

LMR

BUILDING THE 10%

SEPTEMBER • 2018

PULSE ON THE MARKET

Vegas Booming
Home Equity ATMs
Fed Nixes "Narrow Bank"

BERNIE SANDERS' DANGEROUS "STOP BEZOS ACT"

by Robert P. Murphy

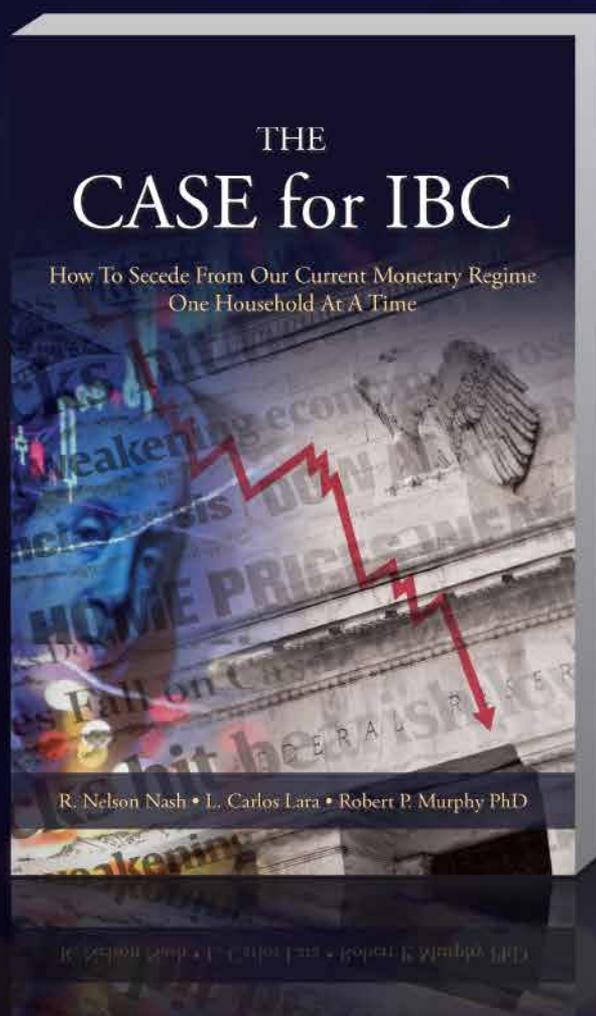
PAY CASH OR USE A POLICY LOAN?

