The Capital Spillway Trust

Local job creation for the people, managed by the people

Submission to:

Bank of England Open Forum 2015

Building real markets for the good of the people

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Foreword:

The Capital Spillway Trust was created in 1994 as my immediate response to the UK government's proposals for Venture Capital Trusts; which are believed to have been, in some part; related to my correspondence with both the UK government and Mr Eddie George, Governor of the Bank of England, which had opened in 1992. A particularly seminal moment was being asked, by the Bank of England, to attend an interview by two prominent City of London bankers, where one stated: "It is the government's responsibility to create jobs" They also revealed that they had been involved with capitalising a new business; but that the exercise had taken some five years to complete.

Ergo, having from the outset of these conversations, presented detailed evidence of the difficulties facing the individual private inventor, (please note: the only employment that has no income), when faced with the need to raise capital, it was my firm opinion; that Venture Capital Trusts would not succeed in delivering what was required. From that starting point and taking the advice given to me during an earlier 1980's meeting in Downing Street, with a senior partner from Price Waterhouse, (then acting as personal advisor to Margaret Thatcher), who said to me: "Do not come to me with problems; come to me with solutions", I sat down and wrote what became The Capital Spillway Trust; a set of rules for investment of free enterprise equity capital into any new, start up small business; and presented it to the UK government.

The debate with the Bank of England petered out by end 1994 and a decade later, I placed the rules on the Internet. Then in 2009 I brought together my wider experiences gained post 1994 in a free PDF book: The Road Ahead from a Grass Roots Perspective and added that to the debate.

It is also important to recognise the contribution of The Times in London, from this point forwards, allowing me to repeatedly debate these rules on their newspaper web pages; resulting in me being invited to many financial and banking conferences, both here in the UK and overseas; which in turn has helped me further develop my thinking.

Having then attended the OECD Forum 2014 in May, in September of that same year, the OECD added The Capital Spillway Trust to their new Network on Institutional Investors and Long-term Investment, which resulted in me attending the OECD LTI Round Table meeting in Paris Nov 2014; when I offered to respond to the AVIVA White Paper; A Roadmap for Sustainable Capital Markets? That response closed with an appendix: Millions of jobs for Europe, which is a copy of the paper delivered to all the leaders of Europe, June 2013; which in turn, generated a two page letter of support from Martin Schulz, President of the European Parliament, encouraging me to continue.

This submission, presented to the BoE Forum 2015, reflects further thought given to the underlying debate, now opened by the BoE; regarding the origins and purpose of all markets.

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Executive Summary

The Bank of England must be congratulated for recently producing a veritable flood of speeches and technical papers that serve to force into open view the question of the role of the markets, within what should be a thriving economy. While at one and the same time, there is a general belief that the economy is not thriving for everyone. From my viewpoint, the underlying problem is a misunderstanding of the role and function of a market and that we all need to take ourselves right back into deep history, to re-learn the lessons that created them in the first place.

That this is not simply a debate pertaining to banking or finance, it is instead; that the role of the market long ago became the most fundamental aspect of human society. How we learned to interact with each other to provide for all of our daily needs as a civilised society.

That the role of the market naturally developed to create an acceptable rule structure for every form of exchange between everyone; where all knew the rules, accepted them and worked within them to their mutual advantage; at every level of social interaction involving trade in one form or another.

What has developed more recently within the delivery of finance is a systematic rejection of the long established rules for a functioning free market. That rules for trade, that to this very day, apply in every other marketplace; are systematically rejected by banking and finance for the delivery of product to the customer. One example being the delivery of debt; where the agreed deal can be changed downstream of the moment of the deal being struck. Another example is the lack of acceptable rules, mechanisms and institutions designed to deliver funding for growth. Funding individuals to enable them to establish new, very small, start-up free enterprise businesses; where the manager of the business is the owner of the business. Surely, the foundation of a free nation.

At the same time executive governments for their own purposes, deliberately changed the laws underpinning the historical role of what were once described as "Savings Institutions". Those changes were put into place to divert very substantial sums of savings, once delivered to the wider private sector economy; into servicing the perceived spending needs of government departments.

It is my firm opinion that the rule rejections and other changes in law are the underlying reasons for the rapid decline in the ability of national economies to function advantageously for every level of society. That we are now forced to work within what is clearly a deeply feudal mercantile economic model deliberately designed for the benefit of either government or banking and finance.

An economic model that has removed access to the market structures that in turn created the freedoms we once long enjoyed. That we need to recognise how and why the underlying rules were first created, and why we must return to implementing them, in their original format; to enable a thriving economy, at every level of a free society.

My input to this debate will, I am sure; describe solutions that can bring the whole into sharp focus. To achieve that, I have to also show, stage by stage; where everyone has taken a philosophical viewpoint that conflicts with my view of how a free society economy should operate:

The missing principles are philosophical. They can only be resolved by answering the underlying question; what will deliver a successful economy; for <u>every</u> level of <u>every</u> free nation?

Introduction

The day I delivered my contribution* to the Wilson Committee, reviewing the function of the city of London, (*given a full Business Page feature in Investors Chronicle May 1978), the streets outside were full of young people who had been forced out and into view by a change in government rules regarding welfare. Until then, they had been invisible, largely staying at home and unemployed.

Today, Europe has some 10 million young people in exactly the same condition where, even with the recent success of the UK economy; here, we still have 3/4 million young people without a job.

We are in exactly the same place that we were four decades ago. So the very first thing to recognise is that we must change direction. We have to start with a clean sheet of paper.

To understand why we are where we are today, I need to take you back in time to Victorian grass roots economies; where the poor and unemployed were forced into the work house.

> "Across the country the workhouse remained a place of last resort for those whose every hope was gone; it was the final humiliation for the destitute. The old, the orphaned, the infirm, the unemployed and the merely indolent were thrust together into institutions where, in theory, they worked for the meagre board and lodging provided under the Poor Laws." (A Whitchurch Childhood; taken from: Lord Denning, A Life, Iris Freeman, Hutchinson, 1993).

We have come a long way from the workhouse; except that the underlying reasons for that journey, the replacement of the poorhouse with ever more government inspired employment and welfare; in turn requiring yet more debt to support what has become the largest cost to national economies; now dominates the thinking of the rule makers for financial institutions. We are still living within that thought process. It is that journey that must now come to an end. We are where we are today, simply because both sides of this debate, finance and government; have not been forced to recognise that that journey took everyone sideways into a dead end.

Until now, there has been no pressure to change direction. It was ever thus; necessity is the mother of invention. Circumstances are now forcing the underlying issue out into open debate.

The accepted economic model described as classic capitalism; has not created a stable economy.

Instead, I contend that what we have today is a feudal mercantile economy. That we need to return to classic capitalism; the form of which was so well described by Adam Smith, centuries ago.

> "Whatever be the actual state of the skill, dexterity, and judgement, with which labour is applied in any nation, the abundance or scantiness of its annual supply must depend, during the continuance of that state, upon the proportion between the number of those who are annually employed in useful labour, and that of those who are not so employed. The number of useful and productive labourers, it will hereinafter appear, is everywhere in proportion to the quantity of capital stock which is employed in setting them to work, and to the particular way in which it is so employed." (Introduction and Plan of Work; The Wealth of Nations, Adam Smith).

Yet, centuries later, we have many tens of millions of "useful and productive labourers" without a job and no debate regarding the delivery of that "Capital Stock".

Indeed, some visibly angry at the suggestion of the need!

The hunter gatherer meets new thinking.

Take yourselves back thousands of years to a hunter gatherer society where to survive through winter, everyone had to go out every few days to search for food; and an inventive stranger turns up with a small bag of seed, scratches the land, removes a few weeds and plants their seed. Then to much amazement, they walk away and help out in their new local community, all through the summer until the seed is harvested, then they sit back looking a little smug. With upwards of 80 additional bags of seeds, they will have created additional local community prosperity from a very simple investment.

As winter proceeds, when everyone else has to go out into the snow and ice to find food, that inventive stranger sits beside his pile of seed and eats some of it each day; retaining a small quantity for planting the next spring. Not only that, but he pays his way by helping others with food and can also pay all the local taxes to whoever was the local leader. (While production has increased over the centuries, the ratio between sown and harvested has changed very little in comparison. Today, a farmer sows 75Kg and reaps 6,000Kg; 80 bags of seed for each one sown).

To fully understand the process, you have to realise that the inventive stranger could not possibly turn up and, from the outset, expect everyone else to fully understand what they proposed. In fact, it must have taken some years before the others caught on to the advantages of having such a store of seed for each winter. What was also required for such a new system to work was for the hunter gatherer to recognise the advantages of both providing a seedbed within which to sow seeds, and thus to also allow time for a successful harvest of a uniform crop; a substantial long term income from a well defined and acceptable product.

It is one thing to go out in the hope of a successful hunt for a single meal for your family; where someone might say, I will lend you an arrow but I must have a result today and the arrow returned to me; quite another where a substantial area of land is made over for use during the majority of a year with no return until near the end of that period of use to produce a relatively large quantity of food that can be traded for any other essential.

As I see it, those combined decisions, agreeing long term access to land to permit a very simple act, of growing crops from seed; is the starting point for the creation of rules for trade; not just in the final product, but also for the long-term use of the land to grow the crop.

Just as importantly, the underlying rules have been created by ancient peoples and that these rules have withstood the test of thousands of years of use by every community on the planet.

Economic evolution from medieval times to the 1960's

The road to where we are today evolved from a past medieval economy, where the capital stock of any nation was always assumed to be in the hands of a few dominant figures; who only invested, as indeed today; when there was a certainty of total control. What you have to learn is that this is not true:

> "To statesmen, whether of England or of the new Englands across the oceans, the importance can hardly be over-estimated of a sound appreciation of the nature of that remarkable evolution in the course of which the great English speaking nations have, so to speak, become charged in our time with the trial of the experiment - let us hope also with the solution of the problem - of *freedom* and *democracy*, using the words in the highest political sense as the antipodes of *Paternal Government* and *Communism*.......

> It is simply an attempt to set English Economic History upon right lines at its historical commencement by trying to solve the still open question whether it began with *freedom* or with the *serfdom* of the masses of the people - whether the village communities living in the `hams' and `tons' of England were, at the outset of English history, *free* village communities or communities in *serfdom* under manorial lordship; and further, what were their relations to the tribal communities of the Western and less easily conquered portions of the island.
>
> On the answer to this question depends fundamentally the view to be taken by historians (let us say by politicians also) of the nature of the economic evolution which has taken place in England since the English Conquest. If answered in one way, English Economic History begins with free village communities which gradually degenerated into the serfdom of the Middle Ages. If answered in the other way, it begins with the serfdom of the masses of the rural population under Saxon rule - a serfdom from which it has taken 1,000 years of English economic evolution to set them free." (Preface, The English Village Community; An Essay In Economic History by Frederic Seebohm, LL.D., F.S.A., Longmans, Green and Co. 1896).

