

## **Can we fix the global financial system? *Yes, we can!***

The economic recession continues apace with stock markets remaining volatile and currencies faltering under the threat of collapse. Governments may have shored up the banks, but does that amount to fixing the system? Unfortunately not, because the problem lies not just with the banks but with the very way money is brought into circulation. All over the world the way money is created is nothing less than a gigantic pyramid scheme which always was going to collapse – it was just a question of when.

Like most people and businesses, you probably think that when you take out a bank loan, the money comes from hard cash that others have deposited in the bank. Wrong! The money you borrow actually never existed before and is simply created “out of nothing” by the bank sending you two statements. The first is your current account statement showing that the amount in your account increased by the amount you just borrowed. The other statement shows that you owe that amount back to the bank, plus interest. But this has nothing to do with the relatively small amounts of hard cash actually sitting at the bank. In actual fact, banks lend out many, many times more money than they actually hold as physical deposits. This lending “out of nothing” is what the bankers call “fractional reserve banking” or the “credit multiplier”; suitably technical-sounding terms designed to make your eyes glaze over while the banks practice what is, effectively, legalised fraud. Let me state it baldly: they create the money out of nothing by writing it into your bank statements even though they only had a fraction of that amount in their vaults as hard cash. It costs them next to nothing and yet you’ll have to pay the full amount back plus the interest! - and, if you can’t, they’ll take your house. Heads they win, tails you lose.

Well, it’s been a great game for the banks for a long time but it’s got to the point, now, where about 97% of all money in circulation – and by “money” I don’t just mean coins and bank-notes but also credit – is effectively created out of thin air. In other words, 97% of all money in circulation was created by the banks as loans to you and me; created, that is, out of nothing as a credit written into your bank statement which is matched by another statement of debt plus interest. Seemingly incredible, but all too true. Little wonder, you might think, that everyone – from your granny to the government – is mired in debt, much of which cannot be repaid.

But that’s not all. Have you ever asked yourself why governments borrow money? Thinking, as most people do, that it’s governments who bring money into circulation, you might ask why governments need to borrow money at all? Why is there government borrowing and government debt? And why should we have to pay high taxes to cover the interest the government has to pay? Well, because governments only create about 3% of our money leaving the banks to create the rest. But how stupid is that?! If governments created all new money they wouldn’t need to borrow or pay interest and we could all have lower taxes. But sadly even our governments are caught in the pyramid scheme having historically allowed the private banks to take over the vital right of money creation – a right which should always have been the government’s alone, on behalf of the people. That’s why more and more new money has to be created just to pay the interest on government debt, as it does on all other debt. In fact, debt-based growth becomes an imperative because if the pyramid doesn’t

keep growing, it collapses. So, what can government bail-outs for the banks amount to? Nothing but a desperate attempt to shore up a rotten system that cannot ultimately be shored up.

The simple solution, as I've suggested, would be for the government to create all of our money – the whole 100% - instead of allowing the banks to create 97% of it. That, after all, is only what most people *think* the government does anyway! If the 97% were created by the government too, on behalf of the people, interest could be eliminated, public works paid for without incurring debt, and taxes dramatically reduced. And the banks would be put back in their proper place as handlers – and not as creators - of money. Meanwhile, independent central banks would specify the amounts of new money governments could create so preventing inflation.

But you won't hear any of the political parties advocating such a simple solution, not even Mr. 'yes-I-can' Obama, because the present system has become so standard and historically accepted around the world that none of our clone politicians, nor their clone economists and advisers, would ever have the noodle to consider anything different.

With the Wall Street Crash of 1929 and the present crisis, the inevitability of periodic crashes shouldn't surprise us much. But what is new today is that the crash, this time, is global. No single nation, nor even the EU, can extricate itself on its own and like never before the nations of the world are learning that they must either hang together or they – and we – will hang apart. After all, if the UK government were the only nation to forbid the banks from creating money and instead created it itself, the banks, like the hedge-funds, non-doms and many corporations, would retaliate by threatening to move their operations elsewhere. This would jeopardize thousands of jobs and probably ignite a run on the pound, the flight of capital out of the country and even more mass unemployment than we're presently facing. That's why no nation could possibly implement the obvious remedy alone. Even if our politicians had the noodle, they don't have the power. As Michael Portillo, then Conservative Shadow Chancellor, said in a letter to a constituent, "Legislating against the credit multiplier would lead to the migration from the City of London of the largest collection of banks in the world. It would be a disaster for the British economy".<sup>i</sup>

Much the same point was made by the then Labour Treasury Minister, Ruth Kelly, in a letter of 20 August 2001 to Robert Jackson MP.<sup>ii</sup> She said, "It is evident that this proposal would cause a dramatic loss in profits to the banks... . In this case it is highly likely that banks will attempt to maintain their profitability by re-locating to avoid the restriction on their operations that the proposed reform involves. Given the desirability of an internationally competitive market in financial (and other) services, it would not be in the UK's interests to insulate itself from such a market".

