IT’S *OUR* MONEY

Like the air we breathe, money is so ubiquitous that we accept its existence unquestioningly. So few people ever stop to ask what money is and how it is created. Familiarity obscures both our view of that process itself and of its importance.

Yet the manner in which money is created is so simple. Money comes into being when social agents agree to place a value on a token. These tokens then form units of exchange, accounting and serve as stores of value. The need for money arose because of the need to replace barter ... necessarily a cumbersome and uncertain process ... with a simpler, more standardised and reliable way of managing economic transactions.

Money tokens can consist of pretty well anything, irrespective whether that token has of itself any intrinsic value beyond its use as money, such as gold and silver. Sea shells and wooden sticks have been used as money. Later such objects were supplemented by base metal tokens and paper, and nowadays as likely as not an electronic signal will be used as a money token.

The social agents who create money may vary. It may be a group of individuals or a whole community, as with local exchange schemes and local currencies, and which was once common practice with the tally system. It may be, and has often been in the past, the government which allots a value either to bullion in earlier times, or to paper and base metal tokens in more recent history. But it is now private banks who create most of the money supply as interest bearing credit.

Again the manner in which they do this so astonishingly simple that it is widely misunderstood. If you deposit £ 1000 in your current account it is said that this money is now available for the bank to lend to someone else. But here pause to think. How is it that this £ 1000 is now both being lent to another party, yet still available in your account for you to spend? The answer is that by using double entry accounting, the bank has created, as if by magic, a further sum of £ 1000 out of thin air.

Nor does the process stop here. A remarkable feature of the system of double entry accounting is that it enables debts to be booked as assets. That itself is worth thinking long and hard about.

So now there is not a single sum of £1000, but ... magically ... two. This is because the rules of double entry accounting allow the loan of £1000 to be booked as an asset (even though not immediately in the bank’s possession). That asset then creates the collateral by which the bank is able to make a further advance of £1000. Then this further sum of £1000 is also booked as an asset which enables the bank to make yet a further advance ... and so on. Thus the bank is potentially able to create and advance sums of up to many times the original deposit. This process is called fractional reserve banking. It can be viewed both as the most wonderful conjuring trick since the loaves and fishes or as a form of privileged counterfeiting.

So we can see that both state (and the term 'state' is here used generically to refer to organs of the state such as the central bank and its finance ministry as well as to both central and local government) and the private banks have then ability to create money out of thin air. The latter does it by a trick of double entry accounting, the former by the fiat of law.

However it becomes immediately clear that the ability to create money must inevitably carry with it great profit and power. It is equally clear that if the state creates the money supply then that profit or dividend must accrue to the public; if a private bank creates money then that power and profit benefits the shareholders of the banking and financial system.

We do not need to be told that with profit goes power. Banks, together with the corporate infrastructure into which they are woven, form an immensely strong interest group. It is hardly surprising that rich and powerful interests will use all the tools available to them to protect their position. They have been doing so, and with great adroitness, ever since 1751 when King George II, at the behest of the City of London, banned the largely successful use of paper fiat currencies in the American colonies. More of that subject anon.

Thus the ability of the government to create money has been the subject of a sustained and prolonged campaign of denigration. The incredible fact is that such is the power of the financial sector, and the ability of that power to control the prevailing economic ideology, that the right to create money and all the immense profit and influence which goes with it, has been handed over gratis to the banks by governments all over the world. It is as if those governments have been placed in a state of hypnosis to surrender, without the slightest reward or consideration, their most valuable asset. It is as if some ordinary householder had been hypnotised into handing their own house to a stranger, without rent or recompense.

State created money is ... we are told by that prevailing ideology ... inflationary and encourages profligate, spendthrift government and which concentrates too much power in the hands of the state. Such economic dicta are almost universally recited with the blind reverence of a catechism. But it must be remembered that Neitzsche said that men will always strongly believe what is seen to be strongly believed in. The purpose of this tract is to dispel these myths.

The American Colonies

In the early eighteenth century the American colonies were chronically short of gold and silver. This was because bullion was largely used for foreign trade which was mainly in deficit. Starting in Massachusetts the colonies responded by issuing a form of bond, 'as good as gold', on the 'full faith and credit of the government'. In 1729, Benjamin Franklin wrote a paper entitled *A modest Enquiry into the Nature and Necessity of a Paper Currency,* in which he observed how effective such currencies had been in stimulating the colonial economies.

