

New Economic Model Needed

The "Debt Engine" is a phrase to describe the forever increasing private and government debt inherent in the Industrial Age economic model.

It is time for something different, time for a new game.

The need to stay ahead of escalating debt fuels practically everything we do; creating a social environment in which certain types of behavior flourish that inhibits or destroys any tendency towards long term concerns of sustainable living practices.

Unrepayable Debt is different than the everyday debt of normal life. Unrepayable Debt is an actual built in flaw of our present Industrial Age monetary system: It is called, the Fractional Reserve System.

Everyone has some ideas about money, who controls it, where it comes from and how it operates. Some say the government prints it; others say hard work makes money, while others would guess that it's something to do with gold. They might also picture it as a vast pile with everyone competing for as much as they can get. Bankers sometimes inflame our passions by claiming that the government has grabbed all the money and there is none left for private industry.

Our money supply isn't created by the government; money is a national accounting system of who owes what to whom, and it is a system that is owned and operated by the private banking industry.

There is no such thing as a static heap of money created by hard work and business cunning. Money flicks in and out of existence as credit and debit balances; the money supply swells and contracts continuously as loans are created and then destroyed. Money is simply a bookkeeping system; a man created device.

The man who invented the monetary system which we use today was a Scotsman, John Law, who lived during the 18th century. He invented a new type of money to replace the old one of specie (the use of coins). In doing so he created the mechanism to finance the industrial revolution, and ultimately our modern technological world.

Much has been made of the astounding inventions of that era but what is often forgotten is that most of them would have never have seen the light of day without John Law and his invention: the Fractional Reserve Money System. Without it, there would have been no railroads, no Nissans or G.M.'s, nor would there have been any super highways to drive them on. There would have been no space shuttle, no Love Canal, no drift net fishing, no heart transplants and no Cruise

missiles.

What John Law did with his invention of a new money system was enable the Industrial Revolution, which resulted in a New Age! Ages change, and with them the socio-economic models under which we live.

Without the new money system, the Industrial Revolution that brought on a new industrial age would have fizzled and died. In the early 1700's the newly industrializing nations of the world were in a perpetual state of economic crisis because their coinage system of money could not keep up with demand. The same is true today. Governments tried everything to increase the money supply. One trick was to make new coins much smaller than the old thereby getting more per ounce, but it was a stop gap measure at best.

To grasp the magnitude of the problem, try to imagine building just one modern skyscraper using only gold coins as finance. The industrialists of the Industrial Revolution were faced with a similar problem; how to build their factories, mills and railroads using only scarce gold coins.

John Law's solution was to create a national paper money supply; banknotes that would be officially recognized as "real money". The advantages were obvious. Paper money could be expanded indefinitely and was much cheaper than specie to make. To get and keep initial public confidence, Law suggested a fraction of gold be always kept on hand for the few people who wanted to redeem their notes.

Through a process of trial and error it was found that specie could support about ten times its value in paper money. That is, a bank which held \$10 in gold could safely print and loan out about \$100 in paper money. The gold held in reserve was obviously a mere fraction of the banknotes which it supported and so the system became known as the Fractional Reserve System. The private banking industry was chartered by government to create the new money supply of paper notes. Until earlier in this century, banks literally printed their own supply against their own gold reserves with their name on each note, and lent them out to the public and government. Now the federal government has taken on the printing job but the notes are still drawn on private banks.

In the 1930's the convertibility of bank notes was dropped but the Fractional Reserve System is alive and well today, albeit in a more sophisticated form. Cheques or credit cards have largely replaced paper money but the principle remains the same; the banking industry creates the money which government and society then borrows.

John Law's method of money creation is still the dynamo that powers our present world. By replacing specie with a simple national accounting system of credit and debit, he made money infinitely more flexible, able to be contracted or expanded to meet any situation.

However, using the Fractional Reserve System has not been a universally happy experience. It has a built in mechanical flaw that always keeps total national and private debt ahead of the money available to repay it. In fact the more a nation expands, the more it automatically goes into debt to the system over and above the money that it borrows.

To explain, imagine the first bank which prints and lends out \$100. For its efforts it asks for the borrower to return \$110 in one year; that is it asks for 10% interest. Unwittingly, or maybe wittingly, the bank has created a mathematically impossible situation. The only way in which the borrower can return 110 of the bank's notes is if the bank prints, and lends, \$10 more...at 10% interest.

