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The Solari Report

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1st Quarter 2023 Wrap Up: The Future of Financial Freedom with Richard A. Werner

Catherine Austin Fitts: Ladies and gentlemen, welcome to *The Solari Report*. I am joined today by Richard Werner, a man who needs no introduction here. I've said many times that he is the top scholar in the world on banking who has integrity. We have many top banking scholars, but one with integrity is precious.

We are going to start with a discussion of the 'banking crisis', and then we will move into a wide discussion on how we achieve financial transaction freedom.

Richard, you've come all the way to the Netherlands. Thank you so much. It's a delight to have you here in Stavoren.

Richard Werner: Thank you for having me. It's my pleasure.

Fitts: If you look at your very impressive background, it's almost as though God sent you around to collect all the knowledge you need on the entire global economy and financial system to arrive at a time here to really help us see what is going on.

Werner: Sometimes I do feel like that.

Fitts: It's been quite a journey, but it has put you in a position of having an incredible perspective on the banking system, the governance system, the economy, and real solutions. I think of you as a person who has a wonderful handle on the pathways and solutions.

Let's start with the 'banking crisis'. Why do we put quotes around the word 'crisis'?

Werner: Like many crises, it's an engineered crisis. This one is more artificially engineered perhaps than usual by the standards of what we've been presented with.

Everyone is looking at the starting point; the Silicon Valley Bank. Perhaps we should start there and just see what happened.

The official story is small banks like that had some bad management, and also with a small bank, there are various risks. It's all not very safe, and maybe we

need to consolidate the banking system. That is the sort of spin they've put on it.

It started a couple of months ago with a chart being circulated. Many people were pointing to this chart, which was from an FDIC report on the nominal losses in the banking system in the US. Of course, we have to remember that whenever interest rates are raised – not just this time, which was autumn 2022 – and whenever interest rates go up-we had a long period of interest rates going down and down and down so people forget- it's quite normal to also have periods where rates go up. At that moment, because of present value discounting techniques that we have, they are applied very directly in the bond markets for bond valuations and bond pricing, theoretically any bond is now worth less.

That is not an issue because a bond is a debt instrument that matures. If you have a safe borrower and the credit rating is good and the Federal Reserve Treasury of the United States is the best borrower, then there is not an issue because you hold until maturity, and you are getting 100.

When bond prices vary and they have daily liquidity, asset managers have to constantly mark to market. That is very tough, but banks are different. When you hold assets to maturity – as they tend to do with their loans – they don't have to mark them to market. It's the right thing to do. That is how it's been handled always in history and handled worldwide. Likewise, with the bond portfolio, which just means that the bank is lending to the government, it doesn't have to mark to market. It was always only a theoretical explanation, but everyone focused on this.

"The US banking system has all these hidden losses. Were they hiding them? They're not marking them to market. That is very devious." No, it's just standard banking, and it has always been like that.

Fitts: One thing is that the regulators have encouraged the banks to go long. They have encouraged the banks to not make loans locally, to buy Treasurys in the investment portfolio, and then to go out longer.

I see both the Treasury and the Fed have put them in a 'trick box' over their

investment portfolio.

Werner: Yes, and of course, that is true for the entire cycle and how the whole thing panned out. We should go back to that.

Maybe we can start with what actually happened – the sequence of events surrounding Silicon Valley Bank and why this became a news story. It started over the past year. Deposits declined at the bank; depositors pulled out around $9 billion in deposits.

Normally, you wouldn't notice this because whenever there is a gross outflow, bank management of any bank would raise new deposits. How do you do that? You open a new type of account – maybe some savings accounts – with attractive conditions. You call it a name, put it on the internet, and you end up on these interest rate bank comparison websites. If you are in the top ten, you get a large amount of money. If you are in the top five for the interest rate that you are offering, you get a 'wall' of money coming in.

In fact, among bankers, this is quite well-known that you can always raise any amount of money by being in the top five in these comparison websites to the extent that the key thing you have to watch when you do that is you don't get too much money. You have a 'wall' of money coming in, and it's usually just for a few days. Then you close it, and the special offer of this type of deposit is gone. If you don't do it quickly enough, you may have too many deposits, which are liabilities for the bank. Then that can make it less profitable and so on.

That is what everyone is watching out for, and that is very well-known in the banking fraternity. We can always raise any amount of deposits.

Fitts: And those can all be insured deposits?

Werner: Yes, of course. In fact, this is the best way. This is what the Bank of Silicon Valley should have done to have diversified small savers on these savings accounts, but they chose not to do this. I know that is a bit strange, but that is where the story starts.

You have a net drain of several billion in deposits that they did not replace with

other deposits. Why? That is a bit strange.

Fitts: They were borrowing from the Federal Home Loan Bank Board in San Francisco, so why wouldn't you get deposits? I'm assuming the Bank Board would give them a lower rate of interest so that they wouldn't run a negative arbitrage. That is my guess, but I don't know.

Werner: That was already a big lesson from the 2008 crisis. It's not good for banks to rely on wholesale deposits because wholesale deposits, for various reasons, can be withdrawn, and suddenly, they're not available anymore. Whereas, diversified savers are in the strongest position. This is why, of course, small local banks are in a strong position. They are usually backed by their local depositors who are less likely to cause a run on the bank.

In fact, in the 2008 crisis, if you look at Germany, it was quite clear that the big banks got into trouble. They did all the speculative dangerous things, and people saw that. Fortunately in Germany, the big banks are a small part of the banking system.

People withdrew their money from the big banks, and they put it in all the small local banks. Their deposits went up enormously after autumn 2008.

That is a key lesson, and bankers all know this. So, this is very strange behavior by the Silicon Valley Bank. Why would they rely so much on wholesale deposits and its institutional corporate deposits and not mix in a substantial amount of stable saving deposits, which is very easy to do for the Silicon Valley Bank. They didn't do this.

The surprise is what they did next. Of course, when you are losing your deposits, then you have to borrow. So, they borrowed from wholesale sources, but they also came up with the idea of, "Maybe we need to liquidate some of our assets." That is another thing that you could do to keep your balance sheet balanced when you have reduced liabilities. They sold some of the best assets they had – Treasurys – at a loss. That is extraordinary. Why on earth would you ever do that?

Fitts: So, they would never have had a loss if they hadn't realized the loss by

selling.

Werner: Exactly. We have to remember that normally for a bank, the main job is to give a loan to a company, which is far less liquid than Treasurys. There is also a credit risk, which is why regulators think it's a great thing if banks can have more liquid assets and safe assets. That is why they require the Basel III (international regulatory framework for banks) bank regulation banks to have these highly liquid holdings of government bonds and US Treasurys. That is considered the best way to run a bank.

Of course, this earns considerably less money because there is less return on that, but consider it a good thing. Suddenly, this was presented in the media – once they took losses on this whole thing – as being a 'bad thing'. They said that any bank that holds Treasurys is a 'bad thing'. You have to laugh!

So, it is very strange that they took these losses. That is more than just bungling.

Fitts: They announced they wanted to do a $2 billion equity raise.

Werner: We have already had two very strange management decisions: Losing the deposits and not replacing them with something sensible, and then marking your best assets down and taking losses that you would never have to realize. There are many other ways and many other options to deal with this. You don't have to realize your losses.

The next thing they did was, "What can we do now to highlight our bad management behavior so far? Let's attract maximum attention of all the analysts by proposing to issue equity. Then, of course, they are going to scrutinize our actions for the last year plus, and analyze everything we did. The $2 billion in losses which we just took will be flagged up quite a lot." That is exactly what happened.

So, the equity issuance was a failure. Everyone said, "What is this bank doing? They don't know banking."

So then you get headlines, "Equity issuance failed." So, this was the third big mistake, and the background for what happened. Then you just needed some of

the big wholesale deposits to start thinking, "What have they been doing here? This is very strange. Maybe we should pull out our deposits."

Fitts: It's inconceivable to me, given the rumors that it wasn't one or more of the New York Fed Member banks. Remember that SVB has a holding company. When it started this phase, it was trading over 200. They developed a huge number of short sellers. All those short sellers needed to do was start a run, and it's a no-brainer.

The profits from the short sale are estimated to be huge. So all they needed to do, given they had low-insured deposits and all these other issues, was take a short position, which started a run, and you make a fortune.

Werner: It was a set-up for short sellers to make a large amount of money. There were further strange things happening which really confirm that some kind of orchestration had been going on. It's a fact that – as you pointed out – it was one of the few banks chosen for the Fed wire pilot.

Fitts: This is the most interesting aspect of the whole SVB. We could get into some of the interesting things in the loan portfolio that would make it attractive for the regulators to seize the file and shut them off from the holding company, but we won't go there today.

The fact that you had, in the San Francisco Fed district, five banks who were used to prototype the new FedNow payment system, and four of them are deeply troubled or gone in a few weeks, is a remarkable coincidence. Of course, SVB is the main one.

Werner: This may explain another puzzle: On this fateful Thursday, one day before they actually shut down the bank on Friday, over $40 billion in deposits were pulled out in one day. The first thing I thought was, "That is slightly strange." I think it was a record number for one bank in one day to have that amount pulled out by depositors without any prior notice.

