The Money Reform Party

About Money Reform

Money reform or monetary reform is a term used by people who are aware of the central role that money plays within modern society and who are concerned that the nature of the money system that currently prevails within most modern industrialised (and developing) countries is not conducive to social harmony, economic equality or environmental well-being.

Our unreformed money supply

Many suppose that all the money in the British economy is created by government agencies (the Royal Mint and/or the Bank of England) in the form of notes and coins, which money in turn is backed by the tons of gold lying in the Bank of England. This is not true.

At the present time, less than 3% of the money in the British economy has been created by the government. The remaining 97% has been created by the private banking system. They do not create money in the form of notes and coins, for that would be counter-feiting, but their method of money creation is far, far simpler.

“The process by which the banks create money is so simple, the mind is repelled,” wrote the Harvard economist J K Galbraith. He described the fact that banks just write money into existence when anyone - an individual, a business or a government - borrows money from them, just by tapping a few buttons on a computer keyboard.

The problems with private banks creating 'computer' money are widespread. It is the fundamental cause of the big issues of today; climate change, third-world debt, personal debt. We have explained why this is the case in the 'money' section of this website.

A simple, sensible solution

The crazy money situation we currenlty find ourselves in could be very easily remedied if a publicly-owned body, such as (in England) the Bank of England, was responsible for creating ALL of Britain’s money supply, and if this money was spent into circulation as part of the government’s normal spending pattern. This would save us all a sizeable sum in taxes, which itself would increase the money available to buy the things we need without going heavily

into debt as individuals, and the economy would have a debt-free money supply that would enable the real wealth creators to function without constraint. This solution would not lead to spiralling inflation (as many would have us believe), but is a viable solution to our debt-burdened world.

About Money

It's an idea

Money is a man-made concept designed to ease trade. It is a medium of exchange, far easier than bartering. Money used to be something of intrinsic value - gold and silver, but today it is notes and coins or (far more usually) numbers held in computers. For money to work in it's current form we must trust in it.

Types of money

In 1987 the Bank of England introduced new definitions of money to try and work out how much of it there was in the system. It's pretty complicated but are some definitions of the types of money for the UK.
M0 = Notes and coins in circulation with the public plus Bankers operational deposits with the Bank of England.

Nib M1 = Notes and coins in circulation with the public, less, Banks' till money, plus, UK private sector non-interest bearing sight deposits.
M1 = Nib M1 plus UK private sector interest bearing sight deposits.
M2 = Nib M1 plus private sector interest bearing retail sterling bank deposits, plus, private sector holdings of retail building society shares and deposits and national saving bank ordinary accounts.
M3 = M1 plus private sector sterling time bank deposits, plus, private-sector holdings of sterling bank certificates of deposit.
M3C = M3 plus private sector holdings of foreign currency bank deposits.
M4 = M3 plus private sector holdings of building society shares and deposits and sterling certificates of deposits, less, building society holdings of bank deposits and bank certificates of deposit and notes and coins.
M5 = M4 plus holdings by the private sector (excluding building societies) of

- Money-market instruments (bank bills, treasury bills, local authority deposits,
- Certificates of tax deposit and national savings instruments (excluding certificates, SAYE and other long-term deposits).

You might well ask, which is the correct definition and it seems that there isn't one and each can be used for different purposes. However, it could be said that M0 is 'notes and coins' and M4 is a widely recognised as total 'money' stock including all loans and mortgages, which makes you wonder what M5 is. According to modern economic theory, M5 includes things that are not money

but are as good as (near money), like Treasury bills and also excludes a load of stuff too, which makes you wonder why there isn't an M6!

How much money is there?

Actual notes and coins account for about 3% of the money in the western world. The rest is debt. This debt-money is created every time a loan or mortgage is taken out - see banks.

The consequences of this debt-based money supply are the root cause of all our economic and environmental problems. How can an economy pay back money on its loans (with interest) when 97% of 'money' is supplied by creating debts?

Notes and coins

The most significant thing about notes and coins, in the UK at least is, that it is debt free money.

Notes and coins are minted and printed by the government at very little cost, however they do not have any particular need for them (in our 'electronic' world). But banks do because banks supply shops and people with cash. So the government sells the coins to the banks, which pay by cheque or electronic transfer. The money that the government gets from the bank is still debt-free and is added to the revenue from taxes so that it can pay for public services.

The biggest point about the government creating this money is that they have created the money! They could, if they wished, create more to pay for more hospitals, more education equipment and teaching hours, better pension schemes and road systems! - all those things they say they don't have enough money for but we desperately need. By restricting themselves to creating only notes and coins when people and industry are moving towards electronic and internet banking they have diminished their support of the economy to 3%. In 1948 notes and coins equated to 50% of the money supply.

It is the lack of a demand for cash and the decrease in it being created and the unwillingness of Government to create debt-free electronic money that has lead to the debt-based money supply by banks - in order to get "money" it must be borrowed.

A Brief History of Money

The Origins of Money

The word money derives from the Latin 'moneta' - the first Roman coinage was minted at the temple of Juno Moneta in 344BC. Before coinage, various objects such as cattle, pig's teeth and shells had been used as money.
For most of its history money has taken the form of coins made of precious metal. The money, therefore, had intrinsic value. Many of the units of modern money recall their origin in amounts of precious metal; for example, the pound sterling was originally the Roman pound (twelves ounces) of silver.

The Beginning of Banking in Britain

In Britain, the modern age of banking began in 1640 when King Charles I, needing cash to pay the (English) army that he was raising against Scotland (of which he was also king!), seized the gold bullion that many merchants and nobles had placed in the Tower of London for safe-keeping.

The 2nd Bishop's War (founded on a difference of religious opinion) soon petered out and, with Parliament and its powers of taxation recalled, the bullion was returned to its owners.

in 1642, further warfare broke out with the English Civil War between the King and Parliament. London was the stronghold of Parliament and was the safest city in the Kingdom. So those who desired not to have their bullion seized by one side or the other placed their gold in the hands of goldsmiths in the city, who naturally had their own methods of safe-keeping.
Top of page

Goldsmiths: The First Bankers

In exchange for this gold, the depositors received a receipt: 'promissory notes'. These notes, the first bank notes, once their veracity was established, proved to be very popular with their recipients, as gold was heavy and cumbersome. Soon, these notes began to be used as currency, with everyone happy to accept that each was backed 100% by a deposit of gold.

Except that once the goldsmiths realised that few people actually wanted to redeem their notes, they began very secretly to issue more than they had gold to back them. This newly-created money was then lent out to people who wished to borrow it at a rate of interest. This was a practice of highly dubious legality, but its practice was never tested in court.
Top of page

The Bank of England

Then in 1694, this practice of creating money out of thin air was effectively legitimised with the founding of the Bank of England. It was not the first bank to be founded (Coutts was founded in 1690), but the nature of its creation was central to the role that banks went on the play in the supply of money.

In 1694, England was still a predominantly rural country. Most people still grew their own food, built their own homes, collected their own firewood for fuel, drew their own water from wells and frequently made their own clothes. Money was not the necessity that it is today for most people, but it was still needed in large amounts when the nation went to war.

The then King (William III) needed money to fight his war against the French. Both the King's capacity to tax and his authority was limited, so the quickest and easiest way to acquire his needs was to borrow.

A consortium of six London goldsmiths, lead by one William Paterson, were given royal authority to the create the first 'joint-stock' bank on the condition that they lent the King £1.2 million in gold at 8%. This was the start of the National Debt.

More importantly, however, they were given the authority to create £1.2 million in paper money for private lending. This paper money was theoretically backed by the gold, but as that had been lent to the King, it meant that the same sum of money was lent out twice over! The validity of this practice was never tested in a court of law, as it remained a matter that was hidden from the general public. Even today, the banks like to draw a veil over their activities.

Growth During the Industrial Revolution

The 18th and 19th century saw the growth and development of the British banking system, which soon spread around the world with the Empire. It also saw the decline in the use of precious metals (gold and silver) as currency and the increasing confidence in paper money and base (non-precious, eg copper) metal coins.

As new banks sprung up and grew, they each issued their own bank-notes. Unfortunately, problems sometimes occurred if a bank issued too much of its own paper money over its stock of gold and silver coins. The first inkling of problems would cause a mad panic (a rush on the bank) as people rushed to exchange their notes for 'proper money', thereby creating the very collapse that they had tried to avoid!