When presented with this scenario, there is often a tendency to think : "Ah, but the borrower can always make the extra \$10 somewhere else, through hard work or a deal overseas." However, although we frequently inter change the two sayings, earning money is not the same as making it. Earnings are simply a transfer of money from one ownership to another and neither increase nor decrease the total money in existence. Making money actually does increase the nation's money supply but no-one can do that but the banking industry itself as laid down in its charter from the federal government.

The result of creating \$100 and demanding \$110 in return, is that the collective borrowers of a nation are forever chasing a phantom which can never be caught; the mythical \$10 that were never created. The debt in fact is unrepayable. Each time \$100 is created for the nation, the nation's overall indebtedness to the system is increased by \$110.

The only solution at present is increased borrowing to cover the principle plus the interest of what has been borrowed. The business or government that cannot expand its borrowing every year is seized by its increasing debt load and dragged under.

Many economists are not unmindful of the problem but pass it off as irrelevant. They say that if the marketplace economy keeps expanding, thereby fuelling an increase in the total money supply, there is no problem with meeting interest payments on an increasing debt load. But under such circumstances, economic expansion is not a luxury but an imperative to stay ahead.

In John Law's day, the need to continuously expand to meet growing debt repayments was seen as a minor problem of no consequence. Today however we all know the planet cannot sustain unlimited growth. Even so, we are stuck with a monetary system that demands continuous expansion or face the chaos of total economic collapse.

The consequences of the Debt Engine are everywhere. Political and business leaders are sacrificing the planet to stay ahead of bankruptcy. Technology is not being used to create a sane and sustainable lifestyle for us all but is being channeled into the most narrow band of activity: the market place activity of "making" money. Just as governments are forced into ignoring vital social and environmental questions in their efforts to balance the books, so many corporations are putting to one side such things as resource depletion and the destruction of the ecosystem in their efforts to remain economically alive.

But the situation is not completely bleak. Just as John Law found a way around the impasse of coinage, so there are solutions for the problem of unrepayable debt. Obviously the first thing to do is make sure that the ratio of credit to debt is always the same. Under the Fractional Reserve System, \$100 credit is created and \$110 debt is demanded in return; that is, there is always more debt than credit. This equation should be \$100 credit equals \$100 debt.

The mechanics of how to achieve this were proposed over one hundred and fifty years ago. It was proposed that the nation's money be created by two agencies: the banking industry and government.

Instead of taxes, government would be empowered to create money for its own expenses up to the balance the debt shortfall. Thus, if the banking industry created \$100 in a year, the government would create \$10 which it would use for its own expenses. Abraham Lincoln used this successfully when he created \$500 million of "greenbacks" to fight the Civil War.

A community (such as a nation) which creates its own money supply becomes independent and the most important result of freeing community from its present debtor relationship to the banking industry would be to make it more able to respond to social pressures for reform. A financially independent community would be able to pursue long term agendas

for the betterment of society. For instance, a twin source of money creation could not only rapidly reduce taxes, but create additional funding for other initiatives. A community having the same right of issue as is now monopolized by the banking industry could fund vital job creating initiatives such as environmental repair and sustainable technology on a scale that is hard to imagine.

America has the resources to lead the world into a sustainable future. But it needs a monetary system which will allow for its resources to be mobilized towards a greater destiny than marketplace superiority, something more inclusive which reflects the Information Age opportunities now at our disposal. Such a new monetary system with all of its potential would require a dramatic upgrading of society's consciousness and understanding of money. We have to move from a simplistic belief in money having an intrinsic value of its own and see it as a bookkeeping system of the real wealth of our nations and people. Ultimately our money is not dependent on gold but on the human and natural resources which it represents.

The world has passed beyond an age of scarcity and the challenge of the new era is not about solving problems of want, but dealing with abundance and how to use it to create a sustainable future. Above all we need the visionaries able to point the way.

With computerization, robotics, advances in genetics and food growing, we have the potential to turn the planet into a sustainable ecosystem capable of supporting all. We have the technology to genuinely contemplate colonizing the solar system.

This is not a time to be saddled with an 18th century money system designed around the endless rape of the planet. John Law enabled humanity to scabble out of scarcity but now his system is antiquated. Philosophically it is based on the robber baron mentality and technically it is flawed with Unrepayable Debt. As such it is unable to respond either to the abundance which it created or the problems which it spawned.

The Debt Engine required to fund the Industrial Revolution may have forced us/humanity into a environmental and economic crisis. A new monetary system with enough community control to ensure funding of vital issues at local levels could unlock the creative potential of the entire nation. By redirecting the focus of our national economy, a new monetary system would enable men and women who can think in terms of abundance to help not just themselves, they can help the entire planet. I know John Law would approve.

Revised version based on original written in 1995 by Roger Langrick