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Bernard Madoff and Financial Pyramid Schemes

It turns out that Madoff's firms' money was nowhere to be found when some of his clients, including a number of Europe's largest banks, began demanding the return of their invested assets. They had all been invested elsewhere and had disappeared.

Predictably enough, the United States government, as embodied by the Securities Investor Protection Corporation (SIPC), is stepping in to help the likes of Spain's Banco de Santander and Fortis Bank Netherlands, as well as wealthy individuals like Steven Spielberg.



The irony of this story, which the major news media have declined to mention, is that the only reason Madoff is being treated as a criminal is that he is not running a bank, much less a central bank. The entire banking industry is in fact a vast pyramid scheme, with central banks like the Federal Reserve at the apex. Fractional-reserve banking, even when anchored by a commodity like gold, requires banks to loan out assets that are supposedly available on demand for customers, like the monies used for checking and savings accounts. Thus banks pyramid non-existent assets on top of a fraction of their reserves, and hope against hope that customers will not decide to demand a return of their assets en masse – an obligation that no bank can meet.

The situation is made worse by the absence of a gold standard. Nowadays, banks pyramid all their assets atop reserves based on nothing but the say-so of the central banks and the governments that sponsor them. That say-so is nothing more than the state's arrogated authority to declare scraps of paper legal tender, and to compel people to accept them as money. Thus the Federal Reserve, America's central bank, creates so-called "fiat" money according to the whim of its chairman and directors, money that is not linked to redeemable assets of any kind. Such activity not only preserves the illusion of bank solvency by pouring new reserves into the banking system whenever needed, but also gradually and subtly erodes the value of the dollar itself. In an age of fiat money and universal inflation, fractional reserve banking is the ultimate pyramid scheme.

But because the modern banking system enjoys the countenance of law, nary a whimper of protest is raised when the misbegotten policies of the Federal Reserve and other central banks cause currencies to lose their value and markets to collapse. The deceptive practices involved in central banking amount to theft and fraud on a grand scale, but are never treated as crimes even though they take a much greater toll than the occasional misdemeanors of private-sector hucksters like Bernard Madoff.

Madoff will doubtless go to prison for his crimes; in a just world, the architects of the fraud that is inflationary central banking would join him there.

(AP Images)



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