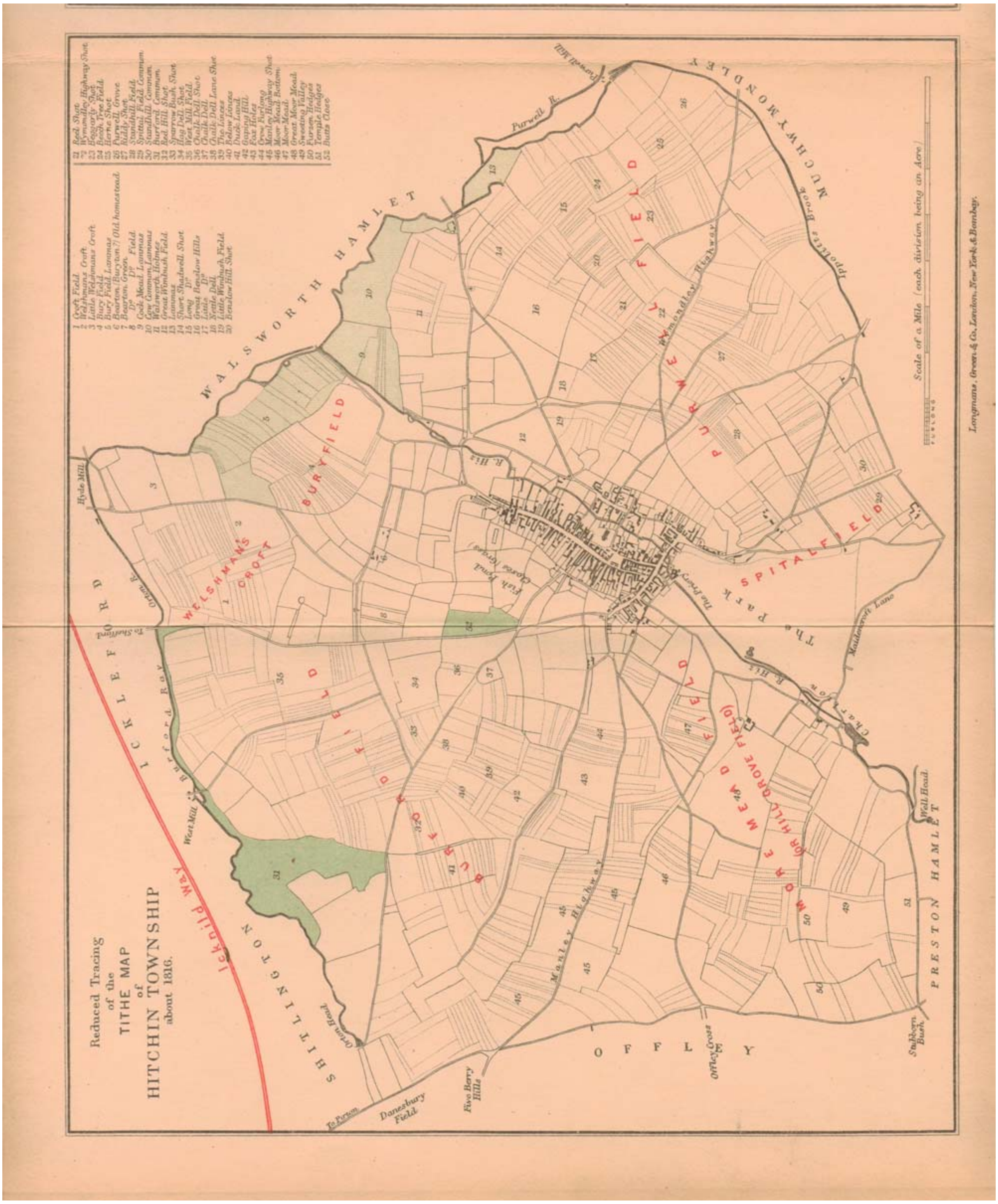
Seebohm's conclusion in part states:

> "The equality in its yard-lands and the single succession which preserved this equality we have found to be apparently marks not of an original freedom, not of an original allodial allotment on the German `mark system', but of a settled serfdom under a lordship - a semi-servile tenancy implying a mere usufruct, theoretically only for life, or at will, and carrying with it no inherent rights of inheritance. But this serfdom, as we have seen reason to believe, was, to the masses of the people, not a degradation, but a step upward out of a once more general slavery. Certainly during the 1,200 years over which the direct English evidence extends the tendency has been towards more and more of freedom. In other words, as time went on during those 1,200 years, the serfdom of the old order of things has been gradually breaking up under those influences, whatever they may have been, which have produced the new order of things"

Frederic Seebohm shows how, more than 1,200 years ago, serfs, by obtaining the long term use of equity capital; in this case, the use of a small strip of land; enabled them to grow food for a profit; leading to their individual freedom and the prosperity to enlarge their holdings. That the long process of economic evolution, from medieval slavery to individual freedom; stems from the role of the *"settled serfdom under a lordship - a semi-servile tenancy implying a mere usufruct, theoretically only for life, or at will, and carrying with it no inherent rights of inheritance."* That is a clear description of equity, capital stock; in this case not money, instead the ***use*** of a strip of land; enabling the serf to gain access to the small quantity of capital required, to enable their first step forward towards future prosperity. That a prosperous free nation is built upon many serfs; gaining an economic foothold, via the freedom to own a small stake in their own very small enterprise; in his case, a strip of land. This is surely free enterprise in its earliest form?

We have to ask the question, why would any land owner allow a serf long term access to their land to grow crops for the serf's own use, rather than simply for the landowner to employ the serf and take complete control of the crop for their own profit? As I see it, the answer is, they gained more from allowing the serf to enjoy the freedom to work for themselves; that there were economic benefits to allowing the free use of labour to improve the economic lot of the individual within the community. That over time they learned that they also prospered from such an arrangement

But that is only a very small part of this evolution, as everywhere, in every community that enjoyed the freedom to trade between each other, people began to close deals for the supply of whatever they needed, in exchange, (trade), for whatever they, in turn, had created from their own efforts. From this starting point evolved the free market.



Tithe map of Hitchin

As you can see, a very large proportion of the fields are divided into strips; the size of which represents the origins of the units used for centuries. A "furrow long" became a Furlong. Importantly, it did not make sense to divide the fields into units so small that serfs would not be able to reliably profit from their efforts; so the dimensions represent ample area, sufficient to ensure stability in the local community economy. Seebohm describes in great detail how such holdings of land developed from early medieval serfdom and as such he shows us how the relationship evolved towards more and more freedom for the user.

What is A Free Market?* * Chapters 4, 5 & 6 The Road Ahead from a Grass Roots Perspective

North Yorkshire Market Towns
Courtesy North Yorkshire County Council

Before I start, I want to bring those of you living and working outside of the United Kingdom to understand that, while you believe you live in a free market economy, you may not have a history of what we here in the UK call Market Towns. Almost all of our rural towns and some cities are Market Towns where, since the middle ages, and very probably long before that, we have had a tradition that both creates a town with established shops in a High Street and at the same time, has, once or twice a week, a market where anyone can apply to set up their temporary stall and sell, whatever. Part of this history stems from the rural need for local farmers markets where the farmer could carry their stock a reasonable distance to sell into the local towns needs. There are many such farmers markets, though since the Thatcher years, quite a few were sold to make way for property development. Regardless, we still have many farmers markets and certainly, every citizen counts themselves blessed if they live in or near a market town. Mine is Alton, four miles away from me here in the UK.

What a free market brings, above all else, is vitality and the freedom to purchase what you need at a wide variety of sources. You are never restricted from being able to move around to find the best bargain and what you need is what you find. I believe our ancient experience of the benefits of such free markets can be applied to the process of complimenting the provision of banking and finance.

Absolutely central to a free marketplace is the right to refuse the price on offer by any party to any deal. I believe that it is essential that this principle is firmly embedded into this new marketplace.

Whether it is a bond between two individuals; to work together, hunt together, marry each other, or between organisations, even whole countries – each in turn submits to the simple process of one side saying what they believe is in the interest of the other party; and the other agrees to agree or not. Each is free to make any offer, the other is free to accept or reject that offer.

The rules are very clear; Caveat Emptor, the buyer bewares.

The moment you accept the deal you have to submit to it. On the other hand, no matter what the deal on offer, no matter how good the price may appear to be, the other party is totally free to refuse the deal.

In the free world, that ends the matter. If the offering party wishes to try again, they are free to make a new offer, but what they cannot do is force the issue. Any attempt to force the issue by either party is against the law in any free country. You may not blackmail someone into agreeing. You cannot hit them, attack them, even verbally, if by so doing you infringe their right to not be defamed or libelled against. We seem to have forgotten why all these aspects of our free society are there in the first place.

They are there to protect the weaker party from an imposed deal.

The right not to accept the deal lies at the heart of a free society and underpins all our human values.

For to be able to see such freedom working in practise, we created, hundreds of years ago, certainly here in the UK, sufficient free marketplaces for all other goods and services to permit such a deal to be normalised by the purchaser having free access to a large number of marketplaces. Thus no one dealer can impose unacceptable conditions as the wide range of outlets, of marketplaces, will make such imposition impossible.

So that is how the rural free market has operated for centuries. However, we can already see that these rules do not seem to apply to finance, so now we must debate what rules should apply to the operation of every free market, including finance.

The Rules for a True Free Market*

There can be no argument that competition, particularly industrial and commercial competition; is seen as the fundamental foundation stone of a free society. My dictionary says competition is:

> "The action of competing with another or others for profit, prize, position or the necessities of life; rivalry – The rivalry between two or more businesses striving for the same customer or market:
>
> *Competition tends to keep prices down"*

Competition is a natural, honest, human concept; that lifts the most successful to the top of society and makes others strive and those that strive win and by winning, lead us all towards success. It is that fundamental rivalry that also keeps anyone from being in a position of too much power or influence. So it is this simple competitive mechanism that keeps us free, keeps us from falling into a feudal society where the free marketplace does not operate and where the accumulation of wealth or power has no checks or balances; where rivalry can be suppressed and competition is excluded. Feudal nations prevent the naturally successful from rising to the top and thus the best in the human society are prevented from leading their communities with their honest enterprise.

In such a feudal society, and here I also include communist, socialist as well as aristocratic and autocratic models, we always see a small group taking control of the many, who in turn, are restricted by onerous rules and other mechanisms that exclude anyone outside of that group from competing. Lack of competition tends to mediocrity. Uncompetitive nations will always fail eventually.

So this is not simply a matter of an argument about profit; this is a matter that will profoundly affect the vitality of any nation, large or small. Once an uncompetitive business environment is established you will see visible signs of arrogance towards those less fortunate who in turn have to pay the over inflated fees and costs of a distorted market. Companies and individuals trading within an uncompetitive market are able to pay themselves grossly inflated fees and the basic costs of traded commodities go through the roof; become unstable.

Let us see a simple free market in action.

A free market is open to anyone. Naturally depresses the potential for excess. Always has change occurring as prices rise and fall according to demand; never stops evolving as the natural competitive rivalry swings the balance of opportunity to and fro. Today's winner is often tomorrow's loser and vice versa.

A free market in anything demands that the seller can always get the best price of the day, most usually via an auction, where goods and services are sold in lots at the fall of a hammer. The fall of the hammer is very significant indeed; it clearly denotes the moment of sale. It is the moment of sale that becomes ever more important as we proceed and is matched by the moment of signature if not an auction. In that way, the moment you apply your signature to a sale agreement becomes exactly the same function as the fall of the hammer **- Sold!**

In many societies a simple handshake is that same moment of sale, denoting that the sale price has been agreed; the bargain has been struck. This simple action can be seen to apply in every community, right across the surface of our planet. It can surely be argued that everyone understands the principle.

Returning to the auction, that sale price is determined by creating an opportunity for the maximum number of potential buyers to immediately bid based upon the perceived worth, (of their purchase), to them downstream from that purchase. We call that a marketplace. The moment the bid is accepted the sale takes place; payment is made and immediately the ownership of what is being sold changes. This point of sale is fundamentally important. If the seller retained ownership, the free market would not work as there would be an obligation upon the buyer that transferred value created by the buyer back to the seller beyond the power of the market to adjust.

The immediate transfer of ownership is thus the fundamental aspect of a free market.

The seller has to accept the price the market will deliver that day for the concept of the free market to work. The price paid must be the market price of that day. The buyer has priced his bid based upon their knowledge of the cost of whatever onward process they have in mind. The price to the final consumer is adjusted accordingly. If that buyer fails to sell on at their final market price, then they cannot afford to go back and buy more at that price and must adjust their bid accordingly.

This is the essential element. In any business where you are buying supplies for use by your company to use in your process to produce a final product; paying too much to the original producer may secure the supply, but suppresses the profit from the onward sale of the finished product into your target marketplace.

It is this natural check and balance that keeps the whole process of rivalry competitive. The only way to win over the long term is to keep your margins to the minimum that will secure a steady income.

Whether you are selling the initial raw material or finished product; if you raise prices too far you are automatically excluded by another that prices below you. Reduce prices too much and you cannot continue to pay your way. Your money runs out before you can replace the original deal with another.