by L. Carlos Lara

BLIND ROBBERY: THE POLITICAL BANKING/MONETARY SYSTEM

Interview with Philipp Bagus

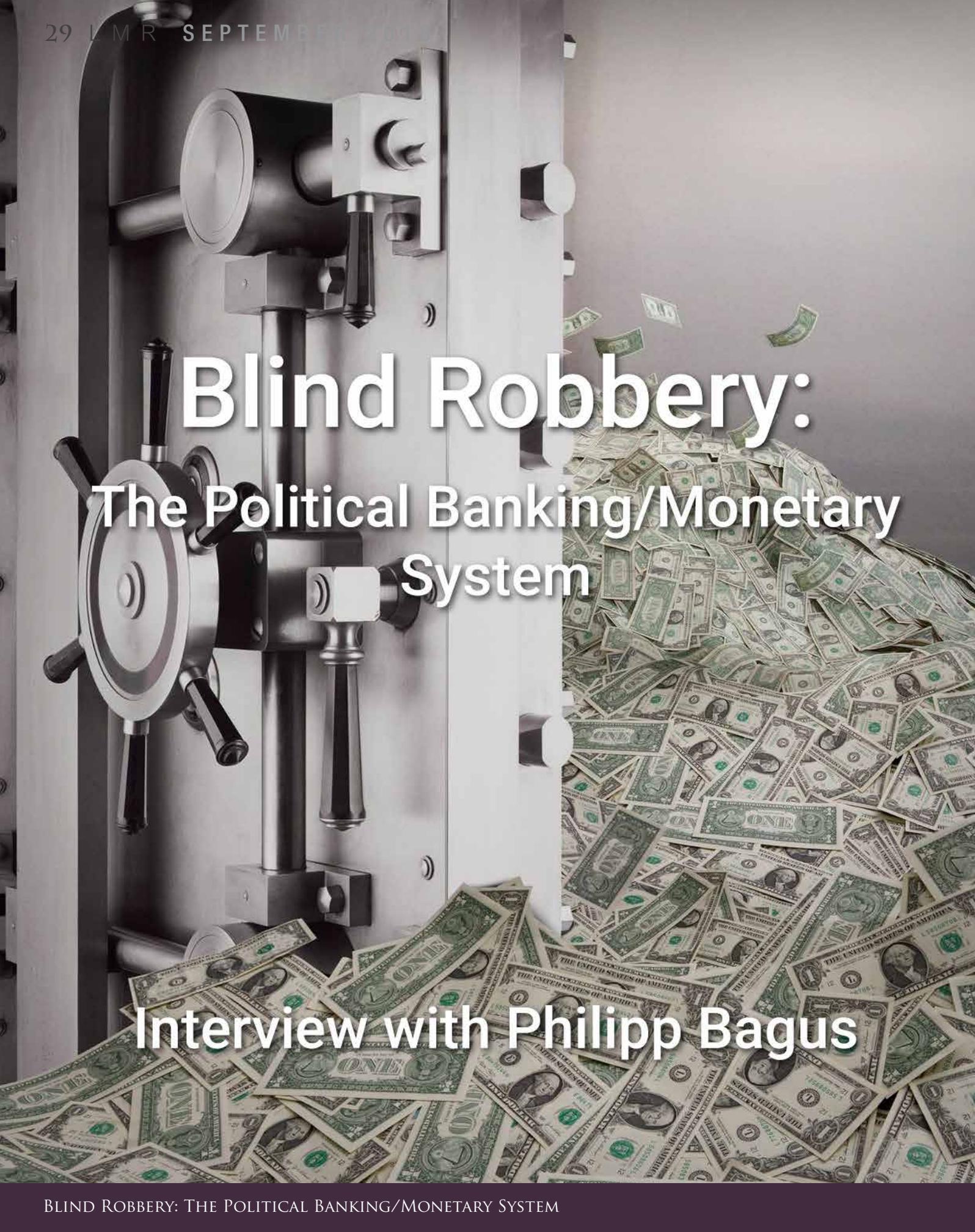
Something is FUNDAMENTALLY WRONG with our financial system.



R. Nelson Nash's Infinite Banking Concept (IBC) is a revolutionary method to take the banking function away from the "experts" and return it to the individual household and business owner.

In *The Case for IBC*, Nash is joined by business consultant L. Carlos Lara and economist Robert P. Murphy to provide the most succinct explanation to date of why IBC works.

Order The Case for IBC Now



Blind Robbery: The Political Banking/Monetary System

Interview with Philipp Bagus

Philipp Bagus is a professor at Universidad Rey Juan Carlos. He is an associate scholar of the Mises Institute and was awarded the 2011 O.P. Alford III Prize in Libertarian Scholarship. He is the author of *The Tragedy of the Euro* and coauthor of *Deep Freeze: Iceland's Economic Collapse*. *The Tragedy of the Euro* has been translated and published in Greek, German, French, Slovak, Polish, Italian, Romanian, Finnish, Spanish, Portuguese, British English, Dutch, Brazilian Portuguese, Bulgarian, and Chinese. He is also co-author with Andreas Marquart of the *Blind Robbery: How the Fed, Banks and the Government steal our money* and the German language book *Wir schaffen das alleine – Warum Kleinstaaten einfach besser sind*. Visit his website at PhilippBagus.com.



Editors' Note: Philipp Bagus was first interviewed in the June 2015 issue of the Lara-Murphy Report.

Lara-Murphy Report: How did you become interested in Austrian economics?

Philipp Bagus: I discovered Austrian economics through the Internet, when I was looking for classical liberal ideas and the theory behind it.

LMR: Here at the *Lara-Murphy Report*, we spend a lot of time discussing Austrian economics and fractional reserve banking. You—along with co-author David Howden—actually have a peer-reviewed journal article on this very question. For outsiders who think this is a silly doctrinal dispute, akin to Stalinists feuding with Trotskyists, can you explain why this is important for economists to study?

