

**A submission to the Independent Commission on Banking  
by the Christian Council for Monetary Justice**  
in three parts is appended below :

- A preamble relating to the *Issues Paper; Call for Evidence*
- Three proposals
- Their relationship to the *Call for Evidence*

Yours sincerely,

Peter Challen

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### **Preamble**

Taking an overview of the Commission's very clear and informative 65page *Issues Paper: Call for Evidence, September 2010*, **the Christian Council for Monetary Justice** has detected that the 'light touch' of the regulatory authorities seems, in some degree, to have spilled over into discussion of some of the diverse failures of that regulatory process.

As an example of the Commission's 'light touch', under 'Recent trends' (paragraphs 2.7 to 2.9), it is stated that *securitisation* and the associated estimate of *the riskiness of [banks'] assets* are characterised merely as not having represented *an accurate assessment of the riskiness of at least some assets*. By way of comparison, the Christian Council for Monetary Justice recalls that at a conference concerned with money reform (Bromsgrove 2008), a participant with several years - in a named financial institution - engaged on securitisation gave a blow by blow account of the process and of the essentially obfuscating and fraudulent nature of the manner in which securitisation was commonly conducted.

However, the Christian Council for Monetary Justice is much more concerned with the apparent invisibility, in the *Issues Paper*, of issues concerning monetary justice. A principal issue here, of direct relevance to current banking practice, is the matter of interest charged on debt. This is a matter only mentioned in passing by the Commission. For the Christian Council for Monetary Justice it goes to the heart of monetary justice. Therefore before going on to consideration of structural change we examine some characteristics of the current situation regarding interest charges, charges for which the Christian Council for Monetary Justice can find no significant economic justification.

A figure of £120 million per day has been reported for the current cost of Government borrowing. This is equivalent to £44 billion per year. In terms of a typical UK gilt, the 4¼% Treasury Gilt 2055, this could arise from debt amounting to £1000 billion or about £15,000 per head of the UK population. This indebtedness and the amount of annual interest are central to the current Government proposals for cutting spending and making the general public bear the costs. These proposals are expected by the Christian Council for Monetary Justice and others to make life ever more difficult for the vulnerable and under-privileged

Credit card interest is an important way in which card issuers, major banks in particular, generate revenue or profit. Credit card debt, particularly for those making minimum monthly repayments, increases at a prodigious rate and has become a principal cause of personal financial distress. Last year (in March 2009) the total amount of UK consumer credit, leaving out mortgages, was reported as £150 billion (three times higher than a decade before), of which about £65 billion was owed on 67

million issued credit cards. Credit card APR has in the past averaged 15% so that un-repaid debt more than doubled in amount every 5 years because interest is compounded. This indicates that over the next decade un-repaid debt may become as much as four times higher. This is awesome; even eco-cidal. One of the financial information services said that the average rate had risen to 18.8% by February 2010.

All the major religions condemn usury. The Koran, for example, condemns usury where the sum lent is doubled (*O ye who believe! Devour not usury, doubling and quadrupling [the sum lent]. Qur'an 3:130*). Taking a useful shortcut for estimating a doubling time for compounded interest (by dividing the percentage interest rate into 70 to obtain the number of periods for doubling the principal) the principal doubles in about 70 years (that is, three score and ten) at a compound interest rate of 1 per cent. Therefore, in this reading of the Koran, *riba*, or excessive usurious interest - amounting to a doubling - becomes a human possibility at about 1% annual interest. At or below 1% annual interest there is not much of a social or economic threat from one generation to the next. However, at, say, 10% compound interest the principal doubles in about 7 years. This then amounts to 210 times in a three score and ten year period ( $2^{10} = 1024$ ). This presents a clear social and economic threat from one generation to the next. However, even at just 1% annual compound interest the growth of the principal amount can be seen, over a few millennia, as difficult to sustain, manage or assimilate. This simple numerical analysis underlies the Christian Council for Monetary Justice's proposals that follow.

### **Recommendations of the Christian Council for Monetary Justice**

Since the 1600s near miracles have been achieved by fractional reserve banking, which, one way or another, is said to provide about 97% of money in use and - more importantly - most of the past and present material achievements that surround us all. Fractional reserve banking has also given astonishing power to the operators of the banks and in the opinion of the Christian Council for Monetary Justice been at the heart of successive financial and economic setbacks caused by an inherent instability. This instability appears as an inevitable outcome of a system that creates from nothing vast sums of money (alongside a corresponding debt - the money cancelled and returning to nothing as the debt is repaid) but makes no provision for (large) amounts of money needed for interest payments. Where interest payments can be met from growth the system is sustainable but apparently not otherwise, causing asset inflation to become a principal source. With the current demands for interest payments just for consumer credit, as discussed above, sustainability remains out of reach.