It is the decisions made at the point of purchase that make for viability downstream. You cannot gain an unfair advantage. You must constantly test your market to succeed in your market.

I charge that government has an absolute duty to see that at all times; a fully competitive marketplace is maintained for anything and <u>everything</u> that is traded in society.

We all know the rules for a democracy but what is a free market? What should the rules say? Have you ever seen them writ large on a wall?

I cannot find them so let us create some here and now.

1. A free market is any place where anything may be legitimately bought or sold.

2. No one who is a legitimate producer of product or service for sale, nor, anyone who is a legitimate user of the product or service, downstream of the sale; can be prevented from buying or selling goods or services.

There are very specific reasons for my delineation of the legitimate producer or user.

If you take a look at the simple street marketplace selling food to the local community you will see that if say, a hundred thousand others stood between the seller of the product and the final purchaser and traded the same product between themselves without any intention of actually taking delivery as a legitimate user; that marketplace would not, ever, reflect the true free market conditions, but would instead, reflect the speculative power of the other thousands to drive the price in whichever direction they wished.

Today we see many trading speculatively and such practises are so widespread, they are frequently bragged about.

I believe this aspect of the misuse of a free marketplace is of particular interest. Today, speculative trades of financial instruments have reached astronomical levels and have deeply destabilised money markets. Similarly; the same applies to commodities such as food and oil. Non legitimate speculators make a mockery of a free marketplace and constantly drive the formation of new price bubbles in otherwise free markets.

3. All sales and purchases must be to the highest bid at the moment of sale.

4. Ownership must immediately pass to the purchaser.

5. No seller can be permitted to influence any transaction beyond the sale.

6. You cannot deal against the market outside of the market.

7. It is the duty of everyone associated with the creation of free markets to see that there are as many as possible legitimate independent producers of all goods and services provided to society.

8. Any restriction upon the number of legitimate independent producers of goods and services acts against the interests of a free society.

So, for example, if we want to purchase a ton of potatoes, we proceed to the fruit and vegetable market, walk through the door, make our selection and pay the going price for that market that day. The ownership of the potatoes immediately passes to the purchaser upon the seller receiving their price.

The seller has no further lien upon the potatoes. This is very significant.

We all know about such transactions. They repeat in our everyday lives. But it is important to recognise the basic principles. For a true free market to operate the legitimate seller of the goods must not:

- At the same time control the legitimate purchaser and thus be able to exert undue influence upon that purchase; the price paid at the auction.

- Retain ownership of that which was sold.

- Be able to in any other way influence the progress of the competitive process downstream of the original purchase.

The free marketplace must be a true marketplace, where the original producer sells to the final user. Once you permit anyone else, outside of the true marketplace to come between the two legitimate parties to the trade, to speculate simply for profit made in the trade itself, rather than as a primary producer or user, you open the door to the compete abuse of the free market; where a trade is not made to purchase for actual use, but simply as a way of influencing the price to the final user.

Rules 5 and 6 must be firmly applied.

A farmer buying a contract to supply wheat, say, in a years time makes a trade where, ultimately, he is the supplier to a user who will manufacture a product, such as bread, also in that next year. But if you permit perhaps millions of trades by anyone who is not either the farmer or the final user, you introduce complex distortions to the final market price that are not predicated by the decisions of either the farmer or the final user.

The market is thus distorted by speculation.

Another good example of where these rules must apply is to money loans termed for less than repayment. By that I mean to describe a loan where it will take, say, 30 years to repay the loan in full, but the rate of interest paid changes downstream of the moment of the sale of the loan. After say, three or five years, the rate of interest changes to a higher rate; increasing the cost of the money loaned.

Changing the interest rate downstream of the sale of the loan denies all the precepts of a free market by permitting the seller to change the deal to suit their market conditions downstream of the sale. Thus the seller exerts undue influence downstream of the sale to control the market against the interests of the wider society, in particular, introducing financial instability.

I firmly believe that it is this specific action, changing the interest rate downstream of the sale of the loan; that lies at the very heart of most of our monetary problems today.

The practice distorts the free market, making it impossible for any purchaser to control their costs for the long term while at the same time permitting the seller of the loan to draw additional income and profit from the users' legitimate use of the money; downstream from the moment of sale, the fall of the hammer.........

This is no different to a car dealer asking for more money for the purchase of the car several years after the car was sold. This is not legitimate competition. Not a free market. No one today would ever accept any such trade. A car dealer would soon go out of business if they tried to impose such a deal.

Competition, real, legitimate competition, not artificial speculation, not being able to change the deal against the interests of legitimate competition; must be seen as being the fundamental foundation stone; the principle purpose of a free society.

To enable such competition requires the creation of markets and to have as many as possible legitimately competing in each market; any market, all markets.

The more you artificially swamp legitimate competition with speculation, the more you eventually reduce the natural quality of your nation.

The less competitive you become and the opportunity for anyone, from whatever background, to rise to the top and succeed consequentially reduces. Failure will become endemic.

In such an uncompetitive environment, it is an easy illusion to believe that the few that are succeeding are all that can succeed. This is the great delusion created by any feudal society designed specifically to keep the group at the top exclusively their own.

Feudalism is an economic system where the most powerful use their economic power to swamp and distort the legitimate free marketplace by false trades, speculation. Feudalism naturally excludes success for the majority. Keeps control of the marketplace in the hands of a few.

Now I show how a lack of a free marketplace affects the creation of new industry.

Feudal Venture Capital and M&A*

So what is it that has got me so engaged with the process of and the people involved with the creation of new industry and commerce?

It is that I believe that the way the process operates today serves to completely suppress rather than increase competition and in so doing is not acting in the best interests of a free competitive society.

The result has been that job creators, inventors and the like simply do not have access to a free market for capital; particularly equity capital.

Let us look at the process of creating a new company; a new independent producer of goods or services. The company is founded by a competitive creative individual, or group of such individuals, who will capitalise the company to their own maximum ability from their household income. It is a commonplace that they are thus grossly under-capitalised from the outset.

The most important thing to emphasise here is that as many as possible start ups at this first stage must have access to the further capital they will need to be able to survive. Just like seeds in a seed bed, the last thing you want is for the majority to die off for want of a little water or nutrients. You need to fund all honest adventure at this stage.

Yes, they must be permitted to fail if the fundamentals of their particular business case are not supported by success in their chosen market. But it is imperative that they do not fail for any other reason. Good seeds must be allowed to germinate and flourish; to compete, to pioneer, to create the new adventure which in turn gives everyone else a chance to share in that adventure.

So what should we look for in such a start up?

- Independence. They have stood up to compete in their chosen market.
- Market power. They have something new and attractive that will sell.
- Courage. To take on the competition of even the mightiest company.

What do we **not** want to see at this stage?

The last thing you want in a free market is for the successful to be in any way forced into the hands of a larger competitor. That route naturally suppresses competition. Instead, we need as many as possible new companies to remain totally independent and competitive; snapping at the heels of the mighty companies.

That is not happening today. What is happening is that from that first stage start up, the founders of the company do not have free access to a free market for the capital they need to grow. Instead, they are actively encouraged to approach what is described as a Venture Capitalist who has a quite different agenda; to turn their initial investment over by selling that business on to the highest bidder for that company; in as short a timescale as possible.

The Venture Capitalist, (VC), takes their start-up funding as a loan from a fund which in turn creates a vested interest that is detrimental to the wider society. Why? Because the fund also owns the shares of the larger companies which in turn buy the investee business from the VC in as short a timescale as is possible. So the very first thing the VC absolutely must achieve is total control over the company they invest into.

There is no other way they can be certain that, at any time appropriate to the VC, they can sell on their ownership for the highest price available. From that moment, the founders lose control.

The competitive potential immediately collapses.

This is not a free market creating free, adventurous, independent companies.

There is no imperative for the creation of free and independent companies that will compete against the major companies. But the debate about this first stage of the process acts as a smokescreen for the next stage; Mergers and Acquisition, (M&A).

Today, instead of a process that constantly creates a rolling wave of adventurous, innovative, free, independent companies; we have a process that, immediately the start up tries to expand and has to raise capital, they become entrained into a rolling wave of uncompetitive mergers and acquisition, M&A. The people that are driving this wave of M&A are employed as a division of those that fund the VC. Once the start up has been financed by a VC, they are automatically entrained into a process that is designed to make them fodder for the next stage, M&A. They are acquired, or merged with another company with which they would otherwise compete. Thus this whole process is anti competition and anti free market.

Just like a human slave, the slave business must be sold on for profit at the earliest opportunity. Large companies today own many slave companies.

The present system is a closed system that has no competition. The people involved can pay themselves huge bonuses for each merger or acquisition as there is no way for any outsider to gain a foothold to compete against them.

M&A is a classic demonstration of absolute market power.

Total control!

The primary seller of the capital does not sell, but loans. The primary seller controls each stage of the downstream process; owns the M&A, controls the VC and through the VC, demands total control of the start up company. Because the VC must borrow the capital, the VC must also sell as soon as possible onwards to be able to earn a capital gain from the initial investment.

The only way the VC can satisfy the loan is to make a capital gain, turn the shares into cash as quickly as possible. To gain access to another tranche of new capital to invest, the VC in turn must play to the rules of those that need the M&A activity to satisfy the bonus income needs of its subsidiary employees.

So, instead of many competing new businesses, created by what used to be described as "Arms Length investment", now you have a system designed to maximise the income for the funding source, and to do that; competition must be suppressed.

Even more importantly, no one considering founding any independent company, where they intend to remain free and independent can gain access to this capital market. No VC will go near them. The VC will not entertain investment when they cannot control the company and sell at their optimum timing.

The VC has no interest in long term free enterprise, none whatever!

Again, no VC will look to capitalise the smaller company either.

Here the argument will be that they will not become large enough, quickly enough, to make the short term investment worthwhile. In each case, the imperative is not to create as many as possible competing independent free market companies; instead, the imperative is to create as quickly as possible, a company to be sold on to an existing competitor.

A slave business for the slave marketplace!

This is a totally uncompetitive feudal monstrosity that is now leaving vast swathes of society grossly under-capitalised and unable to compete. Countless thousands of grass roots individuals in the wider society are excluded from success by exclusion from access to the capital they will need to compete.

The majority do not have access to capital; particularly long term equity capital.

It must also be argued that these uncapitalised individuals are the very best people in any society.

Why?

For the simple reason that they see that it is their own natural imperative to compete as independent individuals in the wider society. They believe in free enterprise. They have accepted the challenge to create new adventures for the majority.

- To set an example for others to strive for.
- To show how hard work makes for a free and successful life.
- Or they would have if they could have obtained the capital they need to compete.

Instead, the base, grass roots of society, is thus starved of capital. Today, many at grass roots level see that the only way to gain access to the capital that they need is through being outside of honest endeavour in a free society and into illegal trade in the likes of drugs; that the road to success is through unlawful activity rather than through lawful honest rivalry, free competition.

I believe that lack of access to capital drives lawlessness and there is much lawlessness today.

What needs to be recognised is that the primary savings institutions, the institutional investors, have a profound duty to see that at all times, they are doing all they can to create a free and fully competitive society. They have to change the way they return the savings of the nation back to the nation as investment into new independent free enterprise companies.

Yes, they have direct access to the largest markets on the planet, the stock markets trading in the stock of the largest and thus the most stable companies. Yes, they are constrained by many rules imposed upon them. But these institutional investors must now recognise that they have lost sight of the need to capitalise an essentially free, independent and competitive nation in a way that ensures the maximum competition; moreover, naturally competing against the very companies they have already invested into.

They must understand that they have to accept such competition against their investment; from these smaller, unlisted, and privately owned and totally free enterprise businesses. That they must not act in any way to prevent such competition. How do they do that?

I believe that institutional investors must return to the basics of the free market and create a flow of capital back into society over which they relinquish control.

They must return to "Arms Length" principles.

They must adhere to the rule that whatever they sell, they cannot at one and the same time, remain in control of what was sold. That title to the capital passes to the purchaser. They must recognise the need to maintain a free market reservoir of capital to service the needs of the wider society beneath them.