PB: The debate on fractional reserve banking is important for two reasons. First, it is an ethical and juridical question about what is good and wrong banking practice. We argue that there exist fundamental legal principles engrained in human nature that require a depository to hold 100 percent reserves of the fungible good deposited—be it grain, oil, or money. It is money's function to reduce uncertainty, therefore people want part of their money fully available and think of it as fully available. Once we want and believe money to be fully available

(a deposit), it is impossible to conceive a depository using that money without acting against the very purpose of the contract. Fractional reserve banking is, therefore, a violation of legal principles and an unjust practice with important real consequences.

That leads us to the second reason: Not only do we want to stop unjust activities, the consequences of the legalization of fractional reserve banking are enormous. Fractional reserve banking allows banks to create money in form of new loans to entrepreneurs without any increase in real savings. The mismatch between the increase in investments financed by fractional reserve banks and real savings is the cause of the business cycle, and all its horrible consequences such as malinvestments, squandering of real resources, unemployment, and poverty. In short: the debate is important because if we would definitely win it and have revoked the legalization of fractional reserve banking, the world would be a much better place.



“Fractional reserve banking allows banks to create money in form of new loans to entrepreneurs without any increase in real savings. The mismatch between the increase in investments financed by fractional reserve banks and real savings is the cause of the business cycle.”

LMR: Of course, as Mises and Rothbard knew full well, it’s not enough merely to talk to other academic economists. They also tried to educate the public. In that vein, you (and co-author Andreas Marquart) have a book with the provocative title *Blind Robbery! How the Fed, Banks, and Government Steal Our Money*. What led you, a PhD economist, to write such a book?

PB: I, and my co-author Andreas, firmly believe that the most important problem of our times is our state monetary system. It leads to an enormous redistribution in detriment to the lower classes and in favor of the super rich, it causes business cycles, lights interventionist spirals, and finances the welfare state and wars. With a sound monetary system, states would be much smaller and we could achieve an enormous increase in living standards. And we will only have

a chance of real change against the vested interests of the financial industry, the super rich and politicians, if an important part of the population is aware of the problems and presses for real change.

Today, the problem is that most people are not even aware of the problem and do not understand how the monetary system works. And indeed, the monetary system is quite complex and you've got to master many abstract concepts and thoughts in order to get a hold of it. Most people will not read Mises' lengthy *Theory of Money and Credit* or Huerta de Soto's voluminous treatise *Money, Bank Credit, and Economic Cycles*. So we wanted to write a short, provocative and entertaining introduction to the problems of our monetary system that anyone can understand and enjoys to read. That is "Blind Robbery."



"Today, the problem is that most people are not even aware of the problem and do not understand how the monetary system works."

LMR: In your book, the final chapter is titled, "Why you haven't heard this before." Can you give the brief explanation for our readers?

PB: We explain the vested interests that dominate the public debate. For instance, as Larry White has shown,¹ monetary research is mostly published in Federal Reserve journals or written by Fed economists. The state has no interest that people get to know the working of the monetary system. The public education system will not teach theories that undermine its own power such as the theories explained in our book. The people that benefit from the current monetary system such as bankers or politicians have no interest that the public gets to know the truth. That is why many people haven't heard about these theories.

LMR: Finally, we understand you are working on a new project with your same co-author (Marquart). Tell us about it.

PB: Yes, we have published in German the book “Wir schaffen das alleine – Warum Kleinstaaten einfach besser sind.” We explain in an easy and entertaining way why it is a fallacy to believe that we would need ever bigger states and finally a world government. In fact, it is the other way around, in times of globalization we need smaller states. The knowledge problem in big states becomes worse and worse, especially in an ever faster moving world. We make the case against big states as the EU or the USA, and defend small states such as Switzerland, Singapore, or Liechtenstein.



“The people that benefit from the current monetary system such as bankers or politicians have no interest that the public gets to know the truth.”

Big states are fragile, as Brexit has shown. Brexit was a good thing. Smaller states tend to be more peaceful, more prosperous, and freer than big states. In the book we explain why, giving historical examples. Unfortunately, the book is currently only available in German. We have started an Indiegogo campaign to finance a translation and English publication. By purchasing a copy, the readers of the Lara-Murphy report can contribute to this aim. Here is the link: <https://www.indiegogo.com/projects/translate-we-can-do-it-alone-to-english--3#/>



Note: The economists and financial professionals interviewed in the LMR are given the freedom to express their views, without necessarily implying endorsement from the editors.

References

1. See Larry White's article at: <https://econjwatch.org/articles/the-federal-reserve-system-s-influence-on-research-in-monetary-economics>.