

The School of Power #2—International Banking

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*Give me control of a nation's money and I care not who makes the laws.
~ Mayer Amschel Rothschild, founder of the Rothschild banking dynasty*

“As we discussed in the last class,” Dr. Quigley began, shuffling through his notes, “gaining and holding power in the past was difficult and often deadly, but it was also a fairly straightforward process provided that one had the appropriate character traits and connections. But times have changed, and the populace now is much different than it was then. In former days society was caste-oriented, and although the people on the bottom may have resented those on the top, they still expected those on the top to rule. Those times are long gone, and in today’s society people expect that politicians will rule for them and not over them. As ordinary people have become more wealthy, educated, and independent, especially in Western Europe and America, they have become much harder to rule.

“This transition of power from the rulers to the people began in England in 1215 when King John was forced to sign the Magna Carta limiting the powers of the English kings. Limiting the power of the state and giving power to the people has had a profound and amazing effect on society. For example, if you were to examine the relative sizes of the economies of the European countries versus those of others such as Islam in the early middle ages, you would find that the Muslim countries were actually wealthier than Europe. But as time went on the nations of Islam remained stagnant while Europe surged ahead. Even small countries such as the Netherlands are now far ahead, and the economies of Europe and America are orders of magnitude greater than the countries of Islam, who—almost without exception—are still being run by totalitarian governments. Here are two amazing statistics that illustrate how large the gap has become between the western world and the dictatorships of Islam: first, the combined 1999 gross domestic product of all Arab countries in the world was less than that of Spain, just one country in Europe; and second, the entire Arab world translates around 330 books annually. Since the ninth century, a twelve-hundred-year period, the total number of books translated into Arabic is approximately 100,000, which is around the same number that Spain translates into Spanish in one year.

“In 1776, the same year that the American Revolution took place, Adam Smith published his seminal book, *The Wealth of Nations*, which described free enterprise and the market economy. The market is probably the single greatest discovery in the entire history of the human race, and is comparable to the discovery of fire and the wheel in importance. The world has never been the same since then.

“Western societies gradually moved from controlled, mercantilist economies, dominated by kings and their few chosen representatives, toward free-market systems. This process was never easy or smooth because the authorities fought this process every step of the way, but eventually common people were allowed to create businesses, form

their own corporations, and own property. The latent power of the entrepreneurial spirit in the common man was unleashed. Companies no longer required royal permission, and went directly to the people to sell their goods and services. Competition arose, and companies had to reduce the cost and improve the quality of their products in order to survive. Formerly, the king and the central government had been the boss and companies had to pander to them. But increasingly, the customer became the boss, and the companies who best served their customers were the ones who survived and prospered. Power was thus democratized—over time it was transferred from the king and the government to the common people who created the businesses and hired other common people to work for them. As these outsiders became wealthier, a large middle class was created, and their power to be independent and resist government control grew as well. The raw power of kings, such as Louis XIV of France had over his subjects, is unthinkable in the western world of today.

“The amount of wealth created by the free-enterprise system over the 250 years of its existence has been astronomical. Marxists and other opponents claim that economics is a zero-sum game—if there is a winner, there must also be a loser, and the winner therefore screwed the loser in order to get ahead. Others would say that all the wealth of the west was built on the slave trade, and by stealing the resources of others. Both of these statements have a little truth in them—there have been and still are ways that those in power screw others. But economics is not a zero-sum game. The power of free markets is by far the largest factor in the growth of the west, and has enriched all levels of society. Consider, for example, the computer business—it was started long after slavery was over, and has become a huge industry that has created prosperity for thousands of people.”

Again, Dr. Quigley adjusted his glasses. “Nowadays, when we read about societies of the past, it is very hard to truly grasp what life was like for the average person of that day because we are so much wealthier and freer than any society of the past. Let me cite a few examples to indicate what it was like back then for the common man. In the four-hundred-year period from 1400 through 1800, there were over forty general famines in France. Life expectancy in that time was around twenty years, and forty-two percent of the people died before reaching the age of fifteen. In Ireland it was even worse—life expectancy in 1800 was only nineteen years. Poverty and disease were rampant, and plagues periodically killed a large section of the population. In some areas of France in the 1300s, the Black Death killed ninety percent of the people. What changed was the introduction of free enterprise into Europe from the 1750s onward, which led to the greatest explosion in research, technology, and development, and by far the largest increases in the general welfare in the history of the world. It took time, but the societies and countries that adopted free enterprise as the foundation for their economic and political systems eventually came to be light-years ahead of societies that did not. The people in America are not better or more intelligent than anyone else in the world. The overriding reason for the success of America is its embrace of free-market economics.

