Recapitalisation Of The Grass Roots Economy

RecapGRE

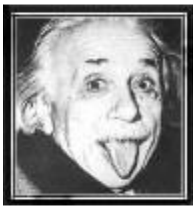
We propose to create substantial new prosperity by distributing equity and working capital, under strict rules, that have been widely debated for more than two decades; to create 30 million employees of up to six million, well capitalised, very small new businesses; where employment is driven by a recognition of the need to create a new source of equity capital, to increase the natural prosperity of the grass roots of any nation, to re-balance the economy

Chris Coles
Founder
The Capital Spillway Trust

This is a copy, with minor modifications to improve readability, of the thread **Recapitalisation Of The Grass Roots Economy** created by Finster, iTulip Shadow Fed Chairman on the iTulip.com web site where Finster debated the above concept with its originator; Chris Coles, Founder, The Capital Spillway Trust.

Thread: Recapitalisation Of The Grass Roots Economy

1. 04-29-17, 04:25 PM #1



Finster

iTulip Shadow Fed Chairman, Select Member

Thread for discussing recapitalization of the grass roots economy. In the thread FOMC Decision June 14, 2017, as well as others, Chris Coles has advanced some interesting ideas on the question, in particular the potential use of debt held by the Federal Reserve for this purpose. Rather than try to frame the issue in this post, we're inviting Chris to tell us in his own words. Once he gets us started, I and other interested iTulipers hopefully will contribute with questions and challenges.

Your thread, Chris...

Finster

2. 05-02-17, 10:45 PM #2

Chris Coles

Shadow Fed, iTulip Select Member

> **Finster**
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Thank you Finster, have done my best to reduce this to a basic minimum. My first post herein will also be available as a PDF file at the bottom.

Using Federal Reserve Funds to Renew Prosperity Throughout the United States

Executive Summary

The Federal Reserve holds a very substantial fund, <$2.5 Trillion that has, in turn, created a wide debate as to how to remove such an overhanging imbalance without destructive side effects.

This paper proposes that we need to recognise the advantages of concentrating upon the needs of the employer, rather than the job for the future employee. That it is the leadership of the employer of the people, by creating the prosperous grass roots foundations of a free nation; creates the means for every other layer of the nation to pay their part in future prosperity; pays all employee taxes, wages, all supplier costs, as well as all national taxes.

The tiny, first stage employer, was traditionally capitalised from local savings at levels well below the minimum interests of venture capital. Today, all savings are held by the financial services industry. Ergo, insufficient thought has been given to how the traditional grass roots employer of the people, depended upon the delivery of equity capital from the small savings held by their local community.

It is proposed that the Federal Reserve fund is converted into a new format with associated rules, mechanisms and institution, The Capital Spillway Trust, that has been widely debated over two decades, including at the central bank level; designed to enable the delivery of both equity and working capital directly into the hands of the future employers of the people.

We propose to follow the success of the The Oklahoma Land Rush, where land was freely distributed under strict rules to create substantial new prosperity; by instead, freely distributing equity and working capital under equally strict rules, to create thirty million employees of six million well capitalised very small new businesses; where the employment is driven by a recognition of the need to create a new source of equity capital, to increase the natural prosperity of the grass roots of the very small, local community economy, throughout the United States.

Just as with the Oklahoma Land Rush, we are not in the business of picking winners, everyone starts out with the same advantages. Instead, we are in the business of increasing the overall prosperity of the grass roots of the nation to re-balance the economy.

<u>Job creation is the tool, but the product is additional prosperity</u>; built upon a vast new foundation of more than 6 million very small new businesses. THAT is the aiming point!

Ergo; the logistics dictate the solution.

But now look at the results. The Vanishing Bond fund will create 30 million long term new, but much more stable and prosperous jobs.

Say average income of $15,000 p.a. so personal income will increase by $450 billion p.a.

Overall, the local EQUITY capitalization of the US has increased by $750B
PAYE Income Tax. Assume an average of $2567 x 30 million = $77B p.a.

Add reduced welfare costs for say, 30 million un/underemployed = $263B p.a.? Save $263B costs and add $77B income; creating $340B upside to the national economy; surely a win win!

Retirement pension payments @ say 9% pa; \$1350 x 30 million = \$40B p.a.

Remember these figures do not take any account, for example, of indirect tax revenues that such an injection of capital into the overall US economy will bring.

Again, remember; in the simplest business model, for every \$1 in wages we need \$3 business turnover, then the national GDP increases by \$1.35 Trillion p.a.

In short, we will have transformed the capital base of the US, reduced costs, increased tax income, increased savings, linked savings to the investment of equity capital into jobs and paid off the original investment by setting a challenge to everyone to pay off the vanishing bonds.

I submit that, with the at present well recognised social difficulties, faced particularly in depressed post industrial cities, there is a desperate need to, as rapidly as possible, increase the invested equity capital base of the grass roots of local society.

So, why not try some new thinking?

The core documents, available at the end of this post:

The Capital Spillway Trust submission to The Bank of England Open Forum 2015
(pages 25-27 & 39-44).

The Road Ahead from a Grass Roots Perspective
(Chapter 3 Job Creation not Credit is the Primary Driver of Prosperity).

Using Federal Reserve Funds to Renew Prosperity Throughout the United States.

Note: It may be possible to deliver the initial setup cost of a US based Capital Spillway Trust operation from a credit of patent royalties; removing any need for such government grant from the outset.

Further Detail

For some time now I have argued, successfully, that we only need to accept a simple set of rules and associated mechanisms designed to deliver the missing free enterprise equity capital, directly into new small business creation; where the only way to gain access to the capital is through each small business creating jobs.

No job created, no access to funding. All funding flow directly related to job creation.

Competition is the key. Very simple rules everyone can understand is the solution.

Remember, we are only replacing grannies biscuit box savings that had been subsumed into the financial services industry; we are not trying to change any existing financial industry structures.
Again, all the business and legal structures are already in place and fully serviceable.

The following is largely taken from The Capital Spillway Trust Submission to the Bank of England Open Forum 2015, pages 25 - 27 and 39 - 44.

My own input to the need to create growth

The basic idea for The Capital Spillway Trust was set out in 1994 and it has taken more than 20 years for me to reach this level of discussion. All that I am presenting herein, is a new way to look at the use of equity capital for investment into new small businesses.

If we strip away to the core of this debate; your underlying problem is a lack of what you call growth; what I call free enterprise job creation, and that that lack of growth, as I see it, relates to a lack of prosperity, right down at the grass roots of almost every nation.

That in creating the financial services industry, everyone failed to recognise the effect upon the very first stage capitalisation of a new small business; where once the potential capital for new job creation was always available from the local community, now it always resides inside the financial system.

Of even more importance, particularly today, right down at the grass roots level, the process is random, unstructured, yet:

1. A functioning nation must have jobs. Gainful, productive employment. Not funded by tax income, but instead creating new tax income, new savings, new increasing personal income; as the primary mechanism to create a free, successful, prosperous society.

2. The greater the number of your nation in honest gainful employment, the more prosperous you are. The better the tax income. The easier it is for everyone to pay their way.

3. Gainful, productive employment is absolutely vital. Nothing can replace it.

Today, governments lack sufficient tax income; pay out huge sums for welfare and living wage support; while financial institutions lack future prosperity to buy in for onward investment; which is, arguably, the underlying reason for this debate today.

We do not have, yet need, a set of agreed rules and mechanisms, specifically designed to deliver equity capital, on free enterprise terms, right down into the very first stage, new small business job creation process. We need to capitalise new, very small employers, and when we do, we will all benefit.

We must return to the thinking that underpinned The Oklahoma Land Rush.