Because of the potential problems with these crises, the Bank of England, although itself a private bank, because of its special relationship with the government became the 'lender of last resort'. Its notes were almost as good as gold, and it lent to those banks that created a 'liquidity' crisis for themselves by lending more money than they had gold to meet the demand.

Private Note Issue Ceases

Throughout the 19th century, the other banks were persuaded to stop creating their own currencies. The last English bank to do so ceased in 1921, although the privately owned banks in Scotland, Northern Ireland and the Isle of Man

and the State's owned banks of the Channel Islands do so to this day. Their currency, although commonly acceptable in England, is not legal tender. ('Legal tender' is defined as that money which cannot be refused for the settlement of a debt.)

Although deprived of the means of creating their own bank-notes, the private banks were not stopped the power to create money. Just as Bank of England notes were replacing gold as the ultimate form of redemption, so bank deposits replaced bank-notes as the means of money creation.

To enable people to spend the money that banks created as loans in their accounts, the banks created the cheque system. A cheque was effectively a single use note drawn against an individual's account for any amount required.

In 1945 the Bank of England was nationalised. It became an agency of the government and so the notes that it created effectively amounted an income to the government that it could spend for the benefit of the nation without need of taxation or borrowing.

The Growth of Privately Created Money

Although the nature of money has changed over the past three centuries, making distinctions between different types of money, difficult to compare, it is useful and valid to draw a distinction between publicly created money and privately created money, and by this distinction the growth of privately created money within the economy can be clearly seen.

From its beginnings in 1694, privately created money grew slowly over the next 250 years as a proportion of the total money until in 1946, the year after of the nationalisation of the Bank of England, it amounted to some 54%. In the last 60 years, it has grown far more rapidly until it now exceeds 97%.

Banks

Introduction

The supply of money is a direct product of borrowing, and debt maintains this money in circulation. Modern debt is, in aggregate, quite unrepayable.

What happens when you take out a loan

From The Grip of Death, by Michael Rowbotham

If a bank makes a loan, nothing is lent, for the simple reason that there is nothing of substance to lend. The bank makes what it terms a 'loan' against

the money deposited with it at that time. This is easily done. The bank simply has to agree that the person may take out a loan of, say £10,000. The person can then spend £10,000 and hey presto! £10,000 of new number-money has been created. No one with a bank account is sent a letter telling them that the money in their account is 'temporarily unavailable, because it has been lent to someone else'. None of the original accounts in the bank has been touched, reduced or affected. Nobody else's spending power has been reduced, but £10,000 of new number-money enters the economy at the stroke of a bank manager's pen, but £10,000 of debt has also been created.

Therefore, whoever takes out the loan will then make purchases and payments to other people, who will pay that new money into their bank accounts. The result: more bank deposits! As soon as the loan in the example above is spent, £10,000 will find its way into the bank account of a car dealer or DIY store; £10,000 of apparently new money. This money which has supposedly been 'loaned' - but the banking system doesn't distinguish this fact. It simply registers a new deposit, and regards it as new money. The total deposits in the banking system have therefore increased by £10,000. This is the 'boomerang effect' of a bank loan by which a 'loan' rapidly creates an equivalent amount of new bank deposits in the banking system. This effect was neatly summarised in a statement by Graham Towers, former Governor of the Central Bank of Canada; "Each and every time a bank makes a loan, new bank credit is created - new deposits - band new money".

Superstructure of credit

The 'new money' will provide the banking system with the collateral for more lending. This is the 'bolstering effect' of a bank loan. As the total money held by banks and building societies becomes swollen by loans returning as new deposits this provides them with the basis for further loans.

Perhaps the best description of this process of money creation was provided by H. D. Macleod: "When it is said that a great London joint stock bank has perhaps £50,000,000 deposits, it is almost universally believed that it has £50,000,000 of actual money to 'lend out' as it is erroneously called... It is a complete and utter delusion. These deposits are not deposits in cash at all, they are nothing but an enormous superstructure of credit".

The idea that money can come into existence through the lending process is so far away from people's imagination that it is difficult to accept..
However, consider the figures for the British money supply (2008). Only about £40 billion of notes and coins exists. Yet the total money supply is reckoned at some ££1500 billion, over 30 times the amount of tangible 'real' money. If only pre-existing 'real' money could be lent, then the total British money supply (M4) would equal the amount of notes and coins (M0). Only by accepting the bank's money creation process can the difference between M0 and M4 be explained.

Interest

Interest is the amount of money that is charged on debts or given to savers to encourage them to save money.

The original form of usury was simply to loan gold or silver and charge interest on that loan. It was generally always distrusted and despised.
Today, interest rates are the norm. They are raised or lowered to encourage saving or borrowing respectively. Interest rates are used as a mechanism to control inflation.

High interest rates hit people with outstanding debts as they incur extra charges. Borrowers can go bankrupt, homes are repossessed, and businesses are ruined which can lead to mass unemployment and an economic recession.

The Story Behind The Wonderful Wizard of Oz

The Wonderful Wizard of Oz

The Wonderful Wizard of Oz was first published in Chicago in 1900. Its author, L. Frank Baum, was the editor of a South Dakota newspaper and a supporter of William Jennings Bryan who stood three times, unsuccessfully, as a U.S. Presidential candidate for the Democratic Party.

The particular concern of both Baum and Bryan was the nature of the money supply then prevalent in the United States, and in the Mid-Western States in particular.

In America during the 1890s, as in Britain, there had been a severe depression. Many businesses had gone bankrupt, farmers forced to sell up, factories closed and workers made unemployed. True, some farms in the Mid-West were suffering from drought, but most were still capable of growing food; the businesses and factories were still capable of providing the things that people needed; the workers still wanted to work to provide those things, and people would still want the goods and services produced if they had the money to buy them.

The money in the USA then, as now, was entirely created by the private banking system. The pretence existed then that money was based on gold. (Even now some people still think that it is!) The major banks, based on the East and West coasts, could vary the amount of money in circulation, lending more to encourage commercial activity, then fore-closing on loans to put people out of business, enabling the banks to acquire their businesses cheaply.

Baum and Bryan wanted money to be based on silver, not gold, as silver was more readily available in the Mid-West, where it was mined. Such a money

supply could not be manipulated by the banks. So the story of the Wizard of Oz starts with a cyclone in the form of imagined electoral success for Bryan... Dorothy, a sort of proverbial ‘Everywoman’, lands on the Wicked Witch of the East (the East-coast bankers), killing her, so freeing the Munchkins, the down-trodden poor, but the Wicked Witch of the West (the West-coast bankers) remains loose.

To deal with her and to get back to Kansas (normality), the Good Witch of the North, representing the electorate of the North (this is less than 40 years after the civil war), tells Dorothy to seek out the Wizard of Oz (‘oz’ being short for ounce, the means of weighing both gold and silver). She also gives her a pair of silver slippers (as they were in the book - they became ruby ones in the film). Only these silver slippers will enable her to remain safe on the yellow-brick road, representing the bankers’ gold standard, as she heads towards the Emerald City, representing Washington DC.

On her journey, Dorothy encounters a Scarecrow, representing the farmers, who do not have the wit to understand how they can end up losing their farms to the banks, even though they work hard to grow the food to feed a hungry nation. If only they could think it through!

Next, she encounters a Tin Woodsman, representing the industrial workers, rusted as solid as the factories of the 1890s depression, and who have lost the sense of compassion and co-operation to work together to help each other during hard times. Also, a spell cast upon him by the Wicked Witch of the East meant that every time he swung his axe, he chopped off a bit of himself - he downsized!

Then the growing party encounters a Cowardly Lion, representing the politicians. These have the power, through the power of Congress and the Constitution, to confront the Wicked Witches, representing the banks, but they lack the courage to do so.

Dorothy is able to motivate these three potent forces and leads them all towards the Emerald City, whence ‘greenbacks’ had once come, and an encounter with the omnipotent and wonderful Wizard of Oz.

The Wizard of Oz is initially quite majestic and apparently awesome, but he turns out to be a little man without the power that people assume he possesses. He does, of course, represent the President of the United States. With the Wizard’s illusion of power shattered, he is replaced by the Scarecrow who would ‘be another Lincoln’.