As I see it, all that is needed is that government ensures that multiple free markets are established for that flow of capital into the creation of the new, competitive free enterprise companies.

That the rules for a free market *must* be applied to finance.

From that moment, the power of the market will take back control. Those company founders that still wish to relinquish control for a sale onwards; into the hands of their competitor may still do so. But this time, all those independent company founders also have access to capital and are free to reject that route. That in turn will create a much higher level of competition.
The VC's will find themselves in a very different environment where the independent company sector is now free to compete - on their own terms. To survive, the VC will have to provide a superior service. Their monopoly power vanishes.

M&A as we know it today will almost certainly stop. Why? Because the institutional investor will now recognise that they are not acting in the best interest of a fully free and competitive society by allowing the M&A market to continue as before. M&A will thus not be able to secure funding for anti-competitive activity.

Further, any completely independent company can now always make its own deal outside of the existing M&A environment. They will own their own business, have proper access to a free market for capital and can deal with whoever they like. From this moment onwards, the M&A cartel will have to compete with a fully free market. Their market power vanishes. Competition wins.

The people running this uncompetitive feudal business environment have to recognise that they are seen as the new Robber Barons numbering many thousands. They pay themselves bonuses as though they own the capital, the savings of the people, as though their own fiefdom to use as they will.

That is a contradiction that must be brought to an end and the sooner the better for everyone.

Freedom, as we all know, does not necessarily stem from democracy, instead it stems from our access to free markets.

Stable, long term prosperity, has evolved over many centuries and is built upon the solid foundation of successful grass roots, small business job creators, the common people of any nation; being given agreed access to sufficient equity capital; to allow them to work hard to better themselves.

As I see it, today, we have to recognise that the present instability within our, comparatively, recent development of financial institutions; stems from a lack of appreciation of the need to maintain that evolutionary process; towards economic free enterprise for the ordinary, common people; right down at the grass roots local community economy of every nation.

Finance has to now accept the basic rules for a free market that have been tested for centuries.

That the long recognised custom and practice for free markets, which has been laid down in law in every other area of commerce; has delivered stability and great success for many years.

Addressing the present need for long term prosperity

Another aspect of this most recent break in the evolution of the grass roots economy, is that we were, not so very long ago, (in the period immediately after WW2, 1945 - 1965), very close to an ideal economy where, largely because of a massive increase in what was frequently described as the Black Economy, cash in hand due to the funding of a war; while not being easy, it was possible to gain access to free enterprise equity capital, from the local community, to enable an otherwise poor individual to found a free enterprise business to create prosperous jobs for those surrounding them. Looking back, our early motor and motorcycle industries present a good example. First we need to look in some detail at where we were, immediately before the subsequent critical mis-steps in the natural evolution, of the long term development of a free enterprise, grass roots economy.

The question to ask is; why, in the first place; did the employment of the people start to diminish?

Look at any graph of the long term Western Anglo-Saxon economy and you will see a sharp diversion starting late 1960’s, early 1970’s. From that moment we have had increasing instability; one crisis after another…….. Why?

In that immediate post war period, we enjoyed financial institutions led by strong individuals that saw their responsibility as holding the stability of the overall system together. We used to call them “savings institutions”. In fact, they were usually insurance companies. They took a fee for insurance against any unexpected disaster and reinvested those premiums back into the nation; principally into companies that were already listed on the stock exchanges; or, importantly, they permitted the long term, stable, consistently profitable privately held companies, paying dividends every year; to become listed on those stock exchanges. Crucially their size was unimportant; it was dividend and management stability that was placed as the highest attainment.

Long term savings of the people were also invested into the stock of these listed companies; but very largely; by the people themselves buying the shares via a stock broker. So, for the elderly, your pension was your income from your savings. You either held your savings in very long term government debt, (totally safe but less income), or in long term stable dividends from listed companies that were slightly more risky, but paid a better income.

Again, another aspect now long forgotten; the people’s own personal savings, used to purchase stock from a stock market **REPLACED** the investment of the savings institutions. In turn, freeing up previously invested institutional income for **FURTHER** investment back into the nation. Thus the savings institutions were the conduit for savings flow; not the final holder of the savings. They created the stable businesses into which the saver then placed their money to replace the institution.

Crucially, the leadership of the savings institutions saw their primary responsibility as being to maintain the stability of dividend income for the saver; while at the same time, and for the same underlying purpose; they saw their parallel responsibility to maintain a steady flow of investment of their fee income from insurance back into the general prosperity of the nation. They went out and looked for independent people that were intent upon delivering new companies that would, in time, become replacements for those that always fall by the wayside within the major stock markets.
Banking, on the other hand, was then almost entirely something for the wealthy or for business transactions, a very neat “fit” as both sides of that equation were from the same origins; the local business community.

Banking is a working capital function to pay for the flow of work through a business. On the other hand, equity capital is always the base foundation of the structure of the business.

So we had essentially four layers within a prosperous nation; those that:

- Worked for a prosperous company; earned sufficient income for their own needs as members of their local community; paid their taxes and saved for their retirement.

- Were driven to create new, adventurous, free enterprise companies, to then employ others around them, in the process creating vigorous competition; thus creating additional prosperity, as also to replace employment from declining companies. (Remembering that all companies are like people; they live full lives and die)

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- Those that had taken stage two above; forward to create a long term stable company that maintained long term profit and thus dividend stability.

- Were then recognised as sufficiently stable and prosperous and thus were invited to become listed on stock exchanges; so that their stock could be recommended for purchase by the lowliest saver in employment.

Between all these layers there was an acceptance of failure. Employees could move around to find the best job to fit their needs, if one job failed, they could easily find another. Potential employers found it easy to find investment in a prosperous local community and as the investment was made as equity "capital stock" by the local prosperous people in their local community; the money largely remained in circulation within the community. So all any such equity investment into potential new employment did, was keep that prosperity in circulation within the community. Any new business that prospered was an immediate bonus. Any that failed did not diminish the local prosperity. Everyone saving for onward investment into their local community, (as against saving to purchase shares of public companies verified by the savings institution), was always advised to buy into more than one company as there was also an acceptance of the potential for failure.

All of this created very long term stability in job creation and associated prosperity based upon free enterprise, where by far the majority of the new businesses created were founded by an individual or a very small group of such, who both owned and managed that new business start up. They only passed on their ownership of the company if it became listed and that transition from private ownership and associated management was also always a long term process.

You could not buy out a private company, put your own management into it and immediately have it listed for a very simple reason; the leadership in those savings institutions were not prepared to lower their standards; all companies listed had to be able to show very long-term stability; particularly of dividend income.

Yes, there were always long shots; usually mining companies, that would start as penny shares. But in the main, the stability of the entire employment cycle was maintained by on the one hand; local savings, capital stock, reinvested back into new, small, free enterprise businesses and on the other hand; by the managers of the savings institutions ensuring high standards for public stocks sold on the national and international stock markets.

It is also crucial that you understand that what this employment environment created was a great deal of what I call hidden prosperity. A long term stable company had cash in the bank, fully depreciated buildings and plant with another associated cash balance to cover that depreciation. Nice furniture, quality valuable paintings on the office wall, a private aeroplane or two, nice cars, and the founders were also prosperous with nice houses, spare money in the bank in addition to their own savings for their old age; often re-invested into others within their local communities.

Their employees were also prosperous; earning a good wage, particularly as, with new companies constantly springing up around them, they could always move on to better employment. So good employee relations; were always the bedrock of stability for the local company. Everyone benefited, all had a part to play and all knew where their prosperity came from; their savings invested back into a fully competitive, truly free market, free enterprise business environment.

The first mis-step

What changed was, as I see it, two individuals based in London, Jim Slater and Peter Walker, who saw this long term stable economy as an opportunity not to be missed and acted as raiders; they decided to plunder the hidden prosperity they could see all around them. What went wrong was that no one saw the long term implications of what they proposed. They asked for money to be lent to them by a savings institution; to buy a controlling stake in a prosperous company, in turn cashing in on the hidden prosperity and share it with the savings institution.

The savings institution should have refused and told them to go and compete against existing businesses. Instead, they went along with the idea.

Of course, they made a lot of money very quickly and the idea spread like a wildfire across the entire savings institution industry; everyone started to make a lot of additional money from raiding.

No one recognised the dangers of moving towards what is now a deeply feudal mercantile economy, where you only get funding for new business and thus new job creation if you join the raiders.

"There is plenty of money for a good idea" is the often heard mantra from capital markets; except that, if you accept the concept of a market; you also have to accept the principle function of a market is to define whether; what is offered presents acceptable value to any potential purchaser.

It is my contention that a feudal mercantile economic market does not present acceptable value to the potential purchaser of the money for their good idea; that an unrecognised reason for all those millions without a job, is that the potential job creator refuses the offered; "plenty of money".

That the systematic failure to create jobs is largely linked to the poor value of the terms offered.

The second mis-step

Now I return to where the change to a raiding economy introduced additional prosperity at the institutional level, in turn setting into motion the second element in this disaster. A constant flow of additional income flowing into the savings institutions generated a substantial increase in tax income for the government and they joined in to use that additional tax income to start their own fiefdoms.

You see, another aspect of this story is that at that precise moment, the 1960’s, the United Kingdom was being forced to abandon her colonies. Colonies were being used as fiefdoms for public servants that were by then used to more than a century of acting as though they were emperors of whole nations. All of that was entirely based upon classic feudalism. So history added another deeply feudal element into the equation. Executive government, awash with unemployed “Emperors” now had what they needed to drive their own agenda on job creation; they set out to colonise the British nation; in the process, building great bureaucratic empires by claiming to have the solution to job creation; which was steeply declining due to the rapid raiding removing all that hidden prosperity.

British Rail, British Steel, British Telecom, British Oil, British Leyland……..We are told, (but cannot confirm due to government secrecy), that today they own quite literally thousands of businesses. VERY recently, the latest being; British Business Investment Bank ………

But what was not foreseen from the other side of the Atlantic was that the same raiding had started there as well. Instead of the government being the driving force, it was the Wall Street investment banks that set out to combine many small companies into huge behemoths entirely under their feudal control.

Again, the US government took the same mindset into a Cold War to build gigantic companies, the military industrial complex; entirely strapped to the government's treasure chest.

Both raiders and their government supporters were entirely dedicated to buying up every profitable company they could get their hands on to increase their internal prosperity and maintain absolute power over the wider economy. The raiders and government became allies. Each side claiming that capitalism was the answer; when each was selling another form of medieval feudalism dressed up as capitalism. The idea that a poor "feudal serf" British inventor, lawfully acquired US PCT patents in hand, could ever be permitted to compete against the combined weight of these two feudal tribes was a complete joke; was it not?

On both sides of the Atlantic Ocean local job creation declined while a few now much larger, indeed gigantic companies, seemed to be hugely successful; while all the time, local prosperity steadily declined under a smoke screen of increased government driven employment and associated welfare schemes all funded by borrowed savings; debt!

The final act

And that brings us to the final act when savings institutions were awash with cash from the raiding; which in turn provided the catalyst for government to start rapidly increasing its borrowing by systematically changing the rules for savings to create a rapidly increasing flow of debt. This systematic change changed everything. The entire savings industry was turned on its head and totally re-configured to deliver all the savings of all the nations, as internal debt; back into either raiding or government inspired employment and related welfare schemes.

The savings institutions were now; NOT in any way at all responsible for job creation. As related earlier, a London banker told me in 1994; "It is the governments' responsibility to create jobs".

At the other end of the scale; almost every penny of that, once prosperous, hidden black economy disappeared, as the majority of the cash in hand income of the people vanished into the new financial services industry; taking all the wages of every employee into a bank account before any individual could gain any access to it. From then onwards, all surplus local prosperity passed directly into the hands of the retail and investment banking system; in turn feeding lending to government.

The entire grass roots investment function of both the hidden cash in hand prosperity and the original savings institutions has disappeared; driven into extinction by rapacious "raiders" and their allies, government employee "Emperors" desperate to keep control of their "fiefdoms".