As you will see, this will become an exercise very similar to the Oklahoma land rush, where many were given a once only chance to make a fresh start; this time not into land ownership, (at that time, I must add, freely given by government because they saw it in everyone's interest), but instead into owning a very small business; where the equity investment is directly related to job creation.

We start with a massive PR exercise to encourage every community to create their own local capital spillway trust. Their role is to first encourage anyone within their community to set out to create a new small business, where they will hold, as one of the “Local” Capital Spillway Trusts, 20% of the ownership of each new company so created.

Each new small business creator, when they take on an employee, has to link that employment with national authorities. For example, in the UK we provide the small business with a Pay As You Earn, (PAYE) system that links each employee with the tax collection system.

We simply propose to deliver, via the local community, a fixed sum of equity capital, to the new small business for each new employee they take on, up to five, perhaps eight or ten employees. The entire capital sum being delivered to the employer, who retain their 80% ownership.

By the same token, the new equity capital is immediately deposited into a new small business account with their bank. The full details are set out on my web site, including additional rules for the more creative enterprises. (Chapter 3, The Road Ahead from a Grass Roots Perspective).

All such investment is well below any level of interest in your major financial institutions; so the peer pressure to keep tabs on the investments, has to come from the local community. There are specific rules to deter corruption at that level by promoting competition between local trusts.

The business owner cannot pay themselves anything more than an agreed income before either they pay back the investment, or they pay a regular 8% dividend on the full capital investment back to the local community holding the 20% stake. This thus becomes a crucial aspect; the payment of a regular and substantial dividend, becomes a primary aiming point from the outset; ensuring a stable and attractive income for all subsequent onward investment by savings institutions.

We create a standardised product; conforming to the needs of all upper level investment.

As I see it, if the initial fund for the first stage Vanishing Bond investment as equity capital, is sourced from funds presently held by the Federal Reserve, we will be replacing numbers on a screen with direct deposits into new bank accounts. Equity capital is investment in expectation of a future return. No individual investor will be at any risk.

We are simply using job creation as the vehicle to increase local prosperity. No government grants. No special tax breaks. Every aspect out in the open and fully competitive from the outset.

All of the equity investment is used within the new small business structure to pay for the costs of the business as it works towards a stable trading environment; and as such, by using equity capital, regardless of the ongoing success or failure, the value always remains as additional prosperity within the local communities.

Thus anyone with get up and go has a once in a lifetime chance to set up and try to succeed. Exactly the same as in the Oklahoma land rush.

No, I am not going to even try and say what such new businesses should try and do. I happen to believe that they will astound everyone by seeing opportunities that were otherwise invisible.

By taking this new route to first stage capitalisation of very small employers within business creation, we can create millions of new, free enterprise jobs within a very short time scale; where each job will be within a well capitalised business structure. Of even more importance, where they cannot gain access to investment without an employee.

So local competition for employees will automatically drive up local prosperity.

Yet, as with any small business, they will have to match their ongoing costs to the income they can generate from sales; all such competition will be trammelled by the prosperity of their trading over the several years it will take to reach long term stability.

Some of you know already that this whole concept has been on the table for two decades and has been widely debated, both within the web pages of The Times in London, as well as various debating platforms in Europe and the USA, particularly here on iTulip. Earlier in 2015, the Bank of England wrote “best wishes for the future of The Capital Spillway Trust” and very recently Ignazio Visco, Governor of the Bank of Italy wrote to say “the issues you raise are of paramount relevance and are indeed, as you so kindly pointed out, relevant to some of my interventions on the policy debate”.

By this simple set of rules, we will create a very wide raft of increased prosperity right down at the grass roots of every economy; where doing so will not force change upon any rule structure, above that level, within the financial industry.

There is no need to change the rules for the major institutions.

Governments can return to enjoying sufficient tax income for their general services. Costs of welfare will reduce dramatically, while the increased prosperity will add considerable value to the buy side of the financial system.

All we need to do is agree the basic rules, create the initial fund, and set it into motion.

Let us look at some related details.

Just as with the Oklahoma Land Rush, we are not in the business of picking winners, everyone starts out with the same advantages. Instead, we are in the business of increasing the overall prosperity of the economy to enable us to balance the books.

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Again, remember; in the simplest business model, for every $1 in wages we need $3 business turnover, then the national GDP increases by $1.35 Trillion p.a. In short, we will have transformed the capital base of the US, reduced costs, increased tax income, increased savings, linked savings to the investment of equity capital into jobs and paid off the original investment by setting a challenge to everyone to pay off the vanishing bonds.

I submit that, with the at present well recognised social difficulties, faced particularly in depressed post industrial cities, there is a desperate need to rapidly increase the invested equity capital base of the grass roots of local society.

In essence, I am proposing to replenish the “hidden” prosperity of the nation; without such replenishment, you all know for a fact - recovery will be moot.

We must not forget that I have also proposed we need a working capital fund of $1.5 Trillion made available as $50,000 tranches of 25yr @ 4% stock to set against the equity capital of $25,000 per new job created.

At first sight this part of my thinking might seem irrelevant and counter productive. My answer is to ask: What are we trying to achieve? We are surely in the business of creating a long term STABLE economy.

Our responsibility is to see these new jobs stabilise and succeed. I have set out in the core documents, how the working capital element should be handled by adding this to the local market scene.

The Federal Reserve

The Federal Reserve should immediately set out to create and make available, as a national fund, $2.25 Trillion of new Vanishing Bonds at 4%.

The chain of access to $750B of these bonds, delivered as equity capital, will be via new companies being created, in turn via Tax authorities creating new PAYE records for the new jobs created.

The balance of $1.5 Trillion will be made available via local marketplaces set up specifically to dispense them in 25 year tranches of $50,000 @ 4%p.a. and only open to the holders of the new local Capital Spillway Trust inspired, PAYE certificated, equity capital investment into these new companies.

The working capital Vanishing Bonds are thus paid off; “Vanished”, at 4% p.a. by both the people and the new job creating businesses. Over the full life of the Vanishing Bonds, they will vanish within 25 years; with the original fund being returned at par by the interest payment. Importantly, now you will have well capitalised companies rather than, as previously; grossly under capitalised companies falling down at the slightest “gust”.

Let us set as a target, each profitable new business pays a minimum dividend of 8% p.a. (Remember they must do that to permit the founder to pay themselves a satisfactory income). Allow 1% for the local Capital Spillway Trust fund internal costs and, say, .25% towards The "National" Capital Spillway Trust for long term support, conferences, leaflets etc. then that leaves 6.75%. The people have incentive from only receiving 2.75%, (on 4% money they were given for free), until the vanishing bonds are paid off.

At that point, the bonds have “vanished” but their value, now transferred to the local communities as the savings of the local communities, will retain the full dividend income on the total investment. The founder will retain their ownership of the business, but be obliged to pay a return to the local Capital Spillway Trust fund equivalent to the full original investment. If they receive, say, $200,000 equity capital, they have an ongoing commitment to pay a minimum 8% p.a. dividend on the full

$200,000. The Capital Spillway Trust will also need funding, particularly during the first stage; I suggest a fee of 0.5% ($125), for each $25,000 business deposit.

The subsistence business founder, paying all their costs but not making a clear profit, must pay back the original equity capital investment in full to gain access to an adequate personal income. The local fund may thus reinvest that returned capital as new investment, or, if they wish, use it to “vanish” their Vanishing Bonds. Between the people and founders; they will have ample incentive to get access to the better income from their investment while also retaining the potential to make new investments. In this manner, we create immediate new prosperity in such a way that, as the original bonds vanish, they will be replaced by creating prosperous conventional businesses adding to the overall prosperity of the nation. The new prosperity is transferred across by profit.