A way out of this fix is to take money creation away from the commercial banks by instructing the Bank of England to create money (as repayable debt) and provide it interest free. The Christian Council for Monetary Justice has three suggestions for implementing this recommendation.

#### *Proposal 1*

Enable Bank of England issuance of interest-free debt for financing the national deficit each year and for retiring gilts as they approach the end of their time contract. Eventually annual interest payments in respect of Government debt would vanish giving a saving about equal to the currently proposed Government cuts. This proposal is rather simple and it goes some way to implementing the Christian Council for Monetary Justice's objectives. A system stability agency should vet all securitisation.

#### *Proposal 2*

In addition to Proposal 1 above, enable the Bank of England to issue interest-free loans for public, environmental and clean electricity capital projects such loans to be repaid and, on repayment, cancelled thereby halving or more usual costs in a non-inflationary manner. Regulation of excessive interest in all transactions is needed.

#### *Proposal 3*

The wider objectives of the Christian Council for Monetary Justice can be met by enabling the Bank of England to emerge as sole creator of money (as repayable debt) and to distribute it, interest free, for the benefit of the whole economy in terms of socially useful investment and to provide short term credit for purchasing consumables. This can be envisaged by making the existing commercial banks responsible for administering, for a fee, these interest-free funds. One possible model for such distribution is the current Government scheme for providing capital for new start-up businesses,

where the administering bank has to tick a number of boxes before creating the loans. If this model were in place certain business plans would not be eligible, such as for gambling, certain club activities, some financial operators and so on. Such ineligible business ventures would need to look for investment funds elsewhere which, in the case of the commercial banks, could involve 'narrow banking' practices. The high street banks would then, in addition to traditional banking activities, earn from charges for administering the 'model' procedures, such charges either regulated or kept within reason by market forces. Interest on loans using Bank-created money would be prohibited, including those for consumer credit. Money creation by fractional reserve banking would either be crowded out and allowed to fade away as the new interest-free funds were distributed or it could, if necessary, be prohibited. Winning money creation away from the commercial banks should result in them becoming no more threatening than any other service institution – which is now seen as a widely accepted and desirable policy objective.

The Christian Council for Monetary Justice entered into a correspondence with the Bank of England about this sort of proposal in February - March 2010 following a speech by Mervyn King commending the work of Professor Kotlikoff in respect of money creation. What was claimed by the Bank in their first response is that what is proposed above – about creating interest free debt - is illegal under Clause 101 of the Maastricht Treaty. As it happens this clause does not exist in that treaty (there is no clause 101). The relevant ruling, with that same numbering, is in another treaty as the Christian Council for Monetary Justice was able to inform the Bank; and the Bank accepted the correction. This question of legality was not resolved before the Bank terminated the exchange of views. The Christian Council for Monetary Justice has recently been seeking advice to get a resolution of this legal question but has so far made little progress.

### **These Recommendations – are they a response to the Call for Evidence?**

The relevance of the Christian Council for Monetary Justice's Recommendations to the Commission's 'Topics and Questions' is addressed in the following notes which are preceded by excerpts from the Commission's *Issues Paper*.

**1.7** The Commission's terms of reference require it to make recommendations to promote stability and competition in banking...

#### **Question 1.1**

What is the relationship between the Commission's two primary objectives of financial stability and competition (including consumer choice)? Are these goals fundamentally in harmony? If not, what are the tensions between them and how can reform proposals be designed to alleviate the tensions?

Recommendations of the Christian Council for Monetary Justice are directed to stability and would tend to support a competitive market for traditional banking activities. This is a response to Q 1.1. They would enhance harmony between the two primary objectives of financial stability and competition (including consumer choice).

#### **Question 1.2**

What weight should the Commission give to the other objectives – on lending and the pace of economic recovery, competitiveness, and risks to the Government's fiscal position – in its analysis?

The Recommendations take account of the importance of these other objectives. Adopting one or all Proposals would effectively underpin economic recovery, competitiveness, and risks to the Government's fiscal position.

#### **Question 2.1**

Are there other broad options for reform that should be added to this framework? For example, should any of the "other reform initiatives" listed in Paragraph 4.33 be matters on which the Commission should seek to make recommendations?

The Recommendations of the Christian Council for Monetary Justice do not directly address these other reform initiatives as the issues involved would be largely marginalised or simply melt away following a fundamental change in the process of money creation as recommended.

### **Topic 3: Benefits and costs of reform options**

The Christian Council for Monetary Justice would welcome the opportunity to participate in study of the questions that arise under Topic 3, namely Questions 3.1, 3.2, 3.3 and 3.4. Whether this particular study is made depends, of course, on whether the Recommendations of the Christian Council for Monetary Justice are taken on board by the Commission.

#### **Submitted by**

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