The Gold Standard

The journal of The Gold Standard Institute

The purpose of The Gold Standard Institute is to promote an unadulterated Gold Standard.

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Editorial

In a publication that leaves content open to the whims of the contributors, it is rare for one issue to be so focused on a single subject. The topic of a ban on paper cash has caught the imagination.

In the January 2015 issue of The Gold Standard, the editorial stated: *"The post WW2 tolerance of dominant, long-established, political parties is collapsing. The Establishment is being disestablished."*

It referred to Europe. What was not anticipated was the speed with which the same situation would occur in the US.

Just fourteen months later, Bernie Sanders, a self-proclaimed socialist, is a contender for the Democrat nomination - at the very moment when Venezuela's implosion is giving another reminder of its destructive results. Donald Trump, a maverick outsider, is on track for the Republican nomination. Their electoral appeal would appear to be based on the rising contempt of Americans for career politicians of both parties.

John Baldwin, a used car salesman from Greenville, South Carolina, seemed to sum up the mood best when he stated: *"We're voting with our middle finger."* (L.A. Times)

All over the western world, politics is no longer business as usual.

Unfortunately, that does not mean that things will necessarily get better. When confidence in the ideas and personnel of Institutions disappears, then new people with new ideas come forward.

What will these new ideas be? Will they come down on the side of freedom and improvement, or more central planning with further degradation?

And is it all too little too late anyway?

Gold must circulate so that debt can begin to be extinguished. Without that vital first step, no amount of middle fingering, new ideas or sweeping away of the political old guard is going to deviate the world economy one iota from its doomed trajectory.

To that end, Keith Weiner of the Gold Standard Institute testified before the Arizona Senate Financial Institutions Committee this month on a Gold legal tender bill that he helped draft. It passed 4 – 3.

Philip Barton
President, Gold Standard Institute
Dawn of Gold

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Euro Cash Ban

Last year, the spectre of a cash ban was raised in the euro zone – we reported on the issue. True to Juncker style *„we propose something, and if there is no reaction we proceed. In case of uproar, we proceed later"* the topic was left alone for a few months, only to be rekindled again this winter. This time, a cash ban was not pushed by politics but by the banks, most of all Deutsche Bank. This motion received instant support from Draghi and others. Politicians remain surprisingly quiet for now, and some even openly hostile.

Now, things are spelled out in detail: payments exceeding EUR 5.000 should be made only electronically, and the 500 euro note should be abolished altogether. Cash is in the way of the banks' and politicians' plans of unloading the costs of the financial crisis onto ordinary citizens:

- As long as people can hoard cash outside the banking system, one cannot introduce negative interest on deposits and thus stealthily steal from account holders.
- Conversely, there cannot be a bank run in a cash-less system which opens up a whole host of new opportunities to central banks.

- Banks are required to hold a minimum reserve at their respective central banks as a percentage of their short-term deposits (up to two years). However, if there can never be a bank run because there is no cash any more, the minimum reserve of 1 per cent (euro zone) would become redundant. This would give the debt spiral a new dynamic.
- Creating money out of thin air would become even more rampant in case of a cash ban.

Austrian parties are openly opposed to the cash ban initiative (Liberal and Conservative parties) or keep at least quiet (Social Democrats and Greens) on the topic. The former would like to include a cash clause in the constitution, which, however, is not that simple. After all, this would put national legislation in conflict with EU law, and as we all know, EU law takes precedence over national law. We fighters for the cause of personal freedom support this motion, even though there is a small irony. After all, we have been fighting the euro for years (because of the nature of its inception) and now we side with the pro-euro (cash) camp? A clear case of the lesser evil: better euros than no cash at all.

As mentioned, this discussion may have far-reaching implications. It could bring the conflict between EU law and national law to the forefront which might increase the awareness of the broader population for the injustice perpetrated by the EU accession. This calls for a thorough analysis as put together by the political scientist and friend and supporter of the Gold Standard Institute, Mr. John Rhys James.

