Report on Meeting hosted by Positive Money at the RSA on 18th Sept 2017 f6.15-8pm, with refreshments until 9pm: **Out of the darkness: can a reformed financial system help solve the world's big problems?**

This panel discussion, chaired by the BBC's Emily Maitlis, included the Financial Times' Chief Economics Commentator Martin Wolf, ex-Shadow Chancellor of the Exchequer Ed Balls, and Positive Money's Executive Director Fran Boait. The background was that it might have been out of the headlines, but the 2008 crisis never truly ended. In most developed economies, living standards have barely recovered, wages remain stagnant, and businesses are still reluctant to invest. Meanwhile, we're in our eighth year of unconventional monetary policy, with interest rates near zero, and central banks still churning out billions to keep their economies afloat. The question posed was that out of this turmoil, what would eventually emerge? How can we still reshape our global financial system to support a fairer and more sustainable economy? In a system over which we've lost control, how can we reassert the democratic will?

SPEAKER BIOGRAPHIES:

Fran Boait: Director of Positive Money, a research and campaigning organisation championing reform of the money and banking system: http://www.positivemoney.org. Fran studied Natural Sciences at the University of Cambridge. She went on to complete a PhD in climate-change-mitigating-technology, during which she became interested in money and banking after the 2008 financial crisis. Fran has worked at various international organisations including the United Nations, Greenpeace and BP. Committed to wider financial reform, she is a Director of Brussels-based NGO Finance Watch, a Senior Fellow at the Finance Innovation Lab, and a fellow of the RSA.

Ed Balls: Research Fellow at the Harvard Kennedy School, Visiting Professor at King's College London and Chairman of Norwich City Football Club. Ed was UK Shadow Chancellor from 2011 to 2015 and co-chaired the Center for American Progress Inclusive Prosperity Commission with former US Treasury Secretary, Larry Summers, which reported in January 2015. He served as Education Secretary (2007-2010) and was previously the UK Minister for Financial Services (2006-2007) and the Chief Economic Adviser to the UK Treasury (1997-2004), during which time he was the Chair of the IMFC Deputies and UK G20 Deputy. As Chief Economic Adviser to the Treasury (1997-2004), Ed led the design of policies including independence of the Bank of England, the New Deal jobs programme, the Five Tests Euro assessment, Sure Start, tax credits and the national minimum wage.

Emily Maitlis: journalist, documentary-maker and newsreader for the BBC. She presents news programming across the national television channels of the BBC, including Newsnight and bulletins on BBC One, BBC News Channel and BBC World. 15th December - the day Lehman's crashed. Customers queued outside Northern Rock. Vince Cable was one of the few who warned that the banks had forgotten the lessons of the past. Are we now at risk of getting complete, what has changed along the way. Alastair Darling told Newsnight that without the cash Brexit would never has happened, was it also responsible for Trump and the rise of populism Are we satisfied that the system has been reset, have the wrong-coiners been punished… does the public believe that the financial system has been re-calibrated.

Martin Wolf CBE**:** a British journalist who focuses on economics. He is the associate editor and chief economics commentator at the Financial Times. He has been a forum fellow at the annual meeting of the World Economic Forum in Davos since 1999 and a member of its International Media Council since 2006. He was made a Doctor of Letters, honoris causa, by Nottingham University in July 2006. He was made a Doctor of Science (Economics) of London University, honoris causa, by the London School of Economics in December 2006. He was also a member of the UK government's Independent Commission on Banking in 2010-2011. Martin's most recent publications are 'Why Globalization Works' and 'Fixing Global Finance.' His most recent book, 'The Shifts and the Shocks: What we've learned - and have still to learn - from the financial crisis,' addresses many of the issues this panel will discuss.

REPORT on PRESENTATIONS

Martin Wolf's presentation was fast-paced, with slides, showing statistics on the UK's failing economic system. He wanted to to focus on a narrower set of questions than those posed, ie **Why our monetary system failed.** His approach to the topic was probably typical of professional economics in its tendency to bamboozle people.

In 2010-11 Governments Commission on the Banking Crisis - using these materials. UK banks lost more money on US mortgages than on UK mortgages. Capitalism is characterised by crisis – we have had 147 banking crises since 1970, there was a pause between the 1930s and 1970s, since then it has exploded. The cause is what the public wants from money and what the financial institutions are able to provide. "Money is a store of purchasing power in difficult times". In difficult times, however, it disappears, 97% of money is the liability of institutions, and in crisis this comes into questions.

The answer is to provide government support to make sure the institutions survive, this didn't happen by accident, it evolved, a perfect money-making machine. 1978/9 was the greatest financial crisis, was solved by giving government guarantee. The dangers were clear in the post 2007 crisis. In the UK private credit jumped to 180% of GDP, now 140%, before the crisis the average balance sheet of Uk banks reached 5 times gross domestic produce, which is 10 times the pre 1970 level, more than half the balance sheet was related to overseas commitments. By 2009 the UK banks had exploded, we were not unique, Netherlands and Switzerland and Sweden also their banks collapsed see Chart 1, Chart 2, Enormous expansion of Bank Leverage x20 in 1970 to x50 in 2010.