The Wicked Witch of the West, fearful for her own power, then attempts to destroy Dorothy but is herself dissolved in a bucket of water, as rain relieves the Mid-West drought, saves the farmers’ livelihoods and prevents repossession by the banks.

The Good Witch of the South, representing the Southern electorate, tells Dorothy that her silver slippers, silver-based money, are so powerful that

anything she wishes for is possible, even without the help of the Wizard. Dorothy wishes to go home. There all is now well, because the land has a stable and abundant money supply.

Still a Pertinent Message

So ends this famous modern American ‘fairy-tale’. Its true message has been lost to the mists of time and the demands of Hollywood, but its message is no less pertinent now than when it was written.

William Jennings Bryan was neither the first nor the last American politician to try to reform the US money supply. In fact, two money reformers achieved the office of President and attempted to put money reform into action, but just like in the Oz story, the ‘Most Powerful Man in the World’ was not as powerful as people believed.

In 1865, Abraham Lincoln introduced the original ‘greenbacks’, which were paper money issued by the US Government, largely to pay for the Federal war effort during the civil war. It was ‘fiat’ money, money made legal tender by Act of Congress. Unfortunately, Lincoln died suddenly a few weeks later and his plans died with him.

In 1963, John F. Kennedy issued Executive Order 11110 which would have removed the power of money creation from all US private banks, including the privately-owned Federal Reserve, and invested that power in the US Government. Unfortunately, Kennedy died suddenly a few weeks later and his plans died with him.

The Problems of Debt

In the USA 100% of the money supply is created by the private banks. In Britain the figure is over 97%. In the rest of the world, the figure is estimated to be over 95%. All this money is created as a debt. It is created when people borrow money, as banks do not lend existing money; they just create new money out of thin air to lend.

Money created as a debt by the banks bears a charge of interest. This increases the amount of money that the economy owes by an amount greater than the amount in existence. This means that the economy is a saddled with a debt that can never be paid off, merely passed around like a game of Pass-the-Parcel in a Belfast pub. It is like a game of musical chairs, where someone has to lose out.

A Solution

Money does not have to be based on debt, nor indeed does it have to be based on precious metals. Real wealth is the goods and services that people create for each other. Money is merely a means of exchange. It could be

created by HM Treasury and spent on providing public services, saving us all a modicum of taxation, and then the economy would not have to be saddled with large debts.

The Money Reform Party

Like Baum and Bryan, the Money Reform Party recognises that the money supply is a political issue. The MRP has been created expressly to educate the British people about the money supply so that, through the greater awareness of the electorate (good witches, scarecrows, tin-woodsmen and Munchkins all), our cowardly lions... sorry, our politicians will no longer be able to ignore this vital issue.

Who Has Said What About the Creation of the Money Supply by the Private Banks

.Bankers

"The bank hath benefit of interest on all moneys which it creates out of nothing." William Paterson, founder of the Bank of England in 1694, then a privately owned bank.

"Let me issue and control a nation's money and I care not who writes the laws." Mayer Amschel Rothschild (1744-1812), founder of the House of Rothschild.

"The few who understand the system will either be so interested in its profits or be so dependent upon its favours that there will be no opposition from that class, while on the other hand, the great body of people, mentally incapable of comprehending the tremendous advantage that capital derives from the system, will bear its burdens without complaint, and perhaps without even suspecting that the system is inimical to their interests." The Rothschild brothers of London writing to associates in New York, 1863.

"Banking was conceived in iniquity and was born in sin. The Bankers own the Earth. Take it away from them, but leave them the power to create deposits, and with the flick of a pen they will create enough deposits to buy it back again. However, take it away from them, and all the fortunes like mine will disappear, and they ought to disappear, for this world would be a happier and better world to live in. But if you wish to remain slaves of the Bankers and pay for the cost of your own slavery, let them continue to create deposits." Sir Josiah Stamp, President of the Bank of England in the 1920s, the second richest man in Britain.

"I am afraid the ordinary citizen will not like to be told that the banks can and do create money. And they who control the credit of the nation direct the policy of Governments and hold in the hollow of their hand the destiny of the people." Reginald McKenna, as Chairman of the Midland Bank, addressing stockholders in 1924.

"The banks do create money. They have been doing it for a long time, but they didn't realise it, and they did not admit it. Very few did. You will find it in all sorts of documents, financial textbooks, etc. But in the intervening years, and we must be perfectly frank about these things, there has been a development of thought, until today I doubt very much whether you would get many prominent bankers to attempt to deny that banks create it." H W White, Chairman of the Associated Banks of New Zealand, to the New Zealand Monetary Commission, 1955.

Politicians

"I believe that banking institutions are more dangerous to our liberties than standing armies." Thomas Jefferson, US President 1801-9.

"When a government is dependent upon bankers for money, they and not the leaders of the government control the situation, since the hand that gives is above the hand that takes. Money has no motherland; financiers are without patriotism and without decency; their sole object is gain." Napoleon Bonaparte, Emperor of France.

"If the American people ever allow private banks to control issue of their currency, first by inflation, then by deflation, the banks and the corporations will grow up around them, will deprive the people of all property until their children wake up homeless on the continent their fathers conquered. The issuing power should be taken from the banks and restored to the people, to whom it properly belongs." Thomas Jefferson in the debate over The Re-charter of the Bank Bill (1809).

"Money plays the largest part in determining the course of history." Karl Marx writing in the Communist Manifesto (1848).

"The government should create, issue and circulate all the currency and credits needed to satisfy the spending power of the government and the buying power of consumers. By adoption of these principles, the taxpayers will be saved immense sums of interest. Money will cease to be master and become the servant of humanity." Abraham Lincoln, US President 1861-5. He created government issue money during the American Civil War and was assassinated.

"The death of Lincoln was a disaster for Christendom. There was no man in the United States great enough to wear his boots and the bankers went anew to grab the riches. I fear that foreign bankers with their craftiness and tortuous tricks will entirely control the exuberant riches of America and use it to

systematically corrupt civilisation." Otto von Bismark (1815-1898), German Chancellor, after the Lincoln assassination.

"That this House considers that the continued issue of all the means of exchange - be they coin, bank-notes or credit, largely passed on by cheques - by private firms as an interest-bearing debt against the public should cease forthwith; that the Sovereign power and duty of issuing money in all forms should be returned to the Crown, then to be put into circulation free of all debt and interest obligations..." Captain Henry Kerby MP, in an Early Day Motion tabled in 1964.

"Banks lend by creating credit. They create the means of payment out of nothing. " Ralph M Hawtry, former Secretary to the Treasury.
"... our whole monetary system is dishonest, as it is debt-based... We did not vote for it. It grew upon us gradually but markedly since 1971 when the commodity-based system was abandoned." The Earl of Caithness, in a speech to the House of Lords, 1997.

Others

"Money is a new form of slavery, and distinguishable from the old simply by the fact that it is impersonal - that there is no human relation between master and slave." Leo Tolstoy, Russian writer.

"It is well enough that people of the nation do not understand our banking and money system, for if they did, I believe there would be a revolution before tomorrow morning." Henry Ford, founder of the Ford Motor Company.
"The modern banking system manufactures money out of nothing. The process is, perhaps, the most astounding piece of sleight of hand that was ever invented. Banks can in fact inflate, mint and un-mint the modern ledger-entry currency." Major L L B Angus.

"The study of money, above all other fields in economics, is one in which complexity is used to disguise truth or to evade truth, not to reveal it. The process by which banks create money is so simple the mind is repelled. With something so important, a deeper mystery seems only decent." John Kenneth Galbraith (1908-), former professor of economics at Harvard, writing in 'Money: Whence it came, where it went' (1975).

Understanding the Credit crunch

Since the Northern Rock crisis erupted it has become evident that the both the country and the world are facing a major economic crisis. With major banks collapsing, and other pillars of the commercial world seeking bailouts, we are facing a recession if not something worse.

The recession will have the same cause as every recession for the past two hundred years. To quote the famous economist Milton Friedman: 'I know of no recession that has not been preceded by a reduction in the money supply, nor

of any reduction in the money supply that has not been followed by a recession.'

Debt-based money

In a nutshell the cause of the 'credit crunch' that is now facing the world is the high levels of debt being borne by large numbers of individuals. There is so much debt that increasing numbers of loans are defaulting, but the world's economy depends upon people borrowing. The solution now presented by the world's leading central banks to a problem caused by excessive borrowing is to encourage people to borrow more!