Thomas Bachheimer
President of the Gold Standard Institute Europe.

The Peculiar Legal Implications of a Cash Ban in the Eurozone

When considering the possibility of a cash ban in the Eurozone, one must be aware that the European Central Bank (ECB) and national monetary authorities find themselves in a quite different legal situation to Central Banks and national monetary authorities anywhere else in the world. This is because of the unique legal framework which has been developed during the process of European Integration and which is set out in the Lisbon Treaties (Treaty for European Union TEU and Treaty on the Functioning of the European Union TFEU). These treaties define the legal authority conferred upon the EU institutions such as the European Central Bank and sets limits upon the decision making ability of national institutions.

In a conventional political system, a central bank administering a national currency is accorded powers through primary legislation drawn up in the name of the sovereign (constitutional law or parliamentary law). These powers permit it to make regulations which have legally binding effect. These regulations may be referred to as derived or subordinate legislation since their legally binding authority is derived from legal texts of primary nature drawn up by the sovereign authorities: that is to say by the sovereign people or the sovereign parliament. The sovereign authorities in a conventional constitutional framework always retain the power to direct and limit the power of the subordinate executive institutions by amending the text of the relevant acts or parliament or of the constitution.

In the EU, as is made clear by article 13(2) of the Treaty for European Union (TEU) the powers exercised by the institutions of the EU, of which the ECB is one such, are of a secondary and limited nature, having been conferred on them by the sovereign nations who have formulated and ratified the Lisbon Treaties.

> *Article13 TEU*
> *2. Each institution shall act within the limits of the powers conferred on it in the Treaties, and in conformity with the procedures, conditions and objectives set out in them.*

The extraordinary peculiarity of the EU legal framework lies in the fact that the subordinate legislation produced by the EU institutions has legal precedence over all national law, whether primary or subordinate. Although this principle is widely known, its true implications are not correctly appreciated, nor are many people aware of how this principle came into existence. At a time when national political movements are considering ways of blocking a eurozone cash ban (as for example in Austria where certain parties are calling for a constitutional amendment guaranteeing citizens´ rights to own and use cash), detailed consideration of the legal framework which could be used to implement a cash ban is essential.

For clarification of the principle that EU law overrides national law, no better source can be found than the text published by the *Office for Official Publications of the European Communities,* the publishing house of the institutions of the European *Union*. Admittedly this text provides us with the EU´s own view of the situation, but it is undoubtedly an analysis shared by the vast majority of lawyers, judges and politicians in the EU as a whole

The full text can be found here and it should be read in its entirety, the most important passages however are as follows:

> *The precedence principle guarantees the superiority of European law over national laws.* ***It is not inscribed in the Treaties, but has been enshrined by the Court of Justice of the European Union (CJEU).***
>
> *The CJEU enshrined the precedence principle in the Costa versus Enel case of 15 July 1964. In this case, the Court declared that the laws issued by European institutions are to be integrated into the legal systems of Member States, who are obliged to comply with them. European law therefore has precedence over national laws. Therefore,* ***if a national rule is contrary to a European provision, Member States' authorities must apply the European provision. National law is neither rescinded nor repealed, but its binding force is suspended****.*
>
> *The precedence of European law over national laws is absolute. Therefore, it applies to all European acts with a binding force, whether emanating from* primary *or* secondary *legislation.*
>
> ***The Court of Justice has ruled that national constitutions should also be subject to the precedence principle. It is therefore a matter for national judges not to apply the provisions of a constitution which contradict European law.***

This extraordinary doctrine has never been declared to be legally binding in a Treaty ratified by the member states. An attempt was made to include such a declaration in Article 6 of the Rome *Treaty Establishing a Constitution for Europe* 2004, but this treaty was rejected by the French and Dutch people in referenda in 2005. It has therefore no legally binding force derived from primary legislation, and must therefore be considered a political convention.

Now conventions, as the British experience has shown, can be harder to dislodge or amend than written legal documents, as they express not dry legal guarantees but embody psychological expectations as to what behaviour is considered necessary for the maintenance of social and political cohesion.

