stimulate the economy since the power of money creation has been taken away from the government. Since many banks went bankrupt, while there were not enough people with collateral available for loans, there was a massive contraction in the money supply. This contraction meant that the economy could not recover from the crisis, and the recession persisted until World War II changed the rules of the game.

After the Great Depression, the true nature of money and banking became clear to many economists. Keynes said that the government could eliminate the recession by printing money or by providing jobs – even valueless jobs like having one party dig ditches and the other party fill them up. The money created as payment for this activity would solve the economic problems. The Chicago Plan was widely endorsed by leading economists and struck at the root of the problem. It proposed to take the power of money creation away from banks by requiring 100% reserve banking. This would lead to a shortfall in the money supply and a recession unless the government steps in to fill the vacuum. Accordingly, the plan gave extensive powers of money creation to the government. Many elements of the plan were adopted, but the financial lobby successfully blocked the crucial idea of taking the power of money creation away from private banks. Despite this important success, they could not block a vast range of regulations and restrictions placed on banking activities, which were designed to prevent a repeat of the Great Depression. Among the many rules and regulations on banking, a crucial piece of legislation was the Glass-Steagall Act of 1933, which prevented banks from making speculative investments of any type. This was extremely important in preventing speculative bubbles in the stock market and in property values for several decades.

This chaining of the financial industry led to an era of widespread prosperity in the West. For fifty years, there were no system wide banking crises. Income inequality improved as the share of the bottom 90% in national income increased, while the share of the top 1% decreased. Bankers and financiers also prospered but made profits at normal rates of 5% to 10% like the real sector. This state of affairs was not satisfactory to them, and the financial elites plotted to reverse this setback created by the Great Depression. Details of how this plotting was done are provided in Alkire and Ritchie (2002). For present purposes, it is sufficient to note that this plotting resulted in a successful outcome with the start of the Reagan-Thatcher era.

The Reagan-Thatcher Era: There was a minor economic downturn in the USA and European economies when Arab countries imposed an oil embargo in retaliation for US support of Israel in the Yom Kippur War. The financiers had been waiting for such an event and seized the opportunity to blame all economic problems on the regulation of finance, and on an oversized government. Massive pre-planned propaganda campaigns deceived and scared the public into supporting programs and policies designed to harm the public interest and provide profits to the finance industry. These tactics of deceiving and scaring the public were first designed and advocated by Machiavelli, and many political scientists remarked on how these have been extensively adopted for use by politicians in the USA and Europe. As the first step of an extensive program of financial de-regulation, Reagan de-regulated the Savings and Loan (S&L) industry (a small sub-sector of the banking industry) in 1982. The S&L industry behaved exactly as predicted by Minsky and others, and went on an orgy of speculative credit creation. In consequence, between 1985 to 1995, more than 1,000 out of a total of 3,234 S&L banks went into bankruptcy. The total cost of the crisis, which was paid for by taxing the public, was more than the entire earnings of the banking industry for the previous fifty years(7). However, this time, the finance industry was very well prepared for this fallout. As an indicator of public knowledge about the event, we find that the Wikipedia entry on the S&L Crisis mentions at least seven different reasons for the crisis but barely mentions the financial de-regulation as a side issue(8). The public was not allowed to perceive the direct linkage between the de-regulation and the S&L crisis so that the de-regulation could proceed smoothly, despite this disastrous outcome of the first step.

De-Regulation and the GFC: The final two steps of financial de-regulation came with the repeal of the Glass-Steagall act in 1999 and the enactment of the *Commodity Futures Modernization Act in 2000*(9), which was added as a rider to an 11,000 page conference report, and passed without being read by congressmen(10). These bills allowed banks to engage in speculation and also created a trillion-

(7) See Taleb (2007).

(8) See: https://en.wikipedia.org/wiki/Savings_and_loan_crisis.

(9) See: http://www.huffingtonpost.com/paul-blumenthal/how-congress-rushed-a-bil_b_181926.html.

(10) See Mian and Sufi's "House of Debt" for evidence of the widespread complicity in fraudulent mortgage loans. See RWER Blog Posts "Out of the shadows" and "Capitalism is the legitimate racket of the ruling class" for more evidence regarding criminal and fraudulent activities of the wealthy.

dollar market for derivatives which was completely unregulated. As anyone familiar with Minsky could have easily predicted, banks created a huge excess of credit which fueled wild speculation in properties and stocks and led to a crash in a short span of seven years. Massive amounts of fraud and criminal activities were done by bankers in order to allow them to sell loans to unqualified people, while knowing in advance that these loans would fail.