“But pity the poor power-hungry leaders who want to be dictators in today’s world—how can they gain ultimate power over people today, especially Western Europe and America, which are democracies? It is easier to gain power when the people are poor and ignorant peasants who do whatever they are told, but it is a lot harder when the general populace has money and education, and a tradition of self-rule. Imagine someone running for the presidency of France who would say, ‘Vote for me because I desperately

want power, and want to rule over you.’ Power-hungry people into today’s world can never say what they are really thinking, and must constantly conceal their thoughts.

“Hitler was eventually able to become a dictator because Germany was in such a horrible state following World War I and the depression of the 1930s, and even in today’s world there are many countries that are still run by dictators. But Hitler did not start that way, and the dictators of today need help to stay in power. They need to hide their true motives and convince people that they are acting in the public’s best interest. Therefore, most of them claim to be socialists.

“Socialism has been around for a long time. It was first described by Jean-Jacques Rousseau and Robert Owen in the eighteenth century, and Karl Marx and Friedrich Engels in the nineteenth. It is a utopian form of government where everyone is supposedly equal and where differences are eliminated. As Marx said, a socialistic society is ‘from each man according to his ability, and to each man according to his need.’ It is therefore the role of government to equalize everyone by taking wealth away from the rich and giving it to the poor. Unfortunately this requires that someone be in charge to perform this redistribution process. The rulers of society, of course, become this authority, and then can use the force of government to take from their enemies, enrich themselves, support their friends, and build bureaucracies to keep themselves in power, all the while claiming that they are the champions of the poor. As Charles De Gaulle said, ‘In order to become the master, the politician poses as the servant.’ The power of socialism is thus based on lies and deception, and many third-world countries are socialist dictatorships for that very reason. Dictators stay in power by confusing people with socialistic propaganda. This is the main reason why virtually all third-world countries are tyrannies that remain in the economic third-world.

“Red China under the communists was a good example; the communists murdered their enemies by the millions, quashed business growth and kept people poor and ignorant while Chairman Mao lived like the Yellow Emperor, sampling a new teenage girl every day. North Korea is even worse—if someone hears you say things against the government, then you, your children, and your grandchildren may all be arrested at night and sent to the gulag for life, where they either work you to death or perform biological experiments on you. Meanwhile Kim Il Jung, the North Korean dictator, lives in luxury along with his cronies. In countries run by socialistic dictatorships, the bumper sticker you sometimes see is completely accurate—‘the government wants the people to be unarmed, ignorant peasants.’”

One of the boys, Jean, raised his hand. “But sir, are all of them corrupt? Don’t some of them try to do the right thing?”

“You are absolutely correct—some socialist and communist leaders truly believed in the system, and honestly attempted to implement it because they thought it would be fairer, and would create more wealth and happiness. They tried to socialize and collectivize their societies in the belief that they were doing the right thing. But all of these initiatives, such as those in Russia, China, East Germany and Africa, have universally failed. Julius Nyerere, the past president of Tanzania in Africa, was an interesting example of this. He believed that his people were socialistic by nature, and what was needed was to abandon Western ideas and return to traditional African family socialism. He collectivized the country, attempted to eliminate capitalistic influences, and from 1961 until 1976 when the collectivization projects finally ended, Tanzania went

from being Africa's largest exporter of agricultural products to its largest importer. When he finally retired in 1985 he made an absolutely amazing statement in his farewell speech. He said, 'I failed. Let's admit it.' But the same failed programs have unfortunately been repeated in many other countries, usually by leaders who were much more unscrupulous and much less honest than Julius Nyerere. Nicolae Ceaușescu kept Romania in thrall for over twenty years through the power of socialist lies, until he was finally thrown out and executed. For decades the Berlin Wall was a monument to the power of communism until the failure of communism finally resulted in it being torn down."

Jean raised his hand again. "But sir, aren't there countries where socialism actually works?"

"Yes there are, but that is only because the socialism is mixed with free enterprise. In developed countries like France, Germany, England, and America, where people can vote on their leaders and there is a tradition of democracy, things are much more complicated and there are many cross-currents. These societies are a mix of socialistic and capitalistic principles, which can be a good thing. We need capitalism and competition to make sure that we have goods and services at reasonable prices, and we need some government control to enforce laws and to insure that people are treated fairly. This is often referred to as social democracy, and honest advocates of this type of socialism generally support capitalism in the context of a welfare state.

"But even in social democracies there are a number of very negative moral and economic consequences to socialism, which include: paternalistic governments that enforce high taxes and attack privacy rights; a disdain for hard work, thrift, and planning, and a corresponding reliance on the government to solve all problems and pay for everything; continual attempts to abolish private property, and adding restrictions and taxes on its use; rejection of religion and an accompanying moral relativism; the breakdown of sexual morals and gender roles leading to family and societal breakdown; and a hostility to the military and a rejection of its purpose. Underlying all of these is the theme of victimhood and helplessness; women are the victims of men; workers and unions are the victims of corporations; blacks are the victims of whites; Arabs are the victims of Westerners; people in general are the victims of religion, and so on in a perversion of reality that requires more lawyers, more drugs, more regulations, more taxes, and more government to somehow redress all of these perceived injustices. Self-responsibility is thus removed and replaced by dependence and reliance on the state, unless, of course, one is part of the group that is running the state. This is the general direction of western societies." Dr. Quigley paused.