As Ellen Brown *(The Web of Debt),* and to whom I am indebted for the background to the section, has commented:-

> 'The virtue of government-issued paper scrip was that it could grow along with productivity. The government could pay for services with paper receipts that were basically community credits. In this way, *the community actually controlled supply and demand at the same time ...* they did not need the moneylender's gold which could be hoarded, manipulated, or lent only at usurious interest rates.'

Indeed the issue of such paper scrip enabled some colonies such as Pennsylvania to finance government spending without taxation and with little or no inflation. However a few of the colonies – and indeed there *is* a warning here which will be discussed below – overdid the production of money resulting in inflation. This gave London's banking interests the pretext to intervene and ban such currencies.

When, in 1764, Benjamin Franklin came to London to lobby against the ban he painted a picture of booming local economies in which poverty was virtually unknown, in contrast to the widespread poverty so evident on the streets of Britain's capital. When questioned by the directors of the Bank of England, Franklin replied:-

> 'In the colonies we issue our own money ... to pay the government's approved expenses. We make sure it is issued in proper proportions to make the goods pass easily from producers to the consumers ... In this manner, creating for ourselves our own paper money, we control its purchasing power, and we have no interest to pay to no one ... a legitimate government can both spend and lend money into circulation, while banks can only lend ... Thus, when your bankers ... place money into circulation there is always a debt principal to be returned and usury to be paid. The result is that you have always too little credit in circulation to give the workers full employment. You do not have too many workers, you have too little money ... all bear{ing} the endless burden of unpayable debt and usury.'

Franklin was unsuccessful. The banning of paper money resulted in a severe depression. Effectively this rupture between London and the

American colonies became the first phase of the American War of Independence.

The Attlee Government

It was not always the case that private banks created the overwhelming majority of the money supply. Indeed the situation whereby virtually the entire population has a bank account is comparatively recent. When the Attlee government took power in 1945 only a small minority of blue collar workers had bank accounts. Virtually all transactions were in cash; the working classes saved money in stamp schemes, piggy banks, Christmas clubs, local building societies and national savings. This was unimportant since the state created a much larger slice of the broad money supply in notes and coins – as indeed it had to, with so many of the population relying on cash (over 40% of monetary 'broad' M4 was in notes and coin as compared to around 4% today).

Even when the state creates only a proportion of the money supply its margin for manoeuvre can be remarkably increased. The social dividend or profit deriving from government created money can be clearly illustrated by looking at the Attlee government's achievements in a country all but bankrupted by the Second World War.

It was able to implement the 1944 Butler Education Act, substantially extend the Welfare State, nationalise the basic industries, establish the National Health Service and start the new towns as part of a major house building programme. At the same time it had to maintain a number of still onerous military commitments such as the occupation of Germany, the Berlin airlift and the start of the Cold War, as well as imperial commitments in Palestine and the winding down of the Raj. All that was achieved whilst keeping inflation and government borrowing in check *and* maintaining full employment, The government was able to do this because it created a substantial part of its own money rather than borrow it at interest.

The Inflation Myth

So there is nothing new in governments creating and successfully managing at least a substantial part of the money supply and there is nothing novel in the public reaping the benefit. Although the avatars of globalised neo-liberal economics would now have us believe otherwise, most governments managed their affairs in that way, in that era.

This and the examples which follow destroy the inflation myth. To be sure, as we have seen with some of the New England colonies, if governments print *too much* money then there will be an inflationary consequence. But then the provision of credit by private banks often overshoots resulting in economic overheating and requiring corrective action by increased interest rates.

The key phrase here is *too much* money. That money works as a medium of exchange underscores its function as a lubricant to the economy. A given level of economic activity will need to be sustained by a given level of money supply. If the money supply falls too low there will be insufficient in circulation to

maintain activity resulting in recession and even slump. If there is too much then the economy (or sectors of it) will overheat and inflate. The ideal objective of monetary policy is therefore to maintain a money supply at just the right level ... not too little and not too much ... which properly reflects the value and activity of the economy as a whole.

