The Case for Monetary Reform

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WHERE DOES REAL ECONOMIC POWER LIE?

The development of the global market, particularly in the spheres of free trade, the instantaneous movement of capital and the trading of currencies, means that to a very great extent national governments have lost the power to control their economies.

These developments have come about because most governments have accepted the theory that they should not interfere in the running of the economy but should leave it to businesss men and financiers.

The handing over of control of interest rates to central banks is confirmation that politicians have surrendered the economic field to financiers. Further confirmation is in the almost wholesale deregulation of financial markets.

Governments have the same attitude to the global markets. Around $2 trillion are traded daily on global currency markets purely for speculative reasons – to make profits, not to finance legitimate trade – and governments do nothing about it despite the damage caused to the value of their currencies and to their economies.

Further proof that financiers are in the driving seat is that they can make profit by buying majority shareholdings in companies. Then, using borrowed money, they can strip the assets – that is, sell off anything of value – sack thousands of employees and destroy whole sections of industries in order to pay good returns to shareholders and those who lent money. The market value of shares and the dividends paid are all that matter to them. The pivotal role of bankers and other financial institutions confirms that money and the pursuit of profit are the determining factors of economic activity. The financiers and the multinationals are in power, not the politicians.

We are at the mercy of profiteers who determine what shall be done and not done, and governments which stand aside and do nothing to protect the jobs or the well-being of the people.

In effect, governments have surrendered the interests and welfare of the people to the not-so tender mercies of financiers and tycoons. This should be seen as a dereliction of duty on the part of politicians who are there to serve the people.

LEARNING ABOUT MONEY

An essential part of this financially-dominated economy is the way money is created. Despite, the central role that money plays in all our lives, there is an appalling ignorance about it.

This ignorance is caused by the mystique which has been fostered by bankers and financiers that money matters are far too difficult for ordinary people to understand. They have spread the idea, aided and abetted by economists, that understanding and controlling money should, therefore, be left to the experts.

The truth is that the essential facts about money are simple. When they are known by the general public they will start asking questions and demanding that the government should do something about reforming the injustices which bankers are allowed to perpetrate. There will be a demand for governments to right the wrongs which banker control of money is causing.

5 WAYS THE MAN-IN-THE-STREET IS BAMBOOZLED

1. HE THINKS THAT MONEY IS CREATED BY THE GOVERNMENT, THROUGH THE MINT AND THE BANK OF ENGLAND, AND IT CONSISTS LARGELY OF NOTES AND COINS.

FACT – Only 3% of money is in the form of notes and coins created by the government.

2. HE BELIEVES THAT WHEN BANKS LEND MONEY THEN THE MONEY WHICH IS BORROWED IS THAT WHICH OTHER BANK CUSTOMERS HAVE DEPOSITED.

FACT – The money one borrows from a bank is not depositors' money at all. It is new money created by the simple process of writing the amount of the loan on the credit side of the borrower's account. Ninety seven percent of all money in circulation originates in this way. If banks actually lent their depositors' money it would not be available when they wanted it. If someone wanted to draw out money and was told, "Sorry, we've lent it to Joe Blow," he would be justifiably annoyed.

In other words, 97% of money is not "real" money at all but credit, just figures in a bank's ledger or computer. It is created out of nothing. Yet is used and accepted as real money. To all intents and purposes it is money. Borrowers buy houses with it, pay wages and buy raw materials with it, and spend it in many ways. Yet it is just figures in a ledger transferred from one account to another. It is called various things -- credit, bank-money, number-money, cheque-money, debt-money, electronic money. Whatever it is called, it is used and trusted because people know they can obtain real money, notes and coins, if they want.

