



There is an easy solution to the financial crisis, but it involves exposing a problem that governments and economists have ignored for decades.

Most people assume that money is created by the government. They're wrong. **The vast majority of money** - 97% of it, to be precise - **is made by high-street banks**, such as LloydsTSB, HBOS, HSBC and so on. They create it, we borrow it from them, and we pay heavily for the privilege, through **higher prices, inflation, debt dependency, higher taxes** (required to fund the national debt), and through **house prices that soar out of reach of the average person**.

The banks have been creating money for the last 500 years, but it is only in the financial crisis of 2008-2009 that the consequences - and the costs - have really become clear.



# HERE'S HOW THEY GET AWAY WITH IT:

Most people think of money as paper notes or metal coins. However, since the vast majority of transactions are now made through credit cards or electronic transfers, there is relatively little need for this kind of money. Consequently, **most money only exists as numbers in a computer system** - in fact, only £3 out of every £100 now exists as cash. The rest exists simply as electronic records in massive databases maintained by the high-street banks.

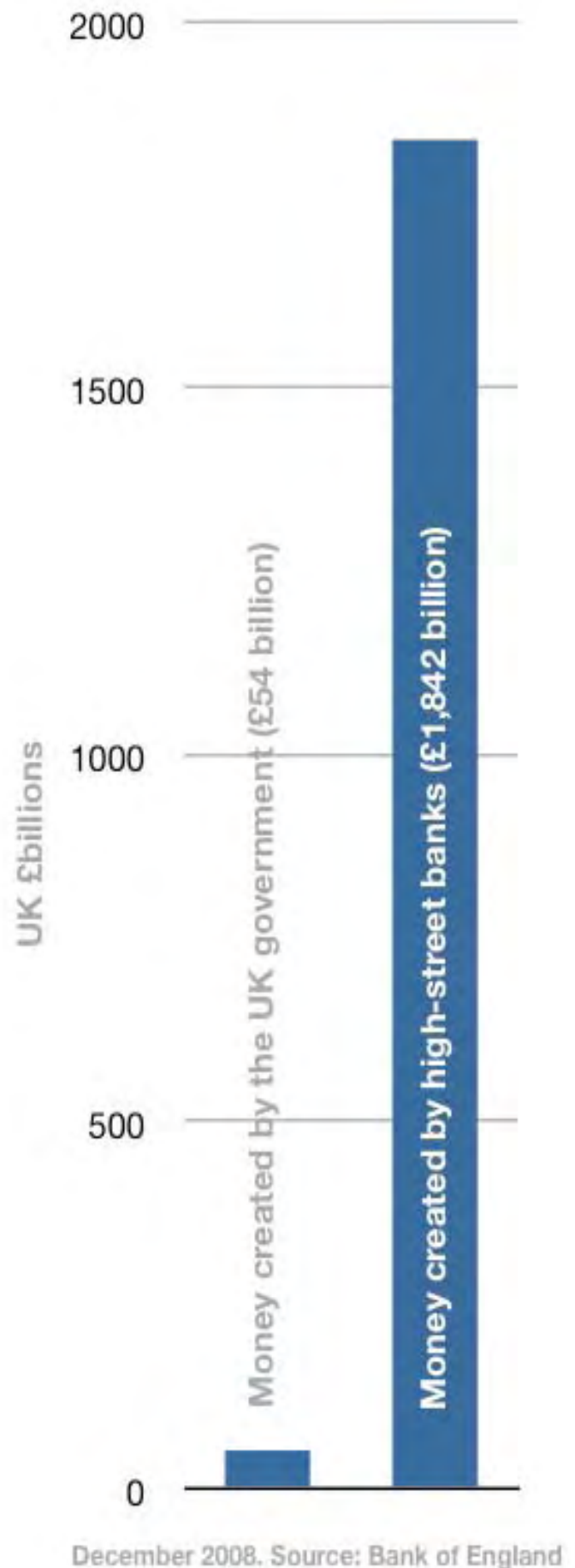
We all know that anyone - other than the government - who starts printing their own fake £20 notes will find the police knocking at the door. The law that made it illegal for anyone other than the state to create paper money or coins was passed in 1844 - before this date, banks were allowed to print their own paper money.

However, **there is currently no law that prevents banks from creating the 'digital' form of money.** The laws have not been updated in the last 160 years to take account of the rise of debit and credit cards and electronic banking.

The flawed design of the banking system makes it possible for banks to create

phenomenal sums of money, all without actually breaking counterfeiting laws. **They created over £800 billion of new money from 2003 to 2008 alone!** (This is against a total supply of money in the UK of around about £1,800 billion - in other words, nearly half of all the money in the UK has been created by the banks in the last 7 years!).

Now, 'creating money' might sound like a good thing - after all, more money means we can buy new things. But when banks create new money, they also create new debt. When they created £800 billion in a little over 5 years, they did it by getting the nation into an additional £800 billion of debt. This is what pushed house prices up so far, and what created the credit card-fuelled boom on the high street. This is why we are all stuck in a debt trap right now.