States have always sought to control their economies through different levers of economic control such as varying the levels of tax, spending, interest rates, reserve ratios, statutory deposits and so forth. There is no difference in principle in managing the economy by the direct control of the level of money issue than with the use of any of these other tools.

Indeed the direct control of money issue, together with the use of the toolkit which comes with it ... credit controls, reserve ratios and statutory deposits ... enhances considerably the range of economic controls available to government, beyond the use of the crude and indiscriminate bludgeon of interest rates.

Those who point accusing fingers at states which have experienced high inflation or hyperinflation, tendentiously ignore the reasons why those states were printing too much money. Invariably these have been states in severe crisis. France inflated its way through three currencies during the Revolution; between the Japanese invasion and the Cultural Revolution, China experienced three hyperinflations. Weimar Germany, bankrupted by war and faced with impossible reparation payments devoured its own currency. In more recent times we have seen periods of high inflation in several chronically unstable and corrupt South American states. Today we have the example of Zimbabwe.

In all of these instances we see deep malaise ... severe instability, invasion, corruption, war, revolution and/or civil war. At precisely the time when those states most needed to defend themselves, rightly or wrongly, against serious internal or external disruption, the demand for resources multiplied right when political and/or social turbulence was collapsing the economy and when taxes become difficult, if not impossible, to collect.

Interest as a Driver of Inflation and Environmentally Destructive Growth

Indeed, because credit carries interest which must be paid, the preponderance of interest bearing credit drives inflation. We live in houses which will cost us at least double what we paid for them; we buy on credit merchandise from stores which function on credit who, in turn, purchase their wares from a chain of manufacturers and component suppliers who also function on credit; and all this whilst paying our taxes to a government which pays £30 billion every year on a debt which it itself owes.

Thus the payment of interest is stratified and embedded into every layer of our economic system. Every transaction we make contains as great a multitude of interest bearing strata as there are layers in a piece of flake pastry, adding enormously to the cost of every item we buy.

The trouble is that whilst the banks issue advances they do not create into the economy the money needed to pay the interest. In his representations to the directors of the Bank of England, Benjamin Franklin had put his finger right on the monetary cause of the trade cycle. With such a debt-interest system there will always be too little money in circulation. Thus the economy is pitched into a mathematically impossible game of 'catch up' where the imperative is to produce, sell and consume, regardless of any aesthetic, ethical, environmental and utilitarian merits in that production or consequences of it. All of this not to enhance or beautify our lives but just to repay the debts.

Therefore debt drives frivolous and wasteful production and consumption ... stimulated yet further by the availability of easy credit. As the trade cycle rises, the level where the margin of real earnings available to repay debt becomes ever narrower and it becomes arithmetically impossible for debt to grow any more. It short, as the debt rises, people progressively run out of money to pay both the interest and the principal.

At that stage the debt mountains begin to implode as the debts turn sour. The banks are forced to write off credits which they themselves created as new money supply. Therefore the money supply ... the lubricant of the economy ... contracts resulting in recession or depression. The process which created the boom then goes into reverse, unwinding like an elastic band.

The Chinese Miracle and Other Examples

There is a single word that can be addressed to all those opponents of monetary reform down the years who have argued that monetary reform will destabilise economies, cause inflation, encourage profligate and spendthrift government, along with all the other misrepresentations and falsehoods that have been propagated. That word is: China.

What is happening in China demolishes at a single blow all the arguments against monetary reform. For if the Chinese can do it anyone can. Money reform then becomes an issue, not of economic practicality, but of political will.

China has turned itself into the most dynamic economy in the world. Whether the requirement is for hundreds of new power stations, new transcontinental railways, massive hydro-electric schemes, Olympic stadia, or whole new cities, we are witnessing infrastructural investment on a truly audacious scale. Money seems no object. So how is it that a poor country can develop at such a pace, seemingly conjuring new resources out of thin air? How is it that it can do this with a tax burden scarcely above 30% , a national debt of less that 20% of GDP, and with inflation fluctuating annually at around the 26% mark?

The answer is alarmingly simple. Indeed money is no object. Rather than following the path of so many countries in ceding control of its economy to the new globalised corporate oligarchy, China has retained that control for itself. It commands its own currency and its own money supply to use in its own national interest.