The business that fails has received investment that would have produced an income for both the founder and the local people. When it fails, both the business founder and people lose out. So the answer here is the value of the Vanishing Bonds will vanish when the business fails, (very interestingly, exactly as with an Islamic Banking Sukuk), but as we can see, both sides lose out; no one has any further income. Both sides lose out from the failure of any local initiative while the value of the investment remains in circulation within the local community. Unlike a bank loan, the initial investment remains in circulation as additional "local" prosperity.

Local people are not risking their savings to create a “local” Capital Spillway Trust Fund. Any local group of people may do so; indeed many separate groups of people may do so in any local community. These local funds encourage others in their community to create new companies via the existing national Companies House systems with the existing local solicitors attorneys and accountants providing the legal and regulatory overview as they already do with all local businesses.

“Local” peer pressure oversight is a vital element in these proposals.

When any new business so created takes on an employee, they must as always create a PAYE tax record for the new employee. At that point, the new business will receive $25,000 equity capital investment on free enterprise terms. As the business continues along its development, it will need access to working capital and that will be made available via many markets set up to dispense such to these new companies in the form of 25 year loans at 4%. (Look back in time and industrial history will teach you that those were the terms, 25 year notes @ 4%).

NO ONE may spend the money willy-nilly; all the money is used for the development of the business to create new, long term, stable employment. The local Capital Spillway Trust fund does not receive any income UNTIL the business becomes profitable, at which point they receive a minimum of 2.75%.

When the full value of the Vanishing Bonds are paid off; their income increases to a minimum of 7.75%.

Subsistence level businesses, (paying all their taxes, employees wages and the founder a small income, but not highly profitable), must repay the original equity investment back to the local fund for reuse before the business founder can earn more than a subsistence income.

Even these are to be encouraged to retain a relationship with the local fund for the long term.
Any failure eliminates the possibility of either side gaining any income. All have incentive for the investments to succeed. As, as much as possible of the money so invested, will have already been spent within the local economy; local prosperity will even result from failure.

All the money has to travel from the initial vanishing bonds, immediately into new equity capital investment into new job creation and working capital into new business development. Of particular interest, in this way, the existing FIRE economy cannot skim off a dime before it is fully invested into new job creation. The FIRE economies incentive will be to follow through with suitable products to suite the new business environment which will inevitably become very much stronger and more competitive.

Yes, there will be a strong imperative for existing medium and large businesses to feel threatened by the new competition created. Competition is always good. They will have to adapt to survive. However, I am sure they will follow through and as this transfer of prosperity gains traction, there might be a powerful argument; based upon the added stability caused by a small business community being founded upon a strong capital base; for every business to follow suit. That the long term result will be much greater economic stability built upon a strong small and medium business community. (The German model I believe).

Perhaps, when the initial success shows the way forward, the vanishing bond will become an integral part of the long term revival of the Western economies. In which case, we ought to think forward towards much better capitalised businesses throughout the Western economies.

Finally, some will step forward and say it is impossible to create new jobs on this scale.

My answer is to say I am not by any means the first person to suggest that the solution to the Western economic model is the re-capitalisation of the grass roots of our society; but perhaps I am the first to show how that can be done; successfully.

So, why not try some new thinking?

Any profit created by The Capital Spillway Trust itself will be ploughed back into new job creation on the same basis as any other local capital spillway trust fund.

Beyond this first exercise, The Capital Spillway Trust will conduct long term research, (not unlike the OECD but without cost to any government).

The long term aiming point is to create a completely new, totally independent savings institution; dedicated to the capitalisation of new, free enterprise based job creation at every level of the nation; indeed, any nation; as I believe this new thinking will find many supporters world wide.

Some very salient points

The new business will only require the founders pay the initial costs of forming their new company and producing a viable business plan. This will be a once in a lifetime opportunity.

You will hang, right out in full view; the potential for ANYONE with get up and go, to create a profitable, free enterprise based, private sector, job creating business for themselves.

Not a single dime of their existing savings risked by any saver.
Not a single dime invested without a new job being created.

Not a single dime spent by any government employee; all the money goes directly into new, free enterprise based, private sector job creation, right at the grass roots of the nation.

The necessary legal and accounting framework is already in place in each local community.

The clear potential for a massive reduction in welfare costs allied to a corresponding increase in tax income. Perhaps for the first time in generations, the administrations books will balance.

We should also now see that this new investment opportunity will draw many presently employed by government to see it in their own interest to become local employers themselves

Competition between these new companies will ensure the added prosperity will also be reflected in the earnings of the employees. They have to be able to attract and keep an employee to retain the equity capital investment while maintaining a good profit.

Thus, apart from a small proportion which the rules target towards developing inventions and longer term research, almost all the investment is driven by the availability of employees; if you cannot find the people you will need to work for you, you cannot receive investment. The investment will thus naturally; without any further incentives; flow towards the unemployed.

One very interesting aspect is that we should see a clear recognition of the need to reign in fixed asset price inflation. Those local communities that keep their fixed asset costs under firm control will see a much stronger success rate for their local investments. Why? Because it will be dividend income that brings the new prosperity; not asset price inflation.

Finally, this will form the firm foundations for the long term development of new regional stock exchanges, which must now be firmly based upon legitimate trading to the rules of a true free market; and thus targeting both the equity and working capital needs of these new small and medium sized businesses in their local communities.

Private Sector Job Creation

There is no doubt in my mind that we can and will, very quickly; create 30 million private sector jobs using this system. What people have to bear in mind is the missing potential.

We have lived through decades of negative attitudes towards new, private sector job creation, below the existing venture capital levels of society.

The “Global” economy will argue we cannot compete. I will argue we will have to recognise that the only way to compete is to once again become reliant upon your own local community for as much as we need in each nation. Instead of buying the cheapest from a super market, but seeing a large part of the nation unemployed; we are going to have to learn that we must both encourage others to produce a better, yes, more expensive product; but see our communities, our children, in long term and prosperous employment.

Now we can look forward to many more in prosperous jobs designing and making everything we need; but at much higher quality. Fine ceramics on a fine, hand made table, bought from the local community where your son or daughter also earns a good living is a starting point.
Long term we must now recognise that we have everything to hand to once again become successful and prosperous. The one thing always previously lacking was the necessary equity capital investment to permit us to succeed.

Not any longer.

At last we can bring a complete stop to the silly idea that somehow job creation is some form of “dodgy enterprise”; that the job creator is somehow antisocial and a potential thief of the people’s savings. Now we can let everyone understand that ANY well paid job, where their employer pays their taxes and local costs, is a job worth its weight in gold to the local and national economy. Job creation by the local small business employer will become the pinnacle of achievement for anyone in their local community; the person most will look up to as an example of leadership.

The small, local employers, become the leaders of their communities.

We do not have to always buy from Japan or China. But to change direction, (or face a future of continuing to be the slaves of another national economy), we have to have the courage to believe in the capabilities of the young to learn the lessons of the past and start out to create a new prosperity.

I have the temerity to believe the US can change direction and once again succeed.

So, why not?

Chris Coles.
Founder
The Capital Spillway Trust

One last point for debate:

The original concept of a Vanishing Bond was created to take account of the substantial sums of what, at the time, (post 2008/9), were seen as unquantifiable value paper circulating within the banking system. Nonetheless, with a single institution involved, The Federal Reserve, it might seem a better option to deliver the required fund in another manner, yet to be discussed. However, to avoid confusion, as the original concept involved what I had described as a Vanishing Bond, which has been read and discussed at the highest level; it was felt better to leave the draft concept as originally presented. It may prove more acceptable to simply inject the required equity capital as equity; leaving the working capital to be paid off under the proposed fixed terms and conditions; 25 years @ 4%.

