Conspiracy of the Rich

The 8 New Rules of Money

by Robert Kiyosaki

Chapter 5 – The Conspiracy Against Our Financial Intelligence

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The Best Way to Rob a Bank

Question: What is the difference between a banker and Jesse James?
Answer: Jesse James robbed banks from the outside. Bankers rob them from the inside.

Question: What is the best way to rob a bank?
Answer: The best way to rob a bank is to own one.
- William Crawford, Commissioner, California Department of Savings & Loans

People Are Smart

Just as people do, money evolves. One of the reasons so many people are in financial crisis today is because our money evolved but we did not evolve with it. One reason why we did not evolve is because there has been a conspiracy against our financial intelligence. Our evolution has been stunted.

When it comes to money, most people are smart. Even a ten-year-old child knows the difference between a five dollar bill and a fifty dollar bill. If offered the choice between the five and the fifty, most kids would go for the fifty.

To diminish our natural financial smarts, we had to be financially dumbed down. This was achieved through banking, a complex and confusing system by which money is created. In many ways the modern monetary system makes no sense to a logical person. For instance, how can it create trillions of dollars out of thin air?

Robert's Note: Have you seen examples of this 'dumbing down' in the media or online? Share links to what you've found. **Share ▶**

Financial Fairy Tales

When I was a child I believed in fairy tales, but by the time I was seven or eight, I knew fairy tales were just stories for little kids. So when the president of the United States asks us to believe in *hope* while at the same time the Federal Reserve prints trillions of dollars out of thin air, I begin to wonder if our leaders expect the people of the world to believe in golden geese. Apparently, our leaders have stumbled upon a magical goose that lays golden eggs, creating wealth out of thin air. Let's hope our story doesn't end the way the fable of the golden goose does.

The Magic Show

When I was a kid, I also believed in magic. Eventually, I learned there was no such thing as magic—just tricks, just sleight of hand. Unfortunately, this is really how money is created today—by sleight of hand. It is a magic show. The U.S. Treasury issues a bond in the form of a T-bill, the Federal Reserve writes a magic check for the bond, and the check is deposited into commercial banks, which then issue checks to regional banks, which then issue checks to smaller banks.

But this is not the full bag of tricks. The real magic is that the money supply increases at each bank. For every dollar a bank receives, it can in effect print even more money thanks to the sleight of hand known as *fractional reserve banking*, something we'll discuss in more detail later in this chapter. Every bank can do this trick. All a bank has to do is find people like you and me who are desperate for money and are willing to sign our life away by borrowing the magic money—and the more desperate you are, the higher the interest rate.

All banks, big or small, are effectively granted the license to print money. You don't need a mask to rob banks. All you need to do is own one.

People have a tough time understanding money today. If you are an honest, hardworking person, it probably doesn't make much sense to you how banks create magic money. The conspiracy of the rich diminishes our financial intelligence through a monetary system that honest people don't understand. Owning a bank is not only a license to print money—it is also license to steal money, legally.

I am not calling your banker a crook. Most bankers are honest people, too, and have no idea how this robbery is accomplished. Many bankers are unaware of how they are used to steal the wealth of their customers. Bankers are not much different than a financial planner or real estate agent who reaches out to shake your hand, saying, "How may I help you?" Most bankers are simply doing a job, earning a living like the rest of us. It is the *system of money creation* that steals our wealth. The same system also makes some people very rich.

The Evolution of Money

Money evolved as human society grew more sophisticated and required a more sophisticated means of transacting business.

The following section describes in very simple terms the evolutionary stages of money—how it evolved from real money to magic money.

1. Barter: One of the first monetary systems was barter. Barter is simply trading a product or a service for other products and services. For example, if a farmer had a chicken and needed shoes, the farmer could trade chickens for shoes. The obvious problem with barter is that it is slow, tedious, and time-consuming. It is hard to measure relative values. For example, what if the cobbler did not want a chicken? Or if he did, how many chickens were his shoes really worth? A faster, more efficient means of exchange was needed, so money evolved.

On a side note, however, if the economy continues to slide downward and money remains tight, you will see barter increase. One good thing about barter is that it is hard for the government to tax barter transactions. The tax department does not accept chickens.

