

comparison with the massive levels of debt.

This state of affairs might seem peculiar to anyone who supposes that money that is borrowed must represent other peoples' savings. If it does not, whence has it come? The answer is - thin air!

When a bank lends money it does not draw on the savings of its depositors, instead it creates the money out of thin air as pure numbers based on nothing other than the debt imposed upon the borrower. This money is created as a debt, bearing a charge of interest, which has profound ramifications for the economy.

### **The Historical Trend**

In 1946, when the Bank of England was nationalised, bank credit constituted some 54% of the total money supply, with the other 46% being the cash issued as debt-free money by the Bank. Since then the amount of interest-bearing debt money has grown as a proportion of the money supply so that it now constitutes over 97% of the money supply, and as a proportion it is still growing.

Putting this into numbers, whereas the amount of cash (M0) grew 17-fold from £1.3 billion in 1946 to £22.4 billion in 1996, the amount of interest-bearing debt money (M4 less M0) grew 375-fold from £1.5 billion to a staggering £563.6 billion over the same period.

At first sight, this exponential growth in the money supply might seem to be good news for businesses, as it means that there is more money in circulation, meaning more money for customers to spend with those businesses. Unfortunately, this is not the case. Interest-bearing debt money, borrowed into existence, causes an initial short-term increase in the money supply, but in the long term it decreases the amount of money outside the financial services sector, as an increasing proportion of the economy's money has to be used to pay the banks their interest.

### **A Shrinking Pool**

Total British debt in 2006 stands at about £2,000,000,000,000 (£2 trillion), of which about 50% is personal debt, mostly mortgages, 25% is government debt and 25% is corporate debt. The rate of

interest charged for these debts is very low, around the 5% APR mark, but even so, the interest payments alone required on this debt will amount to some £100,000,000,000 (£100 billion) every year. Allowing for the 20% bad debts that bank lending experiences, this brings the repayments down to some £80 billion per year.

By contrast, the amount of new money created annually (mostly as interest-bearing debt money) is about £50 billion. Although some of the money earned by the banks will be spent back into the economy in the form of salaries, buildings, new technology, etc., there will still be a sizeable gap between the amount of new money created and the amount of money taken out of circulation by the banks. This is money which they do not spend back into the economy, but trade on the international money markets as a commodity.

In 2005, British banks reported total net profits of £23.3 billion. This is the sort of amount by which the money in circulation outside the financial services sector is annually shrinking. Out of a total money supply of about £1 trillion, it is an annual diminution of about 2 to 3%. There is more money in circulation than ever before, but an ever increasing proportion of it is being used to service debts. If your business is not in lending money, it will not be coming your way.

When fish are stranded in a shrinking pool, they have to each work harder to secure for themselves sufficient oxygen to stay alive. They swim around faster, passing more and more water over their gills as the oxygen supply gradually diminishes; and the harder they work, the more oxygen they consume. They are lean, efficient, energetic and capable, yet the rewards for their efforts become ever smaller.

### **A Debt-ridden Economy**

The constant increase in the proportion of Interest-bearing debt money within the British economy has made life steadily worse for the business climate. For the past decade, only consumer spending, based on increasing consumer borrowing, has kept the British economy from falling into recession. Yet more and more people are borrowed up to, and sometimes beyond, the amount that they can afford to finance. An economy that depends upon ever more of its people going deeper into debt is one facing eventual stagnation.

Japan is ahead of us here. In Japan, if you want a mortgage, not only do the banks want evidence of your income, they also want to see your children's birth-certificates. There is so much debt-based money pushing up house prices that 100-year multi-generational mortgages are becoming common. Are these, one has to wonder, desirable customers for businesses outside the financial sector?

### **Henry Ford**

Henry Ford, the American car-maker and possibly the most famous businessman of all time, recognised the problems manifest within an economy dependent upon debt-based money. He argued that there would be more money circulating around the productive sectors of the US economy if money was created as a debt-free resource by government and spent into circulation than if it was created as an interest-bearing debt by the banks and lent into circulation.

This would be far healthier for any economy, for it would reward those who create the real wealth within that economy rather than those who were able to sponge off the efforts of others merely because they were in a position to create money out of thin air.

Of course, Henry Ford was not a theoretical economist, so what did he know about anything? He was merely a businessman.

## **THE MONEY REFORM PARTY**

The Money Reform Party exists to promulgate the ideas of Henry Ford as regards the creation of the money supply. It aims to educate the British people and their politicians about the money system and to campaign against the creation of money by the private banks. For more information contact:

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## **Understanding the Modern Business Climate or What is Facing Every Little Fish in the Big Financial Pool**

Everyone who considers starting a new business or expanding an existing one, or who is planning to spend a large sum on more qualifications, or wanting to buy a house, get a job, spend any amount of money on anything, or just live, needs to be aware of the state of the economic environment in which they find themselves.

The economic medium in which everyone in modern Britain lives, through which they swim, and which provides them with a chance of a livelihood, is money. Money is all pervasive in the modern highly-developed economy. It is so much part of our everyday lives that we have little or no chance to step outside and consider it rationally and dispassionately, just as the average fish rarely steps outside its own particular milieu to give water a comprehensive in-depth analysis.

### **The Nature of Money**

Money has two original sources. The first of these is a government agency, the Bank of England, which produces the notes and coins that circulate around the economy in the form of cash. This is 'fiat' money, intrinsically worthless bits of printed paper and base metal, which has a value because it is enshrined in law as 'legal tender' - that is money that may not be refused in the payment of a debt.

This money is not backed by gold nor even by the sterling silver which gave our currency its name and of which a pound in weight was the original pound. Nevertheless, this publicly-created money, spent into circulation as part of HM Treasury's income and hence saving us all a modicum of taxes, forms the useful small change of our economy at no cost to the economy.

The second source of money is 'bank credit'. This is the money that resides in our bank accounts or, perhaps more accurately, 'negatively resides' in the form of mortgages, loans, overdrafts and credit card accounts. The amount of money savings in the accounts of individuals, businesses and even of the government is tiny in