Using Federal Reserve Funds to Renew Prosperity Throughout the US.pdf
The Road Ahead from a Grass Roots Perspective.pdf
The Capital Spillway Trust submission_ to BoE Open Forum 2015.pdf

Finster
Hmmm ... not sure I grasp the actual mechanics you have in mind. It might be easier if we had a short outline of the mechanics alone, separated out from the rationale behind it. In any case, I'm not familiar enough with the financial landscape in the UK to discuss that portion in detail, but have some questions about the US (Federal Reserve) implementation. For example, these "vanishing bonds" represent debt owed by who to whom? And while bonds represent debt, you refer to "equity" capital; are they different?

By the "fund" that the Federal Reserve holds, do you mean the Treasury and agency bonds on its balance sheet? If so, this represents debt owed by the government to the Fed. In which case transferring the fund assets to local employers would amount to the government then owing the debt to them. Are

> they then expected to sell these bonds for cash? Or is the Fed expected to sell them and disburse the cash proceeds?
>
> The Fed is planning to sell or run off these bonds anyway, but as part a tightening or "removal of accommodation" policy. So if the bonds or cash were instead to be distributed to businesses, wouldn't that nullify the effect it seeks? Disbursing cash would appear to be a sort of helicopter drop, except in this case one targeted to specific individuals for specific purposes as opposed to being distributed equally among US citizens. Is that what you have in mind?
>
> Thanks in advance for the clarification, Chris.
> Finster
> ...

Thank you Finster, good questions. But I need to answer them in reverse.

> **Finster**
> "The Fed is planning to sell or run off these bonds anyway, but as part a tightening or "removal of accommodation" policy. So if the bonds or cash were instead to be distributed to businesses, wouldn't that nullify the effect it seeks? Disbursing cash would appear to be a sort of helicopter drop, except in this case one targeted to specific individuals for specific purposes as opposed to being distributed equally among US citizens. Is that what you have in mind?"

The idea of the Vanishing Bond stemmed from the challenge to find a way to replenish the grass roots prosperity, that prior to FIRE, had traditionally funded first stage start-ups. In turn, stemming from my lifetime experience that, even as an internationally recognised inventor, the required equity capital to fund a new business, at that level, on free enterprise terms; simply does not exist.

We only need to take a close look at the likes of the Rust Belt, to see that again, the local community economy is so depressed, there are no savings of any form, in such an economic environment, to adequately capitalise new private sector employment.

Yes, this is another way to “helicopter” money, except that simply giving people money to spend is entirely wrong headed, as that just becomes another form of welfare and we can see World wide, welfare leads to further debt and dependant populations, when what we need is a return to work ethic. Thus the primary aiming point was to kill two birds with one stone; replenish prosperity, by using the drive and imagination of the future employer; to drive a return to work. And that places the entire emphasis upon a new, normal small business need, for equity capital and to use that mechanism to ensure direct competition for employees; by potential employers.

Working forward from that starting point to 2008, to discover banking was awash with unquantifiable value paper, (that in turn had triggered Quantitive Easing QE). My proposal was designed to take the QE off the individual bank balance sheet and replace it with fresh customer deposits through normal business relationships. So, yes, a targeted use of the QE.

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> government to the Fed. In which case transferring the fund assets to local employers would amount to the government then owing the debt to them. Are they then expected to sell these bonds for cash? Or is the Fed expected to sell them and disburse the cash proceeds?

That was the origins of the concept of the vanishing bond; to find an acceptable way to write off the QE; "Vanish" it. As I see it, we have to find a way to write off debt. People have been pushing debt as a solution; except that, you are correct, debt follows people around. We have the power to do whatever we need to create a solution; all I have done is emphasise the need to find that solution; one that allows a rapid return to stability. So, why not write the debt off by a direct conversion into a combined equity and working capital fund, that will allow many to remove themselves from poverty, while at one and the same time; driving out of welfare into a hard working population?

> **Finster**
> Hmmm ... not sure I grasp the actual mechanics you have in mind. It might be easier if we had a short outline of the mechanics alone, separated out from the rationale behind it. In any case, I'm not familiar enough with the financial landscape in the UK to discuss that portion in detail, but have some questions about the US (Federal Reserve) implementation. For example, these "vanishing bonds" represent debt owed by who to whom? And while bonds represent debt, you refer to "equity" capital; are they different?

In a very real sense, you have perfectly illustrated the present dilemma created by the FIRE, (Finance, Insurance & Real Estate) economy. You, as a trader of stock seem not to understand that that stock certificate you trade represents the equity capital of the company you trade. Equity capital is free money. When you invest in equity, there is no income other than what may be created as a dividend from the trading of the company. By investing in stock, equity capital, when anyone first purchases that stock directly from the company, you are in point of fact saying; here is a sum that will allow you to build up the business, if you fail, I will lose my money; BUT, in that case, the value remains in circulation and thus the entire community prosperity increases relative to the value of the capital. It is that aspect in particular, that has been lost. Everyone wants control and to impose as much debt as possible; but if you use equity capital; you add to the underlying capacity of the business to survive and the surrounding community to prosper. What I am proposing is that the funds from the Federal Reserve become equity capital that is owned by the local community. The Working Capital will be debt, but in fixed tranches at fixed rates to be repaid back to the source.

The mechanics are simple.

To create a true free market, capital based, local economy, with as much competition between the many suppliers to the local economy as possible; only requires we accept four primary rules:

1. Only the job creator makes the decision to create a new job.

2. They receive adequate Equity Capital by abiding to strict, but open rules that leave them in complete control of their new business.

3. Local savings are invested, as equity capital, back into the local community to provide the required capital to create the new jobs.

4. All transactions are made to the rules of a free market.

It really is as simple as that.

To get to the point where local savings are available, we have to first replenish the prosperity. This is the detail of how to do that:

Allow the local community to form their own local Capital Spillway Trust to act as sponsors.

To prevent corruption and ensure competition, anyone may do so. Thus local trusts will compete against each other and are charged to ensure competition at all times.

Each such local trust to simply encourage others within their community to become employers.

The future employer has to produce a business plan and create the legal structure of their future business. They thus directly link in to the normal business structures, legal and banking.

They have to give 20% of their ownership of their new company to their local sponsor, their local Capital Spillway Trust. They retain their 80%.

They also have to agree with their sponsor what their personal income level will be, until they reach profitability.

At the point where an employee is taken on, the new business will have to link that employee into both their state and national systems; it will be that process that opens the flow of capital, from the central source on into the new business via the local sponsor.

With each new employee that they take on they receive $25,000 capital. That initial capital is as equity, not debt. They may employ an average of 5 employees, in exceptional circumstances, up to 8 or 10.

They are charged to create a business that will consistently, pay a dividend of a minimum of 8% on the capital, they have received via their sponsor; back to their sponsor.

Thus the sponsor, as the minor shareholder, has every reason to provide peer review of the operation of the companies they help to form.

I also suggest that the sponsors hold the systems for the accounts for the businesses; that they can act like a board of directors to keep track of spending.

It is in everyone's interest that the sponsors do everything they can to assist their new businesses to survive and prosper. Their oversight and encouragement is vital.

As with the agreed business plans, an expanding business will need access to working capital, to pay for the costs of production as per any normal business. I have proposed that for each employee via which they received the first stage capital, they may have access to another $50,000, but this time as 25 year money at 4% fixed.

It is important to emphasise that we are setting out to create well capitalised businesses, with an aiming point of surviving for the average of several years until they reach trading stability.

Any employer wishing to increase their personal income beyond that agreed at the start, has to be paying the 8% minimum dividend to their sponsor.

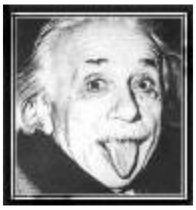
Any employer wishing to buy out the sponsor has again an agreed set of rules for such purchase. Thus they have their own aiming points from the outset.