3. HE BELIEVES THAT THERE IS STRICT CONTROL AND REGULATION BY THE GOVERNMENT, OF BANKS AND BUILDING SOCIETIES.

FACT – The belief that there are strict controls over what banks and building societies can and cannot do is also false. There are no statutory deposits which banks at one time had to lodge with the Bank of England. There are no fractional reserves of currency to be held by a bank as security for loans. All that has gone in the deregulation so beloved by financiers and, now, politicians. The only stipulation now is that banks must deposit with the Bank of England, 0.35% of their assets, which consist mainly of the loans they have made. This paltry percentage shows that borrowers have no real security, no proper regulations to protect them. The banks, however, have the property of borrowers, pledged as collateral, as security.

4. HE BELIEVES THAT THE INTEREST HE PAYS FOR THE LOAN IS A LEGITIMATE CHARGE BECAUSE IT IS OTHER PEOPLE'S MONEY HE IS BORROWING.

FACT – Interest is considered to be a recompense for lenders giving up the use of their money, for the sacrifice they make by not spending it on satisfying immediate needs or pleasures.

This may be so for depositors but it is not so for banks which create money out of thin air when they make a loan. They are charging a tribute – interest – for money which did not exist before the loan was made. So they are getting money, in the form of interest, for nothing. It would be legitimate for them to charge a fee for administering the loan but that would be far smaller than the interest they charge.

5. HE IS PERSUADED THAT IF HE CANNOT PAY BACK HIS DEBT THEN IT IS RIGHT THAT THE BANK SHOULD TAKE HIS PROPERTY TO REIMBURSE ITSELF.

FACT – The borrower owes a debt which has to be paid, in regular installments, plus the interest, or legal penalties come into force. If the borrower defaults – cannot pay – then his property which he put up as security for the loan is legally confiscated and used to reimburse the bank, no matter what distress and hardship is suffered by the borrower, be it the loss of a home or a business. Whatever the reason, debts must be paid, and on time. Remember, though, this money was created out of thin air. It was debt-money.

REMEMBER – 97% OF ALL MONEY STARTS AS DEBT

Most people, however, are in debt. The total amount owed is greater than the total money supply. Sixty per cent of debt is for mortgages. Business debt is increasing as more is borrowed to keep enterprises afloat with the intensification of competition caused by the global market.

There is a chronic shortage of ready money, which means there is not sufficient purchasing power to buy all the goods and services on offer. This endemic shortage of spending money is brought about because of the debt burden that most people have.

If they want to keep their homes and businesses they must make regular payments to service their debts.

This is the basic reason that governments are loath to raise direct taxes. It reduces still further people's spending money and the total demand for goods and services. As a result not enough government revenue is raised from taxation to meet essential services.

THE NATIONAL DEBT

The amount of the taxation shortfall is called the budget deficit and is compensated for by government borrowing from the private sector, mainly from banks.

The total of this debt is called the national debt. It has to be paid back, eventually, by the taxpayers. In practice, when the Treasury Bonds, which the government sells as a means of borrowing money from the private sector, are due to be paid, the government issues new bonds – borrows new money – to pay back the old ones plus interest.

Let us consider the money which the government obtains from banks buying Treasury Bonds. Where does it come from? You've guessed it. It is created out of thin air, in the same way as the money for your mortgage was. It isn't real money. It's credit, debt-money. When financial enterprises such as pension funds or insurance companies buy Treasury Bonds, also called gilts, the money used is the savings of their customers so it is money already in existence being recycled, used again.

The money banks use to buy gilts is not. It's created on the spot, out of nothing. So the government is in hock to the banks for money which did not exist until it was borrowed.

At this point you are most likely asking the same question which many people are now asking. If the banks can create money out of nothing to lend to the government as debt, with all the burdens that places on the taxpayer, why on earth doesn't the government create money for itself, at least for public services, and remove the burden of having to borrow money?

GOVERNMENT-CREATED MONEY

If the government funded its budget deficits by creating money (instead of the banks doing if for them, at a high cost to the taxpayer) it would not be debt-money and no interest would be paid. It would be money for the essential public services to spend. It would not have to be paid back.