Of course, the way it's done is through online banking or phone banking. It depends on the IT and the settlement system. They were on Fedwire Funds Service (credit transfer service), it seems. That could explain why the bank didn't

do the other obvious step that, at this stage, you would do, namely shut the gate. Asset managers do that. It just needs to be shut for one or two days because you have so many things to settle. But, of course, that helps against this stampede of panic of depositors.

It's very common. In 2008, this happened to a number of banks. In 2007, it happened in the UK with Northern Rock. So, one year before the 2008 crisis, there already was a bank run on this bank. It was mostly wholesale-funded, so it's the same story; the depositors pulled out their money. But then on the day that the run happened, the system shut down. This is a good thing because you can then slow the stampede.

What always happens – and we have to talk about this – is when depositors pull out money, there is also something else that is supposed to happen. The central bank is to provide short-term liquidity so they can all pull out as much as they want and then realize that it's not a problem.

In fact, this is actually what central banks in many countries – certainly in the US – were created for.

Fitts: That is what they are supposed to do.

Werner: Congress in 1912-1913, was very reluctant to agree to have the Federal Reserve established. The biggest argument that ultimately persuaded Congress, or those few congressmen who were there when the vote was actually held right before Christmas to wave it through, was a sensible argument. It is probably the only justification for having central banks. Of course, there are alternatives to solve this problem, but the justification is: What if there is a run on the bank? This is why the 1907 bank panic, which was a very much orchestrated bank panic, and JP Morgan was very much involved, was done so they could have this argument that they needed a Fed.

The argument is that even the strongest bank and the most solvent bank will have a problem if all the depositors suddenly want their money. That's just banking.

Fitts: It's the model.

Werner: That is the weakness, but you can solve this through a number of ways. One solution is to have a central bank provide unlimited liquidity. Depositors realize, "Yes, we can all pull out, and the bank will still be fine. It's just for a short time period." Then you get other deposits from other places or wholesale or the central bank, and things return back to normal.

The next strange thing is: When this money was pulled out, and the IT did not shut down because of Fedwire overruling and saying, "No, we are not going to shut it down," why didn't the Fed, using Fedwire, immediately replace all this with a short-term liquidity that the Fed was created to deliver? That is why the Fed was founded, allegedly.

So where is this Fed liquidity? The Fed did provide money on the following weekend after the bank had been shut down. That's a little too late, isn't it?

Fitts: Let's talk about who 'The Fed' is: The Fed is sometimes referred to as the Board of Governors in Washington, but we know the power in the Fed is the New York Fed. The New York Fed is a private bank owned by a group of bankers – the large New York Fed banks, one of which is JP Morgan Chase, and one of which is CitiBank.

We have the publication of a 2018 FOIA that indicates membership. Once upon a time, I called all twelve of the Fed banks and said, "Who owns your shares, and what percentage do they each have?"

They said, "That is private information. You can't know that."

I said, "What are your policies about sharing the data you have access to with your members?"

They said, "That is a private policy, and you can't know that."

But we know the New York Fed is owned and controlled by the large New York banks, among others. In the SVB situation, you can say it's JP Morgan Chase, but it's also the owner of the New York Fed that is supposed to stand in and help. In fact, there are rumors that JP Morgan Chase was helping to trigger

the run. Then we have reports of JP Morgan Chase bankers up all night helping to 'poach' all the deposits.

You can say it's JP Morgan Chase, but, to me, it is the New York Fed; it is one and the same. I don't know if they engineered the short squeeze, but from a public policy standpoint, they were on the wrong side of what they are supposed to be doing because they are a regulator. If SVB is running with low-insured deposits and doing other things or being very speculative in their loan portfolio, they are supposed to be saying something as the regulator. The CEO of SVB is on the San Francisco Fed Board. It's not like they are strangers.

If you look at all the functions they are supposed to be providing as regulators and as a liquidity provider in the middle of a run, they were doing the opposite; they were taking this bank down.

Werner: It looks like an orchestrated takedown of the bank, and the spotlight should be on the Fed because from every perspective, the Fed could have prevented all of this and should have prevented all of this. In fact, the situation should have never gotten near to this.

Once it happened, the Fed could still have solved it quickly. So, it's a consistent string of policy failures that you can only explain rationally by saying, "The goal was to take down this bank." Otherwise, the probability of having this consistent sequence of mistakes is just so low.

Fitts: I would say that it is not only a takedown, but if you look at what happened to Bear Stearns during the financial crisis, somebody picked up plenty of equity for free. If you look there, this was a bank that was trading and had fallen from over 200 to 100. When the regulators grabbed it, its stock was trading at 100+. That has all disappeared into somebody's pocket, and we don't know who – including the short sales.

So this is a steal.

Werner: Yes, and, of course, there is the big agenda. This is likely what is ultimately behind this and the timing. If you look at how the media and the commentators are spinning the smaller banks, we really have to be concerned

about it. Maybe the banking system should be a bit more consolidated.

It's clear that the strongest banks are the local banks and the community banks that are backed by the community and run properly.

Fitts: Right, and there are no derivative portfolios or small derivative portfolios.

Werner: Of course, after the 2008 crisis, it became clear to many people that it is big banks that do all the risky things, and the safe ones are the local banks. So, it looks like the big banks and their cartel (the Fed) had a bit of a problem there. "How can we fight back against the small banks?" This is what the second-round banking crisis seems to be about – to make the small banks look bad.

Before we go to that, I would like people to understand that in this entire scenario, even the interest rate rises. That was also engineered by the Fed to create this need for the interest rate to rise. What preceded that, of course, was inflation. That was created by the Fed. So, we have to go back to what happened in March 2020.

Fitts: They injected $5 trillion, including some direct, into the economy.

With the pandemic, you shut down part of the economy- the small business economy- and with the other, you bubble the things that you want to build like the smart grid, life sciences, and all these different things. So, Silicon Valley Bank ends up with a bubbled loan portfolio, and you can't avoid the small businesses getting 'clocked'. So, you bubble the loan portfolio and bubble the investment portfolio.

My impression from talking to the smaller banks is the reason they say they have to go into the Treasury in the investment portfolio is that they don't want them giving loans on Main Street because they don't want to make small business strong. They say it causes inflation.

Well, it doesn't; it means the small businesses compete with the large businesses, and they want to shut off that competition. They want to kill the small business market share.

Werner: It's the other way around. That is precisely the lending that does not create inflation. When you lend to small firms productive business investment, that is what banks should be doing. The more that banks do that, the more you get economic growth without inflation.

Fitts: Right, but the big companies lose the market share.

Werner: But that is good for an economy because an economy dominated by many small firms is much more resilient, has higher growth, has a more equitable and stable development and growth path, and has more job creation. Small firms create more jobs per dollar invested per dollar expansion. It's very clear. That is why America is strong. The majority is still small firms, and two-thirds of employment is with small firms. So, the more you have productive bank lending going to small firms, the more you get growth without inflation.

It looks like the regulators, particularly the Fed, does not want that. So, policies have been made, which undermines that intent.

March 2020 was a very momentous decision by the Fed. As you pointed out, this was based on the BlackRock proposal from August 2019.

Fitts: It's the Going Direct Reset.

Werner: BlackRock, at Jackson Hole, presented Philipp Hildebrand from the Swiss central bank and Elga Bartsch, who worked with Charles Goodell (Representative and Senator from New York) at the time. He actually had introduced and commented on my paper called, *Enhanced Debt Management*, about how to effectively link monetary and fiscal policy; you need to back fiscal policy with credit creation. My proposal was through the small banks, but there is a centralized way of doing it.

Fitts: Notice how they always steal your ideas for more 'shenanigans'.

Werner: Exactly! Also, there is a so called 'Green QE' (green quantitative easing-used to finance environmentally friendly projects). I proposed that in 2010 by pointing out that if you want to steer money in a certain direction,

Green QE and Green Window Guidance, which is essentially what they've been doing ever since.

Back to the March 2020 decision; First of all, we know they implemented the BlackRock plan by the obvious fact that the BlackRock plan is laid out very clearly. They said, "The next time that there is a crisis, we should really create inflation." They literally said that. "How do we do that? We have to make sure that next time when there is a crisis, and therefore we need QE, the central bank has to create money. That's a given. That has to be done, but we will do it slightly differently. This type of QE will create inflation. So, we make sure that the new money creation goes into people's pockets of those who will spend it in the economy. They will spend it on consumption, and then you get inflation."

The whole premise of this argument is quite ridiculous, but it's true. You can do this as a central bank; you can push the money into the economy and create inflation. In fact, this is one of the three types of QE that are out there.

When I originally proposed quantitative easing in Japan in 1995, published in the Nikkei (Nihon Keizai Shinbun), I was referring to what I called the 'true and original QE', which are two types. Of course, you have to understand that this is a proposal for a situation that I predicted was going to happen in Japan where the banks are bust, bank credit creation has stopped and is negative, the economy is shrinking, and we have deflation. That is the situation.

Then I thought, "That is ridiculous. We don't need such a situation to develop. We can very quickly get out."

Step one is the first type of QE: The central bank purchases non-performing assets from banks because that is the cause of why the banks were not lending. They had actually been told by Bank of Japan (the central bank) in the 1980's, to lend for speculative purpose, bringing an asset bubble. Once they collapsed, all these real estate loans turned into non-performing loans. It's a classical story, but you can quickly solve it.