Contrary to popular assumption, there does not exist a large permanent medium exchange or stock of money. The permanent stock of money is very small. In Britain it amounts to only 3% of the total money supply, with similar proportions prevailing throughout the other major economies of the world. This permanent money stock, called 'M0' by economists, consists of notes and coins, which are brought into circulation by the Bank of England, contributing a 'profit' to HM Treasury of over one billion pounds sterling each year.

The remaining 97% of the money supply, called 'M4' by economists, is brought into existence by the lending practices of the 'High St' clearing banks. All this money is based on debt. It only exists when someone borrows from a bank, and it disappears when a loan is repaid.

New loans for old

Within an economy, there is a continual stream of people taking out new loans. What is important however, is that the amount of new loans that are taken out exceeds the amount of old loans being paid off, because the new money that is created as new loans has to match the repayment of BOTH the principal and interest of the old loans. This matching of more new money borrowed to old money paid off is achieved by a combination of inflation and expanding the market for bank loans.

In times past, banks never lent money to people on low incomes. Indeed, before the banking revolution of the 1980s, lending to any individuals was only a small part of their business. Before this time, most home mortgages were provided by building societies which, not being part of the bank clearing system, could not create new money as credit. This actually meant that house prices where limited by the amount of the deposits held by the general population. Since the banks taken the lion's share of the home mortgage market, house prices have rocketed.

Structured Investment Vehicles

With the increasing need to expand the circle of borrowers, banks have inevitably begun lending to people who are less and less likely to be reliable payers – the sub-prime market. These are high risk investments, but often with higher interest rates potentially offering higher returns, and clever people working for banks for large salaries have come up with ingenious ways of selling on these high-risk debts in a raft of Structured Investment Vehicles (SIVs).

Anyone who has wanted to buy dollars over recent years - still the the world's major currency - and does not want a pile of grubby bank-notes, but wants a nice, 'sophisticated' investment portfolio will be offered an SIV. For a top-rated SIV, it will have nothing but loans to secure 'blue-chip' companies, or so the theory is. However, the clever 'financial engineers' in the leading American banks, who want to off-load their more riskier investments, are quite adept at slipping in some high-risk, sub-prime toxic sludge into the mixture. So adept are they, that for much of this toxic sludge no one knows where it is and who is going to lose out when the loans default.

Increasing numbers of loans will default because increasing numbers of people are in debt. Even with historically low interest rates, defaults will rise. This is not the consequence of some arcane economic theory, but a simple matter of basic arithmetic, understandable to any child who has ever played 'musical chairs'. More money is needed to pay off a loan than is created by that loan, so people have to compete against each other just as children have to compete in musical chairs. Even though ever more is created (in itself causing the problems of inflation), the amount of total debts continues to rise faster than the money supply available to pay those debts.

This is bad news for lots of ordinary people, but it is also bad news for many banks themselves.

Bank credit

When a bank creates new money in the form of a new loan to a customer, it basically hopes to offset that loan against the new deposits that it receives drawn against other banks. Banks do not lend out existing deposits to new loan applicants because their current deposits are already earmarked against previously made loans. All the clearing banks make loans which leave them liable to claims against them from other banks into whom their new credit money is paid, and they themselves receive deposits which are effectively their claims against the other banks.

These various claims are balanced out through the bank clearing system. It is the bank clearing system that enables banks collectively to create the 97% of the British money supply that is based on debt.
When a bank lends out much more in loans than it receives in deposits, it has to arrange to borrow the difference from those banks who (inevitably) will have received more deposits than loans. In Britain, this is is done through the London Inter Bank Offered Rate (LIBOR), the interest rate at which the banks

lend to each other. Normally, banks are happy to lend to each other as the business is easy to conduct and very secure.

The Northern Rock's business plan depended heavily upon LIBOR. It offered very cheap mortgages, which many people across the country sought out, even without a local NR branch. These cheap mortgages could be offered because the NR did not have a large and costly branch network. Lacking such, it did not attract many depositors so it covered its loans through LIBOR. The trouble for the Rock grew when many SIVs began to fail. Banks became worried by their own exposure to these high-risk investments, as no one could be quite sure where all the toxic sludge was, but perhaps more worried about the exposure of the other banks. So to reduce their own risks, those more credit-worthy banks stopped lending to the more exposed and the Northern Rock found itself short of funds.

As banks do not lend existing deposits, but create new money when they lend, every time a bank makes a loan it leaves itself at risk at being unable to cover that loan either with new deposits from customers or with a LIBOR loan from the other banks. In a world of increasing uncertainty, banks have become more cagey about lending, and have increased their interest rates both to each other and their customers when they do, to cover the perceived increased risk.

A shrinking money supply

If the banks stop lending to each other (and businesses and the public), the money supply will decline. With less money in circulation to be earnt as business incomes and wages, more people will default on their loans, causing even less money to circulate, so that more businesses will collapse, unemployment will rise, and so into a downward spiral. There will be a recession. Hence the need to encourage more people to keep raising their level of borrowing.

The current credit crunch is not the first in economic history. Similar events have occurred over at least the past two hundred years, but many of the circumstances of today's situation are unprecedented. For example the level of debt money in the economy is higher than ever before. In the 1930s, it amounted to about 50% of the money supply, so 50% was not debt-based and unaffected by any credit squeeze. Now the debt-free element is down to 3%.

Levels of personal debt are higher than ever before, both in real terms and as a proportion of total UK debt. In times past a higher level of the debt burden was borne directly by Government and only indirectly by individuals as taxpayers. Few people worry about their share of the National Debt, whereas even far smaller amounts of personal debt can be damaging to family well-being.

The complexity of the global money markets, hiding and disguising the toxic sludge in the system is a new phenomenon, so it may be many years before

the banking system becomes confident enough to resume the high levels of lending of recent years, and it is worth noting that for much of the industrialised world, the Great Depression only came to an end with the re-armament of the Second World War.

Academic economics

Conventional economic thinking, which accepts debt-based money as the only way to run an economy, requires an economy to be permanently balanced between an inflationary boom and a deflationary recession, although it is also possible to have the worst of both worlds in the form of an inflationary recession or stagnation (stagflation). What is not possible with a debt-based money supply is an economy that is neither recessionary nor inflationary. It is a simple matter of mathematics, the amount of money created as principal can never match the same amount of principal plus interest.

Such a finely balanced and inevitably problematic way of running an economy sets up a mystique over economic matters. Economists are consulted by politicians and journalists and their pronouncements are treated like holy writ. This is strange, given the lamentable state of the world.

In a world of enormous actual or potential wealth, even without wrecking the environment, the peoples of the world should be enjoying peace and plenty, and should have done so for at least the last one hundred years thanks to modern technology. Instead, through the entirely artificial process of creating shortages of money - an entirely artificial and arbitrary concept - abundance of real wealth has been turned into shortages and privations.

When economists talk glibly of the business-cycle is easy to assume that this is a natural phenomenon on a par with the natural laws of the world and as irrevocable as gravity or the speed of light. This is not so. The business-cycle, booms and busts, recessions and recoveries, are but a consequence of our entirely artificial debt-based money supply. A productive economy, physically able to provide all the things that its people require and many of the things that they desire could function quite adequately without inflation, recessions, house-price booms, unemployment or the large-scale debt that are the features and necessities of a debt-based money supply.

Reform required

Only by replacing a debt-based money supply with a debt-free money supply can long-term sustainability be ensured, for the economy, for the planet and for the people of the world. The Money Reform Party exists to educate the British people and their politicians about the nature and origin of the money supply and campaigns against the creation of the money supply by the commercial banks. Since the Northern Rock crisis erupted it has become evident that the both the country and the world are facing a major economic crisis. With major banks collapsing, and other pillars of the commercial world seeking bailouts, we are facing a recession if not something worse.

The recession will have the same cause as every recession for the past two hundred years. To quote the famous economist Milton Friedman: 'I know of no recession that has not been preceded by a reduction in the money supply, nor of any reduction in the money supply that has not been followed by a recession.'

Money reform for a truly free market

Introduction

The shopping area of any moderately sized British town stands as a testament to people’s natural enterprise and creative spirit that, coupled with modern technology, has given the 21st century citizen of the ‘First World’ countries more material goods than any other civilisation in history.
Some might argue that it is all evidence of a free market. Yet how truly free, in any sense, is the economy upon which we all depend for our material well-being?

