

“CAUSE OF CRISIS AND THE SOLUTION”

by

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“CAUSE OF CRISIS AND THE SOLUTION”

Recession, depression -- these are weasel words because we are looking downward towards a slump, and a long one at that. At the same time, there is a burgeoning environmental crisis. Are the causes of the economic and environmental crisis understood? Is there a solution or is the reality that we can only wail and wring our hands?

The main cause of the global economic crisis lies in something of which most people are not aware -- that the banking system creates money out of nothing, adds interest and administration cost and does NOT direct the money towards the development and spreading of productive capacity and the associated consuming capacity. Because of the failure to ensure that the newly created money really does serve the efficiency and justice purposes of a modern market economy, colossal imbalances build up; in particular, there is an accretion of debt. The debt happens because the system does not create enough money for the repayment of the principal of a loan as well as the interest and this results not only in the build-up of debt but also, because there is continual pressure to create more money, in inflation as well. In particular, the system does not implement the basic requirement of Say's Theorem that producers and consumers should be the same people. Furthermore, the weaknesses of the economic and financial system also prevent a solution to the major environmental problems.

And the situation is being made worse because all the present touted remedies require what is called "borrowing" which is really the borrowing of the money created out of nothing by the banking system, which is the basic cause of all the trouble in the first place. USA Congressman Dennis Kucinich recently expressed this succinctly by saying that the USA is bailing out the Wall Street banks with money borrowed from those banks.

To any reasonably sane person it would seem impossible that the banks should be in insolvency crisis and then solvency should then be attempted with money borrowed from those very same banks. But Kucinich's statement

gets to the heart of the situation revealing the truly Alice in Wonderland nature of what is, and has been for a long time, going on.

The crux of the solution is to recognise the basic cause of the crisis --- the money being endlessly created for wrong purpose -- and then to stop the creation. The usual expression of this is to say that when you are in a hole it is best to stop digging deeper. In practice that means (by a gradual rise to 100% banking reserves) stopping the banks from creating money out of nothing. Rather they should do what most people believe they do do -- i.e. lend their own capital. In addition they should be allowed to lend, with permission, the deposits of their customers.

It should be also noted that the regulation of the banks would not be enough because, at the heart of neoclassical economic doctrine is the belief that there is something wonderful -- called endogenous money -- which produces all the miracles of the 'free market'. 'Endogenous money' is defined as bank-created interest-bearing money which serves the 'free market " and thus, it is claimed, all the outcomes are both efficient and justice.

But this is false. The 'free market' is not free, nor efficient, nor fair.

The answer to this unreality is to first acknowledge the banks' reckless and disgraceful behaviour and then to open up a new money supply originating with the national bank. This supply would be free of interest (but not of administration cost) and thus would be potentially capable of halving, even quartering, the cost of all capital investment. The new supply would then be administered by the banks for the purposes of developing and spreading productive (and so consuming) capacity in the population thereby implementing the desired balance of Say's Theorem. Most remarkably of all, this would forward efficiency at the same time as it forwards social and economic justice.

The way forward can be summarised as the use of state generated interest-free loans for

- a) the purposes of spreading ownership in medium and large corporations in the private sector,
- b) environmental capital projects
- c) micro credit
- d) student loans
- e) private housing (in particular circumstances)
- f) small business/farms
- g) public capital projects e.g., infrastructure

In all the cases, the cost is halved, even quartered.

In our book 'Seven Steps to Justice' (2002) we propose the following steps which would include redistribution of income by reason of developing and spreading ownership of the nation's productive capacity. This is more recently re-iterated on www.binaryeconomics.net

Step One

That there be open, regular and public acknowledgement by state, economists and academia that the present western banking system is an unjust monopoly that creates 97% of the money supply as interest-bearing debt.

Step Two

That interest-free loans (i.e. state-issued repayable money created free of charge beyond administrative and other necessary cost) be used, via community investment corporations and the like, for capital investment needed by the public sector thus enabling such investment to be one half, even one third, of the present cost.

Step Three

That interest-free loans (i.e. state-issued repayable money created free of charge beyond administrative and other necessary cost including loan insurance) be used, on the principles of binary economics, for private capital investment which will create ownership stakes and property incomes for all income groups, especially the poor.

Step Four

That interest-free loans (i.e. state-issued repayable money created free of charge beyond administrative and other necessary cost including loan

insurance) be used for loans to start-up and small business for socially desirable enterprise.

Step Five

That, since Steps Two, Three and Four above, while enhancing productive capacity and individual productiveness, are counter-inflationary and ultimately diminish the money supply, debt-free money (state-issued, non-repayable money for public or wide ownership purposes) should be issued for another individual basic income to the extent necessary to keep a stable level of prices. The amount should be decided by a body free from operational control by politicians.