The Chinese state creates its own currency, the Remnimbi and uses it in two ways. Firstly it is pushed through the domestic banking system into infrastructural projects in the form of ‘soft’ loans. On the many websites concerned with the Chinese economy, including that of the Bank of China itself, these soft loans are often euphemistically referred to as ‘pump priming’. Despite some cosmetic handwringing over the need for ‘greater financial discipline’ the Chinese Government continues to advance such loans in large amounts. From such behaviour we might deduce that it does not actually give a fig that many of these loans will never be repaid. Indeed they may only be referred to as ‘loans’ and not grants as a sop to deflect the self-interested disapproval of the international banking fraternity.

The second prong of their policy is to use state-created Remnimbi to buy Dollars from the hoard of US Treasury paper held by their exporters. These Dollar surpluses can then be used to buy raw materials, capital goods and technology on world markets in order to fuel even greater growth.

True enough, environmentalists will point anxiously at China’s burgeoning pollution and carbon emissions. But money has always been a double edged sword. Of itself money is a neutral factor that can be spent on good and bad, on war or peace, on beauty or ugliness. There are many positive aspects to China’s explosive rate of growth ... whole cities full of new low-cost housing, a massive expansion of the railway network, a huge expansion of schools, clinics and hospitals, of public education and scientific research.

There is nothing new in the underlying principle of the Chinese approach, and there have been different variants of state issued or public money used in different countries at different times.

Through the use of such public money Japan erupted from a feudal medieval backwater to become a major industrial and military power in the last four decades of the 19th century. During just five years in the 1930's Germany grew from a bankrupt failed state to come unpleasantly close to world conquest, using another variant of state created money, the Mefo Bill. Through the Mefo Bill issue, eventually amounting to 12 billion Reichsmarks (compared to 19 billion of 'normal' public debt), Germany created a secret parallel money supply. It was horribly effective.

After rejecting the ruinous rates of interest offered by the banks to finance the American Civil War, Abraham Lincoln financed it through $450 million worth of government issued greenbacks. That issue left behind no debt, no outstanding interest, and no undue level of inflation that could not be explained by the inevitable dislocation of war. Canada financed much of its World War II effort by government money, again leaving behind no legacy of debt or inflation.

What in those cases was an engine of war can be a engine for peaceful development, as in present day China. Other variants of public money have been successfully run in Australia, New Zealand (where interest-free mortgages were commonplace from the 1930's to the 1980's) and the Channel Islands, until heavy pressure from the international banking fraternity forced those schemes to end.

So again it is necessary to emphasise that there is nothing either new, impractical or unproven in anything that is proposed here. There is nothing that cannot be demonstrated before the eyes of the unbeliever.

National Debt ... False Debt

A small amount of money is still issued as public money in the form of notes and coins, amounting nowadays to around 0.3% of the national budget. Of course notes and coins carry no interest. So why doesn't the government issue a higher proportion of interest free money, perhaps as electronic cash? As can be seen from the example of the Attlee government, the answer is that it used to do so. So we have been there before. We have actually done it ... we actually ran our economy in that way for many decades ... until the banks and the money men got their snouts ever deeper into the trough.

Therefore the political choice is between private credit and public credit. Why is it that the banks can create credit out of thin air and charge interest when the state can create money out of thin air without interest and for the public good? Why are we so daft as to burden ourselves with interest on a largely fictitious debt which we actually owe ourselves, whilst denying ourselves immense opportunities to both-enhance good quality public investment whilst reducing taxes?

What is not generally appreciated is that the conventional view of national debt paints a false picture. If a private bank makes a loan that loan appears as debit on once side of the balance sheet but an asset on the other. In turn that asset can then be used as collateral to make further loans. And so on. That is how banks create money from nothing.

On the other hand if the government spends money on schools, hospitals, universities, buildings, embassies, military assets, roads, railways etc., quite apart from investing in a well educated and healthy population, such items do not normally appear as assets in the national accounts. Such assets are either written down to zero in the first year or subjected to absurdly high levels of notional depreciation.

Thus the national debt presents us with only one side of the balance sheet. If a private bank presented its accounts in that way it would be insolvent at the end of its first trading year. The national debt is a false debt which would misrepresents the true value of both the physical and human assets which public spending has created properly balanced against the investment.

