Why Banking Is No Ordinary Industry

by Ryan Griggs

Have you ever wondered what you ought to do with the money you make? If so, you aren't alone. Recent college graduates, many of whom have had little to no experience in managing an income, find themselves in the awkward position of having to do something with it; that is if we suppose they actually *find employment* in the first place.

The problem of what to do with the money we make has literally existed for centuries. However, the issue isn't totally opaque. It doesn't take a financial genius to know that some portion of income should be —must be — spent on life's necessities, e.g. food, clothing, and shelter.

But what happens when there's some money left over? It's an odd problem to have. We're all told that to get rich requires *earning more than you spend*. The remainder should be *saved*. But what's that mean? Cash under the mattress? Leave it in the bank account? Shares of publicly traded stock? Or maybe a mutual fund?

Discussions about what's best typically revolve around *rates of return*. Where can my money make the most money? How do I best *invest* what I earn? After all, "everyone knows" that you can do something better than just *hoarding* the money. We're told to "put it to work." And fair enough, we work hard for our money, shouldn't our money work hard for us?

Notice the change in language. We've gone from the importance of saving to the best way to invest. Is this an innocuous shift? I want to suggest to you that it's not. In fact, the focus on investing has a peculiar similarity to the old adage of "missing the forest for the trees."

The Special Privileges of Banks

In your work, do you have a colleague, boss, or client who just "makes your life easy"? Society's financial focus on the investment trees at the expense of the economic forest makes the lives of those in a particular industry especially easy. *That industry is banking.*

A banker's life is made pleasant almost to the point of effortlessness. The language and form of conversations about money facilitate this ease of existence. You see, the foundation of a bank's profitability consists in the deposits folks like you and I grant to them. It goes like this, banks make money by charging interest on loans. Banks have a unique, legal privilege to originate loans at a *multiple* of its deposits. That means that every new dollar in deposits allows a bank to originate more than a dollar in new loans.

See, you might think that banks lend your money. Now, it's technically impossible to trace what happens to those particular dollars you deposit with a bank. At the end of the day, what matters to a bank is *leverage*. Banks don't just lend out the dollars they receive from depositors. Far from it. They take those deposits, multiply by a factor, e.g. 10, and lend out *that* amount.

So it's not that banks lend your money. They lend out *far more* than just "your" money. How do they do that? What would happen if you or I made a loan to someone else with money that we never received from someone else first? How could such a thing even be possible? Well, for you and I, it's not possible, at least not legally. Profiting by using money we ourselves created is called *counterfeiting* and it can come with a prison sentence.

But not for the banks. In the technical language of economics, we call this process of legal counterfeiting "inflation." The euphemistic definition of "inflation" is "an increase in the quantity of money." The thorny ethical question as to the origin of that increase is conveniently set aside.

Are you starting to see the forest? The more deposits a bank has, the more legal counterfeiting ("lending") it can do. The more "lending" it does, the more interest it will collect. The more interest it collects, the more profitable it becomes. The more profitable it is, the more property over which it can exercise control — like politicians.

How do you receive income? Direct deposit? A paper check? To where is that income destined? *A bank.* How do you imagine bankers feel about that process? It's like asking, "how would you feel about a client or colleague that makes your life easy?" Words like spectacular, tremendous, blessed, fulfilled, and content come to mind. However, the question is a bit off. It's more like, "how would you feel about a client or colleague who not only makes your life easy, but makes it 10 or 50 times more profitable than it was before?"

This wouldn't be so bad if you still *owned* money you deposited in the bank. At least if it was legally *yours*, you could demand it back whenever you wish. However, it would be in the *bank's* interest for *the bank* to own your deposits. That way, if they were ever to get into a situation where they didn't have enough money on hand to fulfill your withdrawal request, they could just *deny* the request.

Unfortunately, you *don't* own the money you deposit in a bank. The *bank* does, and this is reinforced by *Dodd-Frank*. Of course, banks don't typically refuse withdrawal requests. If they did, people might object to sending them fresh new deposits. This technicality of legal ownership is an *ace up the sleeve* of banks. No banker plays that card unless he must.

It's an ugly forest, isn't it? Suppose you don't *keep* money in the bank. Your high school teacher, whose financial acumen credentials are unknown, if they exist, has done his duty and you've listened. "You should be investing! And start young!"

What sort of business would a bank be if it had no solution for the prudent student of finance? Shares of stock and government bonds, cloaked in a veil of indecipherable financial lingo, buried in stacks of paper, enumerated in eight-point font, dressed up in super official, authoritative language, are available to help you "prepare for your financial future."

A smooth-talking, well-dressed, *personal wealth adviser* is available to help you select the best option (for whom?). The hard-working, well-intended bank customer has, by now, been sufficiently (a) mystified and (b) steam-rolled by the opulence and polite manner of the whole experience. Well, *the experts know best*, right? Better to go with their recommendations, rather than to "go it alone" — or so they say.

Now that the forest is more fully in view, we can discuss some of the features of this business, or *racket* — depending on which side of the table you sit. Notice the core around which the banking — and all financial — business revolves. *The flow of money*.
You might think of it as *cash flow*.

This term is typically, and sadly, reserved for discussions about the revenue and expenses of a business. But in reality, the flow of money, or cash flow, is a feature of everyone's financial experience. The flow of that money, the *velocity* and *direction* of it, in particular, is the determining influence behind the form and function of the financial industry.

How does this relate to money? Consider that *money flow* is the key ingredient to *economic activity* just in the way *water flow* is the key ingredient to *biological activity*. Money flows through *banks* just the way water flows through *rivers*. However, whereas the flow of water is determined by the laws of physics, the flow of money is determined by the *choices of men* (and women). And unlike nature, where matter is neither created nor destroyed but only transferred, *money can be conjured* when backed with sufficient force of government through special legal privileges.

The result is a *literally unnatural, disproportionate* flourishing of economic activity around those institutions where new money is conjured through the exercise of legal privilege. Therefore, it is no wonder that the bankers and money managers are
unnaturally, disproportionately wealthy.

With water, man is limited in his capacity to influence its flow. The oceans are vast and water's flow and erosive power are tremendous. The best we can do to change its flow is a dam here and a levy there, each of which is ultimately at the mercy of a
complex atmospheric system

Man's odds with affecting the flow of money are categorically different. Man *chooses* where his money flows. The priestly power of banks rests on the *decisions* of men. Banks specifically require a stable, relatively predictable flow of new deposits,
each kept with the bank — or at least within the banking system — for a stable, relatively predictable length of time.

So long as men remain docile, submissive, and complacent with respect to the banking class's legal privilege to conjure money where before it did not exist, the *economic landscape*, in its general form, will remain unchanged.

So long as men refuse to discuss the true *nature of the banking business*, and prefer instead to *leave it to the experts*, the chances men will *think differently* are nil.

The forest is clear. It's up to you to *do something* about it.

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