The problem, then, is that while the solution itself is simple, implementing it is not. If the UK or indeed any single nation or even if the EU tried to take the creation of new money into public hands, the banks and the markets would react by moving – or merely threatening to move – elsewhere. And that threat alone would quite possibly cause untold economic harm to any nation trying to move first.

But what if all or sufficient nations acted together, *simultaneously*, "all together, now!" That way, the banks would have nowhere else to run and the simple solution could be implemented without fear or risk.

You might think cross-border simultaneous action a utopian pipe-dream. But remember that crises are great for one thing: they're good at forcing all parties to come together in solidarity. Reacting just a couple of weeks ago to the financial crisis, the central banks of all the world's major economies cut interest rates by half a percentage point simultaneously. As the *Financial Times* (9<sup>th</sup> October, 2008) reported, such international action was "unprecedented" and a "historic piece of co-ordination". Although they weren't in on the plan, the FT also noted that even The People's Bank of China "moved almost simultaneously" just hours after the other central banks. Utopian? Not any more!

Whether this action has the desired effect remains doubtful, but that's beside the point. The point is that simultaneous international action is not only possible, it's starting to happen! After all, we hear endlessly about global problems requiring global solutions, about globalisation, global warming, about global this and global that. So isn't it about time we really believed it instead of thinking only in terms of local or national solutions? In a diverse world of two hundred odd nation-states, how else are we going to solve global problems if not globally and simultaneously? Simultaneous international action is, without a doubt, the way forward.

But what part do you and I have to play in this? As we've seen, our clone politicians don't have the knowledge or courage to even think of right and simple solutions. And meantime their expensive and misguided sticky-plasters are being applied without public scrutiny or input. So unless you and I get involved and bring our voices to bear, not only will we all lurch into ever deeper crisis as the financial crisis continues to wreak havoc with the real economy, we'll remain without any democratic say in what policies governments decide to implement at the global level.

But there's a simple solution to this problem too. In fact, it's not just simple but "Simpol"; Simpols being short for the Simultaneous Policy.

Simpol is a unique global citizens campaign which allows citizens to use their votes in a completely new way to drive the world's politicians towards implementing the right global solutions - simultaneously. Some people insist that nothing will change until the entire present system is torn down, but Simpols actually allows us to work for change by turning the existing political framework to our advantage.

The basis of Simpols is that all or sufficient nations implement the needed stringent measures *simultaneously*, so avoiding the fear that first-mover nations would lose investment and jobs to other countries. By posing no-risk to any nation's economy or its international competitiveness, simultaneous action removes the excuses for inaction and delay and opens the way to far more robust policies being adopted than relatively weak agreements we see governments trying to implement today, such as the Kyoto Protocol to curb global warming. So, not only could simultaneous international action open the way to restoring the creation of new money to state control, it could solve global warming and a host of other global problems too.

Announcing his support for Simpols, Lembit Opik, one of a growing number of MPs who support the campaign summed it up when he said, "We live together at once, on the same small planet. There are some things we should do together, at once, on this same small planet. The compelling logic of Simultaneous Policy is really collective common sense – it's a campaign to find out how common sense really is!"

But what about nations that refuse to cooperate internationally? To secure sufficient international political will for the implementation of the Simpol, citizens around the world who support it, known as Adopters, not only decide the global policies to be implemented, they tell all the politicians in their constituency area that they will be voting in future national elections for *any* candidate, within reason, who has signed the pledge to implement the policy alongside other governments. Or, if they have a preferred party, they encourage it to support Simpol. In this way, citizens are seizing the political initiative by intensifying competition between candidates to a point where politicians who fail to support Simpol risk losing their seats to those who do. This new way of voting even though adopted by only a relatively small number of people has already resulted in 27 UK MPs and countless candidates pledging to implement Simpol alongside other governments. With more and more parliamentary seats and even entire national elections being won or lost on fine margins, it needn't take many of us to make it in the vital political interests of the main politicians and parties to support Simpol, thus offering Adopters the opportunity of driving even uncooperative governments to sign on.

But who decides what the right policies are? Who decides on the policy content of Simpol? You do! As an Adopter, you have the right to participate in the formulation of the measures to be included. Simpol, then, is open-source global politics. It's the first step to global democracy. For "at the root of democracy lies the soul, the principle of love within humanity. What we call democracy is simply an expanding of the idea of group co-operation and responsibility onto a national and supra-national level."<sup>iii</sup>

Apart from the UK, support for Simpol already extends to the EU and the Australian parliaments and progress is being made in many other countries. Simpol is also supported by Nobel Peace Prize winner and president of East Timor, Dr. José Ramos-Horta, by Eva Quistorp, co-founder of the German Green Party, and by many ecologists, activists and economists.

The solution, then, is Simpol. The only question is: when will you start playing your part?

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[www.simpol.org](http://www.simpol.org)

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<sup>i</sup> Letters to Margaret Harvey and Barbara Panvel dated 28 September 2000 and 13 February 2001 respectively.

<sup>ii</sup> *Monetary Reform – Making it Happen!*, by James Robertson and John Bunzl, ISPO, 2003.

<sup>iii</sup> World Goodwill Newsletter NO. 2/2008.