<u>Policy Motion for the Liberal Democrat Federal Conference – Autumn 2010</u>

Reclaiming the UK Money Supply for the Public Good

Conference welcomes the Coalition government's decision to implement a variation of Liberal Democrat proposals for a levy on UK banking profits. However, Conference remains concerned that:

1. banks create brand new interest-bearing money when they issue loans, increasing the UK money supply by as much as £200 billion each year and increasing debt by the same amount;
2. total new money (and thus new debt) created by the banks between 2000 and 2009 was £1,255 billion, with £612 billion alone created from 2004 to 2007 – the pre-financial crisis boom years;
3. around 97% of sterling (termed M4) is now issued as debt by the banks, enabling them to charge interest on some £2,158 billion of new money. At a 6% average rate, banks can collect £130 billion in annual interest on money that didn't exist until they created it as loans.
4. £130 billion is 10 times the additional revenue gained from raising VAT to 20%, while the planned UK bank levy will raise just £2 billion a year.

Accordingly, Conference believes that:

A. allowing the banks, instead of the state, to issue 97% of the UK money supply as debt through the loan-making process confers on them an effective subsidy that is potentially in excess of £100 billion a year;

B. over the last 10 years, the British public has effectively subsidised the banking sector by some £28,000 per elector, averaging £2,800 a year in unfair and unnecessary taxation;

C. if the £1,255 billion created between 2000 and 2009 had been issued by the state and loaned to the banks, the interest could have helped to pay for public services and cut the tax burden;

D. reclaiming the exclusive right of the state to create money could fund further tax cuts for those earning under £10,000, help protect public services and reverse the planned rise in VAT;

E. basing a bank levy on the amount of new money banks create would have the same effect as loaning state created sterling to them at interest.

Conference therefore calls for:

either I. state created sterling to be loaned at interest to the banks, replacing bank money creation and so be no more inflationary than the status quo;

or II. the Coaliton bank levy to be a charge on the creation of all new sterling;

III. UK banking to be opened-up to far greater competition, minimising the scope for banks to pass on money creation charges/levies to borrowers and stimulating more equity-based, rather than debt-based, financing;

IV. money creation charges to be used to cut VAT and other taxes on jobs.