In turn, the external financial services system; now totally dedicated to a deeply feudal mercantile economy, constantly raiding, merging and or acquiring any, even the tiniest company; on into ever larger, now huge global companies; has no contact whatsoever with their roots; the small, local community, free enterprise business economy. None!

It is now unlawful for any savings institution to invest in any such enterprise.

At the same time the banking industry, deeply mired in the failure of regulation, (driven by emperors desperate for more and more borrowing to cover up their own failures on both sides of the Atlantic), have sealed their own fate by taking savings and leveraging them up to more than fifty times, (I have heard rumours of more than several hundred times), and lending on this over leveraged smoke and mirror money to every government desperate to keep building fiefdoms for their Emperors. Greece is an excellent example, grossly overloaded with smoke and mirrors debt.

In the USA you now have at least 30 million unemployed, with credible leadership openly arguing the figures presented by government are untrue; that people are hiding the truth of their own failure. us-unemployment-rate-one-ceo-says-the-numbers-are-a-big-lie Earlier detailed analysis shows us how the figures are manipulated: Making 9 Million Jobless "Vanish" The unpalatable truth being; there are many tens of millions without a prosperous job throughout the Western economies.

The creation of the financial services industry has inadvertently created a deeply feudal mercantile economy that makes a complete mockery of any concept of freedom. It has destroyed the result of more than 1,000 years of evolution towards free enterprise for the common people; replacing the ancient feudal Lord with a modern Venture Capitalist totally dedicated to dominant monopoly. Government rule-makers in turn seem unable to talk about anything other than how to prevent a complete collapse; by adjusting money market rates to zero and adding forced austerity onto those now deeply indebted nations.

Keynes believed in the power of government to address the need for prosperity without recognising the existence of a normal human society need for capital stock investment into small teams led by local leadership to, in turn, balance the emperor mindset of government employees.

Hayek believed in the power of the market without fully realising that he had failed to address the need to clearly define what a true free market is and how it must operate in the interest of a free nation to balance the raiding mindset of feudal finance.

Marx believed in the expectation of total failure of what he believed to be capitalism, when, in point of fact; what he was describing is just another example of classic medieval feudalism.

Now, at long last the Bank of England has shown the courage to accept that the present economic system is unsustainable; does not satisfy the requirements for long term stability. That they can no longer continue to ignore the truth regarding the numbers with no job and the total lack of any financial mechanism to capitalise the creation of new jobs with savings used as free enterprise based equity capital investment.

The leadership of the Western economies, the United States Congress; United Kingdom Parliament; European Parliament and their respective central banks; even the redoubtable BBC; are all working from an imperfect economic model based upon a combination of a central misunderstanding of how a real, human, small local community, free enterprise based, competitive economy actually works; an intentional mismanagement of the truth regarding the lack of jobs; a total failure to recognise the long term consequences of permitting unlimited raiding upon the underlying prosperity of the people; that is directly related to an associated lack of any understanding of why their economies are not creating those now desperately needed jobs.

We must recognise that there are always a very large number, within any normal human society; wishing to strive to better themselves through the challenging process of founding a new business; to create new growth; new jobs.

Everyone must now recognise the need to add the detailed mechanism to supply that additional demand for capital. Yes, that lies outside of the scope of the present day capital market structures. Developing the mechanisms to deliver the required investment, on free enterprise terms, will require a determination to succeed; beyond that of any normal capital market transaction.

Solutions

The missing elements of a prosperous nation which must now be replaced are:

- Local prosperity; once used to feed savings into the ancient tradition of long term development of small, local community, free enterprise employment.

- Savings institutions dedicated to encouraging free enterprise in each and every local community; where those that show the determination to carry forward from their small beginnings, on into a position of taking responsibility for managing the creation of long term stable dividends; commit to equally dedicated leadership from the savings institutions.

- A free enterprise partnership to provide economic leadership.

In the short-term, the principle missing element is the local prosperity; we have to have a way of very quickly replacing it in a way that will satisfy everyone.

As I see it, the only way out of this dilemma is to take a very large slice, (€2.25 trillion in Europe being proportional to my earlier proposal for £450 billion in the UK), of the grossly over leveraged smoke and mirrors paper that is awash within the financial system and convert it into what I describe as Vanishing Bonds. In turn to be only used for direct investment as equity capital and very long term working capital into new, very small, free enterprise business creation.

Importantly; as with any new business so created; every penny so invested will be immediately deposited back into the retail banking system as new business banking deposits. Creating an immediate transfer of prosperity into the grass roots economy; while at one and the same time; creating immediate relief for the otherwise deeply constrained banking system.

What the Western economies desperately need are millions of new employers; tiny, privately owned, well capitalised, one to five employees companies, owned and managed by the founders. Millions of free enterprise based companies creating their own idea of future prosperity. I have set that out in detail: (The Capital Spillway Trust response - Financing a private sector recovery) some time ago and I dare to suggest that no one has yet to strike it down as a solution.

Continuing to debate interest rates for borrowed money alongside government tax and spend issues does not answer the question of where do you find the equity capital investment to create new, free enterprise based, prosperous employment for the tens of millions now unemployed throughout the Western economies? Someone has to show the courage to admit the entire system needs a reboot.

To answer the underlying question; how to solve the inherent instability of the present financial system; all that needs to be accepted, for the long-term ancient economic evolution to resume; is recognition of the need to accept the application of the rules for a free market must apply to every transaction in every market; and for acceptance of agreeable rules, mechanisms and establish the necessary institutions; to deliver free enterprise equity capital, Adam Smith's "Capital Stock" into new job creation. A once only transfer of unquantifiable value paper, from the markets; back into new prosperity for the grass roots economy; is surely the only way to set that into motion.

Governments do not have access to the funds required and have no track record of delivery of the necessary free enterprise economy at the small local community level. The solution must be funded from the existing stock of surplus, grossly over-leveraged money, presently overflowing from the international bond markets. Surely an acceptable challenge to the very best minds in finance today?

To conclude

The primary structural problem facing financial institutions today is reliance upon very short-term trading within rules that deliberately exclude all major funds from creating seed investments.

Secondly, the market structure itself drives the majority of investment into changes in value of an existing, rather than into new investment. By that I mean, your short-term trades are almost always made into the "market value" of the instrument; rather than the face, invested value. That, as such today, the majority of the funds are pointed away from direct investment into growth; instead into movement of the value of the market.

A result has been that the original, central role of savings institutions has been replaced by banks using credit to replace equity capital investment; alongside government grants stemming from further government debt. Neither method has provided a successful economy.

Trying to provision the entire financial structure of a capital based economy designed for a free society, with mercantile loans, moreover, not delivered to the customer under the rules for a free market; has instead generated a feudal mercantile economy that suits none but a tiny minority.

The solution requires everyone to recognise the need to redirect a necessary proportion of the savings back into new savings institutions that must be given a remit to provide the missing equity capital. That new source of capital must, in turn, address the needs of a fully free society, not those of a feudal mercantile economic structure that has signally failed to deliver.

The underlying problem of instability has been caused by the failure to apply the long established laws set out to underpin the operation of free markets for every other form of trade; and to describe a fully functional model, accepted rules, mechanism and institutions to deliver free enterprise equity capital to underpin a successful economy; for every level of every nation.

Jobs

Stating the obvious; governments collect their tax income from the private business efforts of their most productive citizens; who in turn; create the jobs; creating employment for the wider nation.

A business is not just the employer of the citizens of the nation; they are tax collectors for the nation

Europe needs positive thinking; not increased negativity.

The only viable, long-term solution to the entire European economic problem is new, private sector job creation. It is the only route to increased tax income to repay government debt and to stabilise the entire Western banking system.

Europe needs at least another 6 million small, well capitalised, prosperous, job-creating businesses; each creating a minimum of 5 prosperous new jobs; each in turn doing their utmost to succeed, competitively. That is the only route to a prosperous European economy.

European banking needs more than €2 trillion in new customer cash deposits for stability.

Yes; I can hear the question raising its head in the readers mind; *"surely not possible to create so many jobs"*; or, again, from the "plenty of money for a good idea"; *"it is only worth putting capital into the very best ideas, and there are so few of them".* The most fascinating aspect of this debate is the total lack of vision of the potential of a prosperous nation; where banking and finance always assume their own personal vision of the possible; is the only vision of the potential.

Those millions of new businesses will put to work the imaginations of their founders, to create the means of improving their individual lot; each one trying something they believe will work to create stable turnover; and thus prosperous employment; for their surrounding communities.

Yes, it is true, many will fall by the wayside; but that failure is an important part of innovation; as no one has all the answers. Just like an Olympic contest, millions all over the planet set out to succeed; each falling away as their capabilities level them out to their level of attainment; leaving only one individual as the final winner. Now, imagine every Olympic contest where only one individual is permitted to run that final race; so, how do you pick them from humanity?

One must assume that you, the sceptical reader, by being dismissive of any potential, will make that final choice. Except that that will be YOUR idea of success; not mine, nor that of millions of others.

In today's world, no one is permitted to try except that chosen single individual; whereas in my view of future potential; I see everyone trying, hard, competitively; to succeed in their own right; on their own terms; as free individuals; setting out on their small road to success; using their own individual imagination; often as a part of a team.

None of this can happen without a system of accepted rules, agreed mechanisms; associated institutions; designed to deliver free enterprise equity capital to all those potential founders who will, in turn; create a solid foundation of grass roots prosperity; to underpin the economy of any nation that takes up the baton to succeed.

So, why NOT; try some new thinking?

Funding Science and technology

A major aspect of the creation of long-term prosperity is the creation of the science and technology base to support industrial investment. Up until now, it would seem that everyone has assumed that government will continue to fund the very long term research required to maintain competitiveness.

And if you feel this is a small local difficulty that has only reared it's head since 2008, then you need to look back to the 1960's and for which I am grateful to the BBC for recently representing their 2004 TV program British Space Race.

They showed how the British space engineers were both at one and the same moment extremely successful, yet at the same time grossly under funded. That the failure of government to fund their success; ultimately prevented those engineers from taking a very successful rocket design forward. What was not discussed is the fact that the funding was always assumed to stem from government.

We keep hearing of the success of "The City", yet constantly hear of failure caused by a lack of funding. Returning to my description of the changes made to the rules for institutional investment to ensure an increasing flow of debt for use by government; everyone lost sight of the need for private sector investment.

Everyone must now be very well aware that most governments today are in a desperate financial state; unable to fund even the primary research presented to them by their own scientists; let alone the further research we need for the existing specialities.

If governments face a further decade of financial constraint; how does Europe fund that research?

As I see it, everyone within the financial services industry must now step up to the plate to ensure a solution is both created and implemented.

The funding of such long term research must now become one of your core responsibilities.

Your future prosperity is surely built upon the same science and technology foundations?

Those legal rules that so prevent your interaction with the much wider needs of the nation; must be addressed by you. It is your responsibility to ensure the nation has comprehensive access to the use of the savings of the people and you have to accept that.

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. Instead of seed, I carry 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 stuffed in a savers mattress, today it always resides inside the financial system.

Of even more importance, even today, right down at the grass roots level, the process is random, unstructured, resulting in many grossly under capitalised new start up businesses being founded; sometimes unable to even pay a living wage to their employees with little or no tax income for governments from their enterprise; 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 institutional structures, 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 create them, and when we do, we will all benefit.

These are the principles: What I propose is as simple as planting that seed.

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, but instead into owning a very small business; where the 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 the “Local” Capital Spillway Trust, 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 owner for each new employee they take on, up to five, perhaps eight or ten employees. The entire capital sum being delivered to the business, 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 investment is sourced from low grade paper already clogging up the financial system; particularly, we will be replacing unquantifiable value paper with direct deposits into new bank accounts. That in turn, spreads the cost of the entire first stage exercise right across the financial system. 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 very small 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.

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. Earlier this year 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.

So; why not try some new thinking?

Chris Coles

He combines a lifetime self education with a passion for physics, cosmology, current affairs, and economics; from debating the foundations of science, particularly gravity and the origins of the universe; the working environment of the inventor and entrepreneur; and an acute appreciation of the reasons for the current malaise in the worlds banking and financial industries.