"Thus there is continual pressure brought to bear from various quarters to further socialize and control us. It is an effort to reduce the power and influence of ordinary citizens and save us from ourselves by trying to convince us of our victimhood, of our need for more security and protection and therefore less freedom, and also to give up more of our earnings in order to pay for it. Much of this pressure comes from government, but it also comes from commercial groups, especially lawyers, who are the main beneficiaries. Each new class of victims creates new ways for attorneys to make money through lawsuits. Now, for example, we have lawyers suing restaurant chains with claims that the food has made their clients too fat. Many of the people in government are

lawyers and ex-lawyers. They resist reform and protect each other and the law trade, thus compounding the problem.

“There is also an effort to create and expand international organizations to which governments are pressured to cede more and more of their power, such as the European Union, the United Nations, the World Trade Organization, the International Monetary Fund, the World Bank, the World Court, and most significantly, the adaptation of one currency for the entire world, allowing the central bankers to have complete control over all of the world’s money. There are two major parts of the world power system—finances and politics. We will examine both of them, beginning with the financial aspects of the system.”

“In order to understand how power works in today’s world we need to have at least a brief understanding of international banking and how it works. All of you have, no doubt, taken classes in economics, but let us review some of the fundamentals of money and trade. I will try to make this as short and as interesting as possible so that you don’t nod off and go to sleep on me.

“The first method of exchange in human history was barter—for example, exchanging one cow for five bushels of wheat, or whatever. But barter is clumsy for a number of reasons, and it is much better to have a common unit of exchange that everyone will accept. Therefore people started using gold and silver for this purpose. The first bankers from long ago were goldsmiths who produced gold and other precious metals in coin and bar form. Because gold is heavy to carry around and can easily be stolen by highway robbers, this became a serious problem for long-distance and international travel, so the goldsmiths would sometimes store gold for their customers.

“The first international bankers were the Knights Templar, the soldiers of the crusades, who had castles and secure storehouses all over Europe and Palestine. They came up with a brilliant idea—why not keep the customer’s metal in their storehouse and issue him a paper receipt instead? For a fee, you could deposit your gold in London, receive a paper receipt, travel to Germany, and get your gold back again there. Paper money was therefore a concept invented by the Templars in a time when travel was dangerous, and highwaymen were common. The gold and silver remained in the Templar vaults for some period of time, and in some cases the customer never returned or lost his paper receipt, resulting in forfeiture of his assets. Thus the Templars had a growing store of precious metals, and they began to make loans, earning interest on the assets of others. They began the practice of what today is called ‘fractional reserve’ banking—keeping only a small portion of your assets on hand for liquidity, and loaning out the rest of it.

“The Templars soon became extremely wealthy because not only were they paid to hold the gold, they also kept all of the interest generated by its investment. Furthermore, they were free of all secular taxation because of their status as a papal order. They bought lands and castles throughout Europe, and their wealth exceeded that of any country. But their success created intense jealousy, and Philip le Bel, the King of France, destroyed the Templars and killed their leaders in order to seize their treasure.

“Other goldsmiths saw what the Templars had done, and many eventually abandoned goldsmithing to become bankers. Then they had another brilliant idea—why not encourage the receipts themselves to be traded instead of the gold? As long as the person receiving the receipt was willing to accept it instead of gold, everything was good.

These receipts were essentially the same thing as the Euro bills that we carry around in our wallets today, with one important difference—unlike our Euro bills, the receipts were backed by gold—something of actual worth, whereas our paper currency is not.

“As these receipts became accepted by the public, it was noticed that, as with the Templar deposits, many people never bothered to withdraw their gold, and just left it in the vault. The goldsmiths-cum-bankers then had a third idea that was even more brilliant—why not print up a few extra receipts and spend them for their own purposes? Who would ever know? Today we call this inflation—an increase in the money supply, which is the term used for the number of pieces of paper in circulation vis-à-vis the tangible things of value that back the paper up. So as long as the public was willing to accept these receipts, the bankers made loans and created a profit for themselves entirely on other people’s money. Of course, these early bankers never told the people who actually owned the gold what they were doing, and none of the profit was shared with the customers, making banking a very profitable enterprise. This scheme worked well until the inevitable day came when the people with the receipts lost confidence in the bank, and all of them wanted their gold back at the same time. Today we call this ‘a run on the bank,’ and when people realized that there was not enough gold for all of the outstanding receipts, the bankers were *persona non grata*.