Fitts: So essentially, you create a bad bank, and you pull the bad assets out.

Werner: The central bank can be the bad bank. It doesn't matter.

Fitts: Exactly.

Werner: So, you take all the bad assets onto the central bank balance sheet. This type of QE does not create inflation. Even if you wanted to create inflation, you can't do it this way because there is no money injected into the economy; you can't cause inflation because it's an internal banking transaction.

The central bank is a bank just like the other banks, and money creation only takes place if the banking sector as a whole – which is the central bank and the banks – inject money into the non-bank sector, including private sector government. This doesn't happen when the central bank cleans up the bank's balance sheets through this transaction.

That is why in 2008, the Fed, with Bernanke, who was part of the debates that we had in Japan in the 1990's, took my advice. Ben Bernanke (former chairmen of the Federal Reserve) was aware of my proposal. The Fed was actually the only central bank in 2008 to take that policy to purchase non-performing assets from banks. That is why the Fed balance sheet quadrupled.

People thought, "This will create inflation, and the dollar will weaken."

I pointed out, "This cannot possibly create inflation." That was a big learning exercise for people to say, "Hang on. The Fed creates money, but it doesn't lead to inflation."

That is because it doesn't actually create money; it is just a rebooking exercise which seems to create money, but actually, it's just cleaning up bank balance sheets. That is all. Then the banks are healthy again, and they can lend again.

For the Japanese situation, I knew even that would not be enough because, for years, the banks had these latent, non-performing loans. So, the bankers are still shell-shocked. Even now, suddenly, with a clean balance sheet, they are much happier, but they will also be very cautious.

Fitts: They don't want to get in trouble again.

Werner: That is when you need the second type of QE. You do it at the same time. The first type, just to recap, is for the central bank to purchase non-performing assets from banks. The second type is quite parallel and symmetric; it is for the central bank to purchase performing assets from non-banks.

Fitts: Then you inject money. That is part of Going Direct.

Werner: Yes. When the central bank purchases assets from non-banks, which could be ordinary people, but of course, in reality, it's those big institutions and companies and asset managers and pension funds. Japan had the proposal where it could be land. Tokyo is one of those not-very-green cities with a very low park space per capita. It's one of the lowest of major cities in the world. We had this slump, particularly in the property sector. We needed to kickstart bank credit. Creator economy is down and unemployment is up.

You need to have the central bank buy land and turn it into Bank of Japan parks. You improve quality of life, but you are also solving many problems in 'one go'. You support the property sector, are creating money, and are putting it straight into the economy because of those who are now selling to the central bank.

How do they get the money? The central bank is going to transfer it to their bank account. That means that the receiver's bank, on the asset side, will get reserves from the central bank, and it will create new credit into the account of the seller who is selling to the central bank. So that is the second type of QE.

These types of QE's are designed for this type of situation where you have a busted banking system contracting credit and deflation. You will push up.

If it wasn't deflation, you would get inflation. Of course, in the Japanese case, you would just reduce deflation and get rid of deflation, and then you would go back to normal. That is my design for this.

March 2020, the US bank loan growth was 5-6%. It was very strong. The economy was strong, and suddenly, Soviet policies were being imposed to restrict supply in the economy. So, you have strong demand and you restrict supply. Is that the time to create a whole lot of new money by the central bank

purchasing assets from the non-bank sector? No way! This is certainly not what they should be doing, but that is what they did.

Fitts: What they did, because we wrote that issue on SPAC, and I really looked into this, was shut down a whole part of the economy, and then they injected massive amounts of money into smart grid and life sciences – all the things they wanted to be bid. Fauci was a deflation machine.

Werner: A distributional aspect is also there. I haven't referred to that yet, but you are absolutely right, of course: You can engineer many changes by shutting down certain things and boosting other things. That happens at the same time.

Fitts: They bubbled the equity markets, they bubbled the crypto market, and they bubbled certain industries tremendously while they shut all liquidity off. They shut down all these different sectors and destroyed them.

Werner: Only looking at aggregate is very simple. Demand was increased because net aggregate money creation had 'gone through the roof'. In fact, it was the biggest expansion in Fed history, and this happened in March 2020. I think it may have been more than this $5 trillion. It was trillions being pushed into the economy through the banking system.

How do we know that this is exactly the BlackRock plan? Because in March 2020, they wrote it out, but they also hired BlackRock to do it. I can't make this stuff up.

Fitts: I had an entire dealing with BlackRock. At one point, I hired them at Hamilton Securities. So, I had many dealings with BlackRock. I knew the people who ran BlackRock.

The fact that the Federal Reserve-the New York Fed-would hire BlackRock is like saying the Bank of Japan hired yakuza (gangster) to come in and help them run the accounts. The conflicts of interest are astronomical. It was beyond me.

Werner: Of course, there was a technical challenge because BlackRock had been thinking about that. I'm sure they publicly presented the paper, but they probably gave many meetings and seminars at the Fed, telling the details of how

to do this, and saying, "We can help you do this because it's going to be a lot of work. You will be buying a lot of assets, so you need more people to do this."

BlackRock offered itself to help them buy all those assets.

Fitts: What I would say is that BlackRock offered them a way to do an abundance of injections and deals that could be kept secret. I believe BlackRock offered secrecy.

Werner: Yes, that is what it does. It's another agent that is tasked to do this, and then it's not the Fed doing it directly – although the money, of course, is from the Fed. Therefore, the Fed can say, "That's client information of our client, BlackRock, so you have to ask them." Of course, they won't release that information.

Fitts: My prediction is that if someday that database of where all that money went and how it got managed came to light, I would say that it would take Federal credit corruption to a whole new level.

Werner: Absolutely. What we saw was that my first type of QE of cleaning up a bank system, which does not create inflation, was done in 2008 by Bernanke. My second type of QE, which I explained for Japan in 1994 and 1995, was implemented in March 2020. That is the type that would push money into the system, kickstart bank credit creation, put the money into people's hands, and therefore if you don't have deflation – which is what I designed this for – you will get inflation.

So when I saw the data, which was a time lag because by the time I had it, it was April or May of 2020, I was stunned. It was very clear that this must cause inflation.

Fitts: Larry Summers, at the beginning, gave a presentation to a group of clients for one of the Swiss money managers. One of my former clients sent it to me. Larry Summers, at the beginning, explained how, "Two years from now, there will be massive inflation."

Larry Summers is the former governor of the Federal Reserve, and he is one

that I had great respect for. So, he was laying out the whole thing like it was a plan, "Here is what is going to happen."

Werner: It was a plan.

Fitts: Of course, it was a plan.

Werner: That is a very important point for people to realize; it's not a policy that they accidentally took. That is impossible because it is clearly a very, very specific policy that requires very specific tasks. It requires many tasks, which have to be coordinated. There is no way that you can 'accidentally' take that policy. It's out of the question.

As with interest rates, you can't say, "We made a mistake. We raised them," or, "We lowered them," or something. It's not like that. This is getting a whole 'army marching in one direction'. You can't say that this is an accident; this is a policy decision.

Fitts: If you take the train to Rome, you can't say it's an accident that you got to Rome. We also saw an interview by Mervyn King, the former Governor of the Bank of England, who said, "The Fed created this."

Werner: That's right. He has been very honest about this. Anyone who knows the technicalities of this, there is no other conclusion other than it is intentional.

Ironically, the Bank of Japan – after I published my proposal in 1994-1995 – for years they said, "We don't need QE. It's not going to work," and so on. I should also quickly explain that this is the third type of QE that exists. It is the fake QE that the Bank of Japan, by 2001, implemented when they felt that they needed to be seen doing something. "Everyone has now been talking about QE. We've been saying it's not going to work. We will now show them that it is not going to work."

So, they announced in March 2001, "All right then. We will do this QE, but it's not going to work." Literally, the day they announced it, they also had this report by their staffers saying, "QE is not actually going to work." So that was their intention – to show that it was not going to work – to kickstart this

deflationary economy. It was a very different situation.

But then when you looked at what they actually did, it wasn't QE at all; it was standard narrow money monetarist expansion increasing the bank's reserves at the central bank.

So QE1, which I proposed, is for the central bank to purchase non-performing assets from banks, therefore cleaning up the banks. That should be combined, if you have deflation and contracting credit with the second type of QE, which is where the central bank purchases performing assets from non-banks pushing it directly into the economy. But the central bank can purchase performing assets from banks, which is the third possibility. That one doesn't do anything; it just gives the impression that they are doing something. It's all 'smoke and mirrors'. "We are doing something. Bank reserves are increasing. Central banks are injecting money."

No, it's only going into the banking system; it's not going into the economy. Banks were risk-averse due to the non-performing loans. Therefore, they were not willing to lend. Bank credit creation wasn't expanding, so the reserves sat in the bank accounts at the central bank. That means they are not doing anything, and are not helping the economy.

Fitts: The way I would describe it, in a nutshell, is that there has been a steady orchestration of policies – both monetary and fiscal – designed to force the centralization of political and economic control, including in the banking system (both in the business and in the banking). It's a 'rigged game'.

