GlobalResearch
Center for Research on Globalization

Money and The Truth about America

By John Kozy
Global Research, April 28, 2011
28 April 2011

Region: USA
Theme: History, Poverty & Social Inequality

President Obama has said that he will not allow people-programs to be cut so that the wealthy can receive tax cuts because our nation is "better than that." But what America is cannot be distinguished from its economy which exists merely to accumulate money. It's why the maxim is let the buyer, not the vendor, beware. But in an equitable economy, no one would need to beware. No banker will ever be prosecuted for the banking practices that brought down the economy, because if such questioning were allowed, the entire basis of the "American way of life" would be called into question. An economy whose primary concern is not the welfare of the people it serves will always require the people to live and die for some non-human goal. People will be used just like worker ants, and no one will really care when they fail to return after being sent off to do their prescribed jobs. To be subordinated to some non-human purpose is to be expendable.

Have you ever wondered about standard banking practices that seem to make no sense? Well, consider these:

A bank will accept a car or house as collateral for a loan but not the furniture you just purchased using a bank-issued credit card. What does the bank know that you are not being told? Is it that the furniture is not worth nearly what you have just paid for it? If it were, wouldn't it serve as collateral?

Or this: a person goes to a bank and applies for a loan. S/he is asked to show that her/his debt to income ratio lies at or below one designated by the bank. Perhaps the debt cannot be more that 40 percent of income. Sometimes the bank claims that even lending at that ratio is risky, but is willing to grant the loan at an interest rate greater than what borrowers with better ratios can qualify for. The higher interest rate is supposed to compensate the bank for the risk.

People have accepted this explanation for eons, but it can't possibly be true. The higher interest rate is mathematically equivalent to reducing the borrower's income which, in turn, increases the borrowers debt to income ratio and would disqualify her/him for a loan. Furthermore, the bank granting the loan has no control over the borrower after the loan has been granted. The borrower can, for instance, go out the next day and buy a car, utterly destroying the income and debt ratio s/he had presented to the bank. Nothing about this practice makes any logical sense. If the bankers were truly concerned about lowering the risk, the logical thing to do for a risky borrower would be to lower the interest rate, not increase it. So what is this charade all about?

Applying for a mortgage involves the same practice but even more so, because mortgage lending yields huge profits. A mortgage lender's profit is often 100 or more percent of the loan because of the way interest is calculated. But where did the formula that American banks use for calculating interest originate? The names of mathematicians are often associated with the formulas they invented or discovered. Remember the Pythagorean Theorem? But the formula used to calculate interest is named after no one. Was s/he ashamed of having devised it?

In truth, an infinite number of formulas could be used for such calculations, so why is one and only one used in the U.S.? After all, when Moses descended Mt. Sinai toting engraved stone tablets, the formula for calculating interest was not inscribed on any of them. But the answer can be found by looking at the essence of lending and borrowing.

In centuries past, philosophers wrote much about essences. Not so anymore. But revealing essences uncovers things about concepts that are otherwise kept hidden. For instance, the essence of lending/borrowing is very simple The following three examples reveal it:

(1) A neighbor asks to borrow a cup of sugar. The lender supplies it, the borrower uses it while baking, directly satisfying a human need, and later returns an equivalent amount of sugar to the lender. (2) A neighbor asks to borrow a lawnmower. The lender supplies it, the borrower uses it to mow his lawn and later returns it to the lender. (3) A coworker who has left his wallet at home asks to borrow ten dollars for lunch. The lender supplies it, and the borrower buys lunch with it and later returns ten dollars to the lender. These are examples of ordinary, everyday, lending and borrowing.

The essence of this concept consists of four things: a lender, a borrower, something that passes back and forth between them that directly serves a real human purpose, and the lender retains ownership of the thing lent. The lender exacts no premium (fee, profit) for having made the loan. It is a simple transaction between one human being and another in order to enable one to satisfy a human need that would otherwise have gone unsatisfied.

