BANKING SERVICES IN THE FREE MARKET*

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> "Of the many kinds of liberty of which so much is spoken in England, I cannot recall ever having seen any proposal in favour of the liberty of setting one's own terms in monetary transactions. From this oversight, so general, so universal, derives my long-held opinion, well known to you, that this humble and modest kind of liberty suffers a great injustice."
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> JEREMY BENTHAM
> *In Defence of Usury*, Letter I

Of all the services provided in the state-controlled market, banking would probably be the one to change the most in a free society, where eternal Natural Law reigns supreme. As I have explained elsewhere, the main source of income for banks in a fractional reserve banking system is the granting of credit *out of thin air*. The money from such a loan is money created literally out of thin air, or to put it plainly, it is counterfeit money which, after passing through the bank's balance sheet, goes straight into its profit and loss account. It is a massive, ongoing pyramid scheme, as simple, at its core, to perpetrate as the following:

1) Obtaining permission from the state mafia to counterfeit money, which is done simply by typing a few figures into a personal computer, at no printing cost whatsoever.
2) *Launder the counterfeit money* by lending it to someone, and, *to add insult to injury*, charge them interest on it as well.
3) Recording the amount of that loan on their balance sheets as assets, and entering that same amount as banknotes or deposits — created out of thin air — on the liabilities side.

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4) To receive, on a regular basis, from the defrauded customer, payments of interest plus the return of capital, which the customer must pay in *real* money, in real banknotes, not in *counterfeit* money, as they do not hold a licence to counterfeit currency like the statist bank.
5) Each of these payments received periodically by the state-run bank represents a *100% profit* for the bank, since it has not had to invest anything to counterfeit the money nor has it produced anything.
6) The bank's only 'expense' is informing the customer that they must repay the loan granted to them—with counterfeit money—and that the customer must repay it with real money, under threat of having their property seized if they fail to do so.
7) In such cases, when the customer is unable to make any of the agreed periodic payments, the bank seizes their property to 'cover' the amount of the loan of counterfeit money — it really makes me laugh — and thus obtains some extra criminal income, in addition to the principal and interest already received.

As can be seen, one need not possess any particular talent or special skill to perpetrate this string of crimes —massive counterfeiting, fraud and wholesale money laundering— but merely *be part of the state mafia*. Needless to say, the existence of such theft and iniquity would be unthinkable under Natural Law, in the free market.

The current banking system is a statist sham whose origins can be traced, following a long period of gestation, to 1913 with the creation of the Federal Reserve in the United States. The primary purpose of this system is none other than the devaluation of the currency by passing on its costs to productive citizens; in other words, large-scale theft through the systematic counterfeiting of money. The existence of such a massive and ongoing crime is simply unthinkable in a society that understands the meaning of the words 'ethics' or 'freedom'.

In a free market, there is hardly any need for institutions dedicated to granting loans. On the one hand,

on the one hand, *custodian banks*, which, as their name suggests, do nothing but safeguard the money deposited in their vaults, a service for which depositors must pay a market rate. It goes without saying that this money is untouchable and that the bank cannot dispose of it or carry out any activity using these deposits, not even for accounting purposes, since this money is in no way its own; it is someone else's property. On the other hand, there would be *payment gateways*, whose role would be to provide payment methods for commercial activity. This is a service already provided today by various internet portals at a much lower cost, meaning that today's state-controlled banks would have little chance of surviving competition in a free market.

Of course, we must issue the usual caveat that we cannot predict what banking services would be like in a free market, because entrepreneurial imagination and creativity are unpredictable, and will always surprise us in one way or another. What we can be certain of, however, is what will *not* happen in a free market: there will be no practices contrary to ethics, and therefore to natural law. This means that today's statist banks have no chance of surviving in a free society, in which, to begin with, there would be no states and, consequently, no central bank to manipulate the currency at the government's whim.