12. The Stranglehold of the Finance Industry

Over the course of the centuries, many battles have been fought to gain control of the process of money creation. The creation of the Federal Reserve Bank (Fed) in 1913 in the USA was one of the great victories of the financiers against the public interest(11). The Fed covered the risks of excess expansion of private credit, being required to provide banks with liquidity as needed. The banks took advantage of this extra protection to create extremely large amounts of money. This led to an amazing period of apparent prosperity in the roaring 20's followed by a spectacular crash in 1929. The magnitude and severity of this event took everyone by surprise and caught the financiers unawares. They barely managed to protect their privilege of money creation, but could not escape massive regulations. These regulations prevented the worst excesses of money creation and led to a forty year period of prosperity, where Keynesian economic theories, which stress the importance of government creation of sufficient money for full employment, were dominant.

While waiting for their chance to break the regulatory chains which prevented them from exploiting the power of money creation to the fullest extent, the financiers made careful plans for the next time around. The financiers' ideology is "freedom" since it removes the regulatory restrictions which prevent them from enslaving the world. The general public is attracted by slogans of freedom, without realizing that in the world of extreme inequality created by capitalism, freedom means the freedom for the poor to sell themselves for necessities and the freedom for the wealthy to buy up the planet and all it contains. The financiers bought think tanks, financed pro free market research, concentrated the power of media into a few small giant firms, purchased Hollywood, and bought the most advanced propaganda techniques to bear on deceiving the public to act against their own interests. There is now overwhelming evidence that the financiers have succeeded in capturing the US government. We provide just a few pieces of evidence.

1. Among the most important is the Supreme Court decision in 2010 which held that corporations could provide unlimited donations to political campaigns, due to their right to "freedom of speech". Corporations now spend billions on both sides of political campaigns ensuring that no laws against corporate interests can even receive a hearing.
2. Several studies by political scientists have shown that Congress votes in favor of the wealthy interest, and also congressmen vote in favor of donor interest, against the majority and public interests(12).
3. Konczal and Abernathy (2015) define financialization as the growth of the financial sector, its increased power over the real economy, the explosion in the power of wealth, and the reduction of all of society to the realm of finance. Their report provides plentiful evidence of the dramatic growth in power and influence of the financial sector over the past few decades.
4. After the global financial crisis, the financial lobby successfully blocked all efforts at passing regulations similar to those passed after the Great Depression. Furthermore, it successfully prevented providing the trillion dollar bailout to the deserving mortgagors and ensured that the bailouts were given to the criminal bankers.
5. Students acquiring higher degrees in the USA have collectively taken loans of over a trillion dollars. Furthermore, this debt cannot be discharged by bankruptcy. This means that they will spend their lives working to pay-off their loans, effectively enslaved by their wealthy financiers.

(11) See Brown (2008, Chapter 13) for extensive details of the political and economic manipulations carried out to create the Fed.

(12) See "The rich own our democracy" (http://america.aljazeera.com/opinions/2015/2/new-evidence-suggests-that-the-rich-own-our-democracy.html) for references.

Many more examples of the stranglehold of the financial lobby on American political system can be provided, but the above would suffice as an illustration.

13. The International Scene

"All that we had borrowed up to 1985 or 1986 was around \$5 billion and we have paid about \$16 billion yet we are still being told that we owe about \$28 billion. That \$28 billion came about because of the injustice in the foreign creditors' interest rates. If you ask me what is the worst thing in the world, I will say it is compound interest" (Obasanjo, the former President of Nigeria, speaking after G8 summit in Okinawa, Japan 2000, quoted in Sayer (2105, 66).

Many authors have recognized the role of "haute finance" in shaping the nature of the world we live in. The Lords of Finance control the world, by controlling the money supply available to the world. The real control is in hidden hands – attempts to trace the controlling powers behind the international banking sector show a complex chain of interdependencies, culminating in a few families. Recently, OXFAM published statistics showing the immense and rapidly increasing concentration of wealth. Whereas in 2010, 388 people owned half of the wealth of the planet, this number shrank to 62 in 2015[(13)]. World governments are pawns in the hands of haute finance. The world's largest and most powerful economy is that of the USA. As just one illustration of the control of haute finance over US Economy, President Obama was unable to fulfill any of his campaign promises which went against their interests[(14)]. The method used for global control today is vastly more efficient than the old-fashioned system of colonialism and imperialism used under the British Empire.

(13) See: https://www.oxfam.org/en/pressroom/pressreleases/2016-01-18/62-people-own-same-half-world-reveals-oxfam-davos-report.