Nevertheless, there is no treaty obligation which compels a member state which feels that a vital national interest is compromised by European law, from obeying that EU law. There have indeed been famous occasions when EU law has been ignored by states, particularly Germany: for example when France and Germany broke the Maastricht criteria, the breaking of the no-bailout-clause during the sovereign debt crisis and most recently Germany´s unilateral immigration policy in contravention of the Dublin 3 Agreement on asylum.

Could a national government therefore ignore a regulation issued by the ECB or the EU Commission which bans cash? (Whatever that term may mean, for it is used loosely in public debate and should be more accurately defined).

Sadly national governments and national banks that wish to block a cash ban find themselves standing on a very weak legal leg. In the sovereign debt and immigration crises, the EU was trying to impose EU regulation on areas that remained largely matters of national policy: the emission of national debt, implementation of national immigration laws. In the monetary arena however the member states of the Eurozone have no national policy that they can implement against the will of the institutions of the EU, in this case the ECB, for the simple reason that the Eurozone members no longer have national currencies to fall back on.

The most drastic and direct means of reasserting national monetary policy would be to leave the Euro and reintroduce a national currency. Unfortunately, the Lisbon treaty does not provide any legal mechanism which would permit a Eurozone member to leave the Euro, but remain in the EU. Such considerations go beyond the scope of this essay.

A second way would be to amend the primary legislation which confers powers on the ECB. This would however require unanimity amongst all 27 Lisbon treaty signatories. As long as there were one government that advocated a Eurozone cash ban, such an amendment would remain unachievable.

Barring these two extremely disruptive moves, member states will be forced to come to terms with the legal consequences of their ratification of the Lisbon treaties. The plain fact is that they have transferred most of their sovereign power and authority in matters of monetary policy to the ECB.

The TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION informs us that:

> *Article 3*
> 1. **The Union shall have exclusive competence in the following areas**: (c) monetary policy for the Member States whose currency is the euro;
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> *Article 128*
> **1. The European Central Bank shall have the exclusive right to authorise the issue of euro banknotes within the Union**. The European Central Bank and the national central banks may issue such notes. The banknotes issued by the European Central Bank and the national central banks shall be the only such notes to have the status of legal tender within the Union.
> 2. Member States may issue euro coins subject to approval by the European Central Bank of the volume of the issue.
>
> *Article 129*
> The ESCB shall be governed by the decision-making bodies of the European Central Bank which shall be the Governing Council and the Executive Board.
>
> *Article 130*
> When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, **neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, from any government of a Member State** or from any other body.
>
> The Union institutions, bodies, offices or agencies and **the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the European Central Bank or of the national central banks in the performance of their tasks.**

Article 131
Each Member State shall ensure that its national legislation including the statutes of its national central bank is compatible with the Treaties and the Statute of the ESCB and of the ECB.
PROTOCOL ON THE STATUTE OF THE EUROPEAN SYSTEM OF CENTRAL BANKS (ESCB) AND OF THE EUROPEAN CENTRAL BANK

14.3. **The national central banks are an integral part of the ESCB and shall act in accordance with the guidelines and instructions of the ECB**. The Governing Council shall take the necessary steps to ensure compliance with the guidelines and instructions of the ECB.
14.4. **National central banks may perform functions other than those specified in this Statute unless the Governing Council finds, by a majority of two thirds of the votes cast, that these interfere with the objectives and tasks of the ESCB.**

To put it in a nutshell, the governments that negotiated and signed the Lisbon Treaties have committed themselves in writing in an international agreement to:

a) Transfer their sovereign authority in monetary matters almost in its entirety to an external central bank which has the exclusive right to issue coins and cash in the only legal currency permissible in the eurozone
b) To refrain from seeking to influence the **members of the decision-making bodies of the European Central Bank**
c) To ensure that its national legislation including the statutes of its national central bank is compatible with the Treaties and the Statute of the ESCB and of the ECB.