2. Commodities: To speed up the process of exchange, groups of people came to agree on tangible items that *represented* value. Seashells were some of the first forms of commodity money. So were stones, colored gems, beads, cattle, goats, gold, and silver. Rather than trade chickens for shoes, the chicken farmer might simply give the cobbler six colored gems for the shoes. The use of commodities sped up the process of exchange. More business could be done in less time.

Today, gold and silver remain the commodities that are internationally accepted as money. This is the lesson I learned in Vietnam: Paper money was *national*, but gold was *international*, accepted as money, even behind enemy lines.

3. Receipt money: To keep precious metals and gems safe, wealthy people would turn their gold, silver, and gems over for safekeeping to people they trusted. That person would then issue the wealthy person a receipt for his or her precious metals and gems. This was the start of banking.

Receipt money was one of the first financial *derivatives*. Again, the word *derivative* means *derived from something else*—just as orange juice is derived from an orange and an egg is derived from a chicken. As money evolved from a tangible item of value into a derivative of value, a receipt, the speed of business increased.

In ancient times, when a merchant traveled across the desert from one market to the next, he would *not* carry gold or silver for fear of being robbed along the way. Instead, he carried with him a *receipt* for gold, silver, or gems in storage. The receipt was a derivative of valuables he owned and held in storage. If he purchased products at his faraway destination, he would then pay for his products with the receipt—a derivative of tangible value.

The seller would then take the receipt and deposit it in his bank. Rather than transfer gold, silver, and gems back across the desert to the other bank, the two bankers in the two cities would simply balance or reconcile the trading accounts between buyer and seller with debits and credits against receipts. This was the start of the modern-day banking and monetary system. Once again, money evolved and the speed of business increased. Today, modern forms of receipt money are known as checks, bank drafts, wire transfers, and debit cards. The core business of banking was best described by the third Lord Rothschild as, ". . . facilitating the movement of money from point A, where it is, to point B, where it is needed."

4. Fractional reserve receipt money: As wealth increased through trade, banker's vaults became filled with precious commodities such as gold, silver, and gems. Bankers soon realized that their customers had little use for the gold, silver, and gems themselves. Receipts were much more convenient for transacting business. Receipts were much lighter, safer, and easier to carry. To make more money, bankers transitioned from storing wealth to lending wealth. When a customer came in wanting to borrow money, the banker simply issued another receipt with interest. In other words bankers realized that they did not need their own money to make money. Bankers began effectively printing money.

The financial term *in kind* is derived from the German word *kinder,* which simply means *child*. This is where the word *kindergarten* comes from—literally, a *garden of children*. The financial term *in kind* was created when a borrower used cattle as collateral, security, to borrow money from the banker. If the borrower's cattle had calves while being held as collateral, the banker kept the calves as a part of loan agreement. This was the start of interest payments, or as bankers say, *payment in kind*.

Since bankers made money from interest payments, *payments in kind*, it was not long before bankers then began making more loans for more money than they had in their vault. This is where the magic show begins. This is where the bankers pull rabbits out of hats. For example, they might have had $1,000 in gold, silver, and gems in their vault, but they could have $2,000 in receipts in circulation that could lay claim to that $1,000 in valuables. In this example, they created a *fractional reserve* of 2 to 1—two dollars in receipts for every one dollar in gold, silver, and gems in their vault. The amount of money in the bank was only a fraction of the receipts in circulation. The bankers collected interest on money they technically did not have. If you and I did this, it would be considered fraud or counterfeiting—yet, it is perfectly legal for banks to do.

With more money in circulation, people felt richer. There was no problem with this expanded money supply as long as everyone didn't want his or her gold, silver, and gems back at the same time. In modern terms, economists would say, "The economy grew because the money supply expanded."

Before central banks, such as the Federal Reserve, many smaller banks issued their own money. Many of these banks went bust when they got greedy and began lending out much more *fractional receipt money* than they had in gold, silver, and gems in their vaults, and they were unable to cover withdrawal requests. This is one reason why central banks, such as the Bank of England and the Federal Reserve, were created. They wanted only one form of money—their money—and they wanted to regulate the fractional reserve system.