Free Market Theory

The grand free market theory, which was espoused at the start of the Industrial Revolution by Adam Smith, and which saw off the antithetical theories of Marxism/Socialism/Communism at the end of the 20th century, rests of the idea of the labourer being worthy of his hire - of an individual’s, or a company’s, or a country’s income equating the value that they themselves have contributed to the common weal.

This simple concept contains within it all that is required for an economy which is inherently self-governing, with little need for outside interference, and in the modern world, with all our technology and capacity for creating goods and services, the matter of providing those unable to provide for themselves should be so readily within our capacity that it will even less of an issue than it was in the days of Adam Smith.

Any distortion of this simple maxim, of people either being paid significantly less than that which they have contributed or earning significantly more than that which they have contributed will result in an imbalance within an economy which can only be resolved by cumbersome and inherently bureaucratic procedures.

Comparisons

With all the above in mind, let us now consider two rather extreme examples which will serve to test whether we do indeed have a truly free market.

Consider on the one hand an experienced and highly qualified nurse, who works, let us say, in an intensive care ward where saving lives is a matter of weekly, if not daily routine. At the present time he or she can expect to earn a salary in the range of £20,000 to £30,000 per year. Living in the south east of England, s/he might have difficulty in buying a good property near to his/her place of work.

Then on the other hand someone who spends his days trading in foreign currencies as an employee of one of the major financial institutions. His salary is liable to be ten times that of our nurse, but is his contribution to the economy and to the nation's common weal ten times as great?
In addition to a palatial residence in a desirable suburb a short Porsche drive from his place of work, he is able to take advantage of very low mortgage rates from his employer to purchase a second home in the country, which, of course, is let out at times when he does not wish to use it in order to further enhance his income.

Both of these individuals will be working in highly stressful occupations which might cause them to move out into other areas of activity, but in finding their replacements how many banks are reduced to recruiting staff for their trading departments from 'Third World' countries? A policy that is forced on the NHS because the amount of money in the public purse available to fully reward the country's medical staff is insufficient.

A Walk Down the High Street

Another way of considering how truly free is our market economy is walk down your local High Street and consider how each business operates.
Many retailers work by buying goods in bulk and selling them individually. This is essentially the service that they offer. They spend a large sum on buying goods, they add a very small amount of value (i.e. making items available individually) and they hope to sell sufficient to cover their over-heads and make a profit.

Other shops and businesses sell services, such a hair-stylists and painters and decorators. They actually buy very little, but they add a great deal of time and effort, and it is that time and effort that we pay for when we buy a product or service through them.

Yet in each case the amount that a business can earn is limited. Retailers by the amount that they can afford to buy and store and display at any one time, service providers by the amount of time it takes them to undertake their work.
Banks are different. In a sense they act like money-retailers, buying in money by paying their depositors a sum of interest, and then selling the use of that money at a higher rate to their borrowers, but there their similarity ends.
Imagine any other retailer who could sell ten times the amount of stock that they bought from the wholesaler, whose storage and transport costs were virtually nil, whose stock could never run out, or be shop-soiled, or go out of date, or malfunction. It would be difficult for such a business not to make massive profits.

Competition

Different shops and businesses in our high streets are not usually seen to be in direct competition, but they still are in competition for some things A business's viability often depends upon its location, so different shops are in competition for the best sites. Who usually has the best sites right in the centre of town?

Different businesses compete for staff, so who can pay the best for their front-line retail staff?

Different businesses compete as creditors when another business goes bankrupt. Who is first in the line for compensation when insolvency occurs?

The Last Great Subsidised Industry

The triumph of the 'free-market' during the 1980s and 90s, saw whole sectors of the British economy removed from state support and required to survive in the rigours of the market place, but one large sector of the British economy is still effectively in receipt of a massive subsidy from the rest of the economy. Money is a necessary means of exchange that enables businesses and individuals within a complex economy to provide goods and services for each other. Money is not wealth itself, but is merely the means to command that wealth that has been created by others.

To allow one sector of the economy to create money for its own private gain is tantamount to giving that sector the right and capacity to sponge off the efforts of everyone else. It represents a subsidy to that sector which, inimical to a truly free market economy, is causing many problems that are only alleviated by the existence of a large and cumbersome bureaucracy.

A Truly Free Market

The present system is legalised counterfeiting. How many people would regard that as legitimate free-enterprise?! A truly free market will only be achieved once the power to create money has been removed from the private banks and invested solely in national or local government for the benefit of the public purse.

House Prices

Most of the debt in the UK is borne by individuals in the form of mortgages. Between 1960 and 1996 total UK mortgage borrowing rose from £3,350 million to £409,433 million. Since then, it has more than doubled, passing the £1 trillion point in May 2006. This is mainly attributed to banks getting into the mortgage lending business (and many building societies demutualising and becoming banks) in the 1980's. As banks are not limited to lending out only

the amount deposited with them, but can create as much 'money' as they wish in the form of loans to house-buyers, we now have a situation of an unlimited amount of money chasing a finite housing stock, which is a recipe for inflation. Mortgages are commonly accepted as the normal way to 'purchase' a house. Indeed, most people who have a mortgage would describe themselves as 'owner-occupiers', when really the bank owns the property until the debt has been paid.

The word 'mortgage' means 'death-pledge' or 'death grip'. It stems from medieval times when mortgages were a method of raising money on a property that you already owned outright if you had fallen upon hard times. It was seen as a last resort.

If you fail to keep up repayments on your mortgage the bank has the right to repossess your property. The fact that banks don't actually have he money they loan you is overlooked, but they will get that money back either by your repayments, or by repossessing your house and selling it!

In the early 1900's the idea of individuals borrowing vast sums of money against their future income was not entertained. Old sayings like "neither a beggar nor a borrower be" and "if you want it, you've got to earn it" were commonplace, and warn of the dangers of borrowing.

It is was only in the interwar years that people started to buy his or her own homes rather than rent. Once borrowing money against your house had become established, pretty much everyone wanted to do it.
Houses in the 1930's were cheaper relative to income than now. They were about twice a man's annual salary, and buyers had more money to put down as a deposit, generally about 25%. The average life of a mortgage was about 8 years - not because it was transferred to another property, but because it was settled early.

Nowadays many mortgages take two annual incomes into consideration and 100% mortgages are common. In America, some lending authorities don't even ask about income, they just lend! - Confident that they will get their money one-way or the other (repossession).

Ultimately, the price of houses doesn't reflect the price of the properties (although that is relevant, see business) or how much we can afford to pay, it is dependant on what we can be persuaded to borrow.
When the prices of our houses are escalating, those of us who are owner-occupiers appear to do well out of the housing market. But we only make money if we sell up and move out of housing. Meanwhile, first time buyers have an increasingly hard time trying to get onto the property ladder.

When confidence fails in the housing market, people who have been persuaded to borrow beyond what they can reasonably afford face paying back a loan on a property that is 'overvalued', repossession or houses that they can only sell at a lower value than the price purchased.

We also have a situation now, where more people are re-mortgaging their properties to help their children buy a house, to help them through their retirement or pay for a new bathroom/kitchen/extension. This in turn means that less property is passed down to the next generation.

So why did successive governments site back and allow – even encourage – the increased borrowing which has now driven property prices up beyond the reach of most first-time buyers?

When we remember that mortgages provide the country with around 60% of its money supply, it seems reasonable to assume that any loosening of the criteria for borrowing served a definite political and economic objective. Relaxation of the rules has certainly led to a massive expansion of the money supply by making it possible for people to take on previously unthinkable quantities of housing debt.

The result is that housing costs now absorb 17.5% of the average UK homeowner's income after tax. In 1960, the comparable figure was 9.5%, and remembers in those days 'household income' would usually refer to one full-time wage, whereas today it generally includes two.

For the banks, the property bubble is a huge money-creation bonanza. For the government, it is a valuable source of revenue, as stamp duty and capital gains tax roll in, and inheritance tax thresholds fail to keep up with grossly inflated house prices. Not to mention the fact that all those debt-soaked property 'owners' are obligingly taking on, at their own risk and expense, money supply duties which should be shouldered by a public authority.

However, there has never been a bubble which didn't burst, and unless this one is the exception to the rule, the excessive borrowing fostered by bank and government policy may once more end in negative equity and widespread repossessions.
As long as governments rely on systemic debt to put money into the economy, it is in their interests to keep mortgage lending high and you and your children will be the ones to suffer!