“After a number of these ugly incidents, the bankers had a fourth and equally brilliant idea—why not pool the efforts of the largest bankers and form a bank for the entire country with a much bigger capital base? Such a bank would be larger, more trustworthy, and less likely to fail; furthermore it would be much harder to compete against—it could control the banking market and make it harder for competitors to start new banks. The Bank of England was created in 1694 by William Patterson, using the assets he had accumulated from privateering. At that point the English crown was financially exhausted from years of war with France and was in desperate need of more revenue; thus Patterson was in a position to drive a hard bargain.

“This led to the fifth brilliant insight—the Bank of England became known as the central bank for the entire country and supposedly was part of the government, but in reality it was still privately owned and controlled by the founding bankers. These insiders could then set monetary policy for the entire country causing periodic swings that they and their agents could profit from, and best of all, they were eventually able to convince the government that if a run on the bank should occur, it would be in everyone’s best interest that public tax money be pumped into the bank to prevent it from failing. Instead of the bank going bankrupt, the entire currency of the country was thus inflated and everyone’s buying power was reduced.” Dr. Quigley again adjusted his glasses, and Michel raised his hand.

“I don’t get it - how is everyone’s buying power reduced?”

“It is reduced because every time more pieces of paper are printed without increasing the amount of gold that backs up the paper, the value of each piece of paper decreases.”

“Okay, but sir, isn’t it important that bank failures be stopped so that the people will have confidence in the banking system? Don’t we need central banks for that?”

“Yes, that can certainly be very important. When banks fail people become fearful and lose confidence in the system, and this was one of the main reasons that central banks were formed in the first place. But on the other hand, banks can now loan out much more

money than they have in deposits. If there is a run on the bank or if a number of loans go bad, the system will pay for the banker's mistakes by pumping in the public's money; thus all of the people of the country pay for the banker's problems. This is less traumatic, of course, and no one hears about it in the news, but the money supply is inflated and the currency is debased because there are no balancing incentives, especially for the largest banks. It is similar to a person who is afflicted with a disease without any pain—he does not realize how sick he is.”

“If a bank makes too many mistakes and needs to be closed, don't the owners of the bank lose?” asked Michel, one of the other boys.

“Yes, they do but that applies mainly to the smaller, non-insider banks who are the riff-raff competitors of the big banks. The big insider banks are called TBTF—too big to fail—and are treated differently. Now we can understand how the alliance of politics and central banking works—the politicians need the bankers because they continually need more and more money to pay for government expenses and for giving people benefits in order to keep themselves in power. The bankers need the politicians to protect them from the public in the event of a run on the bank, and to guarantee their loans if the borrowers fail to repay. They need each other and so they protect each other.”

Henri's attention had wandered a little at the very beginning and his eyes started glazing over when Dr. Quigley started to discuss banking, because his other classes on money and economics had been boring and made the subject seem very complex and arcane. But as he listened, he started to pay more attention and was surprised at how elementary and easy to understand this was. Money was simple—why was it so often presented in such complex and confusing ways?

“In any case, let us continue our examination of international bankers. After the founding of the Bank of England, a Jewish man by the name of Mayer Amschel Bauer formed a bank in Frankfurt, Germany. Appropriately enough, he was the son of a goldsmith. Jews were a persecuted minority and restricted in many ways, and banking was one of the few occupations open to them. Bauer took the name 'Rothschild' or 'red shield' for his business, and as he gained influence he began lending to governments to finance their war efforts. The Hessians of Germany provided soldiers that were rented by other countries to serve as mercenaries, and Rothschild got deeply involved in the financial aspects of war, as well as many other forms of trade and banking. War was then, and still is today, one of best ways for big insider banks to make money by making large loans to cash-strapped governments. Rothschild found that having governments indebted to him made them subservient, thereby putting him in a strong position to influence subsequent political decisions.

“Rothschild had five sons, most of whom, like him, were highly motivated and who pursued every kind of trading and banking venture that could make money. The sons eventually left Frankfurt and were sent in different directions—to London, Paris, Vienna, and Naples. They established among themselves the fastest courier system of their day for the transport of goods, money, and encrypted information, so they knew long before anyone else what was happening in different parts of Europe. By trading on this insider information they made millions.

“There were, of course, a number of other banking families who competed with the Rothschilds and tried to copy their methods, but the Rothschilds were the most successful of all of them. Details about the total amount of the Rothschild wealth are hard

to pin down because of their passion for secrecy, but it has been estimated that this one banking family alone at various points in their subsequent history controlled anywhere from ten to twenty percent of the wealth of the entire world. Consider for a moment how much money that is. Why does anyone need that much money? Consider also the impact you could have if you controlled it. What would you do with it?"