Any employer that has created a business that pays its way but is unable to pay dividends, has to buy out the sponsor by re-paying the value of the entire first stage equity capital sum, back to their sponsor, before they may take more than the originally agreed income from their business.

The long term aiming point is to use capital as equity, not debt, to recapitalise the grass roots economy, in a manner that leaves the first stage new business founder within a free enterprise working relationship, with their local community sponsors.

Beyond that starting point there is another layer of detail to cover central and local costs from the deposit of the capital and income from dividends. Here I have concentrated upon the first stage capitalisation mechanism.

Chris.



Finster

> **Chris Coles**
> "We only need to take a close look at the likes of the Rust Belt, to see that again, the local community economy is so depressed, there are no savings of any form, in such an economic environment, to adequately capitalise new private sector employment."

Readily done for yours truly, Chris, as I live in the American "Rust Belt". In this small town there is quite a bit of manufacturing and agriculture, but "depressed" is nevertheless fitting. It was once booming with industry and tourism. Lately there are actually plenty of jobs available, but quite a few people who don't work, many who actually could but who are on some kind of government benefit.

> **Chris Coles**
> "Yes, this is another way to "helicopter" money, except that simply giving people money to spend is entirely wrong headed, as that just becomes another form of welfare and we can see World wide, welfare leads to further debt and dependant populations, when what we need is a return to work ethic. Thus the primary aiming point was to kill two birds with one stone; replenish prosperity, by using the drive and imagination of the future employer; to drive a return to work. And that places the entire emphasis upon a new, normal small business need, for equity capital and to use that mechanism to ensure direct competition for employees; by potential employers.

> Working forward from that starting point to 2008, to discover banking was awash with unquantifiable value paper, (that in turn had triggered Quantitive Easing QE). My proposal was designed to take the QE off the individual bank balance sheet and replace it with fresh customer deposits through normal business relationships. So, yes, a targeted use of the QE."

"To the extent you’re suggesting HM is preferable to QE, we agree. I don’t like the idea of central banks accumulating assets. It’s not necessary to do that to put money into circulation. It crushes people who are trying to save and invest. They must buy assets with hard-earned money, but the central bank can do it at zero cost. Having to compete with a buyer with infinitely deep pockets is destroying the ability of the middle class to provide for its own retirement, even as the ability of government programs to do so is also in serious question."

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The way I conceptualize equity is not so different from that of debt. Consider that bonds (debt) are often called "fixed income". That to distinguish them from stocks (equity) which are "variable income", whose ‘interest’ (dividend) payments are not fixed but contingent on the profitability of the issuer. Another distinction is that while bonds usually have a fixed (specified in advance) maturity, common stocks have a variable maturity (whenever the company liquidates or buys back stock). But both are claims on the income and assets of the issuer. Either may not or may make regular rent payments on investor’s capital (zero coupon bonds, non-dividend-paying stock, versus coupon bonds and dividend stock).

Even debt securities may have an infinite or unspecified maturity (perpetual bonds). Just change the coupon from pre-specified to contingent, and presto you have something hard to distinguish from equity.

The capital structure of a corporation in general has senior debt that gets first claim on the company’s income and assets, then possibly junior debt that comes second, possibly preferred stock that comes third, and finally common stock that comes last. Common equity can thus be thought of as the debt at the bottom of the pecking order of capital claims. It gets whatever is left over after all the more senior debt has been satisfied. In this way, the difference between debt and equity is not so much in kind as in degree. They have much in common - the similarities are greater than the differences.

Chris Coles
"The mechanics are simple.

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Chris.

This does sound like a free market. But isn’t this what is supposed to happen by default, that is, in the absence of artificial impediments and disincentives? This takes me back to the question of whether the problem isn’t the lack of structures to create prosperity, but the presence of ones that get in the way. If people are able to get an attractive return on their labor and capital, they generally need no external push to deploy it. If they aren’t, why not? What you are proposing strikes me as something that could be very helpful as a transition aid to overcoming the depressed consequences of bad policy, but that in the longer run you still need to get the bad policy out of the way if you want benefits to last. Maybe that's what you have in mind?

Finster
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Chris Coles

Finster
"Readily done for yours truly, Chris, as I live in the American "Rust Belt". In this small town there is quite a bit of manufacturing and agriculture, but "depressed" is nevertheless fitting. It was once booming with industry and tourism. Lately there are actually plenty of jobs available, but quite a few people who don’t work, many who actually could but who are on some kind of government benefit."

Here you emphasise the negative effects of welfare, why work when one may survive on the hand out? My first pay packet was £2 pounds 8 shillings and 4 pence, but then the welfare was ~12 shillings, so even as a first day apprentice, I was much better off than someone on what we then called the dole. Today, welfare is a major industry for administrations; certainly here making magnificent careers and honours. Thus the long term failure to create sufficient prosperity has been covered up by bringing welfare up to a standard where anyone may make a choice; a meager living, or work hard for the same income; except that simply does not work. We see here in the UK many came from the likes of Poland. What has been missed is that a Pole earning the same wage as anyone here is in fact earning five times more than they can in Poland. Many set too working their butt off to earn enough to build a house in Poland where here the housing costs for the local employee are so high it is an impossibility.

So one of the primary impediments is that local prosperity is at the same level as welfare. We need to increase prosperity to the point where, if you take a job, you make enough to make work attractive. I was struck by a Newsnight clip a couple of years ago where a bus driver was interviewed in Brazil and he said: "We are all slaves now, except that today they pay us". As I see it, the only way to increase prosperity is to inject sufficient new capital into the grass roots economy, that then attracts the many potential employers to compete for the employees.

> **Finster**
> "To the extent you're suggesting HM is preferable to QE, we agree. I don't like the idea of central banks accumulating assets. It's not necessary to do that to put money into circulation. It crushes people who are trying to save and invest. They must buy assets with hard-earned money, but the central bank can do it at zero cost. Having to compete with a buyer with infinitely deep pockets is destroying the ability of the middle class to provide for its own retirement, even as the ability of government programs to do so is also in serious question."

Again, we come back to the same theme; except this time we can see that driving up asset values, (as you correctly point out at zero cost), to drive what I feel sure we would both agree is a false economy. Today the ordinary people cannot increase their earnings to keep up with the constant rise in asset value; while at the same time, every other cost rises relative to asset values. All that has achieved is to constantly raise the quantity of debt that government needs, (they long ago lost sight of general taxation being sufficient to pay normal government costs), to pay for the services of government. Then add the cost of welfare for all those "on some kind of government benefit"; when, in point of fact, everyone employed by government is "on some kind of government benefit" too.

Government is constantly raising debt to try and pay for the impossible; an economy based upon the idea that a few good earners can pay for everyone else. When we can all see that we are now at the proverbial dead end; it simply has not worked.

And that brings me right back to where I came in; as I see it, the only way forward is to increase the prosperity of the base foundations of the Western economies.

> **Finster**
> "The way I conceptualize equity is not so different from that of debt. Consider that bonds (debt) are often called "fixed income". That to distinguish them from stocks (equity) which are "variable income", whose 'interest' (dividend) payments are not fixed but contingent on the profitability of the issuer. Another distinction is that while bonds usually have a fixed (specified in advance)

> maturity, common stocks have a variable maturity (whenever the company liquidates or buys back stock). But both are claims on the income and assets of the issuer. Either may not or may make regular rent payments on investor's capital (zero coupon bonds, non-dividend-paying stock, versus coupon bonds and dividend stock). Even debt securities may have an infinite or unspecified maturity (perpetual bonds). Just change the coupon from pre-specified to contingent, and presto you have something hard to distinguish from equity.
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We only need to look at the basic figures, which are dominated by steeply rising government and private debt. If we take debt as income, debt not just expects the debt to be repaid, it has to be repaid with substantial interest. A credit card debt requires the likes of another 20%. So a debt driven economy, for those that have to repay the debt; constantly removes prosperity, rather than in any way increases it. Ergo, the majority are driven into financial depression. We need only look at the repeated debate about the level of US government debt to see precisely that aspect in action.