One of the simple ways that I say it is, "The average American pays 17% on their credit card, and the New York Fed Member banks are essentially paying 0-1%. All you need is time."

Werner: That is free competition with these starting positions.
It's true. The overarching trend of the 20th century has been centralization of power. It seems as if the overarching trend of the 21st century is all about accelerating that on all fronts.

Fitts: Right, and what you hear in all of the discussions – whether you hear it

from the Fed or the Treasury – is that they are propaganda organs. They say, “Oh, it’s complicated,” or, “Oh, we don’t know what we are doing,” or, “Oh, we made a mistake.”

It’s either incompetence or complexity.

Werner: That is actually why I brought up the Japanese using the third type of QE – the fake QE. I was present in the Japanese media a great deal. My book had become a best seller, and I was interviewed on television in the news media.

Fitts: I want to stop you and say that your book, *The Princes of the Yen*, totally ‘outs the game’. It’s unbelievable. I’m so impressed that you are alive!

Werner: It’s at QuantumPublishers.com. That is where you can get the original. There are some fake copies out there, but that is where you can get the original.

When I pointed this out in public in Japan, and I was present in the media a great deal, the Bank of Japan reacted by having their people say, “Yes, but we can’t do this. What Professor Werner is saying here about purchasing assets from the non-bank sector, central banks don’t do that. We can’t do that. It doesn’t work. They don’t have accounts with us. We can’t give them money.”

They kept saying for years, “This is impossible to do.”

In March 2020, they suddenly knew how to do it, and they were doing it on the biggest scale ever seen. So that confirms the point that it’s not an accident. They had been saying for years, “We can’t do it.” Suddenly, they all coordinated globally, and the major central banks knew exactly how to do it, and they all took this very, very specific, very rare policy that occurs maybe once a century, and they all took it at the same time.

How can that be a mistake or a coincidence?

Fitts: I want to go back to the New York Fed. We have a challenge, which is we have a Federal credit mechanism that is both the Fed system and the Treasury. So, they are collecting our taxes. We have a fiscal side of the house

and a monetary side of the house, but clearly, it is controlled from the monetary side of the house, in my opinion.

So, we have a Fed system and a central banking system. The 'heartbeat' of the system is the New York Fed. It is running the Federal credit on an illegal, criminal basis. It is using that – including our credit – to destroy us. We are being attacked by our own central bank.

If you look at the increase, I use something called the Chapwood Index. So, when they engineered that inflation, if you look at the Chapwood Index, the rate of inflation on a basket of goods doubled for a basic basket of household goods in America in the top 50 metropolitan areas. So, you are talking about bankrupting businesses and families and people. It was done intentionally.

There is no solution until you deal with this problem – the Federal Reserve is doing this.

Werner: I totally agree. For the viewers and readers, to quickly fill in the details of this process, we had the inflationary QE (the second type of QE that I had proposed for deflation, because, of course, inflation is bad and we should never engineer inflation). If you are in a deflation, then that is what you should do to get the economy out of the hole.

They did this in March 2020. Essentially, what must follow is that nominal GDP growth will do well. It would be a very steep jump with a nominal GDP growth and inflation.

Throughout 2020, when most people (except those listening to Larry Summer perhaps) thought, "Oh, there is not going to be inflation." Why? Because we saw it in 2008. QE doesn't lead to inflation.

Most people didn't understand that this was a different type of QE. The 2008 QE was the noninflationary QE; the 2020 QE, almost 15 years later, was the QE that intentionally causes inflation and 'revs up' the economy. As I said at that time, it takes roughly 18 months for this sort of inflation to get fed through the system. So that is why, 18 months later, we had this inflation. Then in order to accelerate this, what must happen to bond markets when you have this

inflation is that bond yields must go up, which means that bond prices must go up. It is inevitable.

The central banks held against this by continuing to buy bonds to suppress it. This means that, ultimately when it snaps, it will just be more dramatic. That is exactly what happened last autumn in late 2022.

Fitts: When the Fed started to raise interest rates, there is no doubt that the commodity prices looked like they were at the beginning of a commodity bull. If you watch what happened as the interest rates have gone up, it clearly dampened it.

Werner: Interest rates follow growth. This is perhaps another important point for people to have all the tools available because there is plenty of misinformation about this.

What we have heard for the last 200 years from all the economists and bankers and centrals bankers is, "To stimulate the economy, we need to lower rates. To slow the economy, we need to raise rates."

Interest rates are the tool to move the economy. That is a nice story, but what is the empirical fact? Anyone can check this. Choose any country and get the data.

We have two claims here: The claims are about the correlation and the causation between interest rates and growth. The story is that the correlation should be inverse, so lower rates lead to higher growth, and higher rates lead to lower growth. The causation should be from interest rates to growth.

That is actually a core tenet of all modern economics, which means English language economics that started in England with Adam Smith and David Ricardo and the classical economics onwards.

Fitts: And it's all a 'bunch of bunk'!

Werner: Exactly! So you have the classical economists, then you have the neoclassical economists like Alfred Marshall. Then you have Keynesian (John Maynard Keynes) economics. Actually, he was still very similar to classical.

People always say that he was different, but he wasn't because they are all equilibrium economics people. Then there was monetarism and new classical, contemporary modern economics. It's all based on this equilibrium paradigm, which is a theoretical concept. There is no equilibrium; there has never been any evidence of equilibrium, but this is the premise of all this economics.

Be that as it may, let's do some scientific testing. What actually is the relationship between interest rates and economic growth? Is it really this inverse negative relationship? Also, what can we say statistically about the causation? Which one is leading which?

I did some studies with a very good econometrician using the latest state of the art econometric statistical techniques because I knew that this was going to be controversial and hard to publish in journals. So, we did two papers. It took years to get it through the journals because they all hated these two papers. But the conclusion– and this is the one thing that all the different schools of economic thought have agreed on for the last 200 years – is that this official story of lower rates lead to higher growth, and higher rates lead to lower growth is wrong. It is empirically not supported; it is rejected by the facts.

Actually, we find that it is the opposite in both dimensions. The correlation is not negative; it is positive. The causation is not from interest rates to growth; it is from growth to interest rates.

Fitts: Let me give you my theory, and tell me if you think it has any merit. I believe that, essentially, the Anglo-American Alliance felt that if they could present a picture of the economy like a hydraulic pumping system, it would give them the ability to engineer the economy and give the theoretical justification to their flipping the different levers.

Werner: Yes. But, of course, there are hydraulic models, and there are physical hydraulic models like the one at the LSC (London School of Commerce) in London where I earned my first degree. It's called the Phillips Hydraulic Machine. Somebody actually built this with water, and there are bulbs and so on. But that is not a description of reality because it leaves out the banking system.

Fitts: It justifies the policies they need to manipulate with.

Werner: Yes, but it's a misleading story. It's still a cover story because you would need to be able to create water in order to model reality.

That is what the banks do. Liquidity is the money, but that is created out of nothing by banks when they give out a loan. Bank lending is money creation. That is why this is such a powerful tool that shouldn't be in the wrong hands. That is why it is so important what type of banks we have and how the banking system is structured. Bank lending is money creation, and money creation determines who has purchasing power and how much they have. Also, the banker can decide what the money is lent for. That decision, whether it's for productive purposes or whether it's for speculation or whether it is for consumption, will determine the economic landscape.

Fitts: Now I want to turn to your wonderful briefing memo on sovereign state banks. Can we do that?

Werner: Yes, absolutely.

Fitts: There is a wonderful group in Tennessee that is trying, in the state legislature and in the business community, to determine how we can protect our transaction freedom. If the central bank tries to stop us and control our transactions, how can we as a sovereign state government protect transaction freedom within the state?

So, they became very interested in, 'Should we do a sovereign state bank like the Bank of North Dakota?' They said, "We need a document that explains why this is a good idea."

I said, "I'm going to go get the very best person on the planet. You don't mind if I go to Europe, do you? It's a long shot, but I'll ask him."

They are very open-minded. So I came to you and said, "Richard, would you write a briefing paper on why a sovereign state bank would be great for Tennessee?"

If you look at the way you wrote it – and it is based on understanding the

economy, whether in North America or Europe – this could apply to all 49 states who don't have one, but also many other areas of the world. It's on the website, and I recommend it. We are about to produce it in hard copy, and I will send you many copies so you can pass them out.

Tell us about what you wrote, what is says, and what it means.

Werner: Little did I know that they were going to make this even more current by creating this fake banking crisis whose spin is, "Oh, maybe there is a problem with smaller banks, and maybe money should go to the big banks," which, of course, the big bank-owned Federal Reserve Bank of New York would very much like that as a conclusion of all this.

Really, it's now more important than ever because it shows that for banks, in order not to be delivered and to stay in the hands of this competitor, the Federal Reserve Bank of New York, controlled by the big banks, to be protected and have an alternative mechanism, we need these state-level state-owned sovereign banks.

Fitts: Absolutely.

Werner: For example, let's say that they accelerate this – and they can do this any time – and there is a bigger sense of panic being 'whipped up' in the media about smaller banks and local banks, and maybe there are some more 'shenanigans' artificially creating problems here and there, and the regulators clamping down. You can see that you could clearly accelerate the concentration in the banking system and cause more mergers.