(14) As an amazing example, the Pharmaceutical Lobby succeeded in using dirty tactics (documented by CBS 60 minutes) to pass a bill which ensures that the giant US Medicare program must buy drugs at any price quoted by the US Domestic Pharmaceutical industry, without seeking price concession or even using imports of cheaper foreign equivalents. The Obama campaign promised to repeal this trillion dollar giveaway, but was unable to do so.

Money created out of nothing is given as "loans" to the ruling classes – military and key politicians – in the poor countries of the world. In return, the rulers tax the public to provide revenues to the Lords of Finance and are also obliged to carry out their dictated policies. A key element of this system is the central role of the US Dollar – every central bank in the world must acquire billions of dollars of USD reserves. Many methods are employed to ensure that all world economies are dollar-dependent. Ensuring that all trade for oil must be dollar-denominated is a key element. Spreading western culture through media channels to ensure global sales of Coca Cola and MacDonald's hamburgers is another. As reported by Biron (2013): "Unmanageable debt burdens are one of the fundamental causes of poverty in developing countries", Norway's ministry of foreign affairs said, "While the international community gives \$141bn in aid to developing countries annually, the developing countries pay back \$464bn each year to their creditors. Many of the debt agreements were entered into when economic, political and social conditions were uncertain".

Growth and prosperity pose threats to the modern system of haute finance since one can pursue independent policies if one does not need to borrow dollars. In order to ensure dependency, wrong policies are pushed and promoted, and the right policies for development and growth are suppressed and blocked. Post Great Depression, Keynes and many other economists had discovered that unemployment arises due to the insufficiency of money, and can be cured by increasing money supplies. The financial system today ensures dependency on dollars, while compound interest ensures that some, if not most, countries will fall behind on debt payments. Today, whenever any country falls behind, the IMF helpfully steps in and loans it dollars to enable it to continue payments; in the past, such situations were handled by the cancellation of debt, defaults, or repudiation of payments.

Providing the IMF loan as "help" actually helps only the foreign creditors – the haute finance group – to recover their (freely created) monies. At the same time, in return for the loan, the IMF imposes policies which ensure that the country will remain needy and impoverished so that it will continue to need more loans and provide more revenue for financiers. These policies are called “austerity”, and consist of increasing taxes, balancing budgets, privatization to raise government revenues, and other similar measures. Each of these is exactly the opposite of the Keynesian prescriptions for good policy in a situation of high unemployment, and each of these causes substantial harm to the poor economies. Even the IMF has recently been forced to admit that these policies have been harmful to growth and development[(15)]. It is worth noting that in the rich economies, exactly the opposite policies are used to combat high unemployment and growth recessions. Money supply is freely expanded and governments relax budget constraints on the well-known and valid principle that we must serve the people in need first, and balance budgets later. Exactly the opposite principles are enforced on poor debt-ridden countries where lives and welfare of people are sacrificed to ensure interest payment to rich creditors. These interest payments also ensure that the countries cannot invest in their own future development to climb out of the debt trap.

Due to the cold war between Russia and the USA, East Asian countries managed to pursue independent policies and achieved the modern miracles of transition from agrarian to industrial economies. After the fall of Russia, the East Asian Tigers were tamed by the usual tactics. They were forced to open their markets to foreign investors, who invested heavily in these newly opened and rapidly growing economies. This led to a speculative bubble, which eventually collapsed, leaving the economy heavily in debt to foreign investors without means to pay back the interest based loans[(16)]. At this point, the IMF stepped in to provide the money needed to pay foreign debtors but imposed austerity policies to bring these economies to their knees. These economies have recovered, but a large portion of productive assets have been transferred to foreign ownership or control. As a result, a large proportion of the fruits of growth are captured by foreign owners, while only a small proportion of the benefit goes to the domestic economy.

The World Bank publication “East Asian Miracle”[(17)] analyses in detail the strategies used by the East Asian countries to achieve their miraculous growth. The book starts by admitting that all of these policies go directly against the recommendations of the World Bank and IMF economists. These policies are listed in the introduction, and detailed in the book as follows:

1. Big industrial conglomerates which worked with the help of the government – close partnership between public and private sector.
2. Business friendly government policies, providing support, protection, export credits and other types of interference with free markets.
3. Government led growth models, with price controls, restrictions on foreign investment, and encouragement of growth of domestic industry.
4. Government control of money, with easy supply of credit to investment projects necessary for long run growth.
5. High investment in social welfare, ensuring education, health and basic necessities for the general public.