In a free market, it is to be expected that the sale of durable goods would simply take the form of an *instalment sale*, a very straightforward commercial arrangement that eliminates the need to apply for bank loans or any other type of loan. A person wishes to buy a house from another, and if they do not have sufficient capital, they may agree with the other party on an instalment sale, whereby the house becomes their property upon making the final payment and they have exclusive use of it until then. It will be said that in this way the seller assumes the risk of the instalment sale, which would otherwise be borne by the bank, but this is only true in a market subject to intervention by a monopolistic public or state justice service that neither safeguards private property nor largely defends the interests of citizens, let alone the restitution of victims; rather, its primary interest lies in the defence and profit of the mafia, which is why public judges impose

all manner of fines and penalties that do not end up in the victim's pocket but in the bottomless coffers of the mafia-like state, which defies all logic and is truly absurd. In the free market, there are no boom and bust cycles, which are caused by the massive counterfeiting of money perpetrated through the mechanism of credit expansion, as Ludwig von Mises demonstrated as early as 1912. Hence, life in a free society is much more unhurried and secure and is not exposed to the uncertainty and constant volatility characteristic of a market under attack. As hire purchase is a generally accepted practice, no seller would have any difficulty in conducting transactions in this way, since he himself, as a buyer, could equally do so in the same manner.

What is surprising is that by carrying out something as simple as an instalment sale, we have eliminated at the root the need for *commercial banks*. But the benefits of this type of transaction go far beyond that. For in an instalment sale, there is no credit expansion, no counterfeiting of money, nor any of the dire adverse effects that stem from them. Indeed, in a bank loan, with or without a mortgage involved, the entire loan amount is created *out of thin air* using counterfeit money, which devalues the purchasing power of the currency in equal measure. When the borrower repays the loan amount to the bank, that counterfeit money does not disappear, but is simply *laundered*: the bank lent counterfeit money to the customer when it granted the loan, and the customer will repay it with real money; thus, in this ingenious manner, the capital originally granted is laundered—capital derived from a crime: the counterfeiting of money, with the consequent devaluation of the currency and other undesirable effects of the economic cycles caused by currency counterfeiting. None of this occurs when the purchase of a house or any other durable good is made through an instalment sale, without any need for banking intermediation. We have considered the instalment sale of durable goods, but this applies to any type of good; the fact is that durable goods seem more suited to this type of exchange than non-durable goods, but it can be applied equally to both

provided that the parties agree to it, since in the free market there is no legislation or regulation of any kind, but only the perfect and eternal Natural Law, which cannot be distorted by political parliaments or by a public judiciary – that is to say, a judiciary that is equally political, not only because of the way it is elected, but also because it applies political laws that run counter to natural law.

With no possibility of granting loans or counterfeiting money, and being unable to misappropriate customers' deposits either—upon which fractional reserve banking is built—since customers' capital would be safely held in custodial banks whose sole function is the secure safekeeping of money or assets deposited in their inviolable and untouchable safety deposit boxes, statist banks, like any other criminal organisation, would have their days numbered in the free market where there is no organised state to protect them and allow them to perpetrate with impunity that whole series of extremely serious commercial and monetary crimes, given that the organised state is both the necessary accomplice and the principal beneficiary of such crimes.

Another type of banking intermediation that is entirely unnecessary is the *financing of companies' cash flow*, under which it is assumed that companies need access to more working capital to bridge the cash gap that arises between the time they sell their goods and the time they receive payment for the sale. In this case, it is not a matter of hire purchase, as in the previous example, but merely a delay in the payment of invoices. The product that statist banks usually offer to cover these situations is the so-called credit line, a sum of cash made available to the company which it can use according to its cash flow needs. The cause of this pseudo-problem is none other than late payment, a situation that would not arise in a free market. But why has this irregular situation become customary in commercial transactions between companies? Because of the influence of the defaulting state, which time and again proves to be the source of all the vices and ills of the economy and society. The first defaulter was the state. It was the state administration that established this intolerable practice of indefinitely delaying payments to its suppliers in order to still have

more money to squander, further disrupting the allocation of economic resources, generating insecurity and uncertainty, and fostering a lack of ethics in a state-controlled market. The moral degradation of the bureaucrats responsible for this new assault on the functioning of the market is something that cannot be discussed without provoking righteous anger. In a beautiful country sadly held captive by one of the most immoral and corrupt states in Europe, during the great crisis of 2008 it was estimated that the majority of business bankruptcies stemmed from the late payments and defaults of public administrations. This is the state's glorious 'contribution' to the economy. And yet there are still some people ignorant of economics who are surprised that economic theory calls for its extermination, given that it is more harmful than any plague.