Ersatz Economic Growth and the Debt Burden

We are all aware of the massive damage which is being caused by the conventional idea of 'economic growth' ... of the frivolous production, massive waste and the hidden cost externalities. We are aware that once this so-called 'growth' passes a certain tipping point, further economic development causes a rapidly burgeoning burden on the environment, a decline in the quality of life, disproportionate increases in social stress and social dysfunction, an increase in stress and pollution-related illnesses, quite apart from the soaring levels of waste and externalised costs as we consume ever larger quantities of throw-away junk merchandise ... merchandise which usually adds little or nothing of much real use or value to our lives. The notion that we 'create wealth' by dumping mountains of throw-away junk into landfill is one of the greatest collective insanities of human history.

We must also realise that infinite exponential growth, whether of resource consumption, population, pollution or industrial production, within a finite system is an impossibility ... a mathematical ponzi which must implode at some point. Since the same reasoning must apply to debt, it is therefore very strange that so many people willing to think along radical lines remain wilfully purblind to the monetary analogue of the exponential growth syndrome and of the way in which the monetary, economic and environmental issues interconnect and are all of a piece. Indeed it is quite extraordinary that, when it comes to banking and money creation, such people are frequently so supportive of both a corporate power network and a globalised economic ideology which they profess so fiercely to oppose. So much for holistic thinking!

Again the basics are quite simple. Since Labour came to power the GDP has increased from £800 bn to around £1,200 bn. Personal debt, on the other hand, has increased from around £700 bn to around £1,300 bn. In other words it has taken £1.50 of debt to generate every £1.00 of 'growth'! If corporate and government debt is included in the picture that figure is £2.00 of debt to create every £1.00 worth of 'growth'.

Therefore what we are experiencing is not 'growth' at all. What we are seeing is a false or ersatz 'growth' in which the gross figures increase whilst the net figures decline. That is why we are witnessing rising bankruptcies and repossessions, a decline in disposable incomes, a decline in the quality of life, a massive inflation in asset values (contrary to the fiction propagated by the 'retail prices index', inflation hasn't gone away at all ... it has been displaced into asset values), and an ever growing gap between rich and poor resulting in ever increasing demands on the state to subsidise the poor (which because of its impact on public borrowing leads us into another debt spiral). What we are seeing is not actually 'growth' at all but an economic smoke and mirrors trick which looks like growth but isn't.

So if I buy a dishwasher ... which adds virtually nothing to my domestic productivity, but adds hugely to my carbon emissions ... on credit, from a long chain of companies financed by credit, and we both pay taxes to government also financed on interest bearing credit, such that the sum of all this is a system by which £2.00 of debt is required to generate every £1.00 worth of false 'growth', then we are headed towards the point of mathematical impossibility and towards environmental, economic and social catastrophe.

You cannot go on borrowing more than you earn for ever. The economy of a nation cannot go on basing itself on false or ersatz 'growth' by debt generated demand forever. The same mathematical caveats will apply to debt as to any process of unending exponential growth.

The presence of this great raft of debt-bearing credit running right through the economy is probably the greatest cost externality of all. It means that we are always left playing 'catch-up'; that we will always be on an endless treadmill guzzling ever more energy and resources to develop ever crazier merchandise just to pay off the debts. Like hamsters in their wheels we have to run ever faster and faster to stay on the same spot. The literal meaning of the word 'mortgage' is 'grip of death'.

Personal debt already exceeds our GDP by £100bn. Add corporate and government debt and the total debt in our economy now exceeds our annual income by a two and a half times. That is truly frightening. Like some huge supertanker pushing a great bow wave of debt up ever higher in front of it our economic ship ploughs its way towards disaster. A collapse, at least on the scale of 1929, becomes inevitable.

When the collapse comes – I do not say 'if' because the mathematics are secure – and indeed it may already have started, it will probably be a much more messy, complex and protracted affair than the crash of 1929 and the depression of the 1930s.

However there will be similarities. As it was then, asset values will decline sharply if they do not collapse suddenly. That great lake of false, speculative collateral so vaunted by the neoliberal avatars of the housing and stock markets will be vastly diminished. Further huge sums of both public and private money that have not been lost in the collapse of that collateral will be sucked into and then frittered away in futile attempts to bail out bankrupt dream machines. Liquidity will decline sharply resulting in deep recession and very likely sliding into slump.