To ensure that no one else can replicate the East Asian Miracle, all of these steps have been prohibited by international law. Most countries have signed the WTO articles which prohibit industrial policy. The IMF ensures that governments cut social welfare to balance budgets, follow tight fiscal policies when there is rampant unemployment, and maintain strict separation from the private sector. In addition, international pressure is used to separate monetary authority from the government, to prevent the creation of sovereign money, and force government to tax production, which drastically lowers investment and adversely affects production capacity. Furthermore, central banks have been persuaded to stop targeting unemployment and focus only on

(15) See: http://www.telegraph.co.uk/finance/financialcrisis/10262850/IMF-admits-it-misjudged-impact-of-austerity-on-Greece.html and http://economistsview.typepad.com/economistsview/2013/12/imf-admits-it-underestimated-the-fiscal-multiplier.html.

(16) For a detailed history, see Mian and Sufi (2014), who also note that shared equity loans (equivalent to Islamic style *mushārakah*) would have prevented this problem from arising.

(17) http://www.nber.org/chapters/c11011.

inflation targeting, so as to ensure a tight monetary policy, which will also ensure that money remains scarce. All of these policies ensure that poor countries remain poor so that they will always remain borrowers and subject to control by their creditors.

Some countries have stayed out of the ambit of capitalist control and achieved spectacular success. Under Muammar Qaddafi, Libya went from being the poorest country in Africa to among the richest. It was providing universal free education, healthcare, and social services to all its citizens. This alternative model of achieving prosperity independent of the global system, was carpet bombed and sent back to the stone age. Moves by Iraq to create a dollar free oil economy resulted in carpet bombing which sent a modern, advanced and prosperous country back to the stone age. Similarly, many countries all over the world which attempted to pursue independent policies and break free of the global financial system have had their economies destroyed by overt and covert means and have suffered from "regime change", which provides a leadership willing to submit to the rules of haute finance[18].

14. Conclusions

In the battle for control of the power of money creation, all seems to be lost. Haute Finance has secured almost complete control of the most powerful countries in the world and is making rapid progress towards chaining all the countries in a debt-trap. Are there any strategies we can use to break out of this chain of debt, dollar dependency, and enslavement? Here are some suggestions which have some potential:

1. *Knowledge:* One of the key stratagems of haute finance is deception. The public is completely unaware of the nature of the system. As Foucault recognizes, knowledge is power. If the true nature of the system can be made apparent, change might be easy to achieve. However, the dominant media are strongly under the control of haute finance, so creative strategies must be used to spread knowledge.

2. Recognition of allies and enemies. One of the key strategies of haute finance has been to divide and conquer. Today, the phantom of "Islamic Terror" has been created to keep the western public worried and anxious about a non-existent threat, in order to distract attention from the real issues. Similarly, extremist Islamic groups are created, armed and encouraged to see the West as a monolithic demon. In reality, the interests of the bottom 90% throughout the world are aligned. The media does not allow recognition of this important truth, which has the potential to create a revolution. The real battle is not between the East and the West, or between Islam and the rest, it is between the few extremely rich and the rest of the world. In this strange and disproportionate battle between billions and a few hundred, the billions are losing badly.

3. The possibility of self-destruction: In his recent book, "Killing the Host", Michael Hudson writes the parasitic extraction of rents by haute finance has reached such high levels that it might destroy the system itself, leaving the parasites with nothing to feed on. Such events have occurred in the past, as in the Great Depression. It seems likely that there will soon be a repeat of the global financial crisis. If the bottom 90% is prepared for this, and take suitable actions in its aftermath to change the system, genuine change might occur. This was the tactic used by haute finance to gain control in the 1980's.

4. Most important from the Islamic point of view is the fact that Islam provides Muslims with complete protection from this kind of trap. Promoting Islamic virtues of self-sufficiency, simple lifestyles, and avoidance of debt, especially for luxury consumption would go a large way towards avoiding the financial trap. Unfortunately, Muslims have deliberately broken the shield given to us. Muslim nations have borrowed money on interest, and declared war against God, in the belief that this will help us to develop and grow. A concerted effort is currently being made to get around the restrictions of the Sharīʿah so that we can fully participate in modern financial institutional structures. We have been deceived by the apparent luxury and power of the west into attempting to circumvent the Sharīʿah in order to imitate them. Going back to the genuine teachings of Islam is a solution, but it appears difficult to implement today, because of the dominance of a modernized Islam, which seeks accommodation and compatibility with un-Islamic ways and practices.

(18) See Rivero (n.d.) and Washington's Blog (2012).

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