The significance of falling house prices

Mortgage approvals reach record low

On 24th June 2008, the British Banker's Association reported that mortgage approvals for May 2008 were 56% down on the same time last year. Overall, during 2008, the value of home mortgages is down 57% compared to the same time in 2007.

If this trend continues, then with much less money available to house buyers, house prices can be expected to plummet. People with houses to sell will try to resist this trend by asking for the higher prices that they have come to

expect, until it becomes apparent that, in a falling market, those who sell soonest will get the best price.

A fall in house prices will be good news for first-time buyers and others wanting to move up the property ladder, but only if they are lucky enough to secure one of the increasingly rare mortgages. People who have avoided the borrowing and spending binge of the last decade, and carefully saved up their money, will find their prudence paying dividends now.

By contrast, those who thought that ever rising house prices would guarantee them a pension in their old age through equity release or down-sizing will discover that they have been led up the garden path by financial commentators.

Wider concern

However, the fall in house prices and the restriction on mortgages that has caused it presages a period of concern not only for established home-owners but for everyone.

The reason for this is the extraordinary but plain truth that, when banks lend out money to borrowers, they are in effect creating the nation's money supply by their very process of lending. They create credit out of thin air which borrowers spend as if it was 'real money' and so it becomes the currency of the nation. So our money supply is created out of the debts of borrowers! This money creation process occurs no matter who might be the borrower, whether the Government, a corporation, or a private home-owner, but mortgages are important because over recent decades they have created 60% of the nation's money supply.

The house-price bubble

House prices were able to over-inflate so excessively because there was no limit to the amount of money within the housing market. It was created as the very mortgages used to buy the houses!

Once the banks had begun to bend their own rules about how much buyers could borrow (up to five times a couple's joint income), the banks could lend as much as people were prepared to borrow, and with house prices shooting ever skywards, people were desperate to buy in fear that they would be left behind.

The bubble bursts

When banks create an asset for themselves in the form of their customer's mortgage (which word is derived from French and means 'death-bond'), they also create a liability for themselves within the money markets. Usually the customer's repayment of their mortgage more than pays for this liability.

Should the customer default on their debt, the sale of the repossessed house will cover the bank's liability, unless of course, there is no one available who can afford to buy a house at the top of the market whose own mortgage-to-income ratio would not be so high as to make them likely defaulters themselves.

When houses could no longer be sold for their asking price, house prices began to fall, and those banks with too many unsold repossessed houses on their books discovered that their assets started to fall in value below their liabilities. Suddenly, the banks became very risk averse, granting mortgages with very much smaller income multiples than before and then only with large deposits to safeguard themselves from negative equity. This is the credit crunch.

Bad news all around

This might be good news for some first-time buyers, but it is bad news for the economy. Extraordinary though it might seem, without the continuing rise in the value of new loans being granted year-on-year, the economy will begin to run out of money. With 60% of the total UK money supply being based on mortgages, a 56% drop in the value of mortgages will mean a 33% drop in the nation's money supply. This will not happen over-night. It will take a year or two to feed through into the economy, but it will happen unless action is taken.

To put this into perspective, the Great Depression is reckoned to have been caused by a 27% drop in the money supply. The current figures, and the fact that both Britain and the world is much more heavily dependent upon debt-based money than it was 80 years ago, suggest that the economic difficulties towards which Britain is now blindly drifting could be much worse that the 1930s.

The Government's choices

Faced with this prospect, the Government has two choices (short of fundamental money reform). It can increase its own borrowing, thus replacing private borrowing by public borrowing as the means of creating the money supply, or it can drop base lending rates in order to encourage greater private borrowing.

Increased Government borrowing will only put off the problem for another few years (and another Government), placing an increased burden of taxation on future generations.

Increasing private borrowing, especially if it is directed towards consumption rather than production, will simply increase the rate of inflation as more money floods into the economy.

The present Government's own rules about the amount it can borrow and the level of inflation it can permit deny it both of these options, so its strategy

seems to be centred around doing nothing and hoping that the bad times will pass, like a spot of bad weather.

Stagflation

Stagflation, a combination of a stagnant economy with inflation, was a feature of the 1970s, and it might be with us into the 2010s, yet according to conventional economic theory, stagflation is impossible.

A stagnant, recessionary economy is a consequence of insufficient money in existence to enable the economy to flourish to its full potential. Inflation is the existence of too much money chasing too few goods. Stagnation and inflation cannot, in theory, occur together. That they can and do is a consequence of our debt-based money supply. Money created out of thin air as credit, such as mortgages, is not limited by any controls, and can be created without regard to national production. However, as the money supply increases so the amount that needs to be extracted from the economy to pay the interest on this credit increases even faster, so there is less for ordinary spending, businesses suffer and the economy faces recession. With debt-based money, there can be both too much and too little money within the economy at one and the same time!

Money Reform and the Control of Inflation

What is inflation?

Inflation is the depreciation of the value of money. It is experienced by individuals and businesses as an increase in prices, as more money being required to buy an amount of goods and services than hitherto.

It is caused either by there being too much money in circulation for the goods and services available or by a shortage of one or more items, particularly major items (such food, oil, etc.). It will be seen that these two causes are essentially different sides of the same coin, reflecting the changing availability of goods and services to the amount of money that there is. An increase in the money supply will tend to cause general inflation, whilst a shortage of a particular item will tend to cause price rises only for that particular item.

Whatever the immediate cause of inflation, the nature of the money involved is irrelevant. A pound has the same buying power at any given moment, whether it was created as a pound coin in the Royal Mint or as a computer entry as part of a bank loan.

Economic Detriment

Inflation is detrimental to an economy because it causes instability and uncertainty. People are less likely to save and invest if the value of their savings and investment is undermined by inflation. If money loses its value very rapidly, the prudent person will spend their money as quickly as possible to get maximum benefit from it.

During the 1970s, Britain experienced double figure inflation which exacerbated industrial unrest as people agitated to get pay rises to maintain their living standards. As a consequence of this experience, British governments have made the control of inflation a central part of their management of the economy.

The high levels of inflation of the 1970s and 80s were caused by rapid rises in oil costs and by the disconnection of the US Treasury bond from gold in 1971. The rapid growth in the money supply during this period was due to a rapid rise in bank lending, as bank deposits were no longer tied to gold.

No Control Over the Money Supply

Unfortunately, as the creation of the money supply has slipped further and further out of the hands of the government, the government has been left with no direct control over the amount of money within the economy and hence of no direct control over this side of the 'money = goods' equation.

The only marginal influence that a government agency has over inflation is through the bank base lending rates set by the Bank of England's Monetary Policy Committee which meets once a month. (Before 1997, these rates were set by the cabinet). Raising interest rates reduces borrowing and so reduces the amount of money that is borrowed into existence, but higher interest rates themselves add to inflation as businesses pass on their higher costs to customers.

Inherently Inflationary

A further feature of the impact of interest-bearing debt money, such as money that is created when someone takes out a bank-loan, is that more money is needed to redeem the debt than money is originally created, because of the need to pay interest upon it.

In other words, in order to meet the interest payments upon money created as an interest-bearing debt, more money has to be created, and if that extra money is also created as an interest-bearing debt, then more money has to be created in order to meet the interest payments on that money! And so it goes on.

The nature of money created as an interest-bearing debt is thus inherently inflationary. It might only be at quite low levels of inflation, in the region of 3% or 4%, but it is insidious and unstoppable year on year, underlying whatever

other inflationary pressures there might also be within the economy, for example from oil price rises.

Inflation-Free Money

The only way to eradicate this inflationary tendency would be to replace money that is created as an interest-bearing debt with money that is NOT created as an interest-bearing debt, money that does not require an additional sum, over and above the amount created, to be paid as interest.

It would be quite impossible for private banks to issue such non-interest-bearing money. Without the application of a rate of interest to a loan, even at a very modest rate, there would be no incentive for a borrower ever to repay a loan.

Therefore, such non-interest bearing money would need to be created by statutory authority. This interest-free and debt-free money, created by the government, would further benefit an economy by reducing the need for taxation. This new government-created money would not need to be created entirely as cash, as it presently is, given the declining use of cash. It could be easily created as a sum in a government bank account (with the Bank of England), and spent upon public works accordingly.

