Welsh Assembly Cross Party Group on Monetary Reform

Annual General Meeting

Location: Pierhead Building Conference Room 2 **Date: March 12th 2014**

Chair: Darren Millar AM **Speaker: Fran Boait, Positive Money UK**

1.Introduction & Apologies:

D. Millar: Welcomes attendees to the AGM and makes apology for Dylan Jones Evans who was unable to appear to discuss the Access to Finance Review and thanks Fran for agreeing to come to speak today. Apologies also from Graham Morgan of the South Wales Chamber of Commerce for being unable to attend.

Introduction to Fran of Positive Money UK who are raising the issue of monetary reform.

2. Subject: Overcoming Debt and Inequality through Education

F. Boait: Originally a scientist working on carbon capture technology, a withdrawal of research funding led to questioning of the monetary system and started working for Positive Money UK to raise awareness of the way money is created at the expense of society.

We need money for everything but how does it work? People generally think that money circulates between savers and borrowers with Banks as intermediaries and this cycle lasts forever. This is not the case and new money is largely created through the making of loans.

There are two kinds of money: i) everlasting money i.e. cash making up 3% of the money supply and ii) spendable IOUs making up the other 97%

Cash is made by the Bank of England but the rest created by private banks through the process of lending and exists as digital entries. Just six banks dominate this process.

(N.B. the Bank of England clearly agrees with this as seen in tweets below published on March 14th)

Find out more about what the Bank of England has to say click here

Everlasting money is an incorrect notion and so is the notion banks only act as intermediaries.

We can think of the money supply like the water in a bath. When the banks are lending the taps are on and the economy fills with money. However, the plug is out and money drains from the economy when loans are repaid. If loans are repaid faster than new ones are made then we will experience a fall in the volume of money in the economy.

How much has been created? In the year 2000 there was £857 billion, by 2008 this had increased to £2,185 billion. That sounds like it should be good but we know what happened.

Banks make loans to the public and the public make repayments plus interest.

Total interest = £108 billion to £227 billion   Average per person = £2,400 to £4,822

What happens to newly created money?   Who decides how to use new money?

The five largest Banks have just 78 board members and they allocated £2.9 trillion over five years.

Where did the money go? 40% Real estate, 37% Financial, 13% Non-financial, 10% credit cards.

Real estate and the financial sector are not productive i.e. they do not make anything. They earn profits through speculation. The productive economy is in the non-financial sector and is often seen as too risky or not profitable enough so does not receive as much new money from bank lending.

This is why we experience property or asset price bubbles and the boom-bust cycle.

Positive Money's position is supported by statements from former Governor of the Bank of England Mervyn King, Financial Times Editor Martin Wolf and former Chairman of the FSA Lord Adair Turner.

We are reliant upon banks for our money supply. If they do not lend then there is no money. This is why politicians are so keen to get Banks lending again. The Help to Buy has increased mortgages back to pre-crisis highs but lending to SMEs is still lagging and may need Government stimulus.

Why is the gap between rich and poor getting bigger? (Lower incomes = Higher repayments)

In the last decade, banks have issued more than a trillion pounds of IOUs. What they get for nothing is a trillion pounds worth of assets secured on property and future labour of the UK public.

Due to the compound interest on loans, the total debt exceeds the Bank issued money making a shortage of money. Graphs (see file attached) show levels of borrowing compared to savings and the amount of household income transferred to Banks. Indebtedness is increasing.

Deregulation supercharged an economic model of debt-fuelled overconsumption.

The rich spend debt on assets that appreciate in value.

The poor spend debt on consumables that depreciate.

The Rules are to have more money we must have more debt and to have less debt we must deal with less money. We need more money and less debt but this is impossible in the current system.

Education, education, education

Why is it so hard for us to understand? Not even economists comprehend the significance of money creation as it is no longer taught in universities as a priority. Victoria Chick explains in this video

Undergraduates at Manchester University are making a stand and demanding the syllabus be altered to account for the economic crisis with money creation taking a more central role.

Groups include the Post-Crash Economics Society, Cambridge Society for Economic Pluralism and We're Re-Thinking Economics Are You?

Why don't MPs get this? Only 20 MPs asked questions about Quantitative Easing of £375 billion in Parliament. With such a huge sum of money we expect more scrutiny. By purchasing Government Bonds the result has been Stock Markets are reaching new highs after faltering prior to QE.

We expect shareholders to feel richer and spend more in the real economy but the reality is they buy more shares and speculate further to make even greater gains the evidence shows us.