The cry which we hear so often these days from the government, economists, bankers and other "experts" is, "There is not enough money. Government and council services have to be cut." So nurses are sacked, old people's homes closed, schoolteachers made redundant, the London underground allowed to fall into disrepair, and so on. All this is brought about because not enough is raised in taxes, for the reasons outlined above, and because the government is reluctant to increase the national debt. In fact, it is trying to cut it down. So there is a chronic shortage of money for public services.

If the government created the money it needs, many of these problems would disappear. Why doesn't it do it?

EXCUSES, EXCUSES, EXCUSES

Again, the "experts" are brought in. Remember, these people are the bankers, financiers, economists, all with a vested interest in things financial staying as they are.

They say, "Government can't just print money for what it needs. It would increase the amount of money in circulation, prices would rise and the value of money fall. In other words, it would cause inflation with all its subsequent woes, which we are desperately trying to offset. The Bank of England Monetary Committee is regulating the interest rate in order to stop inflation. We can't have the government creating money and adding to their problems." Are these "experts" right?

THE WAY TO PREVENT INFLATION

They are only telling half the story. Remember how we pointed out that a mystique has been created around money to the effect that it must be left to the experts?

Part of this mystique is based upon not revealing the facts about money, about who is really in control of it and who mainly benefits from the status quo. When they are forced to do some explaining, they muddy the water, and tell only part of the story. They say that government-created money would be inflationary but they don't say the same about bank-created money. They don't tell us that governments, if they want to, can regulate the amount of bank lending, as they used to do.

The "experts" remain silent on these matters because they don't want a public discussion of them.

They don't want ordinary people hearing the idea that we can have debt-free money, with all its benefits. This would lead to a popular demand for government debt-free money and for banks to be regulated. No wonder the bankers, and the media in which they have investments, don't want it discussed. The least said about it the better, for them.

Monetary reformers want to spill the beans, let the cat out of the bag, reveal the true state of affairs.

Bank lending can be controlled by several methods: statutory deposits can be re-introduced, whereby an effective proportion of a bank's assets must be lodged with the Bank of England. The fractional reserve can be brought back, whereby banks must keep in cash a fraction of the loans they make. Bank-created credits can also be reduced by regulating the terms and conditions under which they are made.

THE REAL REASON FOR GOVERNMENT NOT CREATING MONEY

So the “inflation” bogey is just an excuse especially if legislation to control bank lending were to be put into place.

What then is the real reason for government failing to provide adequate essential services which the people need?

The continuation of the system which puts government, and consequently, the nation, in hock to the banks and other private financial institutions gives the government more political power.

It can push through policies which are unpopular by using the "No money, we must cut back" excuse. It can use the same excuse to stand by and see basic industries destroyed and workers put out of work.

We are not told that money is a man-made device by which to finance the exchange of goods and service and should be used as man's servant instead of his master.

We are kept in the dark about the fact that when something is socially desirable, such as a new hospital or a new school, and when the materials and unemployed builders are available, and when only the shortage of money is stopping the project, then debt-free money could be created by the government and the project could go ahead with the consequent benefits for all.

There is a conspiracy of silence shrouding monetary reform. It is never raised in Parliament, never discussed in the media. The whole topic of government-created money is taboo.

We are trapped in the hidebound thinking of those in favour of the status quo. It is understandable that bankers and those who profit from the present system want to keep quiet about it.

However, it is inexcusable for politicians and the media to go along with it. Why do they do so? Largely, the media is in hock to the bankers and financial tycoons.

The politicians have swallowed the bankers' theory that money matters are best left in the hands of financiers. We have to force them into debate and show that the theory is false.

MOBILISING OPINION FOR FAIR AND SENSIBLE MONEY

So it is unlikely that our Parliamentary representatives, the people with the political power to change the present system of creating money, are going to do anything to put things right without pressure from the general public, from the electorate.

People have to be informed as to the true state of affairs so that public opinion will change and monetary reform can be put on the political agenda.

If they can see that they are going to lose votes then politicians will start to listen.

We need much more public discussion of these vital matters.