Of course, care would need to be exercised that neither too much nor too little money was created in this fashion, and the monitoring of inflation within the Bank of England's Monetary Policy Committee would be a good basis for assessing the amount of money needed to be put into circulation by government spending departments.

Avoiding Hyper-Inflation

Elsewhere in the world, the excessive issue of a currency has often given rise to inflation, even to hyper-inflation in some cases. In many modern day developing countries, for example, some governments have proved themselves to be quite irresponsible in very many ways, their poor financial control being just one of their failings. The poor management of their economies is no more an argument against our government issuing money any more than their poor record on human rights is an argument against Britain having a police force.

Nearer to home, the extreme example of inflation that still casts a long shadow over monetary policy is the hyper-inflation of the German mark in 1923. In December 1923, the value of the mark had fallen to 4,210,000, 000 to the dollar. The reason for this collapse in the German currency was that following her defeat in the First World War, Germany has required to pay reparations. These were priced in marks. So the more marks that were printed off, the quicker the reparations would be paid.

Direct Control

Such examples of hyper-inflation have no relevance in modern Britain. Instead, given the central role that the control of inflation has within the policies of all of the major parties, possessing direct control, rather than distant influence, over the money supply would make this policy all the more easier to attain.

Further counter-inflationary measures would also be enabled by the issue of money solely by the government. Its need to tax would be reduced and so both consumers and producers would be better off without having to seek price or wage increases. Also, the government would have more money available to spend on projects to reduce the inflationary impact of diminishing resources. Enabling more energy conservation and renewable energy projects to be financed to mitigate the impact of increasing fossil fuel prices upon the economy.

Debt

As we survey the world scene of worsening poverty and the growing enslavement of entire peoples to corporate power, several common denominators emerge from this heaving sea of human misery.

Those most marked of these is the prevalence of debt. Debt has become a mire from which the people of this planet are increasingly unable to extricate themselves. Despite fantastic efforts, involving tremendous sacrifice and hardship, they are sucked ever deeper.

By 'people' we mean all people. Most people, as individuals, are personally in debt. Most businesses are in debt, many so much that they no longer operate on profit margins but on the size of their outstanding loans and overdrafts. Most, possibly all, major corporations, the giants of the world economic stage, are likewise so insolvent they can only appear solvent on paper by voraciously plundering assets, which they can offset against their mounting debts. Virtually all governments the world over are so overwhelmed by national or Third World debts, they see no hope of ever becoming solvent. The bigger and more prosperous the nation, the more heavily mortgaged it is. The United States is the most indebted nation on Earth.
The current financial system depends banks issuing loans to supply 97% of 'money' into the economy. Thus almost the entire money stock is supported by vast debts in four main sectors:

- Personal debt.
- Commercial debt.
- National debt.
- Third World debt.

Personal Debt

Are the Banks out of Control?

At the time of writing (2005), personal debt in Britain has reached the trillion pound mark (£1,000,000,000,000), which amounts to some £16,000 of debt for each of the country's 60 million inhabitants - £16,000 for every man, woman and child.

Not everyone has this level of indebtedness. Most people probably have no debts at all, but this just means that the amount of debt borne by those who have them is even greater. Much of this debt is in the form of mortgages at very low rates of interest, but much is in the form of unsecured loans, at much higher rates of interest. These are reckoned to average out at some £7,000 per household.

To the uninitiated in money matters, this high level of borrowing may also be indicative of a high level of saving. After all, people can only borrow what other people have deposited as savings. True?

False. It is no coincidence that the upsurge in personal borrowing in recent decades coincided with banks getting more involved with mortgage lending, with the demutualisation of many building societies and with the spread of the use of credit cards, which are, of course, backed by the major high street banks.

The Fractional Reserve Banking System

The privately owned high street banks do not lend out their saver's deposits as loans to those customers who wish to borrow. They never have. Instead these deposits act as a reserve on any calls that banks have on their money over and above the normal in-flow of funds. It is called their fractional reserve. Instead of lending actual cash money to borrowers, the banks have only ever lent 'credit'. However, this credit is used by individuals to buy homes and to spend through their credit cards, overdraft facilities and arranged loans. It is also used to run businesses, to pay employees and suppliers, who further use it to run their own finances. Governments borrow it for public spending when income from taxation is insufficient.

This bank-created credit now forms some 97% of the British money supply (with similar ratios affecting all the world's major economies), and it has effectively become money. If a person borrows, say, £100,000 from a bank to buy a house, they regard that sum as money. It gets paid into the vendor's own bank account and they also regard it as money and spend it as money.

The amount of credit lent as a proportion of money held on deposit has always been a matter for nice judgement by the individual banks. The more they lend the more profit they make, but the more exposed they become, if too many customers want their money back in the short term. During the 18th and 19th centuries, private banks often collapsed due to a 'run on the bank'.

Nowadays, the banking system as a whole tends to rally round to prevent any one bank collapsing, if only because they are all so bound up with each other.

So by the 20th century a figure of 15% was established as a suitably 'safe' exposure - the prudent fractional reserve. This meant that for every £100 that a bank had out on loan, it had £15 of savings held on deposit to cover the loan. This was the equivalent of a bank lending out each of its saver's deposits six times over. This was a fabulously profitable way of working, but it did at least impose a degree of constraint upon bank lending.

Bank de-regulation in the 1980s and the decline of the use of cash has ended even this modest constraint.

No Reserve

The use of cash has declined from 46% of the money supply in 1946, to 21% in 1972 and now down to 3% today, making this 15% 'safety' figure cease to have relevance. A reduction of cash to just 3% of the money supply suggests that the 'fractional reserve' of most banks has also fallen to a similarly low level. In other words, banks can and do lend to the amount of over 30 times their depositors' savings. To all intents and purposes, with such a tiny amount of reserve required and as cash is now so little used, there is virtually no restraint upon the amounts that banks may lend.

There certainly is no government control upon bank lending. The only influence by statutory authority is an increase in base interest rates by the Bank of England's Monetary Policy Committee when inflation rises, indicating too much money within the economy.

In recent years, despite the growth in the money supply, both interests rates and inflation have been at a very low level. This may be because, despite there being so much money in circulation, a large proportion is in use simply to pay the interest on the high level's of borrowing. It is therefore not available, as historically it would have been, to allow high levels of inflation to occur with 'too much money chasing too few goods'.

Bad Debts Rising

This natural curb on both inflation and interest rates, caused by the straight-jacket of high levels of borrowing, should not allow us to be complacent, however. The level of bad debts is rising steadily. At the time of writing it is estimated to be in the region of 20%. In other words, the banks are losing about £20 for every £100 they lend.

Given that the money that they lent was created out of thin air in the first place, it is money that they can afford to lose. It just means that their profits are a few billion pounds less each year than they would otherwise have been.

For the individual borrowers concerned, however, this difficulty with indebtedness is not so easily dismissed, for the banks do not allow them to walk away from their commitments without difficulty. Homes are repossessed; businesses go bankrupt; county court judgements are imposed; debt-collectors are set onto people; sleepless nights become common; marriages break-down; spouses and children become the subjects of physical and emotional abuse; suicide is contemplated and even attempted.

All this is because the culture of thrift has been swept a away in an orgy of irresponsible lending. Everywhere, lenders are falling over themselves to push borrowing down people's throats. People are urged to sign loan agreements that they do not understand, proffered by people whom they do not know, to borrow money that they cannot afford, to buy things that they do not need.
Top of page

A Topsy-Turvy System

We have the most topsy-turvy credit rating system, wherein people with large amounts of debt are given good credit ratings and permitted to borrow more, whereas those who have a history of prudence, who have scarce ever borrowed before are given poor ratings and are penalised by high rates of interest!

This cavalier attitude on the part of the banks would be entirely curbed by the simple expedient of making it illegal for them to create money. Then they would have to very careful with the money that they lent out, as it would not have been created out of thin air. They could fulfil a useful and profitable role within the economy, but it would end their capacity to lend irresponsibly.

The Solution is Money Reform

The purpose of the Money Reform Party and its sole policy is to promote, by any legal means, the abolition of the power to create state-backed money (sterling) by private individuals or companies for private profit, and the investment of that power in national or local government for the benefit of the public purse.

How to cancel Third World debt

From Goodbye America by Michael Rowbotham.