We are already seeing this process written in spades as Gordon Brown's government piles billions into Northern Rock. Would even a shadow of such sums be spent to save domestic industry, on sustainable energy or development, or on investment in the Third World? Manifestly not. We need no greater illustration of the power of the financial sector ... a sector that now places itself above its own self-created rules of its own economic game ... that it is considered to be worth more than the rest of the economy combined.

We are all approaching the point when money reform and the issue of public money will become a necessity beyond argument. As banks create money supply based on credit (significantly the People's Bank of China is one of the few remaining institutions in the world to call this money by its proper name of 'quasi-money'), so when the boom inevitably and eventually implodes, those same banks cancel that same money supply as bad debt. What the banks giveth, the banks taketh away! As the banks create credit-money as the economic cycle rises, so they reduce the money supply as it falls. As the money supply falls so the money available to service the economy shrinks resulting in economic depression..

When massively debt-laden economies, where there are simply no possible sources of further borrowing available, slide into recession and the money supply, written off as bad debt, contracts, a stark choice presents itself. Either accept recession or slump or use the power of the state to assume its seigniorage over the currency to pump-prime the economy. There is simply no other alternative.

The Financing of Public Investment by Interest-Free Carousel

On the other hand, by the use of public money, we could both prevent depression and hugely increase public capital investment. Indeed, if we followed the example of some of the early American colonies and operated a recycling mechanism by which a proportion of the interest free money is returned annually, this would enable such a return to be re-invested.

Such a mechanism would create a year-on-year accumulation which would, as the returns from that investment increased, progressively reduce the net requirement for new money. This process would continue over a period of years until a point of balance is reached where the money flowing out will equal the money flowing in and where a given level of investment can be sustained without the need for further new money. We will have constructed a carousel which will be effectively a perpetual motion mechanism for government capital investment. What will be of great benefit to the taxpayer and to the health of the economy and society as a whole is that such a perpetual capital budget can be achieved for only a small proportion of the current cost to the taxpayer, equivalent to annual depreciation.

Some categories of Government capital budgeting produce a natural return, such as dividends from nationalised industries, public transport fares, and social housing rents. Other areas of capital budgeting such as hospitals and schools do not create a money return. Rather they create returns in human capital ... so often unacknowledged ... in good health and education. In this situation the cash return is created through taxation by service users, approximating to the service and depreciation costs.

For the sake of prudence the axiom must be, until practical experience proves to the contrary, that interest-free state investment must be for capital budgeting only, whilst current spending must continue to be financed from taxation.

For the sake of comparison, the current Government capital budget is a little short of £50 billions per annum, excluding PFI. The following diagram assumes an issue of £50 billion of interest free money per annum at a rate of return of 5%. from service user and depreciation charges and from the income of public enterprises, sales of services (such as transport fares), rents from social housing etc.. In effect taxpayers would obtain a capital investment of £50 billion per annum at a cost of £2.5 billion. The following presents an example of how such a carousel would operate over a 20 year period until the point of balance was reached.

Figures are given in £Bn.

Year	Accumulated Investment	Cumulative Return at 5%	New Money required	Net cumulative Money Issue
1	50	2.5	47.5	47.5
2	100	5.0	45.0	92.5
3	150	7.5	42.5	135.0
4	200	10.0	40.0	175.0
5	250	12.5	37.5	212.5
6	300	15.0	35.0	247.5
7	350	17.5	32.5	280.0
8	400	20.0	30.0	310.0
9	450	22.5	27.5	337.5
10	500	25.0	25.0	362.5
11	550	27.5	22.5	385.0
12	600	30.0	20.0	405.0
13	650	32.5	17.5	422.5
14	700	35.0	15.0	437.5
15	750	37.5	12.5	450.0
16	800	40.0	10.0	460.0
17	850	42.5	7.5	467.5
18	900	45.0	5.0	472.5
19	950	47.5	2.5	475.0
20	1000	50.0	0.0	475.0

The net cumulative money issue is equivalent to the money supply created. At the end of 20 years £1000Bn of government investment would have been procured at a cost to taxpayers and service users of £50Bn, and resulting in a supply of £475Bn of interest free money.