On the other hand, the one aspect that you have not highlighted regarding equity capital is that it is never repaid. You buy stock and the business stops trading, the money you invested remains in circulation. It is that simple aspect that I keep returning to.

The economy has to be returned to where there is sufficient prosperity to enable the private sector employment of the people; OUTSIDE of government, produces sufficient tax income to pay for the entire government structure, without the need to borrow debt to pay for the shortfall. An excellent example of how far the economy is now out of kilter is student debt. Education used to be free! Yet, even with education costs offset from the main government balance sheet, their debt increases.

The economy must return to where private employment prosperity for the majority is greater than the cost of government; and the only way to do that is through increasing investment, right down at the base of the economy. We need to re-build the economic foundations.

> **Finster**
> "This does sound like a free market. But isn't this what is supposed to happen by default, that is, in the absence of artificial impediments and disincentives? This takes me back to the question of whether the problem isn't the lack of structures to create prosperity, but the presence of ones that get in the way. If people are able to get an attractive return on their labor and capital, they generally need no external push to deploy it. If they aren't, why not? What you are proposing strikes me as something that could be very helpful as a transition aid to overcoming the depressed consequences of bad policy, but that in the longer run you still need to get the bad policy out of the way if you want benefits to last. Maybe that's what you have in mind?"

So in which case, we must clearly identify what is bad policy.

My view is that the entire problem derives from an economy focused upon increasing asset value, rather than increasing dividend income from equity investment.

I brought this up at the International Financial Law Review, IFLR, European Capital Markets Forum 2017 April 19 in London. Their second session was debating how the FCA's investment and corporate banking market study will impact IPO's. My point was that, when I first started out investing via a stock broker, late 1960's, no company would even be considered for any form of public offering, until it was well capitalised and had shown it could deliver regular dividends, for at least three years and with the clear certainty of continuing along that path. Today, the IPO is often used as the means to raise what is first stage capital, where there is no sign at all of any dividends. That that clearly demonstrates that it is impossible to capitalise a company before IPO and the rules are trying to accommodate bringing unprofitable companies to market.

A major figure from a European Stock Market was sitting beside me that day and when he got up to leave he gave me a very strong handshake.

Today, we have no agreed rules, mechanisms and institution designed to deliver the necessary capital into first stage new business start ups. And to say otherwise is to ignore the millions without a job; that MUST be employed; no, not just employed; prosperously employed; if we are to return to a balanced economy. Injecting government debt into the equation has signally failed to achieve a result; we must return to the investment of capital right down at the grass roots economy; we must recapitalise the Grass Roots Economy.

One last point to make. I wrote this in the run up to Christmas 2003.

A Christmas Thought.

When we next go to the opera, think about why you are there? When we enjoy another person singing or dancing, we gain enjoyment, not because of what we see, rather, from what we cannot achieve ourselves. Whatever our pleasure, it is knowing we are looking at something we cannot do for ourselves alone. Our modern civilisation has been constructed upon the fact that we earn our pleasures in life from a lot of other individuals combining their input to our lives to make the whole better. We are completely interdependent with each other for the success of our lives.

But, imagine, now, we have shackled the artist to the easel, they become our slave. In so doing, we lose sight of the fact that it is the very freedom of spirit of the artist to draw and paint exactly what they feel that creates great art. A shackled artist cannot do that. Nor can we become that artist, or singer. Every one of us excels at what we do when we are free to do so.

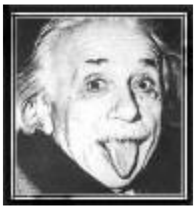
The investment of capital has today become a feudal world of control and order where everyone has to become shackled from first contact. New business creator's lives are now ordered, confined by strict rules of engagement and rigid thinking. But, such rules suit a line manager. True leaders in any community are free thinkers; individuals that can lift all our lives from the daily toil and state the obvious. Such leadership should be visible at all levels of society, not just at the very top. Today, much of society is leaderless and shackled. As a result, we have a demotivated uncivilised general population. You only need to see the young people drinking themselves senseless with binge drinking here in the UK to see this as a reality.

The true aiming point of any civilisation is surely to unshackle the lives of as many as possible? We are not here to make a profit without also leaving everyone we touch in a better state. No community saves its money for the savings institution to improve itself at the expense of the saver.

We need to find a way forward that makes it possible for everyone to be able to live full lives unshackled to the utter stupidity that we cannot be permitted to be both free and successful.

Civilisation surely demands everyone is left free to pursue their lives as they think fit? We must recognise that if investment is not civilised, and the recipient is not free, we are living in a feudal rather than a civilised society.

Please, think about that.



Finster

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> So one of the primary impediments is that local prosperity is at the same level as welfare. We need to increase prosperity to the point where, if you take a job, you make enough to make work attractive. I was struck by a Newsnight clip a couple of years ago where a bus driver was interviewed in Brazil and he said: "We are all slaves now, except that today they pay us". As I see it, the only way to increase prosperity is to inject sufficient new capital into the grass roots economy, that then attracts the many potential employers to compete for the employees."

I don't mean to imply that there is no place for some sort of safety net. Something maybe along the lines of a negative income tax or the system of rebates under the proposed Fair Tax could conceivably do more good than harm. But what we have is a tangled mess, a patchwork of nets, prods, and perverse incentives that no one in their right mind would ever propose as a system and no one knows the overall effect of. If there is to be a safety net, it has to be greatly simplified. It shouldn't attempt to be a substitute for private charity, which can take care of special circumstances and is much more adaptable than government programs.

Yet the notion of targeting employment per se, or for that matter most of the macroeconomic variables that central planners like to play with, is folly in the longer run. What if the whole end game of technology were to eliminate the need for formal work as machines provide for material needs? Targeting employment would put public policy on a collision course with destiny. Instead we need to look more broadly at the ends of economic activity as opposed to the means and intermediate variables. Standards of living, quality of life, civil and economic liberty ... or better yet whatever people seek as they themselves define it. Having goals forcibly set for you by third parties is not what most people really want and ultimately impedes human progress.

> **Chris Coles**
> "On the other hand, the one aspect that you have not highlighted regarding equity capital is that it is never repaid. You buy stock and the business stops trading, the money you invested remains in circulation. It is that simple aspect that I keep returning to."

I think this finds a fundamental difference in kind where there is really just a difference in conventional practice. What about bonds of infinite maturity? What about equity that is in fact repaid via stock buybacks, or when a company liquidates? The key difference that I see is not between whether the capital is ultimately repaid, but whether the terms are fixed in advance or contingent on the performance and decisions of the issuer.

Suppose for example the central bank provides the money in the form of equity capital and retains title to the equity on its balance sheet. Then the local enterprises don’t have the equity. So the critical point is not whether the capital is called equity but that the central bank does not acquire anything in the process.

This is the essential difference between quantitative easing (QE) and helicopter money (HM). In the first, the bank uses its ability to create currency out of thin air to actually buy and own assets; in the second, it simply distributes currency, increasing the money supply and transferring purchasing power to those first in line to get it.

We can find real world examples, too. Take the Japanese central bank. The JCB has not only created yen by buying debt of the government treasury, but by buying up equities. It now reportedly owns something like half the capitalization of the Japanese stock market. And lest non-Japan investors see this as far away, the Swiss central bank recently revealed it has been buying US stocks. This is "equity" capital, yet hardly qualifies as "grass roots".