Whenever Third World debt cancellation is discussed, it is automatically assumed that somebody, somewhere has to suffer a loss. Either banks must cover the losses, taxes must be raised or Western governments must foot the bill.

In fact, Third World debts could be cancelled with little or no cost to anyone. Indeed, cancellation would be not only the simplest process imaginable, but to

the general advantage of the world economy. All that is involved is a bit of creative accountancy – something at which the West has shown itself highly adept when this has suited its political purpose.

To appreciate this, it is essential to recall that the dominant form of money in the modern economy, bank credit, is entirely numerical. It is an abstract entity with no physical existence whatsoever, created in parallel with debt. Debt cancellation is therefore largely a matter of numerical accountancy. This is emphasised by the fact that only one factor prevents the immediate cancellation of all Third World debts – the accountancy rules of commercial banks.

Third World debt bonds form part of assets of commercial banks, and all banks are obliged to maintain parity between their assets and liabilities (deposits).

If commercial banks cancel or write off Third Words debt bonds, their total assets fall. Under the rules of banking, the banks are then obliged to restore their level of assets to the point where they equal their liabilities, usually by transferring an equivalent sum from their reserves. In other words, when debts are cancelled, normally banks suffer the loss.

The first option is to remove the obligation on banks to maintain parity between assets and liabilities, or, to be more precise, to allow banks to hold reduced levels of assets equivalent to the Third World debt bonds they cancel. Thus, if a commercial bank held $10 billion worth of developing country debt bonds, after cancellation it would be permitted in perpetuity to have a $10 billion dollar deficit in its assets. This is a simple matter of record-keeping.

The second option, and in accountancy terms probably the more satisfactory (although it amounts to the same policy), is to cancel the debt bonds, yet permit banks to retain them for the purposes of accountancy. The debts would be cancelled so far as the developing nations were concerned, but still valid for the purposes of a bank's accounts. The bonds would then be held as permanent, non-negotiable assets, at face value.

The cancellation of international debts is the key if Third World nations are to discover a path away from poverty and decline and towards more socially and culturally benign futures. The acknowledged need is for Third World countries to develop their agricultural and industrial infrastructure for their own domestic consumption and direct less effort towards export-led growth. While international debts remain, the export imperative remains.

The Third World cannot be said to be in material debt to the industrialised nations. The developing nations are in financial debt to international banks. But whilst not actually in material debt to the industrialised nations, because these bank debts are denominated in dollars, they are forced to behave as if they were in debt to the West, seeking a perpetual export surplus.

Money reform and climate change

Introduction

Perhaps the greatest intractable problem of our age is the matter of global warming. There are few now who question the fact that human activity is causing the world's overall temperatures to rise.

Although this rise may be only be a matter of a few degrees within a lifetime, it is not a matter for complacency. Warmer temperatures will not just mean that the Scots will be able to grow grapes and the English will be able to grow olives. Indeed, one consequence of climate change could be that the Gulf Stream changes direction and the British Isles lose their temperate climate.

To reduce sea-level rise, desertification, increasing hurricanes, habitat loss for some species, and a myriad of subtle changes which will impact upon each other to cause unimaginable changes, the global consensus is that human activity itself needs to change to reduce our impact upon the climate.

Locked-in to Present Patterns

As individuals and as societies, we are largely locked-in to our present lifestyle patterns. People need to earn an income in order to pay their way in the world. In order to earn money, they need a job, and to undertake their job, often one of a specialised nature, they need transport, frequently their own car, to get them to work.

Asking people to give up their car would be like suggesting that maybe they should just give up living (in order to help the planet). Frankly such an approach is a non-starter, yet motor vehicles are one of the biggest creators of green-house gases.

Governments around the world agree that something must be done to reduce green-house emissions, but all are reluctant or unable to take steps to seriously reduce them as there is such a large gap between the individual cause and the ultimate consequence.

Unifying Cause

Although climate change is the consequence of billions of individual decisions taken every day by people around the world, in a sense there really is only one underlying cause. People want to better themselves.

This is a natural human motivation and it is foolish to suggest any malevolent intent within it. People who do physically demanding tasks want machinery to relieve them of their labour. People would rather ride than walk for long

journeys. People want to do well in their careers, travelling to head-office each day rather than working at their local branch-office. People want their children to go to a good school, driving them the miles there and back each day if necessary. People want to be seen as successful amongst their peers, with all the trappings that success is assumed to bring.

Successful politicians necessarily have to tap in to this aspiration for betterment and they tend to do so with the word 'growth'.

'Growth'

'Growth' is the magic word in democratic politics. To be successful in government, a politician must be able to produce figures that have shown how the economy, the Gross Domestic Product (GDP), has grown under his stewardship.

Growth brings with it increased employment. It brings higher incomes to those in work. It assumes more goods and services, and increased government revenues for schools, hospitals and pensions.

Yet GDP figures do not only count all the good things that benefit us - food, clothing, housing, fuel, cars, entertainment, education, etc. It also counts all the things that the economy requires to overcome the problems that it creates for itself.

The cost of pollution, of ill-health caused by pollution, of the advertising that encouraged us to pollute in the first place and the bureaucracy that is installed to try and control that pollution all increase our nation's GDP. They therefore contribute to the 'growth' of our of nation's GDP, but they do not add to our betterment.

For example, the 'snack food industry' (crisps, etc.) is reckoned to contribute some £2 billion to the British economy every year, through all its processing, packaging, advertising, transport and distribution costs. Yet snack foods, eaten as they are in prodigious quantities by some, are unhealthy and create a burden on the NHS. The annual cost caused by them has been estimated as being some £2 billion.
Of course, the financial contribution of creating this health problem and the cost of alleviating it do not cancel each other out in the calculation of GDP. They are added together, to suggest that because we produce vast quantities of unhealthy food for our children and then have to spend more money in treating their health problems we are, as nation, £4 billion better off than if we did not.

Debt-Money Requiring 'Growth'

It can be seen therefore that a contraction in our economy, either at a national or global level, would not necessarily result in people being materially less well off. It would simply indicate that we had managed to curtail activities

which are detrimental to our well-being yet which are currently added to our GDP figures.

Yet the contraction of economic activity, even of that which is inimical to our well-being, is impossible in an economy that depends upon debt-based money for its money supply. Such money requires continuing growth in the money supply, and hence a growing GDP.

More money is required to repay an interest-bearing debt than the initial debt was worth, so if all our money is in the form of an interest-bearing debt, we have a debt that can never be repaid. The economy must 'grow' in conventional terms, not so much to increase our well-being, but simply in order to prevent a recession. Yet the more the economy 'grows' in conventional terms, the more money is borrowed into existence and the deeper the problem becomes.

Logical Absurdity

Unlike oil or gas or fresh water or agricultural land or clean air or a temperate climate or a protective ozone layer, money is not a natural phenomenon. It is an entirely human creation. It is not limited in amount. It can, quite literally, be created out of thin air (whether that air is clean or heavily polluted!).

Yet in our everyday patterns of behaviour, we waste our natural finite resources; we pollute and squander them; we discard and consume them in a myriad of different ways, all in order to better ourselves, and frequently in order to save money, as if money were a finite commodity. Such behaviour is the height of absurdity, yet is quite logical for individuals locked-in to a system of debt-based money.

Debt-Free Money Saves the Planet!

Although debt-free money could be used in some direct ways to reduce our impact upon the climate and upon the environment in general, such as building publicly-funded electric tramways to relieve our roads, its greatest impact will be in a number of rather subtle ways. It will remove the pressure to borrow, spend and work.
It will reduce the overall pressure that presently exists upon the economy to meet interest payments, because the economy as a whole will have no interest to pay. Taxes will be lower, reducing the pressure on businesses and households. Even so, more public money will be available to fund energy conservation measures. Finance providers will not be able to be so profligate with their lending, so everyone will be under less pressure to consume things that they do not need and cannot afford.

Transition towns

A Transition Initiative is a community working together to look Peak Oil and climate change squarely in the eye and address this BIG question: "for all those aspects of life that this community needs in order to sustain itself and thrive, how do we significantly increase resilience (to mitigate the effects of Peak Oil) and drastically reduce carbon emissions (to mitigate the effects of Climate Change)?".

The answer is a transition town that alongside lots of other ideas, uses "local money rather than global money" to help the local economy thrive.
be both too much and too little money within the economy at one and the same time!