Already the FDIC has force-merged over 500 banks just in the last 15 years. The number of banks keep dropping under these central banks. Over the last 30 years, almost 5,000 banks have disappeared. Actually, in 23 years in Europe and in America, it took slightly longer, but similar numbers disappeared.

Let's also not forget that the key function of the Federal Reserve should be to be a lender of last resort. When a solvent bank – a good bank – that is not really in trouble but depositors create a panic and there is a run on deposits, they should step in, and then solve the problem.

The Fed has a record of not stepping in. It extended that record with the recent Silicon Valley Bank, but go back to the 1930's.

The Fed was officially, allegedly created in 1913 to step in when there was a run on banks. There was a run on 10,000 banks in the 1930's during the Great Depression in the US. What did the Fed do to those banks?

Fitts: It ran them!

Werner: They ran them into the ground; they did not step in. There was also no depository insurance system, so many Americans lost everything; they lost all of their money. That was another major takedown. Many people were then bankrupted. Of course, all of their assets went up for sale cheaply.

Ten thousand banks were not rescued. They were not helped when there was a run on them by the Fed. That is the reality of the Fed. At the time, the conclusion was, "We need FDIC," and a Federal depository insurance system was created. But really, the conclusion should have been, "We can't trust the Fed!"

Fitts: Exactly!

Werner: We can't trust the Fed, therefore, what do we need? We need the state level, and that is a good thing about the Federal Constitution of the United States; there are strong state level powers. So, you need a state level bank that acts in some ways as a central bank, but not with a centralization principle, but as a bulwark to support and back the state banks – all of the banks in the state. North Dakota has done this.

Fitts: I would say that the first step is with the FedNow (developed by the Federal Reserve for payment services) system, which you can hear a giant 'sucking' sound in any institution or area. The state needs a place to keep its money – a depository – that it controls.

Werner: Absolutely, and that you can trust. That is actually a sovereign one because the Fed is not sovereign; the Fed is privately owned.

Fitts: If I'm a state and I have my tax collections and monies for running my operation in a bank that is a New York Fed Bank. Through that, the Fedwire can just 'suck' money out, I'm 'toast'.

Werner: Yes, that is a big problem. That is another very important reason every state should have their sovereign state bank. Fortunately, we have the state-owned Bank of North Dakota. It was created in the 1920's, if I remember correctly. It fared very well through all of these disasters.

The interesting thing is that it has never really competed outright against the small banks – the local banks and the community banks. From the beginning, it saw its role in backing them and, if necessary, providing liquidity to them and working with them. If smaller banks get such a big deal that they can't do it on their own, then they are working together with them on bigger deals, and things like that. That is a very important role. That is why the community banks there have thrived.

The same is actually in place in a slightly different way in Germany where we have the strongest expression of a community bank system because 80% of the banks in Germany are small community banks. They account for 70% of deposits, which is rare that you have small banks being so important. They account for over 90% of small firm lending because only small banks lend to small firms. But we need to lend to small firms if we want productive business investment, which is not inflationary, and it creates jobs and a strong, resilient economy because it's local. If there are shocks, that is how you actually stay resilient.

When the system was created, these small community banks set up their own central bank that they own.

Fitts: So it's like a cooperative.

Werner: The cooperative banks have a cooperative central bank that they own. It's not that the central bank owns them; they are not subsidiaries; it's the other way around. The community banks own their cooperative banks, but it serves a similar function to the Bank of North Dakota as a sovereign state bank by

backing the small banks. So, that is how they have done it in Germany, and that is why the German community banks have also weathered all those big crises – banking crises and wars and disasters – for 200 years.

Fitts: Also, if you look at the productivity of the German economy, it is unbelievable. Much of it is small businesses exporting.

Werner: That is the reason. You have many people talking about this puzzle that British productivity is so low and has been for a century, but it's gotten worse in the last few decades. Why is that? Why is it?

Just compare it to Germany which, in many ways, is comparable; it's a European economy. It's not a dissimilar size. Certainly, the starting position for Britain was much better. They used to be the number one economy in the world and so on. Compare these two, and you see that German productivity is far higher.

A very good measure of productivity is exports. The German exports, until 2009, were actually larger in absolute terms than Chinese exports. Now Chinese exports have been larger, but Germany is still one of the top three exporters in the world.

The surprise to most people is that a big chunk of these exports are small firms, small family-owned businesses, and small- and medium-sized enterprises. They hold big market shares across the board. Why are they so successful?

Therefore, productivity is very high in Germany, whereas in the UK, these firms don't thrive. In Germany, they are called 'hidden champions'. When a small firm (usually unknown by name; it's not a brand name like BMW) is a leader globally in their market niche, they have top market share in that niche. They have the number one, number two, or number three market share. That is defined as a champion, but because they are small firms, they are hidden champions.

You look across the globe, and which country has the largest number of hidden champions? It's Germany by far. They have more than 1,500 hidden champions. Number two is America, but the gap is enormous. America only has 320 or approximately that. Figures change over the years.

Why is Germany being so productive? That is productivity. If these small firms can be leading exporters, you have very high productivity, but not because they invent new technologies. In the UK, there are plenty of inventions, and in other countries, too. It's all about applying them to the businesses very quickly.

In Germany, when a new technology comes out in any sector or any industry, a small firm that is active in their business because they quickly find out that there is this new technology, they say, "We've got to get it. We've got to use it. We need money."

They go to their banker. The principle of the small banks and community banks is that they only lend in a local geographical area. That is a very good principle and a very important principle. It means that the banker is in the 'same boat' as the companies, and they care about the companies in their area. If they don't do well, the bank is not going to do well. If they do well, the bank will do well. They can't flee.

A big bank – a national-level bank – can always say, "We'll close these branches in that area because that's not a thriving area." They pick and choose, 'cherry-picking' the attractive areas.

The German small firms, if new technology comes out, they go to their local bank and say, "Look, we need this technology, and we need to have it now." They will have an answer maybe even on the same day, but certainly by the next day they have their loan. They implement the technology, and they stay ahead of the game.

Fitts: They are a team.

Werner: Exactly, whereas in the UK, you have the opposite; you have a concentrated banking system with five big banks accounting for 90% of deposits. Big banks want to lend big money to big companies. They don't do small firm lending. Small firms don't thrive. They can't upgrade to the new technologies. They are not competitive, and productivity is low. This explains all of that.

The banking system needs to be diverse and have many small banks. Then you get a strong economy, and you will also get a more equitable economic expansion and more job creation. So, state-level banks ensure that the small banks can thrive and do very well, even when there is an opponent (or an enemy) who wants to get rid of small banks like the Federal Reserve. The central banks, in many countries, want to get rid of small banks because they want to concentrate the decision-making power and their own power.

Fitts: The question is: Do you want a banking system that consolidates wealth, or do you want a banking system that supports the creation of wealth? So, do you want to grow wealth, or do you want to control wealth? That is what we are watching.

You gave an incredible speech in Malmö in May of last year on the economics of growth. You were able to show in a variety of ways that the development model we are using globally is all part of consolidating wealth, and it doesn't have to be that way. We know what it's going to take to build a development model that will grow wealth, and the wealth potential is fantastic.

I think that is the big joke in the whole thing. Tyranny is expensive, and the cost of consolidating wealth is the destruction of enormous amounts of wealth, but it could be the opposite.

The world could work, and I think you have proven that more than any other economist I know.

Werner: Sadly, it is true that the so-called 'development organizations' – the World Bank and the IMF – were allegedly created to make sure that the majority of countries, which are developing countries and the majority of the population of the world-(80%) live in developing countries. They thrive, and they can develop. That is the official story.

The fact is that they have worked very hard using a particular system to prevent development and also make sure that these countries are being exploited by being forced to deliver resources and commodities cheaply and not get the benefit from them.

It is a well-thought out system. It essentially will continue the colonial exploitation that previously happened.

Fitts: It's a control system.

Werner: That's right, and the core is, of course, the banking system. I would like to illustrate with one example: International lending.

It starts with the economics that is taught, which is fake economics. They are told, "What explains economic growth? Investment leads to growth." This is true, but for investment we need money. That is where the fake stories come in.

"To have the money for investment, we need savings. Sorry, these developing countries don't have enough savings. We know countries that do well, first have a higher savings rate, but to increase the savings rate, that will take many, many years. What can we do? Oh, you can borrow savings from abroad – the foreigners and the World Bank. It's called the 'World Bank' for a reason. They will lend you the money."

The developing countries, say, "Yes, that is very kind of you."

Fitts: It's the debt trap.

Werner: Exactly. So, then they are encouraged to borrow from abroad. In what currency are they borrowing from abroad?

Fitts: Not their own. So now they're in a currency trap and a debt trap.

Werner: But also, the irony is this: When they borrow foreign money, the truth is that this foreign money – which does put them into a trap because it is empirically proven that for developing countries, which are mostly commodity exporters – in the long run of 50 years or 100 years, their exchange rate always weakens against industrialized countries' exchange rates. The technical reason is that the elasticity of demand for finished products is more than one, and the elasticity of demand for commodities is less than one.

To put it in simple words, as general wealth increases, demand increases with it,

but the demand for high-value finished goods goes up more than the general wealth increases, whereas the demand for commodities goes up less. The reason is that technology is above rationalization. You need smaller quantities as technology improves anything. It is also because people want the latest high value-added things, which are the finished industrialized country goods. That is where the prices are higher and the profit margins are higher.