When bankers engage in a practice they call lending, the practice is completely different and has a different purpose. Bankers always exact a premium, a fee. What bankers do is really a form of renting; it is not lending, and the way the amount of rent is calculated is really troublesome.

The three ordinary cases of lending mentioned above can easily be altered to fir the banker's case: The amount to be repaid equals the amount lent plus interest). In the ordinary examples above, the premium (interest) equals zero. But the premium is determined in different ways in different countries or for different types of loans. (See economist Tim Madden's most revealing article.) In fact, the way banks in the U.S. calculate mortgage interest is illegal in Great Britain because the stated interest rate is deceptively lower that the actual interest rate being charged.

Anyone with even modest mathematical talent can devise numerous ways of calculating premiums. In fact, numerous ways are quite well known. There is fixed interest (some constant number), simple interest, compound interest, effective interest (used in Great Britain), nominal interest (used in the U.S.), etc. So the ultimate question is, Why so many ways of determining the same thing? The answer, of course, lies in the amount of profit the lender is willing or allowed to extract from the borrower. So why is nominal interest used in the U.S.? Because the effective rate is always higher than the stated nominal rate. So, at a 6 percent nominal rate, for instance, the borrower actually pays the lender 6.17 percent back in interest. In other words, the nominal rate enables lenders to extract the highest amount of interest. That difference may not look like much, but as the interest rate is increased, the difference increases geometrically. The use of the nominal method was required by Congress in 1968 in, believe it or not, the Consumer Protection Act. Why did the Congress do that? I don't know, but I know it was not done because the members of Congress were representing their common constituents' interest.

A revelation lies in this situation that every American should be aware of. In the common lending/borrowing situation illustrated above, the lender acts to help a fellow human being satisfy a human need. Bankers don't do that; they don't care about people or their needs. Their only concern is profit and they're going to attempt to extract it whether it helps or harms human beings. Bankers do not mortgage houses to provide homes for people, they mortgage houses to extract profit, and if the borrower for one reason or another defaults, bankers show no willingness to work with borrowers so they can keep their homes. Borrowers are merely evicted, losing everything they have invested in the house.

As far as risk is concerned, bankers providing mortgages are doing exactly what the bankers described in the second paragraph of this piece are doing. The higher the interest, the riskier the loan. Increasing the interest is mathematically equivalent to reducing the borrowers income. So although bankers say they need all the information about income to debt ratios to determine the riskiness of the loan, they are in fact deliberately using it to make all loans riskier. As a matter of fact, Roger Farmer, chairman of the economics department at UCLA, says, "The most successful bank is the one that takes on the most risk." And "Risk is an integral part of the engine of capitalist growth." So the bankers who brought down the economy with the housing bubble were not doing anything new or unusual. They were doing what bankers have always done; they just lost control of the process.

These little scenarios prove that the American economy and government do not exist for the sake of the American people; they are not meant to enhance the condition of American lives; they exist only to allow for the accumulation of capital in the hands of financiers who have absolutely no concern for the lives and welfare of the nation or its people.

This process of accumulation does not even have a single human purpose. It is nothing but a world-wide Monopoly game played just for the playing. The lives of those who play this game have no human meaning. Sometimes those who play come to realize the human meaninglessness of it and attempt to relieve their consciences by trying to find "worthwhile" causes to which to donate their "winnings." These robber barons realize that this vast wealth can not buy them or anyone else anything that satisfies an authentic human need, so they hope that they can buy some great discovery, like a cure for cancer or malaria, to give meaning to their lives.

This situation can be likened to life in an anthill.

Ants form colonies made up of one or more fertile females (queens), fertile males (drones), and sterile wingless females of workers, soldiers, and other specialized groups. The queens continually lay eggs and the workers and soldiers continually fight and forage without ever wondering why. And when workers or soldiers fail to return to the hill, no ant of any class cares. No search parties are ever organized, no grief is exhibited, no notice is taken. Ants are not hatched and do not work to enhance the condition of formicidal life. Ants do what ants do just because they do it, not for some formicidal purpose. So too with bankers. Their magnificent human brains have enabled them to attain the heights of insects.