Within this legal framework it is hard to see how a national Government can legally prevent an ECB determined to ban the use of cash within the national borders of Eurozone member states from doing so, unless that government is prepared to leave the Eurozone unilaterally and risk being expelled from the EU.

Despite the fact that the advocates of a Eurozone cash ban apparently have all the necessary legal trumps in their hand, questions still need to be asked about the practicability of such a ban and more detailed research will be needed to provide satisfactory answers to this questions. Amongst such questions are the following:

1) The ECB can obviously forbid the issuance of new Euro banknotes and coins. But can the ECB order a government or a national bank to withdraw euro cash already in circulation if the national authorities are opposed to such a policy?
2) Can the ECB declare that Euro cash which was issued as legal tender with the same monetary value as digital Euros will from a particular date be deemed to be officially worthless?
3) Can the ECB make to possession of Euro Cash, which was formally legal tender, illegal?
4) If so, what does this mean for the holders of D-Marks, Schillinge, Gulden.
   Studies show that there are still vast amounts of the pre-Euro currencies in private hands.
5) If the ECB declares Euro cash to be worthless, will the public accept this pronouncement? Might not EU citizens continue to consider a 10 Euro note to be worth 10 Euro and use Euro cash continue to operate as a private currency outside the banks?
6) What are the tax implications for people who receive worthless pieces of coloured paper in exchange for performing a useful task?
7) Might not Euro cash, which will after all be a monetary agent that will experience quantative tightening due to wear and tear, not command a premium to digital Euros?

And finally

8) What regulations have been set down and ratified regarding the ownership, buying, selling and exchanging of gold bullion, the ultimate form of cash, within the borders of the EU or the Eurozone?

One thing is for sure: the moment of truth is approaching fast.

John Rhys James

Born in Great Britain. Following a degree was in Political Science at the University of Bristol, where the focus of his studies was on the political systems of Eastern and Western Europe in the post war period, he moved to Vienna where he studied composition and conducting at the University of Music, Vienna. For 25 years he has been active as a musician and cultural man-ager in Austria, working for institutions such as the Vienna State Opera, Vienna Volksoper, Bayreuth Festival and Salzburg Festival. In 1996 he founded the music and theatre ensemble Musikwerkstatt Wien, characterized by Austrian Radio in 2012 as "one of Austria´s most im-portant freelance Opera Ensembles" and which under his artistic direction has specialized in promoting both baroque opera and contemporary music. Since 2002 he has been a lecturer at the University of Arts and Music, Vienna. Alongside his artistic work he has maintained a keen interest in political and economic developments and has lectured and written on British Common Law, constitutional Law and comparative European legal systems as well as the in-fluence of history on contemporary political developments in Europe. He has been a member since its inception of the Vienna Institute for Wertewirtschaft, an institute devoted to promot-ing developing the philosophical tradition emanating from Carl Menger and Ludwig von Mis-es.

Cash Ban Ponderings

Cash dollars have more value than bank account dollars. The many negatives of holding the latter include not only loss of privacy and anonymity, but also a variety of taxes, bank fees, accounting fees, pension considerations, credit card fraud, account hacking and bank insolvency.

Most people, to one degree or another, will value bank dollars less than cash in the hand. Ask a salary person if they would like to earn some cash and see their eyes light up. The usual 10 - 20% discount for cash by tradesmen gives a clue as to the approximate difference in market value.

This, or some similar percentage, would be the instant devaluation of the currency in the event of a ban on cash - as measured by Gold of course.

Privacy is the embodiment of many Gold holders. Though many Gold bugs would seize their ‘profits’ and exit the game, most others would be reluctant to exchange their Gold for depreciating bank digits. For many the transaction would come with uncomfortable tax and legal liabilities.

There are many countries where banning paper cash would be politically unacceptable. It is not just the major economies of Germany and Japan where paper cash is still king. What about Turkey, Eastern Europe, much of South and Central America, India, Thailand, Vietnam and Indonesia etc.? The abolition of cash would cause severe hardships in these economies. In some of these places, many people don’t have bank accounts, nor do they have any intention of opening one. Many villages don’t even have banks.