Therefore, in relative terms, it is an empirical result that developing countries' currencies weaken compared to industrialized countries' currencies because it is lower value-added to export commodities. That is a fact, and they have a weakening currency.

If you have a weakening currency and are encouraged to borrow in foreign currency, this means that it must result in an increased accumulation of foreign debt. You can never pay this debt back because in domestic currency terms, your debt is getting bigger all the time your currencies weaken. Then, of course, you have all the problems of being a commodity exporter. So, you get your current account deficits, and then you need to borrow more from abroad to service your debt; you are in a debt trap.

Then, of course, the lenders come in and say, "This is a lot of debt you've accumulated now. Naughty, naughty! Well, we will switch this into equity, and now we own you, and now we can pick and choose."

The irony is that those developing countries that happen to have no resources and no commodities also have no debt problem. Why? Because the foreign lenders never lent to them because there were no assets to take. This is a form of international-scale predatory lending where the lender wants to bankrupt the borrower in order to seize the assets. That is predatory lending. It has happened throughout history, and this is how it is being orchestrated on a global scale through the IMF and the World Bank.

Fitts: It's war.

Werner: It's worse than what I've just been explaining because once you understand the rule of the banking system, then you realize that the whole thing is an obvious con because the foreign dollars that these developing countries are

borrowing (after they've been told to borrow all this money in order to invest and grow and have development) never enters their country in the first place. It never arrives because these are the rules of international banking.

US dollars always stay in the US banking system; British pounds always stay in the British banking system; Euros always stay in the Eurozone.

Fitts: With all of these IMF bailouts, the money only goes around the different JP Morgan Chase accounts on Wall Street. It never goes anywhere.

Werner: Using an example, say an African country-I usually use South Africa because I know their currency is called the rand-there are some very fancy names across developing countries. When South Africa borrows $500 million dollars' worth of money from these international lenders, they borrow on foreign currency. So, dollars from a New York bank, say JP Morgan, seems like a nice thing. They get this money, and they can spend. But, of course, it's dollars. The South African finance ministry, who is receiving this money, may wish to spend some of it domestically – investment on growth on developing the country.

They don't use dollars for that; they use South African rand. So technically, it's not just a matter of switching it into rand. That, of course, is how they present the story. But the reality is that when it has the dollars credited, they will be credited to its New York account with JP Morgan, even though it may be shown in South Africa on the bank statement. Ultimately, it is always held by a US bank.

So, they need to sell the dollars and buy South African rand. JP Morgan will be happy to do this. "We can do this for you. We will give you a good deal on the exchange rate." JP Morgan will call to the different banks and see who gives a good exchange rate to exchange $500 million US dollars into South African rand.

Inevitably, which banks will be involved in this? South African banks. One of them is chosen, they do the deal, and this is switched.

What happens now on the bank balance sheet of the South African bank is it

will create the equivalent of $500 million dollars from scratch in bank credit creation. So what happens is that the finance minister of the government of South Africa is borrowing money from abroad, but actually it is created by a South African bank, yet it is now indebted to the foreigners. It's a complete trick.

Fitts: It's another debt growth.

Werner: It could have created the money directly domestically. It has a central bank; a banking system. It doesn't need to borrow from abroad, but this is the big secret that developing countries are not being told. That is why the knowledge of bank credit creation is being suppressed so much. The whole IMF/World Bank structure, which the majority of countries in the world are being economically exploited since 1945.

Fitts: A debt-based currency is a problem everywhere. We can just have the Treasury print the currency; we don't need to create debt to create currency.

Werner: That is another story.

Fitts: They have a habit of doing that. One of the reasons I love Tennessee is that we did have a President from Tennessee. They tried to kill him, but he took the bullet and lived.

Werner: Really? Who was that?

Fitts: Andrew Jackson.

Werner: Yes, he survived the assassination. He abolished the central bank then.

Fitts: We have this tradition in Tennessee.

Let me jump to solutions. We are watching this banking system, and have a clear picture of what it's doing; it is shrinking wealth by consolidating wealth. It is trying to shut off transaction freedom – whether it's with whatever FedNow and the Fedwire does or CBDC's or these different things. We have more and

more of the banking system enjoying sovereign immunity above the law.

Again and again, we see this criminal activity, and I would describe the New York Fed's behavior as criminal. There is $21 trillion missing from government accounts at the New York Fed. That is against the law, and it has gone on for years.

So the question is: What do we do? One thing that we can do is work with state legislators or local leaders to create the conditions of sovereignty with a bank.

Werner: That is so important. You can clearly see where we are heading, and they are moving into the next phase now. That means they are tackling the core of US economic competitiveness and strength, which is the small firms and the local firms funded by small local banks and community banks. They are now going to them, and that is going for the core of American resilience. Therefore, it is now totally imperative for each state to establish their sovereign state-owned bank that will back the banks in that state. That way, you can put a barrier there, even if the Fed is trying to do something to attack the small banks and create a situation where there will be a consolidation of the banking system.

The state sovereign bank can ensure that they continue to thrive and they are not being consolidated.

Fitts: Here is the feedback that I get from state legislators in multiple states: The banks and credit unions do not yet understand the threat. That is number one. Again and again, we keep hearing they think that CBDC is a kind of marijuana oil. They are not aware of it, or they are very opposed to the states starting a sovereign bank and the theory that it will somehow threaten their business.

Werner: That is sad because it's the absolute opposite. So, we need to educate them about how the Bank of North Dakota is not competing with the banks in North Dakota, but it is doing everything to support them and help them.

Fitts: You explain that in the memo. One thing I will say is that we have had many subscribers say, "Wow! I can understand this. This is really readable."

It is very interesting. You read it, and realize, “Oh, the smaller banks we have, the bigger our economy.”

Werner: It is very simple: The more banks a country has, the stronger the economy is. Of course, the banks should be run reasonably and professionally. That can be arranged. And there should be the fundamental principle that there are basically three types of loans that banks can do, which have different consequences. If banks lend for consumption, you get inflation because bank lending is money creation. If you create more money but have the same amount of goods and services, you have more demand with the same amount of goods and services, you get inflation.

If banks create money for asset purchases, buying property, real estate, or financial assets, because it is money creation, it’s like pumping new money into the asset markets, and asset prices will go up. It will quickly create this unsustainable asset bubble. When bank lending for these asset transactions slows for some reason – regulatory or otherwise – then it bursts, and they turn into non-performing loans quickly taking down the banking system, and you get a banking crisis. It happens so many times, and it is always the same.

The third type of bank lending is when banks lend and therefore create money for productive business investment, ideally small firms. That tends to be a productive business investment. It creates jobs, it creates new goods, and it creates services. You have money creation to the loans, yes, but you don’t get inflation because you have higher value-added goods and services. In response to the increased demand, you have increased supply; you create both demand and supply at the same time. That is what creates economic growth.

That is very easy to implement. With some small tweaks, one can make sure that banks will do this lending. Then it’s true that if you have more banks you will get more wealth. It is very, very simple.

Fitts: That can only happen if the legislators, the business leaders, and the bankers in a state or in an area understand the extraordinary nature of the threat we are facing.

Throughout history we’ve had these pumps and dumps. A certain number of

people always survive the pump and dump because they are savvier than that.

Werner: Or they are insiders.

Fitts: Right, but what we've seen is that many people who thought they were insiders five years ago have discovered that they are throwing insiders off the 'Titanic' at record speed. As you consolidate power, you need much less insiders, and out they go.

If you look at where they are going this time, they will use digital technology for complete control of financial transactions. That is an entirely different world. There is no banker who has ever lived in a world like that.

So how do we get them to understand the danger?

Werner: We have to educate them, we have to inform them, we have to organize meetings, and we have to make this clear.

I think that with CBDCs, it has happened. Already five years ago, I started to call people at the big banks in Europe to warn about the coming CBDCs. Initially it was like, "This is a technical gimmick. This is in the future. It's nothing to worry about."

I thought that I should even talk to the big banks. Even they, ultimately, will be 'thrown off the ship'.

Fitts: They are all going to be wiped out. It's only a matter of time.

Werner: Exactly. It seems to have been partly successful. It took a while, but then they started to realize, "CBDCs will be bad, even for big banks. It consolidates powers so rapidly that, ultimately, there will only be one bank left, the central bank. It will be a Soviet system."

Fitts: If you look at what the FedNow system may be doing based on what we have seen with SVB, the speed at which that can happen is extraordinary.

Werner: All of that is accelerated. What happened in Europe, and perhaps

globally, is that more of the banks (big banks) woke up and said, "With the CBDC, maybe it is a double-edged sword. Maybe we should be a bit critical of this." The central banks had to slow the process. That happened in June of last year. It became clear that they would not introduce the radical CBDC, which you could call 'retail CBDC'. CBDC has always been a misnomer or a technical euphemism. Sometimes they choose technical terms to make it sound boring. "The technical world will do the right thing. The experts/technocrats are at work on CBDCs." It's a very technocratic expression.