It is instead a government-sanctioned takeover of the means of production. It would be ironic in a world that claims to have defeated communism that it found its way in the back door with not a word of public debate.

Central banks must be prohibited from fixing the price of credit and from using their money creation powers to acquire assets, especially assets other than treasury securities, or all your work would have only transient benefits at best.

> **Chris Coles**
> "So in which case, we must clearly identify what is bad policy.
>
> My view is that the entire problem derives from an economy focused upon increasing asset value, rather than increasing dividend income from equity investment."

Hear, hear! I would only modify this by referring to a financial system focused on increasing asset prices. And if this is a structural problem, we also need to look at the structures driving it. The foremost is central banking. Ours for example has explicitly articulated a policy of kiting asset prices. What does this do? Well, who owns most of the assets? By definition, it's the wealthy. Connecting the dots, this means that central bank policy has been aimed at making the rich richer.

The Reagan administration had been accused of practicing "trickle down economics". Yet what has been done in recent years by the Federal Reserve dwarfs any precedent in modern memory, with virtually no discussion of it in the mainstream media.

If the exploding wealth gap is a problem, then central bank practices are a problem.

I like your plan, Chris. At the same time I wonder how central banks would be persuaded to abandon QE in favor of HM if they have so steadfastly resisted so far.

Finster

Chris Coles

> **Finster**
> "I don't mean to imply that there is no place for some sort of safety net. Something maybe along the lines of a negative income tax or the system of rebates under the proposed Fair Tax could conceivably do more good than harm. But what we have is a tangled mess, a patchwork of nets, prods, and perverse incentives that no one in their right mind would ever propose as a system and no one knows the overall effect of. If there is to be a safety net, it has to be greatly simplified. It shouldn't attempt to be a substitute for private charity, which can take care of special circumstances and is much more adaptable than government programs."

You make very good points regarding the need for fairness. My reference to welfare costs were not about the relevance of welfare itself; welfare has its place. What I was trying to highlight was the difference between income and the basic needs of survival, were much greater when I was starting out on my own journey. My income was significantly greater because anyone earning a living from work was so much more prosperous than someone needing welfare to survive. Thus my input to this debate centres upon the need to increase general prosperity. Then, as a child just out of school, I was four times more prosperous than anyone on welfare.

> **Finster**
> "Yet the notion of targeting employment per se, or for that matter most of the macroeconomic variables that central planners like to play with, is folly in the longer run. What if the whole end game of technology were to eliminate the need for formal work as machines provide for material needs? Targeting employment would put public policy on a collision course with destiny. Instead we need to look more broadly at the ends of economic activity as opposed to the

> means and intermediate variables. Standards of living, quality of life, civil and economic liberty ... or better yet whatever people seek as they themselves define it. Having goals forcibly set for you by third parties is not what most people really want and ultimately impedes human progress."

You make two good points here; though with the first, the potential for the elimination of work, reminds me of when nuclear power was first promoted and we were told energy would be free. Instead of trying to eliminate work, what I want to see is a return to being able to create interesting and rewarding work; where work becomes fun once again. Having spent a good part of my life in manufacturing engineering, I can say with certainty that being presented with the challenge to design and make something is immensely satisfying; each day you can walk home knowing that you have met a great challenge and succeeded. Here I have taken the same concept, made a new design, this time for a new form of investment into a particular part of the economy and am actively involved with the resulting debate about the merits of one part or another.

Doing something worth while, that challenges you to think, forces you to achieve a result, is infinitely better than sitting in front of a TV .... I was once presented with a young man who thought it his life's work was to stand beside me constantly cursing me, I kid you not, streaming curses. Yet, after a few months of careful nurture, and presenting him with the same challenges I was facing every day, he became a very useful member of the team. His whole demeanor changed; indeed, I made a new friend who I could trust. Work is totally underestimated. A bad job does no one any good; but face people with a work that provides a good challenge and they respond to it. Add, in the process, you leave them much more prosperous at the end of the day, they can hold their heads high, and become trusted, useful members of their community; surely, without question, the true foundations of a successful nation.

And that brings me to your point about third parties. We have arrived at a place where the decisions of the majority are always made by a few; nay, as you so correctly describe are "forcibly set for you by third parties". Our present financial system directs all investment decisions into the hands of a very few individuals. The great challenge is to bring the people back into making investment decisions for themselves, for the benefit of their local community.

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>
> This is the essential difference between quantitative easing (QE) and helicopter money (HM). In the first, the bank uses its ability to create currency out of thin air to actually buy and own assets; in the second, it simply distributes currency, increasing the money supply and transferring purchasing power to those first in line to get it.

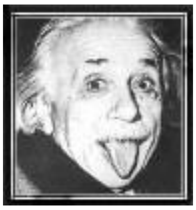
> We can find real world examples, too. Take the Japanese central bank. The JCB has not only created yen by buying debt of the government treasury, but by buying up equities. It now reportedly owns something like half the capitalization of the Japanese stock market. And lest non-Japan investors see this as far away, the Swiss central bank recently revealed it has been buying US stocks. This is "equity" capital, yet hardly qualifies as "grass roots". It is instead a government-sanctioned takeover of the means of production. It would be ironic in a world that claims to have defeated communism that it found its way in the back door with not a word of public debate.
>
> Central banks must be prohibited from fixing the price of credit and from using their money creation powers to acquire assets, especially assets other than treasury securities, or all your work would have only transient benefits at best."

All I would change here is the use of the word "prohibit". Central banking, indeed, central authority, has to learn to realise the need to change direction; that they have been working, in good faith, with a plan that has not produced success. Our challenge is to present a workable proposal and give them the opportunity to see the advantages of a change in their own thinking.

> **Finster**
> Hear, hear! I would only modify this by referring to a financial system focused on increasing asset prices. And if this is a structural problem, we also need to look at the structures driving it. The foremost is central banking. Ours for example has explicitly articulated a policy of kiting asset prices. What does this do? Well, who owns most of the assets? By definition, it's the wealthy. Connecting the dots, this means that central bank policy has been aimed at making the rich richer.
>
> The Reagan administration had been accused of practicing "trickle down economics". Yet what has been done in recent years by the Federal Reserve dwarfs any precedent in modern memory, with virtually no discussion of it in the mainstream media.
>
> If the exploding wealth gap is a problem, then central bank practices are a problem.
>
> I like your plan, Chris. At the same time I wonder how central banks would be persuaded to abandon QE in favor of HM if they have so steadfastly resisted so far."

Thank you Finster. You highlight the classic challenge, to change the underlying thinking, the basic plan, from "trickle down economics" to your new title for this thread: "Recapitalisation of the Grass Roots Economy". In a very real sense, all everyone needs to do is write that at the top of their page and work from there towards a renewed prosperity for the base levels of every nation. Trickle down was a good idea; except that there was no recognition of the need for agreed rules, mechanisms and institution, specifically designed to deliver the required result.

Please, think about that.



Finster

> **Chris Coles**
> "You make very good points regarding the need for fairness. My reference to welfare costs were not about the relevance of welfare itself; welfare has its place. What I was trying to highlight was the difference between income and the basic needs of survival, were much greater when I was starting out on my own journey. My income was significantly greater because anyone earning a living from work was so much more prosperous than someone needing welfare to survive. Thus my input to this debate centres upon the need to increase general prosperity. Then, as a child just out of school, I was four times more prosperous than anyone on welfare."

Right ... if welfare were enough that there is no benefit from being productive, it sure is not going to help increase general prosperity. In some cases it may already exceed that point now. My main concern here is simplification; as it stands there are so many overlapping programs no one really knows what its overall effects are, and it is still possible for some people to fall through the cracks while others are better off being unproductive.