Banning cash could only happen in the ‘advanced’ economies. Even there it could become a damaging election issue. The established political parties are wary of giving voters even more reason to be angry. The new populist parties, particularly in the Eurozone, don’t carry the baggage of Electile Dysfunction – having been often elected, but never performing.

A cash ban would create a demand for the currencies of some of the countries where sound (ish) paper was still circulating. During the Weimar hyperinflation, the currencies of other countries (along with Gold and silver) commonly circulated in Germany.

A further impediment to a cash ban is that a large part of all western economies consists of cash exchanges. Participants in the black economy would be left with three choices: 1/ Accept bank digits, 2/ go out of business, or 3/ find another cash. The drug trade in NY City alone is estimated at around 800 million dollars a year, with the global trade at 320 billion a year: *"If the drug trade were a country, it would have the 19th largest economy in the world."* (link). As option 1 and 2 are out of the question for those engaged in criminal activities, logic suggests that they would choose the third option. As the drug trade is globalised, there can be little doubt that they would choose globalised money – Gold and silver. This is predicated on the assumption that no country would be foolish enough to agree a cash ban that did not include the US dollar.

That is a lot of circulating Gold and silver.

The IMF estimates the size of the black economy (not just drugs) as 35 – 44% in developing economies, 21 – 30% in transition economies and 14 – 16% in the OECD. It seems likely that some proportion of the non-drug black economy would also be conducted in Gold and silver.

If governments ban paper cash, they will simultaneously ban transacting in Gold or silver. It goes without saying that it won't work. The present cash business model already carries heavy penalties and that clearly hasn't worked. Goods would assume three prices – the first in Gold or silver, the second in foreign paper currencies and the third in bank digits. As all sellers would prefer Gold or silver, prices in bank digits and to a lesser degree foreign currencies would begin to soar.

It would be nigh on impossible for governments and central banks to coordinate a worldwide ban on cash. They will not be able to reach agreement, either practically or politically. To do it separately, or even in blocks of nations, would precipitate, at the very least, a severe degradation in the value of their currencies.

These are dangerous and desperate times however, and there is another angle to the proposed ban on cash.

Governments would salivate at the prospect of being able to have access to all digits at all times - to be able to tax at source. It would be a tax on all digital wealth accumulated, created and transacted. It could be sold, albeit disingenuously and cynically, as a tax on 'cash hoarders'. It would be a strong inducement for people to spend their digits immediately - a central banker's dream. A further inducement to spend would be the continuous lessening of the digits courtesy of negative interest rates. Another lash across people's back would be the certainty that the new bank monopoly on all cash storage and transactions would see banks raise fees. Bankers would also be salivating.

It could be anticipated that, at this point, activity in the black economy would substantially increase.

There can be little doubt that any cash ban would speed the arrival of Permanent Backwardation (a buddy of the Grim Reaper). In this scenario, Gold would no longer be available for any amount of digital currency. People would become acquainted with the idea that currency only has validity in proportion to the amount of Gold that it can be exchanged for. Currencies are not backed by the 'full faith and credit of blah, blah'- their value is derived from the certainty that at some amount they can be exchanged for Gold. When that backing completely fails, then so does the currency - completely.

A cash ban? Should it happen, it will be a disaster for everyone concerned, including governments and banks. The seeming potential to gouge even more tax will make it hard for governments to resist though.

Don't bet on a cash ban, but don't ignore the possibility.

What you can bank on is that Gold and silver will return as circulating money, one way or another.

Philip Barton
President, Gold Standard Institute
Dawn of Gold

After the Bail Out

In my last article I suggested that an honest bank and an honest banking system must fully hon-or property rights; specifically, deposits of money in the bank must continue to be the property of the depositor. Once this is firmly established, the system becomes functional and works for the benefit of depositors, not for the benefit of banksters.