Actually, they were planning at the time only a standard current account at the central bank. In other words, the central banks suddenly say, "We are going to compete against all of the banks." That is very unfair competition; that is not a 'level playing field' if the umpire in a game suddenly says, "I'm going to score some goals myself."

Fitts: If you look at their control of the payment system, it is saying, "We are going to suck all the deposits in the economy into the central bank almost instantly. We are going to collapse all of the banks." It is the ultimate bank robbery.

Werner: We've seen that the central banks in some countries are already preparing for their future by having nurtured new types of banks. They call them 'fintechs' that are pure payment providers. They have created this new license. It's not a banking license; it's an electronic payment services provider license.

Sometimes they still have banking licenses, but if you look at the asset side of their balance sheet, they are not lending; they are only holding cash. This is the sort of fintech companies that have been artificially created. They are already planning for the future where there is only the central bank creating money and having total control, and the rest is all about distributing the central bank money and being part of their central bank digital control grid with CBDCs.

Fitts: There are two other things that I wanted to bring up today: One is AI because this consolidation is all happening at the same time that you have a portion of the players who have access to AI and clearly are implementing it. If they think CBDCs are marijuana oil, they haven't understood AI.

So, we are watching the potential for a very dramatic power shift between those who are successful at using it and those who don't even know it exists. So how does AI fit in?

Werner: It is one of the control tools that will be used against us in the following way: To link back to what I just said about the CBDCs, the original plan was to have these retail CBDCs. But because the big banks realized, "Hang on. The regulators are going to compete against the regulated. It's a conflict of interest." That, of course, explains why regulatory policy has been so strange and anti-bank in previous periods. But they announced last June that it would be wholesale CBDC, not retail CBDC – which is a slower way of doing it.

Fitts: At first.

Werner: Exactly. It tells the banks, "Okay. We understood your concerns. We will only introduce CBDC via your bank]. So, they will always be issued via the banks. You have to have a bank account to get CBDCs." But, of course, that is something that can very quickly be taken away because the grid is there, the infrastructure is there, and then you can just switch off the banks.

Fitts: SVB has proved that you can take them out overnight.

Werner: Now to the second aspect of AI: We should be grateful to banks for one thing. Now that we are losing this, people will hopefully start to appreciate it. The banks have always had all this information about us – every transaction. Have they abused it? I don't think so. In a way, that is quite extraordinary, if you think about it.

Throughout the centuries, you never hear stories of bankers in any systematic way using the information that they have about us and exploiting it and doing big data analysis and selling us things based on our transactions.

Fitts: I would point out two things: BlackRock has financed a company that is trying to get into every bank to document things so that they can do a social credit system. But also, I live in an area of the country where 5% of Americans don't have a bank account and don't want it. They are at the post office getting

money orders or they are paying with cash because they want privacy.

Werner: It's a good thing that there still is a post office. Wait until those get attacked!

Fitts: Oh, it's being attacked.

I agree with you. I think the banks have been remarkably careful.

Werner: In Europe, there are bank secrecy laws that banks can't abuse the situation. In many European countries, it has been a criminal offense to divulge any customer transaction information.

Under US pressure, many countries like Switzerland, Liechtenstein, and Austria, had to scrap these laws They all had these laws.

Even without the laws saying that, there is still the obligation because this is customer information; it has to be kept private. But banks have also not commercially exploited this. That means they have been on our side.

Fitts: Except, I would say, one of the reasons they are so effective at supporting a growing economy is that they have used it to create literacy about what is a good loan and what is not a good loan.

Werner: Of course. They need to know that, and the bankers know plenty. But I'm saying that they haven't sold that information, and they haven't sold us out to some other business. We have to give them credit for that.

Now that is changing – not as the fault of the bankers. The bankers are now being forced to give away this information. In Europe, there was suddenly a directive issued by the European Commission. For the audience, it is important to understand how Europe works, how laws work, and how new laws are introduced in Europe, which are now 27-28 countries of the European Union.

It's the same way that the Soviet Union used to work. The Soviet Union had a parliament. Did you know that? There was a parliament, which was officially democratic. We all know that the parliament was a 'joke'. It was a farce, and it

was essentially a dictatorship in the Soviet Union. How did it work? All of the powers were in the hands of the politburo of the Communist Party. This politburo made all the decisions. That was very clear; they had all of the power. They had the power to propose new laws.

Parliament existed; there was a parliament. There were members of parliament, but they had no power to propose a new law.

Fitts: It's exactly like the EU parliament.

Werner: So, this is what the European Union is being modeled after.

There is a rubber stamp parliament to give a very thin veneer of democracy, but the European parliament has no power. They can't table any laws. The only thing they can do is when the politburo issues the new law, they can discuss it. They can delay it a little, but that is it. They have to ultimately pass it. They are a rubber stamp parliament, just like in the Soviet Union.

Who is the politburo? Who has the real power? It's the European Commission. They are not elected; they have all the power. They passed a new law concerning banking.

Fitts: I want to go back to where we get power.

Werner: I would like to answer your earlier question properly. There is still a missing piece there.

Suddenly, there was a new law that came out in Europe from the European Commission – the European parliament – which was rubber-stamping, as always. It is called PSD-2 (Payment Services Directive 2). There is already a second one, the PSD-2 Amendment.

They make it very boring and technical-sounding so that people don't understand the enormity of this. Do you know what it says? It says that when you go on an app and download the app, and because the app was recommended or was sent to you as a link, it's an app that will 'revolutionize your finance and will make anything financial much easier for you' and is 'very

convenient', so you say, "Okay, let's try that."

You download the app. Of course, to use it with all the online items, they are forcing us on a daily basis to lie. We have become used to lying. You are confirming formally and legally that you have read those 57 pages or more of terms and conditions. You are saying that you've read it, but have you?

Fitts: You would be surprised at how many terms and conditions I have read. Or I have my general counsel read it.

Werner: That is very impressive. You are one of the few people on the planet who reads those.

Fitts: I spent two months reading four different sets of terms and conditions for an ACH service, and I finally had to turn it down. I won't tell the whole story here.

Werner: I think that if we read any of those, we would not use any of those apps.

Basically, what happens when you then use this app? You have to click that you agree to the terms and conditions, otherwise you can't use the app. That is how they get us to lie.

This is now an electronic payment service provider. It has a license sold to you as a convenient platform to improve your finance management.

PSD-2 is about forcing banks to divulge customer information about all the transactions, what people are buying and selling, what they are doing, the frequency and volumes, and anything like that. Those electronic fintech companies serve as providers. When their customer makes the request, meaning that you checked the box and didn't realize that they are now going to have the right to get all of your client data, and it will be sold to third parties. They will then come and offer you things that you don't need. This is happening now, which was introduced. Of course, this is happening in other countries, and it is equivalent in the US. That creates these fintech companies that will get into the banks, will use our data, and this – of course – is another measure to undermine

banking.

Essentially, what has been going on is the attempt to break up banking into these components, and thereby also stripping it. The good things about banking (what is good for us) will all be taken away and be used against us. So, we need protections against this.

I think that having a state-level bank and having state-level involvement in this is the barrier.

I think that Florida passed a law that they will not allow CBDC's. It's things like that which I think are quite good.

Fitts: DeSantis says that he is going to propose a bill. We haven't seen a copy yet, but we made DeSantis *Hero of the Week* last week on *The Solari Report* because I think it brought attention to this issue.

The way that I would say it is that we have two wars going on. One is between the people who want to centralize control of transactions, and one is a group of people who want freedom of transactions. But then if you want to look at the people who want to centralize control of transactions – and this is one of my hopes – they are fighting with each other.

So, there is a huge war going on at the top about who is going to control what. It appears that they are not in agreement; as they grapple with their power to centralize control, they are realizing, "Oh, I think that the Fed is rightly worried about the powers that be, the BIS vis-à-vis the Fed," and those kinds of questions.

You see real tensions between the ECB. You see Christine Lagarde (President of the European Central Bank) get spoofed by some Russian comedians and saying that they have to do their digital euro because they don't want to get outwitted by Amazon. You're 'like', "Really?"

I am still wondering if that one is a fake.

Werner: Madame Lagarde was hired for that job. I think that she is a

spokesperson for the ECB; she doesn't know the intricacies of the banking system or central bank.

Fitts: Right, she is an attorney.

Werner: So in that sense, this is the story that is being read to her. They are feeding her the scripts. "Why are we interested in CBDC?"

"Well, we need to respond to the demand, and we don't want to be outwitted by Amazon." It's only the story lines that they are being fed.

But, of course, the likes of Amazon and Google are using AI to exploit big data and sell our information out. The effort is now going to be introduced into the banking system. Back to your AI question: AI algorithms are control tools to exploit the data, manipulate us, and control us. Because they are going to get so much data, from a central planner's perspective, they need tools to manage that. AI is going to deliver those tools.

Fitts: One possibility is that their squabbling amongst each other works to our benefit. But the other is that we can get enough people to use cash.

If enough people realize, "Look, digital control is dangerous. Let me start rebuilding an analog system – whether it's rebuilding the local fresh food markets or using cash."

So, talk a little about using cash. What do you think is possible in terms of encouraging people to use cash?

Werner: I think that we should use it as often as possible. When a shop doesn't accept cash, if it's not urgent and we have a bit of time to go somewhere else, I think we should say, "If you're not taking my money, then I'm not buying here." I think that is definitely important.