> **Chris Coles**
> You make two good points here; though with the first, the potential for the elimination of work, reminds me of when nuclear power was first promoted and we were told energy would be free. Instead of trying to eliminate work, what I want to see is a return to being able to create interesting and rewarding work; where work becomes fun once again. Having spent a good part of my life in manufacturing engineering, I can say with certainty that being presented with the challenge to design and make something is immensely satisfying; each day you can walk home knowing that you have met a great challenge and succeeded. Here I have taken the same concept, made a new design, this time for a new form of investment into a particular part of the economy and am actively involved with the resulting debate about the merits of one part or another.
>
> Doing something worth while, that challenges you to think, forces you to achieve a result, is infinitely better than sitting in front of a TV .... I was once presented with a young man who thought it his life's work was to stand beside me constantly cursing me, I kid you not, streaming curses. Yet, after a few months of careful nurture, and presenting him with the same challenges I was facing every day, he became a very useful member of the team. His whole demeanor changed; indeed, I made a new friend who I could trust. Work is totally underestimated. A bad job does no one any good; but face people with a work that provides a good challenge and they respond to it. Add, in the process, you leave them much more prosperous at the end of the day, they can hold their heads high, and become trusted, useful members of their community; surely, without question, the true foundations of a successful nation.

> And that brings me to your point about third parties. We have arrived at a place where the decisions of the majority are always made by a few; nay, as you so correctly describe are "forcibly set for you by third parties". Our present financial system directs all investment decisions into the hands of a very few individuals. The great challenge is to bring the people back into making investment decisions for themselves, for the benefit of their local community."

I hope I haven't given the impression that I'm advocating that central planners try to eliminate jobs! Rather that the they simply not try to stand in the way in case it were the natural order of things. I'm just speculating that it's possible that the long run end game for technological advance is to eliminate the need for work ... we don't know whether it really is or isn't. And that therefore government polices shouldn't try and manipulate the outcome. You put it well; general prosperity is the economic optimum. Not GDP, not employment, not ever high and escalating asset prices, and certainly not 2% consumer price inflation.

If it isn't obvious from due consideration alone, it should be from the abysmal record of central planning ... bubbles, crashes, booms and busts ... the most striking recent example being that of the crisis of 2007-2009, which can be directly traced to the attempts of Federal Reserve, Fannie Mae, and Freddie Mac to paper over the damage caused by the previous bubble. Or the lost decades of Japan as a result of the bubble of the 1980s. Did years of ultra-low interest rates cure that?

> **Chris Coles**
> "All I would change here is the use of the word "prohibit". Central banking, indeed, central authority, has to learn to realise the need to change direction; that they have been working, in good faith, with a plan that has not produced success. Our challenge is to present a workable proposal and give them the opportunity to see the advantages of a change in their own thinking."

I hope it's been in good faith, but the apparent determination of central bankers to stick to their flawed paradigm against all evidence that it does not work, to respond to failed policies with simply more forceful application of the same, makes me wonder. Is general prosperity their real objective, or is it the prosperity of a select few? If it's the former, we will soon see that change in thinking. If we don't see that change in thinking, it's probably the latter.

> **Chris Coles**
> Thank you Finster. You highlight the classic challenge, to change the underlying thinking, the basic plan, from "trickle down economics" to your new title for this thread: "Recapitalisation of the Grass Roots Economy". In a very real sense, all everyone needs to do is write that at the top of their page and work from there towards a renewed prosperity for the base levels of every nation. Trickle down was a good idea; except that there was no recognition of the need for agreed rules, mechanisms and institution, specifically designed to deliver the required result.
>
> Please, think about that.

The trouble as I see it is that monetary policy has all been directed at increasing the prosperity of the prosperous. A plan like yours could be justified as an attempt to compensate for that alone. In the longer run, monetary policy shouldn't play favorites at all; there should be no need to compensate. If society determines that there are inequities remaining that can only be addressed by government, that is the role of fiscal policy. Ultimately there is only one thing that monetary policy can do effectively and sustainably, and that's maintain a stable value of money. If money is depreciating (inflation) make less of it; if it's increasing (deflation), make more of it. Messing around with the price of credit and accumulating capital assets at no cost are not part of the program.

Thank you, Chris, for explaining your plan and for the enlightening discussion of the issues around it.

Finster

Chris Coles

As always, further thoughts spring to mind. My working origins were as a skilled artisan in precision engineering, (my part time, sic!, job to earn a living while I worked on such as this debate). Precision engineering demands rigor. You will not last a day arguing that you can only deliver a roughly accurate solution; instead one has to accept that one must always deliver precision. Anyone needing an example need only purchase a copy of Newnes Engineer's Reference Book, edited by F. J. Camm. Mine is a 9th Edition, 1960, 2067 pages. And that is just the basic outline of what one needs to know with over 200 related Engineering and Scientific Institutions listed.

Compare such rigorous demands with an economic announcement that will say; well, we might or might not achieve this or that!

Another aspect that has caught my attention is the realisation that it would seem everyone defines the starting point for capitalism as the creation of the first stock markets. Yet it only takes a moments thought to recognise that if there were Stock Brokers sitting in the coffee house, debating the need for the London Stock Exchange; then they were already trading stock! Once that thought sinks in, it forces one to see that the creation of stock, (invested as capital into new companies) for sale to the general public; must have been in existence for a very long period before that day in the coffee house. How far back in time does that go? I will say that that must go all the way back to the period where land owners divided their fields into strips, more than a thousand years ago; as I have already debated in The Capital Spillway Trust Response to the Bank of England Open Forum 2015. That those strips of land for a farmer to farm throughout a year before earning an income from their efforts, defines the beginning of equity. Not with a piece of paper, instead the use of the land; though a paper record must have existed even then.

As I see it, what happened when stock brokers first came into existence, to serve the needs of local savings requiring re-investment into local businesses, they must have paralleled the long standing traditions of farmers markets in what here are called Market Towns. That for some thousand years everything involving the use of capital was primarily a local tradition; where the local surplus money earned was re-invested back into the local economy. That that is the true origins of the stock broker.

What has gone wrong is twofold; the creation of the financial services industry completely removes the potential for the use of small surplus sums of money to be freely available for such local re-investment; government executives realised that by changing the rules, they could reap a constant supply of Sovereign debt to use for their own purposes.

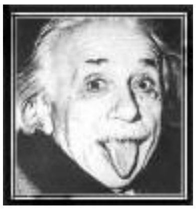
Add that the rules changes effectively made it well nigh impossible for any individual with surplus funds to receive advice to invest into a new small local start-up business; that the primary aim for all financial advisors of the small saver is to draw all such surplus funds into government inspired investment vehicles.

Ergo, governments now trillions in debt!

What everyone seems to have forgotten is that for every Pound or Dollar or Euro delivered by the financial system into government hands; represents removal of exactly the same from any potential investment into the grass roots of the economy.

Yes, government came up with welfare and grants to try and deliver some back; except that now the record is crystal clear; welfare and grants have not created a strongly successful economy for every level of the Western nations; instead, we now live with major economic imbalances.

One last point; we must have had some effect with our debate herein, as someone has delivered me into the Paris EUROPLACE International Financial Forum; EUROPE: CAPITALISE ON THE NEW DYNAMICS! July 11 & 12, 2017, Pavillon d'Armenonville, Paris France. First day luncheon will be chaired by Edouard PHILIPPE, French Prime Minister.



Finster

Good news, Chris ... glad to hear your voice is being heard.
Finster

For the record:

The Capital Spillway Trust is entirely an intellectual concept which has no offices or staff other than myself as Founder; and from the outset, has been entirely funded from my own personal income. Further, I am deeply endebted to the founder of iTulip, Eric Janszen, for enabling such debates to regularly take place on the web pages of the iTulip forums.

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