So where does this take us; how would such an honest banking system function? To foresee the future, as much as this is possible, we must examine the past. We need to understand how banking functioned before the disastrous legal decision to treat deposited funds as the property of the bank.

We need to understand that if we deposit Gold in an honest bank the first service we get is se-curity; the bank holds our money in a well defended, secure vault. Of course, there is a cost to this; the property, the vault, insurance, payroll etc. all add up, so we will end up paying for the safekeeping of our money... like we pay for allocated Gold stored in a secure vault.

But banks can and do provide further services of value to us; like writing checks against depos-its, transferring funds to make payments, or to allow us to access our deposits from other geo-graphic locations... if we are on a trip for example. But all these are services provided by the bank, and must cost money!

We are expecting returns if we deposit our money in the bank; else we may just choose to keep it in a hole in the back yard. This is where the rubber meets the road. Money can only earn re-turns if it is 'put to work'... so how exactly can a bank 'put our money to work', to earn a return, and share this return with us as incentive for us to deposit our money in the bank, rather than keep it in the hole in the back yard?

The key word is interest. Only interest, payable in Gold, at absolute minimum risk, would entice holders of money to lend their Gold... either to the bank, or to anyone else. Gambling and spec-ulation are other things entirely. If we are interested in speculation or gambling with our money, this should by no means take place through the services of a bank; we should visit a stock bro-ker. Only the most conservative possible treatment of our money will assure us that our savings are safe and the bank is honest.

Interest payments can be compared to rental payments; we lend our living space to a tenant, and in return the tenant makes us regular payments. Most important, at some date in the future the tenant will leave, we get back the use of our apartment, and the rent stops. Then we may look for another tenant, or do with our real estate as we choose; maybe even sell it.

When we think of interest payments, we think of bonds; we 'buy' a bond, the bond 'seller' pays us interest, and on the day of maturity the bond matures, we get our money back, and interest payments stop. But the term buy a bond is misleading; the bond issuer does not sell the bond. The bond issuer borrows money, just like a tenant borrows our apartment. The bond itself is the piece of paper that records the transaction, like a lease records the rental of the apartment. Bonds are sold and bought in the secondary market; the bond records the original loan.

Now this is not nit-picking; it is essential to understanding how a bank could and should borrow and lend money. As money is lent, there is a risk involved in the borrower not being able to make interest payments, a risk in the borrower not being able to repay the principle, and a fur-ther risk of loss and gain in the market value of the bond in the secondary market. The longer the term of the loan is, the greater the risk; therefore longer terms loans command higher in-terest rates.

So, lending out money for longer and longer terms demands more interest; this implies locking up the money for the longer term, as well as accepting higher risk. One pays ones money and makes ones choice. On the other hand cash generates no interest. The incentive here is clear; the banker is tempted to lend out money long term at high return, while at the same time prom-ising to return depositors money on demand.

This is the crux of the problem; to fully understand this, we drill down to the essential. This is like 2 + 2 = 4 in arithmetic; one cannot make arithmetic any simpler, yet any flaws in mathemati-cal thinking will show up. If any 'system' of mathematics purports to show that 2 + 2 = 4.1, we can simply discard it; it is clearly flawed. The same logic applies to borrowing.

Suppose you borrow 100 monetary units from Joe; the units could be ounces of Gold, ounces of Silver, even ounces of Copper money; it makes no difference. Further, suppose you agree to pay Joe 5% interest, and that you will repay the loan in exactly one year; 365 days. Simple; at the end of the year, you pay Joe 105 units, and the loan is cleared... or you may pay the extra 5 units (the interest) on a monthly, quarterly or whatever basis you agree on; the result is the same.

Now what you do with the borrowed funds is your call; Joe only cares that you make payment. If you borrowed for commercial purposes, say to buy a machine, or an orchard, or a taxi cab, the income from the commercial activity will hopefully pay the loan. If you borrowed for con-sumer purposes, say to buy a new flat screen TV, or a new personal automobile, you will have to earn money some other way to make the payment... no real difference, except you may have to show Joe how you are able to make payment before he agrees to lend.