Step Six

That women be addressed as to the role they can play in getting two basic incomes for all individuals throughout the world.

Step Seven

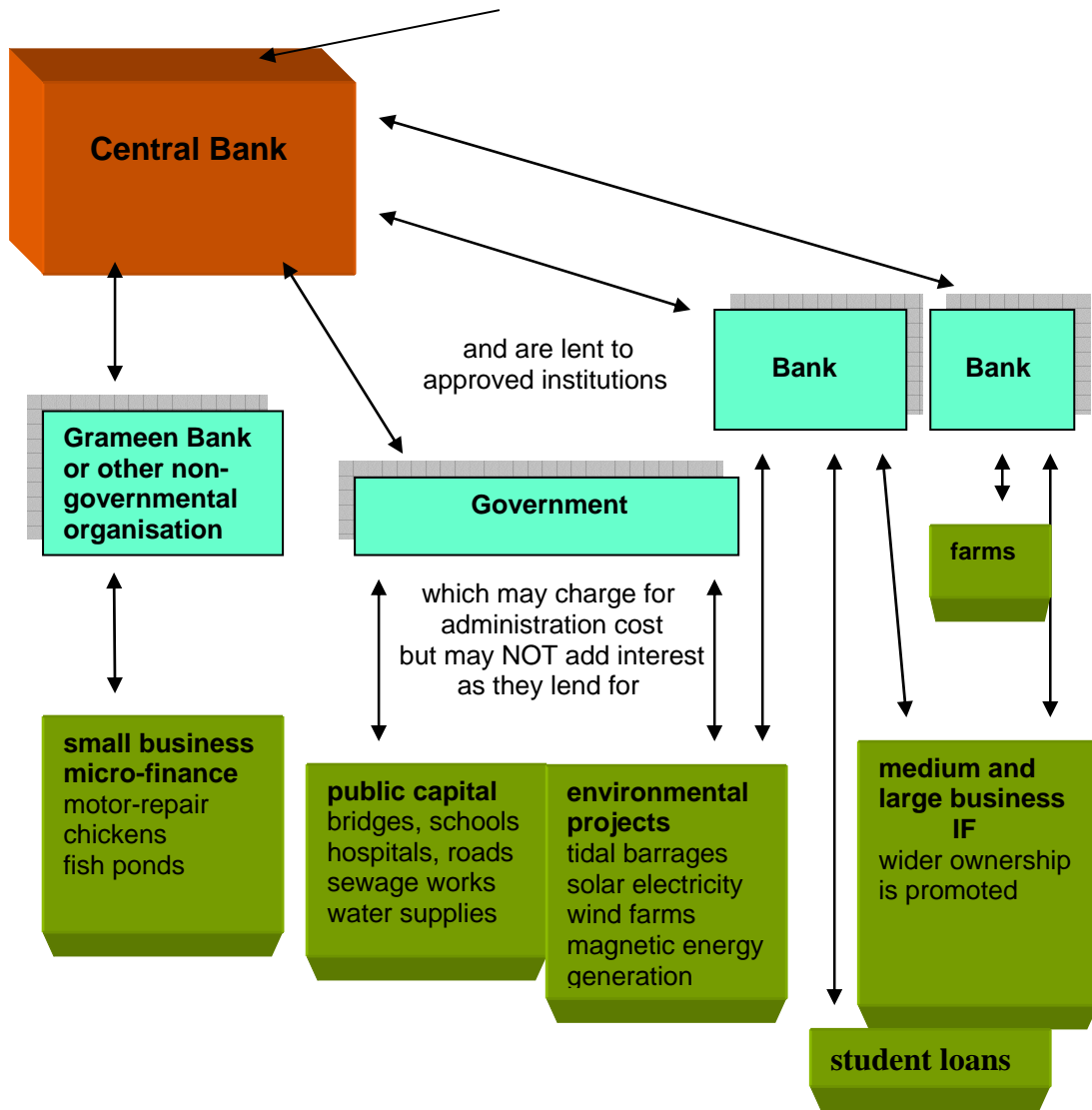
Uses Steps two to six to find a new long term solution for the problems of the Middle East and Kashmir. A solution is urgent and would be about as clear a gain to the human race as anything could be.

Implementation of the Seven Steps will create healthy non-inflationary economies and societies in which all individuals attain a sturdy independence becoming economically productive to the extent necessary to satisfy their reasonable needs.

The diagram below illustrates the persistent flow of finance in this interest-free system.

A MAP OF A RECIPROCAL FLOW OF FINANCE

Interest-free loans for environmental capital and other purposes come from



thereby **halving or more** the cost