For every £1 spent through QE we have seen only an 8p rise in GDP on average. Estimates suggest far greater returns for the construction industry for example according to CBI data.

Positive Money's proposals for Sovereign Money Creation involve the Bank of England or Monetary Control Committee deciding a figure of new money to stimulate the economy and the Government could then allocate as they see fit. They could choose to reduce taxes, reduce the deficit, increasing spending on infrastructure or social housing or provide a citizen's dividend to stimulate consumer demand. Depending on the options chosen money will either be extracted or circulate through the economy multiple times.

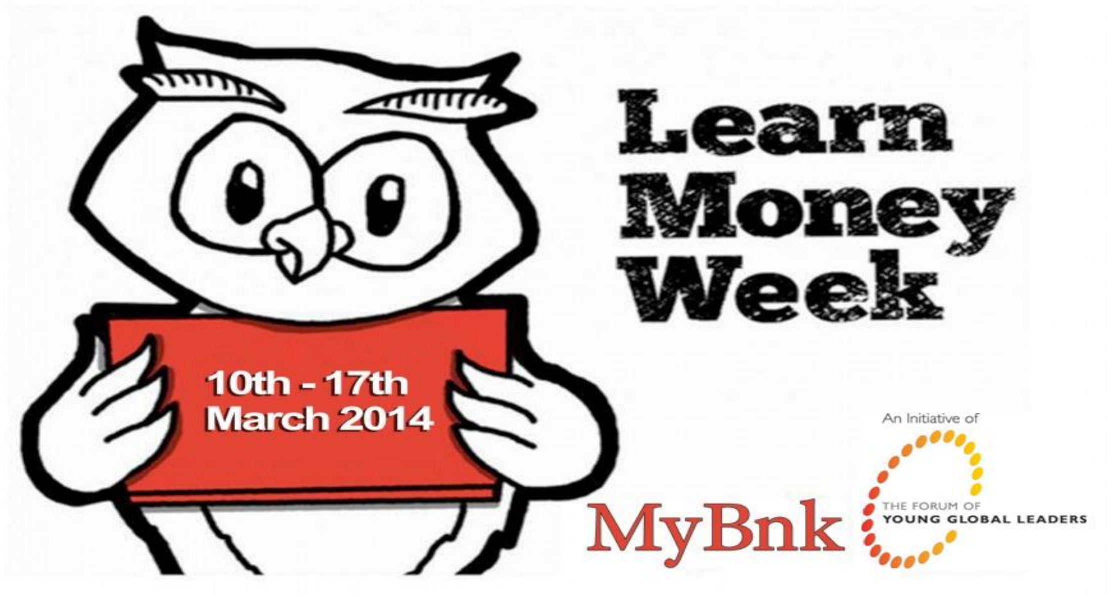
There are currently a number of Think Tanks looking at related issues:-

Indebted lives: the complexities of life in debt (Money Advice Service)