The fact is that when the state is in a state of profligacy that devours more than half of GDP, the practices and customs imposed by the government on the public sector are bound to spread by imitation to the rest of the economy. And let us not forget that it is the state that is doing this – the very body that is supposed to lead by example. It is therefore hardly surprising that late payment becomes the norm and that, as a result, businesses are forced to take out working capital loans that are entirely unnecessary and would in no way exist in a free market. In fact, they should not even exist in an intervened market. But thanks to the late payments of the mafia-like state — which, in turn, behaves in an inflexible and usurious manner towards its creditors, conduct typical of the mafia — statist banks reap enormous profits, as an artificial market niche has been created where there ought to be none. Now they can also counterfeit money to finance the backlog of payments to suppliers, which the public administration has spread like an oil slick throughout the economy. In this deceptive and surreptitious manner, the great self-legalised fraudster, the state, manages to further decapitalise businesses and, together with its banking cronies, reap the rewards of yet another currency devaluation.

Another, let's call it, nervous tic of the economy in a battered market is that of *capital loans*. The existence of a

A monopolistic public currency managed by statist banks enables the unlimited counterfeiting of money to grant loans to the large anti-capitalist firms within the political-business consortium, in exchange for favours rendered or gratitude expected. Thus, statist enterprises have all the capital necessary to swallow up the thriving businesses of their competitors and cut down all independent medium-sized enterprises, which are thereby absorbed by a statist bank or large enterprise, thus coming under state control and passing into the shifty hands of the political-business caste. If this is not the mafia in its purest form, then we will have to redefine the meaning of the term *'mafia'*.

In a free market, none of this could happen. So the neoclassical objection that, under a system of private money and a 100% reserve requirement, or under a strict gold standard, there would not be enough money to provide capital for the corporate oligopoly is doubly incorrect, because it is not that there is not enough, but rather that there ought not to be, just as there ought not to be enough to finance any other kind of dubious or fraudulent operation. Why, within a free society, would hypothetical non-statist financial banks fund a dubious operation of a political-state nature when there is no longer a state, and when the most basic accounting logic would completely advise against financing such an operation simply by glancing at the balance sheets and the degree of leverage of said enterprise?

The degree of leverage exercised by the oligopoly of large state-controlled enterprises in a regulated market far exceeds the most basic standards of financial prudence. The generous loans from the state-controlled banks are another covert privilege granted by the government to its corporate oligopoly. Such multi-billion-pound loans serve to eliminate competition from other firms through their takeover, as has already been mentioned, and also to finance the disproportionate salaries of the political-business caste that makes up its board of directors and senior management positions. Such salaries, which are not subject to the law of supply and demand, are the payment that the state or the public mafia makes to its agents and henchmen to reward their loyalty to the organisation. Since the payment of such perks is not justified by the

neither by economic logic nor by market price; in reality, and even though the profit and loss account may not reflect this, these are lavish allowances that should be recorded directly as 'ordinary' operating losses. This reduces the company's profitability and increases its capitalisation requirements, hence the need to seek additional financing to pay such salaries and perks. Therefore, the payment of these does not, in reality, appear in the profit and loss account but in the accounts payable for loans. These are, therefore, the two main destinations of the multi-million-pound bank loans granted to large companies in a state-controlled market: the absorption of medium-sized independent firms or those outside the state-controlled oligopoly, and the payment to directors and high-ranking employees of the anti-capitalist mafia for their loyalty to the organised state and the political-banking collusion. Needless to say, none of this would stand the slightest chance of happening in a free market.

As we have just seen, in a society free from mafia influence and free from usury, there is no reason why bank financing might be needed. But let us suppose for a moment that this were not the case and that a company needed to obtain financing. In that case, what it can do is issue redeemable non-voting *shares*, with a fixed or variable dividend yield, which for all intents and purposes is the same as taking out a loan. If the company does not wish to take on the task of seeking out shareholders, it can turn to the various *holding companies*, such as those that already exist today, and the free market would ensure their availability in any number according to the greater or lesser demand that companies place on their services. But although there is no difference for the company, for the economy the difference is enormous, because the money from this capital increase, which functions as a loan, will come from the real money of savers, and not from the counterfeit money of bank lending. In this way, none of the disastrous consequences of credit expansion would occur that take place under a system of fractional reserve banking, privileges for the legal counterfeiting of money, and money laundering with impunity for state-controlled banks.

The collectivist herd that loudly rails against the banks is not, therefore, far off the mark in claiming that the statist banking system is a massive scam. However, all this justified discontent and uproar is being channelled in the opposite direction to the only possible solution to the problem, which is that of freedom and the free market, and not that of greater coercion and regulation, advocating a market that is, if anything, even more intervened, which would only serve to make the situation worse.