

Desocialization of Banking

Part II of Complete Desocialization Of A Failed Socialist Democracy

Desocialize: To cause to cease to be politically socialist.

Introduction

This is the second of a short series on the complete desocialization of a socialist democracy. The first paper covered [Desocializing Money](#) and the exchange to commodities for currency, social security assets and qualifying deposits. Money and banking are addressed before all else, because they are essential to continuing and growing the non-government portion of the economy during the transition.

Future articles in this series will address the just return to individual ownership for broad classes of formerly government held property. All of these papers explore these questions:

- 1) What would be the most just disposition of property formerly held by government?
- 2) How can we prepare now to best accomplish this?

Free Market Money and Banking

For those not familiar with free market money and banking, this section briefly introduces the expectations based on historical precedent:

The monetary metal from redemptions in [Desocializing Money](#) will circulate with the monetary metals already held by individual people. Prices should revert to a weight measure of the monetary metal used most widely in the area, eliminating the dollar completely. For example, a loaf of bread might cost 30 micrograms of gold or 0.45 milligrams of silver.

As was the case before government involvement, some of this monetary metal would be in bullion banks that warehouse the metal for a fee and don't make loans. The deposit receipts could trade like the metal itself, or the deposit ownership could be transferred with transactions much like today's checks and other electronic transactions

Much of the monetary metal would be in time deposits that earn interest at free banks. This money can honestly be loaned in a responsible manner to others in the form of monetary metal, or notes backed by the metal deposited in the free bank. Irresponsible lending would cause the bank to lose depositors, because there would be no FDIC deposit insurance. Forms of irresponsible lending would include:

- Lending money for longer than the corresponding time deposits, or
- Lending more than is deposited (fractional reserve banking), or
- Loans that are an excessive risk

This natural form of regulation would keep fractional reserve money inflation and bank risk in check. Transparency should be a necessary feature of the vast majority of banks to satisfy customer demands for deposit risk reduction.

The time deposits in free banks and corresponding loans will make money more available for transactions throughout the economy. Interest rates for deposits and loans would be determined by the free market supply and demand for money. Current banks will convert into free banks or be absorbed into them. Hopefully there will be many banks that plan ahead for conversion to a successful free bank.

Private mints would coin specific weights of monetary metals. Quality and minting cost of their coins would determine whether a private mint prospers. To avoid confusion about different sources of deposit notes and coins, their value would be stated on them in terms of weight of the monetary metal contained or represented. Exchanges between different metals would employ free market determined conversion rates.

Murray Rothbard's outstanding short book [*What Has Government Done to Our Money?*](#) (1980) has much more on free market money and banking.

A Possible Redemption Transaction

We've considered what may be eligible for redemption and what it can be redeemed for. Also, the new structure of commodity money and free banking has been introduced. Let's assume a conservative initial redemption ratio of \$33,000 per gold ounce for the examples that follow. Also, the market exchange rate is assumed to be 30 oz silver per oz gold.

For the redemption example, let's consider a person who has \$1,320 in cash, \$31,680 in savings and \$297,000 in Social Security assets (SSA). Their bank was closed during the financial collapse and re-opened as a branch of another bank who had prepared to quickly become a free bank. The bank has made arrangements to conduct transactions with the Money Desocialization Board (MDB), as have other competing free banks. The bank charges a competitive fee to conduct these transactions, so that people won't move their accounts.

The bank accepts properly documented SSA for account holder transactions, so they can process the entire \$330,000 redemption with the MDB. The person decides to receive 20% of the proceeds in silver. The account holder receives MDB secure warehouse notes for 8 ounces of gold and 60 ounces of silver, less a 0.2 ounce silver note paid to the bank as a transaction fee. These silver and gold notes are accepted as money everywhere because they represent actual metal in the MDB warehouse.

The bank offers 5% annual interest for time deposits of 1-year. It is understood that this deposit will be loaned during this time and can be demanded at the end of a year. The bank also offers demand deposit services for a set of fees based on transactions and services, much like those provided today. It is understood that this demand deposit will NOT be loaned and will be returned at any time upon request. In consideration of a minimum time deposit of 1 ounce of gold at 5% interest, the bank offers the demand deposit services free. They also offer free shipping of the physical metal to the bank. The account holder decides to put 3 ounces of physical gold in a 1-year deposit and 4.8 ounces of physical silver in a demand deposit account. The bank also provides the service of advancing the 4.8 ounce of silver for the account, so the account holder has no interruption of the availability of money while the notes and physical metal are being shipped to the bank. They rent a safe deposit box to store the remaining MDB warehouse notes. All of this is agreed to and made official in a contract between the account holder and the bank.

The same day the bank conducts similar transactions with many other customers. The physical gold and silver for the combined deposits are received by the bank in the form of bullion. The bank contracts with a reputable private mint to have the bullion converted into high quality coins to meet customer demands for physical metal.

Two months later, the MDB dollar redemptions end. The account holder is notified that they have an additional amount of credit based on the residual commodities at the end of redemptions. They're also informed that the MDB will end as an entity as soon as all these transactions are completed. From that point forward, the MDB commodity warehouse will be under new ownership of a bullion bank and storage fees will be based on a schedule that is competitive with other such businesses. MDB expenses and the revenue from sale of the secure storage facility was taken into account when the residual credits were determined. The account holder asks the bank to transfer the MDB credit in the form of physical metal into another 1-year time deposit, with shipping provided free with the new deposit.