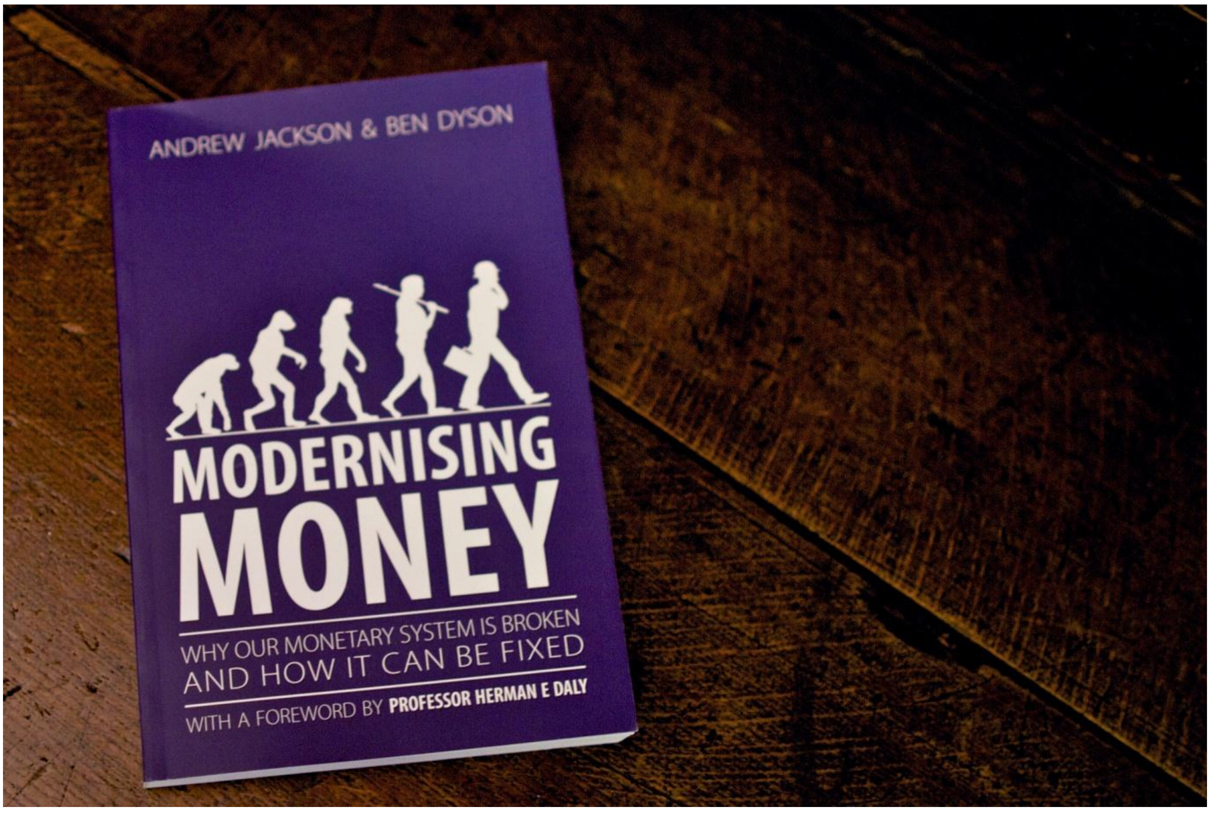
Tomorrow's Borrowers (Smith Institute)

MAXED OUT Serious personal debt in Britain (Centre for Social Justice)

Organizations like http://mybnk.org/ are doing excellent work to raise awareness around money.



The Positive Money analysis and vision can be found in Modernizing Money, available for £15.



Money is a global issue and the International Movement for Monetary Reform is growing with groups sprouting up in nineteen nations around the world.

3. Q&A

D. Macaskill: Not against debt but a more democratic process of money creation seems reasonable to remove the privilege of private banks. Money created for speculation is unsustainable and debts transfer from the private to public sector as happened with the 'bail-outs'. Do we need a write off?

F.Boait: Governance is the key issue. Those creating and allocating money should not be the same person because there is a conflict of interests. We are calling for a separation of powers. Other groups are calling for a debt jubilee but we think an economy built on firmer foundations is more sustainable. In countries such as Iceland, Denmark and New Zealand there are signs they are willing to put public needs and common interests ahead of private profit.

M. Ford: Aren't you banging your head against a brick wall? What is the difference from 1929? History is repeating itself.

F. Boait: Education gives us hope. There is no point in banging on closed doors. Not enough people understand where money comes from so that is where we start.

C. Stoodley: Money is a form of control and 'we' need a clearing system so when the Banks went bust they were bailed-out by politicians to keep things going.

D. Millar: It is does seem wrong that Banks create money out of thin air at little risk or expense

H. White: It should be that the money supply mirrors GDP. If they are not aligned we get inflation and instability. We need money for future investment and Government could either spend directly or force Banks to lend to business, especially SMEs.

S. Mann: If we rely on savings for our investment do we have to accept lower growth?

D. Millar: This does not feel like an issue of left or right and can be an issue parties unite on.

F. Boait: We have a 'false' or illusory form of growth because it is based on price rather than real value. Look at property, not enough homes are being built and prices are rising astronomically. If money was spent on increasing capacity through infrastructure we would expect 'better' growth.

D. Millar: Important to note the law regarding money creation has not been updated since Sir Robert Peel's Bank Charter Act of 1844. It is maybe about time?

4. Plaid Cymru's Financial Education and Inclusion Bill

Duncan Higgit and Bethan Jenkins AM opening consultation to continue and improve the level of financial education through the school curriculum.

5. Merthyr Rising Festival

J. Lilley: On May 31st Merthyr Tydfil will be host to a fringe festival to commemorate the original Merthyr Rising of 1831. Speakers from the People's Assembly, Stop the War plus author of Economics of the 1% John Weeks. There will be films screenings, art performance, comedy and music from very special guests.

6. Any other Business

D. Millar: As this is an AGM we can re-elect positions of Chair and Secretary. The group agrees for Darren to continue as Chair and for Justin to continue as Secretary.

CPG on Monetary Reform

For more information please contact Justin Lilley on positivetrigger@gmail.com