Also, of course, at the same time, we can have local credit instruments at the local level circulate. Ultimately, the more local you go, the more each individual matters in a local community. In principle, anyone could issue an IOU to pay. Cash is the central bank's IOU. We are using the name of the central bank, but

we could also use our own name.

The easiest is to have that back through the local bank, but you could also get other institutions involved. You could have a local discount company that buys and sells credit notes issued by individuals and so on. There are many ways of having a thriving local financial system that is disconnected from the control grid.

In order to do that, we need local banks, and the local banks should have the backing of a state-level bank in that sequence. Then you can build out many systems.

Fitts: I don't see a way to do it without a state sovereign bank.

Werner: It's possible, but you have less protection when the Fedwire tries to steal your money.

Fitts: Part of it also is that you need enough people. Every time allies or I have tried to do something like this, they can spend an infinite amount of money buying people away.

I used to say to people when they got bought away, "This is how I bless you – by trying to align with you. We are dealing with people who can print money out of thin air, so money is no object."

You need a group of people who value sovereignty more than money. That is the challenge: How can you create a group of people who understand that?

Werner: We need to continue to try to educate them and motivate them.

Fitts: If you look at your entire career, you are a person who has always chosen sovereignty. That is what it appears to me.

Werner: I look for the truth and what is good for people, and usually it's not a centralized system; that is just the historical record.

Fitts: But where did you get the courage and the gumption to always stand for

sovereignty?

Werner: It's the search for truth and integrity. It's searching for the truth and finding out what the facts are. It's looking at the record. In many ways, it's just being a researcher because then you are seeking the truth. The empirical record of centralized systems is not good. In decentralized systems, people thrive.

Look at Switzerland. It's a much more decentralized state. Technically, it is a cooperative state; that is what they call it. The cantons – their local areas – have a good deal of autonomy, even setting their own tax rates and everything. You can see that everyone is doing very well. They are a very wealthy and competitive state.

Of course, another factor is that what one is supposed to do is to ask the question: What is my purpose in life? What is my mission? It looks like I was given certain opportunities and certain insights. I've met many very influential people. I was given a glimpse into how many central, very important functions work in many countries. Of course, this comes with a responsibility. Knowledge has responsibility, and we should use it wisely. So how should I use that knowledge?

In praying about this, the answers were forthcoming that I should be working in this direction. Community banks are involved in this. It seems that I was given the task to help set up community banks. It has been a very difficult task in a very unfriendly regulatory environment, but that is why it is important to have grassroots support.

I think that local level politicians very quickly realize that having another community bank or having a community without a community bank, it's a no-brainer to them. Very quickly – no matter what their persuasion – they realize that it is good to have a bank there.

Fitts: I was thinking of you recently. We encourage people not to panic about the bank crisis and jump into the arms of a criminal bank and the extortion racket. A subscriber was thinking, "I have to be scared of being in a small bank, so I'm going to jump in and bank with the criminals because they will be safe."

So, we encourage people to talk to their banker. Have a relationship with them.

One very courageous person with no financial background was feeling insecure about their financial background. So they went in, and discovered that the tellers and the people making mortgage loans didn't really understand the bigger picture. They ended up in the office annex with the chief financial officer of a credit union in the heartland of America, and they spent 45 minutes talking to them. They discovered that their bankers were wonderful people who wanted them to succeed and wanted their community to succeed.

In this process, I discovered that a great deal of great things can happen if people will just get to know their bankers; that is step one.

Werner: I agree.

Fitts: So, one thing is we have created hard copies of your wonderful memo, and we are going to distribute them liberally and encourage people to take them to their banker and start the conversation because your banker wants to be a free person, and we want to be free. If we don't change this, none of us are going to be free. That is a world that I don't want to live in.

Werner: That is right. People need to realize that we are very close to big crossroads. Once central bank currencies are introduced, it could go very quickly into a totalitarian control system from which they will leave very few ways out. So, we have to work really hard to delay that as much as possible and build up alternative systems.

That is also true for bitcoin and cyber currencies and cryptocurrencies. Like CBDCs, they are electronic tools. I think it is also important to have alternatives that are non-electronic. I'm in favor of cash, but also gold – holding gold and owning gold and perhaps also having silver for smaller transactions.

Fitts: And chickens that can make eggs.

Werner: Exactly! Also, essentially, you can have a banking system on a local level without the electronics. You can do this, for example, with written credit notes or you could reintroduce the tally stick system, which is very, very

effective.

Fitts: I'm interested in having banks that aren't banks – nonregulated relationships – but it takes very high trust and high integrity to achieve that. There has to be a cultural component that can support these kinds of arrangements.

As we draw to a close here, I have to say that one of the things I love about you, Richard, is I always feel this deep aversion to the psychopathy of what these people are doing. It's almost like you're not going to go there because you instinctively have this aversion to the destruction of wealth. Essentially, you are a wealth builder. That is our highest compliment we have at *Solari*.

Werner: Thank you!

Fitts: When you gave the speech in Malmö and talked about a development model that could build tremendous amounts of wealth, you became happy and excited because that is exciting for you.

Werner: That is true. It's a frustration that we can have much greater wealth for everyone. It is possible; it's just that the system we currently have (with the wrong people in control) has been pushing us in the wrong direction. It is good for a small elite that essentially exploit the rest of us. Many more people can thrive in the economy; we can have much higher growth.

Fitts: Right, and we can have higher growth without inflation and without hurting the environment.

Werner: Exactly, growth without inflation and without hurting the environment.

Fitts: We can have growth healing the environment. Healing the environment can be fantastically profitable.

Werner: What they are doing now is very scary. They are trying to say, "Growth is the enemy, and we need to have zero growth or degrowth or negative growth. To achieve that, we are going to cut down the beautiful old

forest to build some more wind turbines." You see the environmental destruction actually accelerating under the label of, "We are doing something green here."

Growth is clearly not the enemy. It is empirically shown over time, when a community or society or country is wealthy and is doing well, they want to protect the environment, they have the means to do it, and they are doing it. Whereas, if you are not doing well and can't feed your people, the environment is not your first concern. That is the reality. So, we need to help everyone to develop. While we are doing this, we can ensure that we are also protecting the environment.

Fitts: I think that understanding what is possible and having that deep-seated aversion to what is going on is all part and parcel of saying, "You know something? We can stop this. It's worth stopping, and it can be stopped."

Werner: Yes, there are alternatives. They always try to make it out that there is no alternative and that this is the only system, but that is absolutely not true.

Fitts: Jon Rappoport gave a great speech many years ago. He looked at the audience for about 30 seconds – just staring at them – and then said, "Hopelessness is an op, and it is planet-wide." They tend to say, "It's hopeless. There is nothing you can do. You have to go along. This is for your own good."

Werner: Exactly.

Fitts: This has been great to have this conversation with you, and I hope that we are going to have many more.

Very quickly, how do we find you on the internet, how do we find your books, and how do we find all things Richard Werner?

Werner: The book, *Princes of the Yen*, is available at http://QuantumPublishers.com. I have a website called http://ProfessorWerner.org. That has all of my publications there, and there are a few blogs there. Otherwise, I have two Twitter accounts. One is @ProfessorWerner and the other one is @ScientificEcon. This is because I

always get asked, "What school of economics are you? What school of thought are you? Are you Keynesian? Are you a monetarist?"

Fitts: No, you are a third kind: Reality.

Werner: Exactly; I'm just fact-based and empirical. My approach to economics is that there is actually no reason we can't use the scientific methodology also in economics. I call it 'scientific economics', which is fact-driven economics.

If you don't study economics, you don't realize how ridiculous modern economics works because they don't use the scientific method; they use the deductive method. They argue, "That is scientific," but it's not used in the sciences. Essentially, they start with actions, which are things that they don't prove because, "We know them to be true, so we don't have to check whether they are true." If you did check, you would find that they are not true.

Then you add assumptions that they admit are not true, "But for the sake of argument, let's assume this," and then they build these theoretical models, which are fictional dream worlds. Then they come to conclusions and dare to say, "This has to be applied to our planet," when really, their world is on a distant galaxy or doesn't exist at all.

It's theoretical, nonsensical economics that has been dominating things for the reason that they can manipulate recommendations. It is not based on reality.

I want to introduce realistic reality and scientific economics, so that is why my Twitter handle is @ScientificEcon.

Fitts: Is the telegram channel yours or is that your followers putting something together?

Werner: There is a telegram channel and a discussion group. I put information in, but I also have colleagues who put material up, and they put in stories as well. Usually there are references to my work there. I sometimes 'chip in' to their discussions as well.

Fitts: It is a very rich telegram channel.

Werner: There are many debates because in economics, you have all these debates. There are all these different schools of thought.

Fitts: It takes a while to get deprogrammed.

Werner: Exactly, and that is what is needed.

Fitts: Richard, this has been wonderful. Thank you for joining us.

Ladies and gentlemen, thank you for joining us on *The Solari Report*. I hope, Richard, that we will have you back again.

Werner: Thank you for everything.

MODIFICATION

Transcripts are not always verbatim. Modifications are sometimes made to improve clarity, usefulness and readability, while staying true to the original intent.

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