Even though central banks were vigorously opposed by the Founding Fathers—the signers of the U.S. Constitution—the Federal Reserve was created in 1913 with the blessing of President Woodrow Wilson and the U.S. Congress and marked the beginning of the superrich entering into a partnership with the U.S. Treasury. All money in the United States was now controlled by this partnership. No other banks could issue their own money. This is why the statement by Mayer Amschel Rothschild almost a century earlier was so prophetic, "Give me control of a nation's money supply and I care not who makes its rules."

Today, President Obama and the U.S. Congress are trying to solve the financial crisis by changing or enforcing the rules. But, like Rothschild, the conspiracy of the rich does not care about the rules. All the banking cartels controlling the world's central banks care about is how much bailout and stimulus money the president and Congress will pump into the struggling economy. All the cartels want is the *interest* payments on that money, the trillions of dollars in magic money created for bailout and stimulus programs.

Today, in 2009, as the president and Congress talk about a new $800 billion round of bailout money, a whole series of government operations have been invented to inject cash into the economy, most of them completely secretive, with strange names such as Primary Dealer Credit Facility or the Commercial Paper Funding Facility. We rarely hear about these operations in the media. But through these newly created operations, the Fed has pumped in at least $3 trillion in loans and as much as $5.7 trillion in guarantees for private investments.

So who has more power? Fed Chairman Bernanke or President Obama?

Robert's Note: From your perspective, who has more power, Fed Chairman Ben Bernanke, or President Obama? Why? **Let's Discuss ▶**

This is *intergenerational* bank robbery by bankers. Regardless of whether a person agrees or disagrees with the idea of a conspiracy, the reality is that trillions of dollars of magic money, plus interest, will have to be paid for by future generations. We leverage our children's future to pay for our mistakes today.

5. Fiat money: When President Nixon severed the U.S. dollar from the gold standard in 1971, the United States no longer needed gold, silver, gems, or anything else in its vaults to create money.

Technically, prior to 1971, the U.S. dollar was a *derivative of gold*. After 1971, the U.S. dollar became a *derivative of debt*. Severing the dollar from gold was bank robbery of ungodly proportions.

Fiat money is simply money backed by government's good faith and credit. If anyone messes with the government's and central bank's monopoly on money, the government has the power to put that group or person in jail for fraud and counterfeiting. Fiat money means all bills payable to the government, such as taxes, must be paid in that nation's currency. You cannot pay your taxes with chickens.

Shaving Coins

When money was commodity money, especially gold and silver coins, it was pretty easy to know when you were being robbed. In early Roman times, con men would try to trick people by shaving the edges of coins. That is why most Roman coins are irregular and oddly shaped. And that is why many modern coins have grooves on the edge of the coin. If you receive a U.S. quarter whose edges are smooth and irregularly shaped, you would immediately know that someone had filed some metal from the coin and that the coin is worthless. Someone had stolen your money. When it comes to money people are smart—but only if they can see, touch, and feel it.

Debasing Coins

Another way Romans were cheated was by debased currency. That means, rather than pure gold or silver coins, the government mint would blend gold or silver with *base metals* such as nickel or copper, diluting the gold and silver content of the coin. The coin was physically worthless and inflation increased. *Inflation is a derivative of money going down in value.*

In 1964, the U.S. government did the same thing the Roman government did when it took our silver coins and turned them into *base metal coins*. That is why, today, you see a copper tinge along the grooved edges of the coin. While the grooves prevented people from shaving the edges of the coins, the government was metaphorically shaving the value from the coins by taking the silver out of them. After 1964, no one shaved coins because coins were no longer valuable.

In 1964, I was in high school and immediately began gathering as many old silver coins as I could get my hands on. I didn't really know why I was doing this; I simply felt compelled. I knew that something was changing and that I had better hang on to real silver rather than coins. Years later, I found out that I was responding to Gresham's law. Gresham's law states that when bad money enters into circulation, good money goes into hiding. Just like the Vietnamese fruit vendor I wrote about in an earlier chapter, I was responding to a change in the money system. I was exchanging bad money for good money and putting the good money—the silver coins—into my coin collection. I still have some of those same silver coins today.

