

# War Creates Massive Debt and Makes the Banks Rich

By [Washington's Blog](#)

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Theme: [Global Economy](#)

Bankers are [often the driving force behind war](#).

After all, the banking system is founded upon the counter-intuitive but indisputable fact that [banks create loans first, and then create deposits later](#).

In other words, virtually all money is actually created as debt. For example, in a hearing held on September 30, 1941 in the House Committee on Banking and Currency, the Chairman of the Federal Reserve (Mariner S. Eccles) said:

That is what our money system is. If there were no debts in our money system, there wouldn't be any money.

And Robert H. Hemphill, Credit Manager of the Federal Reserve Bank of Atlanta, said:

If all the bank loans were paid, no one could have a bank deposit, and there would not be a dollar of coin or currency in circulation. This is a staggering thought. We are completely dependent on the commercial Banks. Someone has to borrow every dollar we have in circulation, cash or credit. If the Banks create ample synthetic money we are prosperous; if not, we starve. We are absolutely without a permanent money system. When one gets a complete grasp of the picture, the tragic absurdity of our hopeless position is almost incredible, but there it is. It is the most important subject intelligent persons can investigate and reflect upon. It is so important that our present civilization may collapse unless it becomes widely understood and the defects remedied very soon.

Debt (from the borrower's perspective) owed to banks is *profit* and *income* from the bank's perspective. In other words, banks are in the business of creating more debt ... i.e. finding more people who want to borrow larger sums.

Debt is so *central* to our banking system. Indeed, Federal Reserve chairman Greenspan was so *worried* that the U.S. would *pay off* its debt, that he [suggested](#) tax cuts for the wealthy to *increase* the debt.

What does this have to do with war?

War is *the most* efficient debt-creation machine. For starters, wars are *very* expensive.

For example, Nobel prize winning economist Joseph Stiglitz estimated in 2008 that the Iraq

war could cost America up to [\\$5 trillion dollars](#). And a new study by Brown University's Watson Institute for International Studies says the Iraq war costs could exceed [\\$6 trillion](#), when *interest payments* to the banks are taken into account.

This is nothing new ... but has been going on for thousands of years. As a Cambridge University Press treatise on ancient Athens [notes](#):

Financing wars is expensive business, and the scope for initiative was regularly extended by borrowing.

So wars have been a huge – and regular – way for banks to create debt for kings and presidents who want to try to expand their empires.

War is also good for banks because a *lot* of material, equipment, buildings and infrastructure get destroyed in war. So countries go into massive debt to finance war, and then borrow a ton more to rebuild.

The advent of central banks hasn't changed this formula. Specifically, the big banks ("primary dealers") loan money to the Fed, and [charge interest for the loan](#).

So when a nation like the U.S. gets into a war, the Fed pumps out money for the war effort based upon loans from the primary dealers, who make a killing in interest payments from the Fed.

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