Internationally recognised in a number of fields; appearing, particularly during the 1980's and early 1990's, on television, radio, as also in newspapers and periodicals in both the UK and abroad. Highly accomplished, having gained considerable design and management experience in a number of disciplines; including repair and maintenance of international freight containers and associated heavy road transport equipment, high volume engineering manufacturing, industrial research and development, laboratory equipment design and manufacture, book and e-book publishing, e-commerce, conference organisation. He is reasonably computer literate.

An inventor since the 1970's, his submission of evidence to the committee reviewing the functioning of financial institutions chaired by ex Prime Minister Sir Harold Wilson was given a full business page feature in Investors Chronicle May 1978. **1979,** Founded Ideas Exchange Ltd to act as a national information exchange between inventors and industry. This led to being invited by E.F.L.Brech to direct the creation of Ideas and Resource Exchange Ltd (IREX) which combined his own ideas with that of a Resource Exchange (created and widely featured by Michael Dixon of the Financial Times). The IREX computer software system, which Chris designed and successfully implemented, was credited by the UK Department of Trade and Industry as being the most innovative information distribution system seen by their own experts up to that time. This resulted in a visit to formally open the IREX offices by Mr Kenneth Baker, Minister of State for Information Technology plus substantial publicity in computer industry publications such as Informatics, as well as BBC Radio and national newspapers. He then followed up (in **1981-1982**) by organising and presenting a full IREX national industrial exhibition programme during which he made useful contact with every major group then involved with job creation. **1982**, Advocated teaching Venture Enterprise; as business education for children in schools. Detailed presentation made to the Manpower Services Commission.

1984, Founded UK Research & Development Ltd, Very successfully, designed, manufactured and commissioned unusual laboratory equipment; particularly for the biotechnology industry and he successfully managed external research and development projects for a number of leading international companies. For example; commissioning and managing core research into the use of Polyalkylene Glycol fluids in industry for Hythe Chemicals. Designed, manufactured and commissioned the first Freeze Drying Microscope for PHLS-CAMR Porton Down. **1985** Founding member "Catalyst Group". **1986,** Proposals laid down for: "Producing bubble structures in space". Also **1986,** with Dr Alan Jefferson, University of Southampton, publicly credited with the same technological foresight as Gustav Eiffel a century earlier, when awarded "Mention" Tour Eiffel de L'espace competition. Prize presented by Monsieur Jacques Valade, Minister for Research and Development, Paris, France. Entry - "The Space Chronometer", published Leonardo Vol. 22 No 2 1989.

1984-1988, in a subsidiary "in-house" project he founded and led the creation of proposals to sell technology and know-how in the use, forming and manufacture of new advanced materials. The proposed Advanced Engineering Materials Centre attracted a formidable team including, Dr Alan Jefferson, Assistant Dean of Engineering (Academic) University of Southampton, Peter D.R.Rice, retired Director of the U.K. Polymer Engineering Directorate, Michael Gill, Gill Electronics Research & Development, Professor G.M.Lilley, Professor Emeritus (Aeronautics and Astronautics) University of Southampton and Jasper Warner Rothuizen, Rothuizen Consulting Switzerland. This project demonstrated the difficulties of raising Venture Capital at that time. **1987/92,** (*in his spare time*), completely rebuilt a terraced house from the ground up. **1985-1986,** Founder High Performance Sailplane Design Group, 4th year degree course students, Department of Aeronautics and Astronautics, University of Southampton; result, new 17-metre glider design. **1989,** Devised the GPNS and the Photographic Security Systems, (Patents filed 1989) Papers presented 24th ISATA, Florence, Italy, also, Fifteenth biennial guidance test symposium, Holloman AFB, New Mexico. **1992 -1994,** Having been formally abandoned by the European Patent Office for non payment of the patent examination fees, presented 170 page bound document of detailed evidence of the difficulties faced by inventors when trying to raise such capital, to the European Patent Office and later the Bank of England; discussions with city bankers at the request of the then Governor, Eddie George; the government proposing Venture Capital Trusts; in turn leading to Chris setting out rules for investment of equity capital on free enterprise terms; the foundation of The Capital Spillway Trust; as his response to the government's Venture Capital Trust proposals.

1993-1995 Salisbury**;** won a series of planning appeals, including a landmark decision against commuted car park charges, resulting in his constructing, *entirely himself*, The Riverside Car Park. **1994/5,** proposed a detailed plan to create a cut and cover tunnel through the City of Salisbury to release 19 acres for development in the city centre. **1998-2002,** granted several International patents in USA and Japan, (originating from 1989), in wireless telecommunications that make him the originating inventor of any portable transmitter combining a video camera and navigation such as the new wireless video phones with GPS. **2001,** Established office in Washington DC to create a national video-911 personal security system for the USA; stepping back when the US announced their own Next Generation NG911 development, (effectively video-911), would proceed from Sept 2012, after his patents expired. Challenged to by a NIST scientist, (fellow delegate at a San Francisco wireless conference), between **2003 and 2009,** Chris wrote and published a controversial and substantial treatise; The Universe is a Cloud, some raw food for thought, and later editions titled; The Universe is a Cloud of Surplus Proton Energy; covering all aspects of the debate about the origins of the universe; receiving both industrial and academic support in the USA. Book placed on back burner to allow him to concentrate upon his job creation proposals. He still intends to create a fully independent Gravity and Energy Research Institute.

2004, Set up chriscoles.com to present The Capital Spillway Trust concept to a wider audience. **2009**, wrote The Road Ahead from a Grass Roots Perspective, that sets out to debate crucial missing elements in existing small business investment mechanisms; in turn leading to his ongoing proposals to address the lack of a recognised source of free enterprise based equity capital, for the capitalisation of new, small, private sector businesses. Having sent a copy to The Times, gained substantial publicity on The Times web site where they permitted Chris to repeatedly refer to his proposals in their comments. **2010,** With millions of young people unemployed he decided to concentrate upon this, above all else; receiving encouragement from both Mervyn King and more recently, Martin Schulz. During **2012**, presented The Arctic Ice is Melting, We Must Face Facts, about his view that the Greenland Ice Sheet might suddenly collapse, which was of sufficient interest, the UK Cabinet Office advised that the Prime Minister thanked him for his views. Autumn **2013**, discovered what he believes to be a profoundly important, (to the subject of gravity), misunderstanding of a few words, written by Isaac Newton in his Principia from 1688; leading to his continuing input to an enlarged new edition of his book on the subject.

2013-2014, Having previously presented detailed proposals to create 6 million new, private sector jobs in the UK as his input to a UK government Green Paper; Financing a Private Sector Recovery; he upgraded them to propose creating 30 million new, private sector jobs, throughout Europe. Now he is regularly invited to attend financial or economic conferences from many different organisations and in many nations; where he continues to succeed in making the case for change in economic thinking; at the highest levels of government and within financial institutions.

A good example being a recent Institute of Economic Affairs, (IEA), lunchtime debate with Lord Lamont at the Bloomberg headquarters in London, July 2014; where, having listened to several speakers from the audience, Lord Lamont asked everyone to stop and return to what Chris had been talking about; regarding his proposals encompassed within The Capital Spillway Trust.

December 2013, the OECD in Paris invited him to attend a Workshop on Credit Risk assessment by Pension Funds and then to further OECD meetings, including the OECD LEED Forum, April 23rd-25th in Stockholm, Sweden and the OECD Forum 2014 in Paris early May; where he managed to present himself via TV to the full 2nd day audience. September 2014, The OECD have added The Capital Spillway Trust to their new OECD Network on Institutional Investors and Long-Term Investment; which is in turn, directly linked to a similar G20 initiative. November 26th, he attended their roundtable in Paris, again making his mark and has been told he will speak next time.

He enjoys blogging on the internet with a wide circle of friends at every level in the international scientific and economic community. He is a founding member of the iTulip Shadow Fed Committee and publicly credited as one of the top 60 thinkers on iTulip.com by Eric Janszen in his book The Postcatastrophe Economy.

He is very good at presenting his case “on line”, a good example being the August 10th 2014 Financial Times report on BoE Governor Mark Carney regarding low wages, where Chris set out an open letter to Mr Carney on their comments section, (The only comment accepted that day).

Strongly believing that the United Nations, by permitting political interference with decisions made within the UN Security Council; has failed to uphold the principles for international law which were laid down at Nuremberg in 1945; compromised the legitimacy of the International Court in the Hague; to the extent that there is no true, international law, being fully applied to the actions of many nations, particularly with regard to the use of military force with heavy weapons against their otherwise unprotected citizens; he advocates the creation of a new, United Peoples Organisation, dedicated to the establishment of the rule of law for the entire planet.

Enjoying a family blood line running back to Princess Pocahontas and Thomas A Becket; which reputedly lives to a great age; he fully intends to continue to immerse his considerable talents into his many ongoing intellectual and entrepreneurial adventures over the coming decades.

He has no intention of retiring, retaining many interests including avid collector of old books for his home library, is very fit; enjoys walking the countryside, gardening and cooking; does voluntary manual work in his local community.

A competent horseman during the 1960/70’s, he then turned to the sport of flying sailplanes; becoming a Lasham Gliding Society graduate under the legendary CFI Derek Piggott; winning the 1982 Duckingfield Jones trophy; plus Federation Aeronautique International, (FAI), Diamond Goal and Diamond Distance badges. (300Km goal and 500Km distance).

THE CAPITAL SPILLWAY TRUST

Local job creation for the people, managed by the people

Millions of Jobs for Europe

Millions of new Private Sector Jobs – Without using Tax or Borrowings

Please Note: This paper is based upon The Capital Spillway Trust Response to the United Kingdom government Green Paper; Financing a Private Sector Recovery which was presented to the UK government September 2010.

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Introduction:

Millions of new Private Sector Jobs – Without using Tax or Borrowings

My name is Chris Coles. I am an internationally recognised inventor. As an "Honourable Mention" in the Tour Eiffel de la Space Competition in 1987, France declared me to have the same technological foresight as Gustav Eiffel a century earlier. Gustav Eiffel had shown Europe how to use Wrought Iron to build a 1,000 foot high tower; today I am showing Europe how to use what I call Vanishing Bonds as free enterprise equity capital investment; to very quickly re-prosper Europe's grass roots economy; to create millions of new jobs.

During the "Europe Next Steps" public forum at SciencesPo, May 28th, European Business Climate session, I had asked: - Bearing in mind Adam Smith's statement in his Introduction to the Wealth of Nations where he wrote; "The number of useful and productive labourers, it will hereinafter appear, is everywhere in proportion to the quantity of capital stock which is employed in setting them to work, and to the particular way in which it is so employed."

Can anyone tell me by how much Europe is undercapitalised? No one could answer.

As I see it, the problem is very simple; at the grass roots level; Europe is grossly undercapitalised; caused by an unintended consequence of the development of complex law, designed to control major financial institutions, which has, inadvertently, destroyed what I describe as the Grass Roots economy; that in the past was the source of the "Capital Stock" that capitalised the first stage, grass roots, job creation process.

In 1994, having sparked a debate within the Governor's office at the Bank of England, (about the lack of available capital to enable me to obtain European patents in 1992), I sat down and created a set of rules for such investment under the title of The Capital Spillway Trust as a direct response to the UK government proposal of Venture Capital Trusts.

Two decades on and Europe still does not have ANY agreed system, set of rules, institutions, designed to deliver local community savings as new, free enterprise equity capital investment into very small businesses.

All of you were talking about the use of credit; when the underlying problem is a lack of equity capital. You need two forms of investment; equity capital to create the foundations of the job creating business and then working capital, credit, to pay for the movement of work through the business. Today we job creators only have access to credit. The consequence is that there is now a desperate problem with millions unemployed. That the existing economic model has very effectively destroyed the equity investment capacity of the grass roots economy, (where the youth of the planet get their first leg up into productive employment).

The underlying problem is simply a lack of direct; competitive; investment of savings, as capital stock, (equity capital), into new, free enterprise, competitive, very small, private sector, job creating businesses; who create by far the majority of jobs in any nation.