Public budgets are always insufficient. However there may be scope for significant expansion. For example if we were to replace PFI, increase the social housing budget to £l0Bn per annum (as against a current budget of £1.9Bn), a green energy budget of £10Bn per annum (current spending is effectively negligible), and raise public transport investment to £10Bn from £6.9Bn we would still be left with a good margin to raise the capital budget towards £100Bn. On the basis of a 5% return this would result, after 20 years, in a total investment of £2000Bn, and result in a money supply of £950Bn (around 70% of GDP), and yet with an annual cost to the taxpayer of only £5bn.

The carousel could be very flexible. There would be wide scope for altering the notional depreciation charge and thus the charge to the taxpayer and service user. It would have a range of highly relevant and urgent applications, for example:-

Social Housing The current capital programme of £3.9Bn for 84,000 housing units 2006-2008 is widely regarded, not least by the government itself, as inadequate. More reliable estimates would put such housing need nearer double this level. The government grant provides less than half the construction cost, the balance largely being provided by private finance, both directly and through shared equity schemes. Social housing is intended for the lower paid who currently have a choice of dead money rents or shared equity mortgages. Both contain a substantial interest component.

Yet if social housing were to be funded by interest free payment, a very different picture would emerge. A house could be sold at cost and paid for over 20-40 years, free of interest. Thus on an interest free repayment plan a house costing, for example, £120,000 would cost over, say, 25 years, a gross amount of £125,000, whereas a mortgage, at current rates would cost £250,000 or more. The redistributive potential of such a policy is obvious. A very similar system worked in New Zealand for half a century.

Sustainable Energy Current government spending on sustainable energy is effectively negligible. Yet a major programme, placing the issue virtually on a war footing, yet self financing from the sale of the power generated, using interest free capital could rapidly transform the situation.

Public Transport Public transport yields income from fares. Again inadequacies in the current programme have been widely acknowledged, for example the funding difficulties for urban light rail and the London Crossrail scheme.

The following sets out a simplified illustration of an investment programme which could be applied to social housing, sustainable energy, or public transport. It assumes a fixed investment of £10Bn per annum over 25 years at a 4% return. Such schemes would be entirely funded by returns from users (perhaps with a subsidy element from current spending), with no direct call on the taxpayer.

Year	**Accumulated Investment**	**Cumulative Return at 5%**	**New Money required**	**Net cumulative Money Issue**
1	10	0.4	9.6	9.6
2	20	0.8	9.2	18.8
3	30	1.2	8.8	27.6
4	40	1.6	8.4	36.0
5	50	2.0	8.0	44.0
6	60	2.4	7.6	51.6

7	70	2.8	7.2	58.8
8	80	3.2	6.8	65.6
9	90	3.6	6.4	72.0
10	100	4.0	6.0	78.0
11	110	4.4	5.6	83.6
12	120	4.8	5.2	88.8
13	130	5.2	4.8	92.8
14	140	5.6	4.4	97.2
15	150	6.0	4.0	101.2
16	160	6.4	3.6	104.8
17	170	6.8	3.2	108.0
18	180	7.2	2.8	110.8
19	190	7.6	2.4	113.2
20	200	8.0	2.0	115.2
21	210	8.4	1.6	116.8
22	220	8.8	1.2	118.0
23	230	9.2	0.8	118.8
24	240	9.6	0.4	119.2
25	250	10.0	0.0	119.2

So the challenge to the opponents of monetary reform is straightforward. Infinite growth within a finite system is mathematically impossible, and that logic applies as much to the growth of debt as anything else. George Soros has recently said that sixty years of credit expansion has run its course and is coming to an end. So what is the alternative, other than to accept with resignation, endless years of depression? Take what discipline you please – mathematics, logic or economics – and when the roof finally caves in you will find yourself cornered into an intellectually and practically bankrupt cul-de-sac, bereft of ideas and bereft of solutions. If you don't like monetary reform then tell us both why, and what your grand idea is for an alternative.

Frank Taylor, February 2008

frankinshropshire@hotmail.co.uk

Printed on recycled paper and
Published by the Monetary Reform Policy Working Group of the Green Party of England and Wales

www.sustecweb.co.uk