So far so good; one hundred units of money change hands, and one hundred units of credit is created. Only a default, due to inability to pay, could cause a problem. But suppose after you receive the funds you decide to lend the same amount to Jane; now Jane has the one hundred units of money, and another one hundred units of credit is created. Maybe Jane is willing to pay more interest because she has a better business plan... the reason is irrelevant. You lend her the one hundred units.

Suddenly there appears a problem; one hundred units of money now underlie two hundred units of credit. Oh dear, here we go... 'Fractional reserve', fraud, whatever... or do we really have a problem? If your loan to Jane matures in less than a year, say 364 days, when you get your money back you then use the money to repay your own debt to Joe... no problem, is there?

And further, suppose Jane in turn lends her borrowed money to someone else... why, we would then have three hundred units of credit supported by the same one hundred units of mon-ey...ad infinitum. No fraud, no problem as long as there is no default, and as long as the tem-poral aspect lines up; subsequent loans must be for shorter and shorter terms, so that the money loaned is available in time to meet the next due date, the next maturity.

Now let's apply this to banking; a more sophisticated form of math than 2 + 2 = 4 for sure, but based on the same axiom. A bank has a portfolio of loans, and most will not default; however, the bank must be ready to withstand some defaults. The 'some' comes from actuarial studies, and reserves to support defaults are part of the bank's working capital. In cases of higher risk loans, the banks legitimately charge more interest to compensate for higher reserves required; like for so called 'junk bonds'.

But the main issue is the temporal one; the bank's lending and borrowing terms must match, so that when loans come due, cash is on hand to repay the debt. This is the very trap that our soci-ety has fallen into; banks do not keep this axiom, they borrow short term to loan long term.

Suppose you need to pay Joe before Jane pays you, because you succumbed to temptation, lent her the money for two years instead of less than one to collect higher returns. You borrowed short (one year) and lent long (two years). Shame on you... how will you repay Joe when the loan matures?

Why, you must scramble around and hope to fine another person to lend you money for a year; you may or may not succeed, and you may or may not have the same terms as from Joe; maybe you need to pay ever higher rates, even more than Jane is paying you... so you lose.

Banks face the same problems; if they borrow short and lend long, when the short term bor-rowing matures, they need to scramble around, hoping to 'roll over' their debts, hoping the short term rates stay lower than long term... and when pushed against the ropes, run to the Central Bank for 'liquidity'... loans to 'tide them over' until things 'stabilize' again. This is the 'bail out'.

And what if things don't 'stabilize'? What if the Central Bank is smothered with debt, with no possible way to repay the loans created...? Like ~20 Trillion Dollars' worth of debt in the US sys-tem only? Why, you 'bail in'... confiscate deposits (money that should be the depositors, and should be absolutely secured by the Bank having sufficient liquidity to meet all demands) to meet the long term debts taken on illicitly.

So this is the banking crisis in a nutshell; banks must NOT use deposits (short term borrowing) to support long term lending, else the system is unstable. If they do, banksters should go to jail!

Furthermore, it is clear that simple interest payments cannot support earnings on deposit mon-ey. Only longer term money, like CD's etc. could legitimately generate interest; the CD terms must in aggregate be longer than the aggregate terms of loans the bank makes. Period full stop.

But then deposits cannot earn money, right? Wrong. There is a whole class of credit that does not involve interest or borrowing that could be... indeed was... used extensively to generate in-come, to allow deposits to earn (modest but risk free) returns, and with no need for CB inter-vention ever. Unfortunately, this class of credit has been suppressed, hidden, denied since the end of WWI... about a hundred years... as it would destroy the monopoly of the Banksters, CB's, and Governments. I will write more about this in my next article.

For now, I suggest you stay away from keeping substantial of deposits in any bank; keep cash on hand to avoid the pain of bail-ins and Nirp (negative interest rate policy)... keep Gold and Silver on hand to avoid the pain of the ongoing war against cash.

Rudy J. Fritsch