# UNDER THIS SYSTEM, THEY'LL NEVER RUN OUT OF MONEY!



If you kept lending money to me every time that I was short, eventually you would run out of money. This seems as obvious as the fact that gravity will keep you fixed to the ground.

However, the banks are not subject to the same 'laws of nature', and don't have to worry about the money running out. Every time they make a loan, it gets spent in the economy and lands back in someone's bank account again. When this 'boomerang loan' lands in someone else's bank account, it is actually **recorded as brand new money** (because it is only digital numbers), which means **it can be used as a basis for yet another loan.**

In effect the same original amount of money can be lent over and over again, but each time it is re-lent, it is recorded as 'new money'. This means that **the more money that banks lend, the more money they will be able to lend!**

This is how the banking system has managed to turn the £54 billion of cash created by the government into £1,800 billion of debt over the space of about 50 years.

# BUT THE BANKS HAVE RUN OUT OF MONEY, HAVEN'T THEY?

The system above means that the **banks can keep lending as long as we** (individuals, families, companies and the government) **are willing to keep borrowing.**

The problem only arises when our debt repayments become such a large proportion of our income that, once the mortgage and credit cards have been paid, there is no money left over for food. **When this happens, people default** (stop paying back) on their loans and the banks start to lose money. This is exactly what happened in the sub-prime crisis. However, if nobody had defaulted, the banks could have gone on creating and lending money indefinitely.







# THE EFFECT ON HOUSE PRICES

The explosion in house prices over the last decade was fuelled almost entirely by excessive mortgage lending by high-street banks.

To see the effect of this let's look at some numbers. In 1983 a house would cost you **2.7 times** your annual income, but by **2008**, the same house would cost you 5 times your annual income. That increase, of **2.7 years** of income, plus the interest charged on that amount, means that you must work an extra **10 years** of working to repay (assuming that you can afford to pay 30% of your income towards your mortgage).

In other words, by lending ever greater amounts of money to those wanting to buy houses, the commercial banking sector has managed to claim **10 years** from the life of every working individual in society.

**In many ways we have created a modern and hidden form of slavery, with money – and the banking system – as our masters.**



# IT'S ALSO MORALLY WRONG!

It's important to realise that the current state of affairs, where high-street banks are allowed to create money, is ethically no different to the government giving say, Tesco, **a printing press and the license to print as much money as we wanted to borrow**. Tesco would then be able to print nearly **£2 trillion**, lend it to individuals, companies and the government, and then collect the repayments plus an **additional £2 trillion in interest payments** (since the interest on a loan is usually at least as much as the original amount borrowed).

Naturally we would never give one company the rights to create all the money that society needs. However, through the government's head-in-the-sand approach to money creation in the banking sector, we have allowed a group of around 60 companies to do exactly that.

# HERE'S HOW WE SOLVE THE PROBLEM

**As long as banks are able to create money, we will have financial crisis after financial crisis. Unless we change the system very radically right now, the next 20-30 years will be very miserable for everyone.**

The solution is remarkably simple - so simple that most economists overlook it. We need to:

- a) make it illegal for the banks to create money, and**
- b) give the responsibility for creating money back to the state (through the Bank of England).**

Doing this - and doing it **soon** - is the key to **escaping from this recession without further tax hikes, further redundancies, further bankruptcies, and further unnecessary misery.**

# HOW ECONOMISTS GET IT WRONG

Now, whenever it is suggested that the government should create money, an army of economists will stand up to warn of the devastating inflation that would follow. These economists are wrong (and not for the first time).

The fact that economists start panicking at the mention of 'quantitative easing' (creating money) by the government, whilst overlooking massive and regular money creation by high-street banks, shows ignorance bordering on stupidity. Here are some key facts that the economists tend to ignore:

a) the total amount of money in the UK has **already been growing by an average of 10% a year for the last 30 years!**

b) this 'new' money is money that has been created by the banks, which is matched by the exact same amount of debt.

c) this **10% year-on-year growth in the money supply has led to a 6-fold increase in house prices, a 6-fold increase in national debt, and inflation that is far beyond the official figures published by the government.**

In other words, **bank lending already creates considerable inflation.** The government could actually reduce inflation by re-taking control of the money supply and increasing it at a much slower rate.

Now at this point, the same economists will try tell you that the banks haven't created any money - they have just created credit. But this is just an academic trick of terminology - if there are numbers in my bank account or your bank account, we both know that they represent money. Those numbers in my bank account are accepted for payment of goods in shops and for payment of taxes to the government. They are as good as the paper banknotes, and therefore it is money. No further discussion needed.



# LET THE BANK OF ENGLAND CREATE MONEY

**The solution to all our current problems is to prevent high-street banks from creating money,** and for the Bank of England (or another agency of the state) to reclaim the responsibility for creating money for the economy. I have outlined exactly how they can do this at [www.bendyson.com](http://www.bendyson.com).

How much money should they create? We know from the last 20 years that increasing the money supply by 10% a year leads to a monumentally destructive financial crisis, so it should be significantly less than this. The exact level will be discovered through a period of trial and error, although well respected economists such as Milton Friedman have suggested the money supply should be increased by around 3% per annum.