The trouble is, the entire economy functions in the same way. Supplying people with needed products or services is not any vendor's goal; extracting profit is. That's why bankers won't accept the furniture mentioned in the first paragraph of this piece as collateral. Furthermore the entire American commercial code centralizes this purpose and protects the rights of vendors to engage in it. That's why in a commercial bankruptcy, the bankrupt company's assets go first to commercial and last to human creditors. It's why companies can sell you products that don't work but you can't buy products with checks that don't work. You can't even buy products that don't work with checks that don't work. It's why the Fed exists and why bankers and companies get bailouts but people don't. It's also why no banker will ever go to jail for the fraud committed in the housing collapse and the foreclosure scandals. What most people view as fraudulent activity is, in fact, what America does, and what America does is done for the sake of money, not for the sake of people. It's why the maxim is let the buyer, not the vendor, beware. But if the economy were designed equitably, no one would need to beware. Buyers are told to beware because even the legal system recognizes that the economy cheats. In fact, if questioning the practices of bankers were allowed, the entire basis of the "American way of life" would be called into question, and the legal system cannot allow it.

Jefferson recognized two things that America's history has proven to be true: "If the American people ever allow private banks to control the issue of their currency . . . the banks and corporations . . . will deprive the people of all property until their children wake-up homeless on the continent their fathers conquered." (In 2009, 43.6 million people were living in poverty.) And, "Merchants have no country. The mere spot they stand on does not constitute so strong an attachment as that from which they draw their gains." (U.S. multinational corporations . . . cut their work forces in the U.S. by 2.9 million during the 2000s while increasing employment overseas by 2.4 million.) So Jefferson's claims have come to be because of these practices that we call an economy.

President Obama has said that he will not allow people-programs to be cut so that the wealthy can receive tax cuts because our nation is "better than that." Is it? Really? Well, just watch and see.

Vague talk about this culture's values is prevalent. But values are made evident not in what people say, but, as Emerson writes, in what they do. ("What you do speaks so loud that I cannot hear what you say.") This culture has but one value, and it is not people, their lives, or their welfare. It's the accumulation of capital acquired by hook or crook.

In his deficit reduction speech given at George Washington University, the President acknowledged that that this was the America he believed in when he said that, “From our first days as a nation, we have put our faith in free markets and free enterprise as the engine of America’s wealth and prosperity.” Unfortunately, people who make claims using the Pontifical “WE” are usually dissembling. Just who does the “we” refer to and when were they given a choice? Furthermore this acknowledgement clashes with the rest of what the President said: “The America I know is generous and compassionate. It’s a land of opportunity and optimism. Yes, we take responsibility for ourselves, but we also take responsibility for each other. . . . That’s who we are. This is the America that I know. . . . We will all need to make sacrifices. But we do not have to sacrifice the America we believe in.” But exactly which America is that? The lying, thieving banker’s America or the difficult to identify compassionate one?

What America is cannot be distinguished from its economy. The economy is deeply embedded in the American legal system. There are not two things, a country and an economy. They are identical. Numerous people have made suggestions for improving this political economy and most of them would ameliorate the nation’s problems. But what few realize is that tinkering with this economy cannot solve its problems. An economy whose primary concern is not the welfare of the people it serves will always require the people to live and die for some non human goal. The people will be used just like worker ants, and no one will really care when they fail to return home alive. To be subordinated to some non-human purpose is to be expendable.

John Kozy is a retired professor of philosophy and logic who writes on social, political, and economic issues. After serving in the U.S. Army during the Korean War, he spent 20 years as a university professor and another 20 years working as a writer. He has published a textbook in formal logic commercially, in academic journals and a small number of commercial magazines, and has written a number of guest editorials for newspapers. His on-line pieces can be found on http://www.jkozy.com/ and he can be emailed from that site’s homepage.