The Invisible Bank Robbery

Today the *shaving* and *debasing* of our money continues on, just not in the physical form. Since money is invisible, a derivative of debt, bank robberies by bankers have become invisible. This means most people cannot see how their banks steal their money.

Following are two of the ways modern bankers rob banks.

1. Fractional reserve banking: Assuming a 12-to-1 reserve limit (the ratio can change depending on economic conditions), when you deposit $100 in your bank, your local bank is allowed to lend up $1,200 in loans tied to that $100. When that happens, your money has been shaved and diluted, and inflation increases.

For example, let's say the bank pays you 5 percent interest per year on your $100, equating to $5 per year in interest payments to you. The bank can then extend $1,200 in loans at 10 percent interest, generating $120 in interest payments to them. The bank has robbed you of your wealth by debasing your money through fractional reserve, and it has made $120 interest on your $100. You have made $5.

The fractional reserve banking system is the *modern* and *hidden* way of shaving and debasing coins. It is a modern-day bank robbery that very few people can see because every bank, even your neighborhood bank, can create money out of thin air in that manner. When your banker receives your savings, he says, "Thank you." He can seemingly print more money like magic. When the banker lends out more money than you deposited, the money supply expands and inflation increases.

In June 1983, clever investment bankers got the idea of packaging thousands of mortgages, securitizing them, and calling them a collateralized debt obligation (CDO), a derivative of debt. They then sold CDOs all over the world as an alternative to government and corporate bonds.

Rating agencies such as Moody's and Standard and Poor's blessed this repackaged debt with investment-grade ratings, and insurance companies like AIG, Fannie Mae, and Freddie Mac insured the transactions with credit default swaps. The reason these quasi-insurance companies used the word *swap* rather than *insurance* is because a company is required to have money behind the insurance policy. *Swaps* have no money backing them, which is a major reason why companies such as AIG crashed when the mortgage market crashed. It would be like finding out the insurance company that insured your car is broke—after you have an accident.

As demand for these CDOs grew, mortgage bankers scrambled to supply the demand. Eventually they found new customers to whom to give loans, poor people starving for money and willing to buy a new home with nothing down or to refinance their old home and pull out all of their equity. A new word entered the national vocabulary: *subprime*.

Everything was fine until the subprime borrowers could not make their monthly payments, and the house of debt began to crumble in 2005. This financial mess stems from the Federal Reserve System granting banks the power to lend money they do not have, via the fractional reserve banking system.

The problem is that the federal government stood ready to pick up the tab on these derivatives, an exposure estimated to be over $600 trillion.

The government picking up the tab leads to the second way modern bankers rob their own banks: deposit insurance.

2. Deposit insurance: Deposit insurance protects the bankers—not savers. In America we have the Federal Deposit Insurance Corporation (FDIC) to protect our savings, but its primary purpose is to protect big banks like Citigroup, Bank of America, and JP Morgan Chase—the very banks that helped cause this crisis.

When savers line up en masse to withdraw their savings, it is known as a *bank run*. The FDIC exists to make sure that runs don't happen on banks. During the Savings and Loan Crisis of the 1980s, savings were insured up to $50,000. When the savings and loans got into trouble, deposit insurance was increased to $100,000. When the financial crisis of 2007 began, the insurance was increased to $250,000. These increases were put in place to create confidence that even if a bank fails, depositors won't lose their money. From 2007 to 2009 there have been very few runs on the banks even though the numbers of failed banks is increasing. One reason is because savers feel secure that the FDIC will protect them.

Although the FDIC does a lot of good, it also protects incompetent, greedy, and dishonest bankers. By giving a sense of security—a financial backstop—the FDIC rewards bankers for taking greater and greater risks with depositors' money. And while the FDIC claims the banks pay for their insurance, the truth is that the FDIC does not have enough money to cover today's losses—so the taxpayer will have to cover them, in the form of bailouts. The bankers get away with billions of dollars. We get stuck with the bill

Not All Banks Are Equal

Today, we hear the word *bailout* over and over. In reality, not all banks are bailed out. *Bailouts are only for the biggest banks.*

If a smaller bank goes bust, the FDIC generally uses a *payout* to fix the situation. For example, if you and I owned a small bank, and we made too many bad loans, the FDIC would simply close the bank, pay off the depositors, and we and our investors would lose the equity we put in to start the bank. A *payout* is often the remedy for small bankers with no political clout.