Thus to overcome unemployment; you must increase local community equity investment.

"the quantity of capital stock which is employed in setting them to work, and to the particular way in which it is so employed".

Central to my input are these four points

1. Trading in "Markets" has placed **ALL** prosperity under the complete control of the existing banks and other financial institutions. But now you have no growth because you do not have any institutional system to capitalise millions of micro size free enterprise businesses; a function once provided by small local community prosperity.

2. We must have in place a set of acceptable rules to enable such low level, grass roots investment. That all dams, (financial institutions are finance dams), must have a spillway to permit the annual flow to reach downstream or you end up, as now, with a financial desert downstream; where we job creators are expected to create a river of jobs in the desert, by pouring our drinking water onto the sand.

3. With world wide now needing many tens of millions of new jobs to be capitalised, you must have a very simple mechanism to provide the necessary flow of capital.

4. We must quickly re-capitalise the grass roots economy. My proposed Vanishing Bonds are simply a way of making a rapid transfer of prosperity; from repayable, but poor value bonds, into non-repayable equity capital; entirely targeting job creation.

My earnest belief is that free enterprise based equity capital; invested with minimum rules; into any new start up business; leaving the originator of that business in complete control; with the manager of the business owning the business; (thus ensuring their vital, personal and economic freedom); is the only way to increase the prosperity of the European economy.

Investment of "Capital Stock" must start at the grass roots level; allowing each small business to grow organically into a new competitor of any existing business supplying the market they address. We need Free Enterprise equity capital investment into the grass roots. There is no need for further government spending as the capital stock is there; but it is simply in the wrong place for such use; within existing, (external to government), capital markets.

The Savings of the Nation's of Europe.

That brings me to the second aspect of the debate; the savings of the citizens of Europe are today all held by private financial institutions; yet the true function of those savings is surely to capitalise the long term productive capacity of the citizens. I argue strongly that saying that "it is the government's responsibility to create new jobs" is a complete derogation of the true nature of the function of such financial institutions. That today, governments are forced to borrow from the financial institutions to try and create millions of new jobs.

The net result has been that all the **potential** productive investment capacity of Europe is held by private financial institutions that have **no accepted responsibility** for such investment.

That point was well illustrated by the fact that there was no one from such a private financial institution in attendance at the SciencesPo meeting.

On the one hand governments and the people are now grossly overloaded with debt; while on the other, the financial institutions hold not just the savings of the people; but the result of the gross over-leverage of those savings into many forms of "paper" derivatives; the latter constituting many trillions of financial instruments now realised to be of suspect quality.

The Capital Spillway Trust proposal – in simple terms.

What I am proposing is that Europe must find a way to purchase a necessary proportion of the poor quality, very low value "paper" currently circulating within the financial markets and reconstitute them into what I have described as vanishing bonds. The face value of the vanishing bonds being directly invested into new employment with the corollary that all such investment is immediately deposited into a new small business bank account.

That we remove poor value financial products from the existing private financial institutions and then immediately return them to the banking system as new business banking deposits.

That if we then accept very simple rules for their ongoing use, vanishing bonds can be used to capitalise new, very small businesses, on the basis that for every new employee taken on, (say up to 10 employees), for each new employee, the business receives equity capital and access to further working capital through a direct relationship with their local community; where the local community hold 20% of the ownership of the new business, (and thus provide local peer pressure and oversight), and the new business creator holds the other 80%; but receives all the equity capital investment under very strict rules imposed on the job creator, (such as no substantial income before repayment of the capital; or before reaching the ability to pay at least an 8% dividend on the entire investment; back to the local community).

All of this has been open for debate for many years without criticism and is well known to the Bank of England. Indeed Mervyn King was directly instrumental in my presenting this to the UK government; which in turn created a Green paper; Financing a Private Sector Recovery, to which I presented The Capital Spillway Response to the Green Paper; essentially my proposals for the creation of 6 million new jobs in the UK.

How Many Jobs?

The Berggruen Institute on Governance created the Next Steps in Europe public forum to debate the need for 10 million jobs for unemployed young people. However, that is just one aspect; there must be a similar number, from the other under and unemployed age groups needing work; as well as the need to replace current employment funded by excessive government borrowing, with new prosperous private sector jobs. In which case, surely, we need to create as many as 30 million, or more, new, prosperous, private sector jobs in Europe.

I have therefore re-written my original proposal to create 6 million new jobs in the UK and hereby present a proposal to create up to 30 million free enterprise private sector jobs in Europe by creating up to 6 million new, very small businesses, each creating 5 new jobs.

Please remember; this is an exercise to re-prosper the grass roots economy. My input to the debate; that the correct way to increase local community prosperity is through new, small business job creation; is set out in chapter 2, Job Creation, not Credit; is the primary driver of Prosperity, in my free PDF book; The Road Ahead from a Grass Roots Perspective.

It goes without saying that I will work with anyone, in any nation; to bring about the creation of the new prosperity needed to rapidly reduce unemployment in Europe.

The Challenge

The challenge is not the creation of jobs; but the creation of a working solution to financing the creation of new, prosperous, private sector jobs.

As I have already successfully argued; we do not have **ANY** working mechanism to fund equity capital into new free enterprise job creation at the grass roots of the European economy.

What I am going to propose will become a new revolution, a new job creation revolution.

I am going to place Europe at the very heart of job creation; as the leading continent; taking the economies of the Western world back into profit and long term success.

The primary problem we address is the millions of unemployed young people in Europe.

Add the presently unemployed and under employed to citizens presently employed using tax income that must be moved into new and equally prosperous, private sector employment, will show we are short of at least 30 million, prosperous, well capitalised; private sector jobs.

A secondary, but equally important aspect - we need these new jobs now; so this solution must be able to deliver results immediately and at every level; right across Europe.

The first question to ask is why have existing financial institutions not driven this debate? Surely, if we are addressing the matter of the private sector; why is government involved at all? The answer is very simple indeed; the general prosperity of the nation has been placed into a financial system simply not designed to address the need to constantly finance the necessary replacement of free enterprise based private sector employment in Europe.

Salaries, savings, all of the existing prosperity of Europe citizens has been subsumed, by one means or another; into the Finance, Insurance and Real Estate, (FIRE), economy.

For this reason, we have no option but to accept that the savings of the people will stay where they are and that it is impossible to change that circumstance within any reasonable timescale. For a start, it would require a massive operation to change the laws underpinning the existing FIRE economy customs and practices.

So we cannot use tax, government borrowings or savings to finance a private sector recovery.

We must have a solution that both creates new jobs and does not involve existing funding mechanisms and yes, the instant response would suggest that the necessary funding is simply not available; regardless of the need - I will not accept such negative thinking.

This paper is going to show you how to create new employment; without spending additional public borrowing or tax, nor by risking the existing savings of the people.

Our necessity is going to become the mother of invention.

We must innovate by looking at the problem from a fresh viewpoint and set out to create a completely new form of financing for free enterprise job creation, specific to the single aiming point of rapidly creating millions of new private sector jobs.

The fact is; to create a job, you must first have a prosperous customer who can afford to buy the product or service underpinning that employment. Thus the prosperity of the grass roots of the wider nation is fundamental to the creation of new jobs, and trying to create new jobs without that additional prosperity leads to a constantly weakening economy.

To overcome this inherent problem we have tried to finance new job creation by adding to the debt of Europe and underpinning the debt with associated increases in the value of fixed assets. All that achieved is to flood the nation with more and more debt that in turn, withdrew even more of the prosperity of the nation as increasing capital and interest payments back into the FIRE economy; draining away the last dregs of the underlying prosperity.

Remember, classic leverage, allowing a bank to lend the savers €1 six or seven times, means for every €1 saved through a bank, the bank gets back six or seven €'s PLUS interest.

Hindsight teaches us we cannot create a stable, prosperous economy; with leveraged debt.

No mechanism to capitalise new job creation, not enough prosperous private sector jobs and now desperately indebted nations and even the European Community has reached a dead end. No one, on either side of this debate can continue to increase debt.

The only mechanism you have not tried is to capitalise new job creation by making available the equity capital required to underpin the stability of the company creating that new job.

We need 30 million jobs which in turn, require the investment of very large sums of equity capital. By my estimates, €750 billion of equity capital and €1.5 trillion of working capital.

I have proposed that, for each new job created, we invest €25,000 as new equity capital, via the formation of a new small business which creates a new Pay As You Earn, (PAYE), employee tax record for every new employee.

That such new equity capital flows through a "Local" Capital Spillway Trust fund, (*formed by and controlled over the long term, by the local people – and importantly; for the benefit of all of the ordinary people in each local community; not their financial advisors, nor the banks*), and is then directly invested into the new, job creating business; which then must deposit it into their local business bank account.

- The local people thus get immediate new job creation without risking their savings.

- For every new job created, each nation in Europe immediately gets a new source of PAYE tax income combined with a reduction of welfare and public employment paid by tax and borrowed money we can no longer afford.

- The banking system gets additional security for their business lending but their relationship is with the new job creating business, not the government, nor the local people. All the new equity capital flows back into the retail banking system.

You can read the full set of rules covering every aspect of the use of the equity capital in The Capital Spillway Trust Proposal. Right now I will concentrate upon this very simple interface and its direct consequences.

How do we finance the private sector recovery?

The European Central Bank will create a completely new capital bond; a Vanishing Bond.

Our previous attempts to overcome the imbalance in the economy has always been to create new credit that then flows out into the economy and always remains in circulation.

What I propose is that the local people, and the new free enterprise business owners, both of which, having received money as new equity capital to create new jobs; instead of repaying the capital, and thus keeping it in circulation as they pay off the investment into their local community; instead “Vanish” the money as they pay it off, so that over the long term, they deflate the value of the original investment back to zero. They pay off their vanishing bonds.

In that way, over the long term, the injection of the value will not inflate the economy. Instead, we make a major transfer of prosperity, out of the FIRE economy and back into the wider European economy; not by a direct transfer, but instead, by the new business owners creating new, additional prosperity; to pay off the value of the Vanishing Bonds.

You immediately get new jobs, but the investment transfers; rather than adds, prosperity.

Looking first at the new business founder; I have both proposed they remain in complete control of their new business with only 20% of the equity capital retained by the local capital spillway trust fund; and that they are encouraged to “buy out” the entire original investment.

They may own 80%, but will have to repay the entire 100% of the investment.

The control proposed is that the new business founder cannot pay themselves more than an agreed bare minimum salary unless they are either in good profit, paying an contracted annual dividend back to the local people or, if not strongly profitable and remaining a subsistence business, they must buy themselves out by paying off the equity capital by returning all of the original investment back to the local capital spillway trust fund. After that, they own the business outright and only then can pay themselves a better income.

You will also note I have also proposed the additional control of the business accounting system being always available to the local people for their scrutiny and control. No one will be able to run off with the investment. Everyone will be under no illusion about repayment.

The employees must also save and they will be able to see, from that moment onwards, their savings are directly responsible for the creation of their local employment. Thus from this new starting point; everyone will see a direct relationship between savings and jobs. Save to invest will become the new watchword; instead of as now, save to receive leveraged debt.

As this will be a once only new start in new job creation, the local people will also know that they will have to pay off the vanishing bonds to be able to add to the long term equity capital investment for their own local community.

Again, the local people will be left with both the responsibility of when and how they repay the vanishing bonds. In effect, they have been granted the investment of their savings, into new, local, free enterprise job creation, up front, before they have saved a single centime.

I will deal with business failure in a moment.

Let us look at some related details.

The European Investment Bank has proposed creating a fund of €55B. Past experience teaches that local and national governments will spend a large proportion of that money on themselves. They have made no estimate of the number of jobs that fund will create and I suspect it will actually serve to maintain existing local and regional government employment. Regardless, on my figures, (and thus allowing every centime to be spent on capitalising new job creation throughout Europe); that will only create ~ 220,000 jobs.

We need 30 million private sector jobs now! Not at some indeterminate point in the future.