# HOW WOULD THEY DISTRIBUTE THE MONEY?

When high-street banks create and distribute money, they do it by creating debt. They effectively make people poorer by getting them further into debt. It also creates an artificial boom in the economy (by allowing people who don't have money to buy things today) but in the long run actually slows the economy down, because a borrower's future income now has to be spent on interest payments rather than being spent in the shops. Allowing banks to create money is bad for the economy and bad for society as a whole.

In contrast, when the Bank of England creates money (after the reform), it can do so by giving the money to the government (as an interest free grant). The government would then use this to a) reduce the national debt; b) reduce the debt that has been incurred as a result of the financial crisis, and c) fund better government services.

It could also use the money to reduce taxes. Clearing the current national debt would allow taxes to be reduced by over £700 per working adult per year! The money saved would go towards creating a buoyant economy, rather than shoring up the profits of the financial sector.

Once the national debt has been brought back under control, newly created money can be used to fund government services. This money ends up in the bank accounts of public sector workers and suppliers to the government, where it adds to the total money supply and helps to keep the economy going. It can also fund infrastructure improvements, such as new schools, hospitals and so on.

# THE MASSIVE GAINS TO BE MADE

As mentioned, **when the high-street banks created £800 billion of money, they did so by adding £800 billion to our debt burden.** This fueled the boom that ran up to 2007, but **also laid the foundation for the financial crisis.**

If the government, instead of banks, had created that £800 billion, it could have  
[www.BenDyson.com](http://www.BenDyson.com) - July 2009

been used to pay for schools, hospitals and world-class public services before it actually ended up in the hands of the public. The public could have then used that £800 billion to buy everything that they did anyway, but without increasing our debt burden by £800 billion.

Under the current system, the method of creating money (through high-street banks):

- **increases the debt burden** - because as we borrow more we create more money that the banks can use to make even more loans;
- **increases the risk of financial crisis** - by forcing banks to keep lending more and more, until they are lending to the very riskiest borrowers, and
- **creates a situation where everything gets more expensive** (as money supply grows by 10% per year and creates inflation of a similar amount) and the standard of living falls and falls (because prices rise while the proportion of our income swallowed by mortgage repayments or rent goes up and up).

In contrast, when we create money through the Bank of England and government, we:

- **reduce the debt burden of the nation** - by allowing the government to clear the national debt, reduce taxes, and/or fund better government services (and putting more money into the hands of the public through the salaries of public sector workers and government contractors).
- **reduce the risk of financial crisis** - by increasing the money supply by a lower annual rate, thereby preventing inflation or asset bubbles in the housing market and other speculative bubbles;
- **increase economic stability** - by ending the money-creation that fuels risky and excessive lending, we'll end the pattern of 'very good years' followed by 'very bad years'.
- **raise the standards of living year on year** - by adding to the nation's infrastructure and reducing the proportion of our money supply that is debt. As our debt burden falls from 130%+ of our GDP to somewhere around 50% of GDP, our repayments will fall and our disposable income will rise.



# HOW EXACTLY DO WE CHANGE THE SYSTEM?

I've already mapped out most of the detail that the UK government needs to implement this new system of banking at [www.bendyson.com](http://www.bendyson.com), so **the question of how we change the system has been answered.**

The question now is, **how do we get the government to listen?** How do we get them to question an army of economists who find it difficult to think beyond anything they were taught at university? How do we get them to look at reality and **realise that the current redundancies, wealth destruction, rising unemployment, and threats of cuts in public services are completely unnecessary?** How do we get them to realize that for everyone – individuals, families, companies and governments – to be in debt at the same time indicates that there is something defective in the design of the monetary system.

**How do we get our government to have the courage to challenge a socially unjust and destructive system?**

# MY SUGGESTION

This problem is more important than any other problem that the government is currently facing. In fact, until they tackle the problem of money creation by high-street banks, **everything else that they are trying to do will be unachievable** - they simply can't create the society that they want to under the current monetary system.

**But before they can tackle it, they need to understand it.** And before they are willing to try to understand it, they need the anger of the UK electorate to spur them to action. **They will only start to question why banks should be given free reign to create money** - in other words, why the wealth of the public should be transferred to the banking sector year after year - **when we demand that they change the system.**

**So the first step that we need to take is to inform the public.** Whether you have a blog, you write for a newspaper, or you simply forward this article to everyone you know, you'll be doing your bit to change society for the better.

**The government will not tackle this issue until the public and the media are shouting about it.** And unless we start demanding that the system is fixed, all we have to look forward to is more debt, more financial crises, more destruction of our savings and pension provisions, and higher taxes (as we pay £106 million interest on the national debt **each day**) at the same time as cuts in public services.

# FURTHER INFORMATION

For further information please visit [www.bendyson.com](http://www.bendyson.com) or contact me on [ben@bendyson.com](mailto:ben@bendyson.com). I am available to speak to groups, for interview or to write articles on this topic for the media.

**Please forward this article to others and ask them to do the same.**