A second option is a *sell-off.* A sell-off occurs when a large banks steps in to take over a struggling bank. This has happened a number of times during the recent financial crisis, most notably with JP Morgan's purchase of Washington Mutual. It is an easy way for a larger bank to gain market share. The FDIC takes over the troubled bank on Friday and reopens it on Monday as a branch of the bigger bank. Again, this is a *sell-off*, not a *bailout.*

Bailouts are generally reserved only for big banks and bankers with political clout—and for banks that took the greatest risk and thus have the greatest chance of severely damaging the economy, banks that are *too big to fail.* As Irvine Sprague, a former director of the FDIC, writes in his book *Bailout*, "In a bailout, the bank does not close, and everyone—insured or not—is fully protected, except management which is fired and stockholders who retain only greatly diluted value in their holdings. Such privileged treatment is accorded by the FDIC only rarely to an elect few."

This means bailouts are only for the rich. If a big bank such as JP Morgan Chase or Citibank gets in trouble, the taxpayers pay for all losses. This means the $250,000 limit does not apply. If a bank in Europe has millions on deposit, or a rich man from Mexico has millions in savings, their money is 100 percent covered. Taxpayers pick up the tab.

If you and I took the risks that the biggest banks did, we would lose everything. We would not be bailed out. In overly simply terms, the FDIC is a smoke screen protecting the biggest banks. If a big bank gets caught, the government bails it out.

Mistakes Were Made

In 2009, former Federal Reserve Chairman Alan Greenspan came forward and admitted to the world that mistakes were made. What he did not say was who was going to pay for them. Of course, we already know—the taxpayer.

To date, more than a $180 billion in taxpayers' money has gone to AIG. Only when it was revealed that $165 million of that bailout was used to pay bonuses to executives for *losing* money did anger from taxpayers reach Fed Chairman Bernanke, Treasury Secretary Geithner, and President Obama, who suddenly promised to look into the matter. Many wanted to know to whom the bonuses went.

But a more important question is: Why should an *insurance* company like AIG receive bailout money in the first place? Isn't bailout money reserved for banks? The *Wall Street Journal,* citing confidential documents, reported that $50 billion of AIG bailout money went to firms such as Goldman Sachs, Merrill Lynch, Bank of America, and a number of European banks. In other words, the reason AIG received bailout money is because it owed the biggest of banks in the world a lot of money and didn't have the cash to pay up. In the last quarter of 2008, AIG posted the biggest loss in corporate history—some $61.7 billion. That is $27 million for every hour.

A Bigger Failure than AIG

As of right now, AIG is the most expensive bailout in the country's history. But a bigger bailout will probably be Freddie Mac. Just as the business of the FDIC is to insure our savings, one of Freddie's primary businesses is insuring mortgages. As more workers lose their jobs, Freddie will also accrue more losses. As of March 2009, Freddie has taken back more than 30,000 homes. Maintaining each of these homes costs about $3,300 a month. It is estimated that the bailout of Freddie Mac will be much more expensive than AIG.

Back to the Future

In Chapter 1 of this book, I quoted the words of President Bush, Sr., reassuring us that: "This legislation will safeguard and stabilize America's financial system and put in place permanent reforms so these problems will never happen again." He was speaking about the bailout of the savings and loan industry in the late 1980s and early 1990s. Today, you and I know these problems *did* happen again.

During the Savings and Loan Crisis, Senator John McCain was implicated with the failure of Lincoln Savings and Loan and the loss of billions of dollars. Bill and Hillary Clinton were implicated with the failure of Madison Guaranty Savings and Loan. And the Bush family was directly involved with the failure of Silverado Savings and Loan.