After shopping around, the account holder decides to have his holdings at the former MDB warehouse transferred to a new local bullion bank where it will be easier to retrieve the metal. The cost includes shipping fees and storage which are competitive with others in the area. The new bullion bank exchanges the MDB warehouse notes, less fees, for new notes that they issue as receipt.

Other Federal Reserve Holdings

As stated in *Desocializing Money*, Treasury issued debt that the Fed holds will become worthless. The Federal Reserve is a counterfeiting operation that destroyed the US economy and, therefore, a criminal organization. The mortgage backed securities that it holds are contracts between homeowners and a criminal institution. Therefore, all of these contracts will be dissolved. Likewise, all other Fed contracts will be dissolved with companies and individuals. Any non-commodity physical property that the Fed owns would be treated like former government property in the papers that follow in this series on desocializing formerly government held property.

Bank Debt

The currency and qualifying customer deposits of banks will have been converted to commodities in the possession of individuals when money was desocialized. Now let's look at the debts owed to the banks.

First, it's important to ask, where did the loaned money come from? Debt funded by banks is with money that didn't previously exist. Due to the magic of fractional reserve banking, the legitimate deposits in the banking system are held in reserve and then lent out multiple times. The most common reserve requirement is 10% or 1/10. The amount lent out after a deposit is the inverse of this, which for 10% reserves would be 10/1.. So, for a \$1,000 deposit in the fractional reserve banking system there is ultimately another \$10,000 loaned by banks which was created out of thin air. The mechanics of this are explained in [*What Has Government Done to Our Money?*](#).

In our example, the original \$1,000 deposit still existed in the deposits at banks. In the world of desocializing money and banking, this deposit was already redeemed. Also, a portion of the money created by the fractional reserve multiplier had found its way into deposits and cash that were redeemed. With all of the depositors already redeemed, there is nobody left to owe the debt to, aside from the bank that counterfeited the money. Therefore, it seems just that the debt funded by the banks, even indirectly, is illegitimate and not owed to anyone.

One might inquire about the bond and share holders that invested in the banks. The bank has non-financial physical assets including land, buildings and equipment. The depositors are already redeemed and the bank's debt to other banks has been cleared as illegitimate. So, these physical assets are still owned by the bank, if they were acquired legitimately and not returned through arbitration. The bondholders and share holders will have claims on the legitimate physical assets and future bank earnings according to the hierarchy of the capital structure of their investment contracts. Responsible banks should be able to survive this desocialization resolution event. However, in most cases the share holders will be wiped out and the bondholders will be converted to equity.

Money and Banking Related Business Opportunities

Money related business opportunities when government and fiat money collapse include:

- Arbitration related services to determine just claims for government held commodities and bank physical assets. An excellent article about arbitration is [Society without a State](#) by Murray Rothbard.
- Coin minting,
- Free banks for time deposits, responsible lending, small demand deposits and banking services.
- Secure bullion bank warehouses and associated transaction services. Initially, the largest of these will be the facilities used by government. Others will be needed at more convenient locations.

Conclusion

This conclusion is combined with that from [Desocializing Money](#) for a complete picture of money and banking.

It's critical to the continued functioning of the economy that money remains available when government collapses. It is possible to provide commodity redemption for the fiat currency, qualifying deposits and forced social security investments. This would immediately return the country to a commodity money system.

The old money can be replaced with commodity deposits in bullion bank warehouses and free banks very quickly. Coins, bullion and commodity backed notes from the free banks and bullion banks would

become the new money. Prices will be calculated in weight of the money standard commodity with other commodities used based on the current exchange rate.

Desocialized banks will have all their cash and deposits redeemed and transferred into the ownership of individuals. All debt funded by banks and financial institutions that borrow from them will be cleared as illegitimate. Bank bondholders and share holders will still have a claim to the bank's legitimate physical property assets plus future earnings, according to the contractual capital structure. In most cases the shares and preferred shares will be wiped out and the bank bondholders will be converted to equity. Responsible local banks should survive this desocialiation event. Society will immediately prosper after wiping-out all of the illegitimate debt produced by the Fed and fractional reserve banking.

An independent money desocialization board (MDB) or some other means should be formed as soon as possible. They would coordinate the necessary preparations, including:

- Full auditing and location of government held commodities
- Determine what deposits and currency outside the country would qualify as just for redemptions.
- Establish an initial redemption rate of gold for dollars
- Prepare a system for quickly processing redemptions
- Identify banks able and willing to convert to free banks when government collapses.
- Arrange for security of government held commodities until they are all transferred to individual ownership.
- Communicate the desocialization plan.
- Sell the secure commodity storage facilities effective on the date the commodity transfer is complete.
- Dissolution of the MDB upon completion of all these acts.

An independent expert dialog is urgently needed to better refine the ideas presented in this paper and the rest of this series. This will help assure a successful transition to historic liberty and prosperity that few can imagine. We need to be ready when government destroys itself and creates the opportunity to implement the plan to achieve liberty.

The remaining articles in this series will address desocializing all government held property.

By Mike Allen 25 July 2011