Again, no doubt, others will suggest that we must create new jobs using a "Dragons Den" system to ensure we always invest in the most successful business proposals. Dragons Den investors try their best to pick the ripe plums; the very best potential winners. But we are not in the business of picking winners, the best analogy might be the difference between a gardener trying to sort out the very best cabbage to try and win a gardening competition and farmers planting many thousands of fields and harvesting many millions of cabbages. The challenge is one of logistics. We are not creating a few hundred or a few thousand jobs; we have to think in multiple tens of millions of jobs; like a farmer planting fields of wheat to produce billions of wheat seeds; in our case, € Billions of tax and savings income.

THAT is the underlying aiming point; not jobs per se, but increased economic activity, producing savings and additional tax income for Europe. We are in the business of increasing the overall prosperity of the economy to enable us to balance the books.

Job creation is the tool, but the product is additional prosperity; built upon a vast new foundation of more than 6 million very small new businesses. THAT is the aiming point! To create 30 million new jobs, and assuming five new jobs created for each new business, we must create 6 million new businesses, ~ 220,000 new start-up businesses per nation.

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 Europe has increased by €750B

Let us look at some other figures:

PAYE Income Tax. Assume an average of €2567 x 30 million = €77B p.a.

Add reduced welfare costs for say, 20 million un/underemployed = €175B p.a.?

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 European 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 Europe, 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 inner cities, there is a desperate need to, as rapidly as possible, increase the invested equity capital base of the grass roots of local society. I also submit that, try as hard as you like, you will not come up with any other viable solution to the overall problem; of quickly regenerating such a large and prosperous capital base within local communities.

Without diverting from the principals of free enterprise and without government grant and other tax hungry incentives.

In essence, I am proposing to replenish the “hidden” prosperity of Europe; 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. If all we do is capitalise these new businesses and then leave them at the mercy of a rapacious uncompetitive banking system; the banks will have every incentive to destabilise these new companies to gain access to the invested capital.

With the very greatest of respects, I do not believe that the existing FIRE economy has any real interest in the long term stability of the European economy. Rather, the record shows, unequivocally; they are in the business of destabilising the economy for their own ends. We must prevent continuing instability.

We are not setting out to be driven this way and that by a few dozen very large, private sector businesses; we are setting out in the interest of the people of Europe. Our responsibility is to see these new jobs stabilise and succeed. I have already set out in detail how the working capital element should be handled by adding them to the local market scene.

The European Central Bank should immediately set out to create and make available, as a European fund, €2.25 Trillion of new Vanishing Bonds at 4%. These new bonds should be underpinned by the same quantum of directly purchased, very poor quality derivatives and other paper, such as non performing loans, from the external financial markets. As I see it, the retail banking system is in desperate need to relieve their balance sheets from the burden of these poor value instruments. By opening a new market for such, purchased in the first instance at very low cost; but at the same time ensuring the value to be replaced back into the retail banking system as deposits; the banks will have ample incentive to follow through.

The chain of access to €750B of these bonds 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 for the purpose of dispensing them in 25 year tranches of £50,000 @ 4%p.a. and only open to the holders of the new 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. Importantly, now you will have well capitalised companies rather than, as previously; grossly under capitalised companies falling down at the slightest "gust".

The initial equity capital element will be paid off much sooner. Let us assume we 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 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 fully paid off. At that point, the vanishing 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 retail banks pay a fee of 0.5% (€125), for each €25,000 business deposit.

The subsistence business founder 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. <u>The new prosperity is transferred across by profit</u>.

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 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 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 8%. Of that, 4% minimum goes to "vanish" the bonds, 1% their local costs, .25% to The Capital Spillway Trust leaving them 2.75%. When the full value of the Vanishing Bonds are paid off; vanished, 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 centime 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 in Europe.

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.

Moreover, it will not cost a single extra centime from the existing failed economy to find out; so, why not try some new thinking?

For those of you that have yet to read the underlying documents; The free PDF book titled The Road Ahead from a Grass Roots Perspective, The Capital Spillway Trust Proposal, The Capital Spillway Trust Constitution, (for the local capital spillway trusts), and my comments placed on The Times, London times free access online web site, (which no longer exists); can all be found on my personal web site www.chriscoles.com.

One small but necessary change to my own thinking has been that, while I have freely given the use of these proposals to the ordinary people for their own use; for the time being I am going to retain ownership and control over The Capital Spillway Trust itself. My long term aiming point is to create an independent charitable foundation; but without any financial support so far, that is a long term objective. My reasoning is very simple, it is imperative that the underlying thinking is retained as a working structure for the benefit of everyone; at every level of Europe. In any other circumstance, it would be possible for the defined purpose of the trust to be diverted away from its primary function; supporting the ordinary people of each and every European local community in new job creation.

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. Perhaps we might create a combined long term research centre with a small head office. Employment will be on normal commercial terms. No bonuses will be paid to anyone. 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 Europe. 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 centime of their existing savings risked by any saver.

Not a single centime invested without a new job being created.

Not a single centime 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, Europe’s 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.

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 our nation unemployed; we are going to have to learn that we must both encourage others to produce a better, yes, more expensive product here; 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. But 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 European economy. Job creation will become the pinnacle of achievement for anyone in their local community; the person most will look up to as an example of leadership.

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 or the “banks”), 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 we can change direction and once again succeed. So, why not?

Chris Coles

For those of you new to this particular debate, my name is Chris Coles and I am a British inventor. No, not well known, but I am the inventor of all the camera phones combined with navigation systems such as GPS. My story, in part, stems from a lack of available funding more than two decades ago, which in turn led to the forced abandonment of patents which would have underpinned what became a very major international industry.

By the late 1970's I had already placed a decade of thought into my evidence to the Wilson Committee that became a full Business Page feature in Investors Chronicle, May 1978. Another twenty years went into my presenting further very detailed evidence of the lack of available funding, which in turn led to my letter published in The Times, June 2, 1992 asking: "Who leads the savings institutions towards longer term investment in the nation". My evidence on the subject of Venture Capital Trusts and first approach to the Bank of England May 1994 led to direct correspondence with Mr. Eddie George and then, being interviewed by London City bankers who told me "it was the government's responsibility to create jobs."

Thus even then, twenty-one years ago; three decades of thought had already preceded the creation of what is now The Capital Spillway Trust. Add another sixteen years of careful review and additional input leading to every aspect of my own personal experience being brought together in The Road Ahead from a Grass Roots Perspective, published as a free PDF Sept 2009, and add a further thirty five months of continuous comments placed on The Times online web site up until August 2012. All of which have now been downloaded from all corners of the planet, by people interested in this debate.

Early 2010, I again approached the Bank of England, this time Mr. Mervyn King, resulting in his personal letter to me suggesting that I contact the government. I did as he suggested but received no reply, but after the then general election, I again presented my thinking to the Cabinet Secretary and shortly thereafter Her Majesty ordered the presentation of the Green Paper; Financing a Private Sector Recovery, to which The Capital Spillway Trust responded.

June 2013, revised those proposals to address the need to immediately create, at least; 30 million new, free enterprise, private sector jobs throughout Europe.

Now receiving wider support from people at the highest levels of the financial world.

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The President

Mr Chris Coles
The Capital Spillway Trust
1 Green Stile, Medstead, Alton
Hampshire GU34 5LR
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312033 11.07.2013

Dear Mr Chris Coles,

First of all, I would like to thank you for the letter you sent me on 4 June 2013, in which you propose a measure to create jobs in Europe, a so-called "capital spillway trust". You propose to "take a substantial portion of the distressed products currently held by the financial markets" and to convert them into equity to stimulate very small businesses throughout Europe.

I agree with you that the amount of dangerous products on the financial markets is still too high, and that the value of those assets could be used for much more productive purposes such as direct investments in the real economy.

I can assure you that, in spite of the limit to the competences of the European Union, we are doing our utmost in the European Parliament to create stable financial markets and a stable banking sector, which we believe will contribute to improve the conditions to lend funds for (very) small enterprises. In this context, we have set up the European Supervisory Authorities in 2010, and are currently working on an even more enhanced supervision of European banks via the Single Supervisory Mechanism. However, we also find ourselves in a constant struggle with the Member States, which oftentimes limits the scope of our decided measures. The last example is the decision of the Council on the direct recapitalisation of banks via the European Stability Mechanism. Whereas the original intention was to break the link between state and bank balances, it has now merely been diluted. It is consequently an arduous effort to propose far-reaching solutions, which demand creativity and pioneering spirit.

We see a similar limitation in EU spending. Although the political agreement on the EU's multiannual financial framework reached is the best possible result given the circumstances, it does manifest the first budget cut in decades. This is particularly dangerous in times of crisis, in times we need investments. Thus, we have to concentrate even better, and render more efficient, the European programmes for SMEs. A positive sign is that the European Investment Bank in February was empowered to increase its lending activities for the period 2013 to 2015 to €60bn, of which a considerable part will benefit SME's access to finance. Moreover, the European Small Business Act promotes inter alia the access to loan guarantees for SMEs through strengthened loan guarantee schemes in Europe.

I can conclude that we have many valuable projects at the European level, which work towards the same goal as the idea you presented in your letter to me. What is true is that the efforts made, both in financial market regulation and supervision, as well as enhancing access of SMEs to financing can and must be maintained and even increased. We have not reached the end of the way, and I am very encouraged that citizens like you share the ambitious European approach. I want to encourage you to stay active in its promotion.

Yours sincerely,

Martin Schulz

Acknowledgements

My thanks to Euromoney Seminars, The International Financial Law Review, the OECD and the Berggruen Institute who have presented me with the opportunity to attend various finance and banking conferences over the past few years; such opportunities are very much appreciated. Particular thanks to Eur Ing Ashley Bryant BSc (hons), CEng, CITP, MIMechE, MBCS, Managing & Technical Director, VTOL Technologies Ltd. for his useful comments.

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Letters received 2015

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enquiries@bankofengland.co.uk

17 March 2015

Please quote ref. V 126988 on all correspondence

Dear Mr Coles

Thank you for your letter of 2 March addressed to the Governor. This has been passed to me for reply.

I have read your letter and white paper with interest. We thank you for sharing your thoughts with us and best wishes for the future of The Capital Spillway Trust.

Thank you once again for writing to the Bank.

Yours sincerely

E. M

Emily Manners
Public Enquiries Group
Stakeholder Communications and Strategic Division

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Le Chef de Cabinet
du Président de la République

Monsieur Chris COLES
The Capital Spillway Trust
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HAMPSHIRE
ROYAUME-UNI

Paris, le 24 JUIN 2015

Monsieur,

Vous avez fait part au Président de la République française de votre souhait de le rencontrer, à l'occasion de votre séjour en France, afin d'échanger sur les enjeux et les moyens de la création d'emplois en Europe.

Monsieur François HOLLANDE m'a confié le soin de vous répondre et de vous remercier vivement de votre démarche. Je dois cependant vous indiquer que ses nombreux engagements ne lui permettent pas de réserver une suite favorable à votre proposition.

Soyez néanmoins assuré que le Chef de l'Etat a pris note de l'implication des membres de votre organisation dans cette réflexion, ainsi que de leur participation à la table ronde de l'Organisation de Coopération et de Développement Economiques (OCDE), consacrée à l'investissement à long terme.

A cet égard, croyez bien qu'il a été pris connaissance avec intérêt du document que vous avez fait parvenir au Président de la République française, intitulé « Réponse au livre blanc d'AVIVA - Une feuille de route pour des marchés de capitaux durables : comment les objectifs de développement durable des Nations Unies peuvent-ils galvaniser les marchés de capitaux mondiaux ? ».

Je vous prie d'agréer, Monsieur, l'assurance de ma considération distinguée.

P/o

Isabelle SIMA

Référence à rappeler
PDR/SCP/BEAR/B075345

Il Governatore della Banca d'Italia

Ignazio Visco

Rome, 28 August 2015

Dear Mr Coles,

Thank you for your letter of 6 July and for the papers thereby enclosed.

While I am not in a position to provide comments on the activity of the Trust you founded, the issues you raise are of paramount relevance and are indeed, as you kindly pointed out, relevant to some of my recent interventions on the policy debate.

Best regards,

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