Senator Phil Gramm, in 1997 and 1998, helped repeal the Glass-Steagall Act, an act that was written during the last depression to prevent savings banks from mixing savings and investments. Once the Glass-Steagall Act was gone, the bank heist took on epic proportions. It is interesting to note that Senator Gramm, the chairman of the Senate Banking Committee, collected $2.6 million in campaign contributions from the banking, brokerage, and insurance industries. Fed Chairman Greenspan, President Clinton, and his Treasury Secretaries Robert Rubin, Larry Summers, and Geithner (today's treasury secretary), were all part of repealing the

Glass-Steagall Act, which led to the formation of Citigroup. Coincidentally, Rubin immediately left the White House to become the head of that newly formed company.

My point is this: Big bank robberies require political clout, and that is why our politicians have been slow to react to these bailouts. In a system so corrupted, how can there be change we can believe in?

> **Robert's Note:** While that last question may be a rhetorical one, it's something worth stating. What's your thought on the 'system' and what kind of change do you think we REALLY need? **Let's Discuss ▶**

National Ruin

Back in 1791, Thomas Jefferson was very much against a central bank for the very reasons we are all experiencing today. It was Jefferson who pointed out that the Constitution did not grant to Congress the power to create a bank or anything else. He went on to say that even if the Constitution had granted such a power, it would be an extremely unwise thing to utilize because allowing banks to create money could only lead to national ruin. In fact, it was not uncommon for Jefferson to compare banking to the dangers of standing armies.

Repeating from an earlier chapter, what John Maynard Keynes said about debauching our money supply: "There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose." In other words, it's hard to diagnose something you cannot see. Today, the banks are robbing us of our wealth right under our noses, a hidden theft that is only exposed once you have the knowledge to know what to look for.

New Rule of Money #5: The Need for Speed. At the beginning of this chapter we talked about how money has evolved from barter to digital money—money at the speed of light. Today, one reason why we have people making billions and others still working for $7 an hour is caused by a differential in speed. Today, the faster a person can transact business, the more money he or she will make. For example, a typical medical doctor can see one patient at a time. A high school kid with a global Web business, transacting business to unlimited customers 24/7, can potentially earn much, much more than a medical doctor. The difference, as I will talk about in the next chapter is that one type of work is metaphysical (Web business) and the other is physical (medical doctor). One type of work creates wealth exponentially; the other creates wealth linearly.

Many people are financially struggling today because they are simply too slow—they cannot make money faster than the banks are printing it. When it comes to financial transactions, most people are still in the Stone Age, getting paid by the hour, by the month, or per transaction, working for commissions, as is the case with real estate agents or stockbrokers. Those who will succeed in the future will be entrepreneurs who understand how quickly business and money are changing, and who have the ability and flexibility to quickly change and adapt.

Postscript - For More Detail on the Global Monetary System

If you would like greater detail on the monetary system, there are two excellent books I recommend.

1. *The Creature from Jekyll Island* written by G. Edwards Griffin. This is a thick yet easy-to-read book on the history of the conspiracy. I have read it three times, and each time the book opened my eyes up to a world only one in a million know about. This book goes into greater detail on how the Federal Reserve came to be and how money is really created. Much of Griffin's findings track directly with my findings. Originally published in 1994, the book reads as if it was written today, and seems more like a crime novel than a nonfiction book on global economics.

2. *The Dollar Crisis* by Richard Duncan. This book completes the global picture on the conspiracy. *The Dollar Crisis* explains what is happening in the world economy today as a result of the meeting held on Jekyll Island that led to the formation of the Federal Reserve. Duncan's book explains how the U.S. dollar is causing the booms and busts in countries such as Japan, Mexico, China, Southeast Asia, Russia, and the European Union.

Both books are excellent and written by brilliant authors. The two books offer a more complete and in depth picture of why and how we got into this global financial crisis.

Time to Move On

This ends part one of *Conspiracy of the Rich*. In part two, you will learn how to do well in a world that is *booming* as well as *busting*. While millions are sitting on their rooftops, surrounded by a flood of debt, hoping someone will save them, a few people are moving on and so is this book.

Now that you know some of the historical causes of this crisis, it is time to focus on *personal solutions* rather than what caused the *global problems*. Part two will focus on, *beating the conspiracy at its own game.*

See you in part two.

Robert's Note: Now that you've read about the history of money – use some critical thinking, and share with us what YOU think is going to happen to money in the future? To the future of our economy? **Let's Discuss ▶**

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