The economic consequences were a very deep recession, and Wolf's favourite statistic is that it's the fourth most costly event since the Napoleonic wars. Chart 3, showed the slowdown in advanced economics, from 1980 5% to -20% of GDP - no other more expensive event in British Economic History, it's a sixth smaller than it would have been, this is a monstrously costly crisis, we are typical of the developed world. We have been sharing out losses, most losses shared out by ordinary people, Some argue that this is mostly due to shadow banking, this is not true,

• **What reforms have been imposed** = a whole range of measures have been imposed by regulators (too many to quote), the public authorities are trying to make risk management decisions on behalf of the banks.

• **Why these reforms will fail** = they rely on risk-taking, the current asset to debt ratio is 1 to 25, so only have to lose 5% of asset value to fail - 100 years ago this raio was 4 or 5 to one. So without government guarantee, banking would be too risky. Another chart showed How Risk Weighting Goes Wrong (chart) – a red line going down shows the risk ratio so they go more of them….Resolution will not eliminate this kind crisis, because if creditors were going to lose, this would trigger panic. So the bank of England is making the decisions. In the US the banks have enormous incentives to subvert the regulations, once it happens in the US it will upset the whole system.

• **Where we might go from here** • Wolf discussed four types of proposal:
1. Mervyn King's suggestion of "pre-specified collateral".
2. Reducing leverage by shifting away from mortgages to equity like instruments, a radical set of reforms.
3. Sovereign Money, reducing capacity of private sector to create money, so that banks would have 100% reserve requirements, which would shift us to a government-based monetary system, ie direct government- created money as in Positive Money's proposals, or everyone being allowed to have an account at the central bank,
4. Digital money instead of cash, outside the banking system.

• **Conclusion** = The emergence of our highly regulated but publicly backed monetary system is a perversion, it's neither a market economy nor a socialist one, and the bankers are private beneficiaries of public functionaries, they are able to use their vast resources to lobby against regulations, which will in time succeed and we will have another financial crisis. Therefore very radical reform is what's needed – but it's not going to happen…..

Ed Balls
To answer Martin Wolf, in about half the time, he started as Economics Leader-writer at the Financial Times, which taught him to understand the movement of credit, inequality and poverty - it's not just a moral issue but an economic issue, and the fact is that most solutions these days require international action. Markets are a better source of change than government planning, you have to understand the risk, and the fact that the all-powerful controlling government tend to produce the worst outcomes. Fifteen years later in July 2007, moved from financial services minister to Children, Schools and Families.

Ed Balls reported that In 2007 he said to Mervyn King that we need to know we are equipped for a crisis. What happened was that we had a two-week "war game "in January 2007, which was acted out in real time, the collateral of a Northern Bank collapsed, and we decided not to intervene - at a meeting they were clear that we couldn't allow it to go bust, and Mervyn King said they had to fail. However, it was decided that we had to have an intervention, would ask ABM Ambro to take it over, we concluded that there were big problems, our deposit insurance system wasn't up to it, but….. When the Northern Rock crisis happened six months later, the Treasury and the Financial Services Regulator didn't see it coming, the same thing was true all over the world, in tripartite and twin peak systems, what happened was more complicated, it wasn't just consumers of Northern Rock, it had international implications, started in sub-prime in US.

At the time, all the indicators seemed benign, it was a classic banking crisis in a shadow banking way, no-one saw the signs, and in the road we have going down, the question is whether financial reforms are enough, but that is not the whole story, there is no doubt that the outome of the next 10 years is in part due to the failure of government to deal with that crisis, it also reflects a squeeze on wages, and growth at the top, and reflects the fact globalisation is about people-moving as well as money-moving. The fall in relative trend growth, could be driven by other, secular trends, which would have happened without a financial crisis.

The question is, is the regulatory solution enough, or should we change to the Positive Money system, where everything has to be matched. The economics and politics of this is that the original proposal for 100% banking goes back to the Chicago School, the monetarism of the 1980s goes back to the=at, the relationship between money and the economic so it's hard to plan, then the theory that it regulates ourselves, the failure of monetarism - you still have people on the right…. can you still make what Martin is proposing work.

Three questions arise:

Firstly, if you try and control money and manage the banks, can you be sure that you can pin down what operates as money, and do the institutions behave? ….. if you have a one-world approach globally, and ensure that every institution is in, if you ring-fence each country it gets harder, so the danger is that people lending overseas bring it back into the controlled system.

Secondly, the people managing the economy must be really good, as you are asking the independent committee to do something incredibly hard. Mervyn's point about the pawnbroker, is that he has to know how to price the risk, what tends to happen is that either you have a benign view that the controlling coherent will sort it out, then allocation of public spending is all set down by this committee,

The third and final point is that if you think about trade, about finding ways to manage migration, about finding a way to make technology work, and tackling the tax system, the only thing international co-operation has been good at is regulatory reform…..

Fran Boait:

By contrast with the two earlier speakers, Fran's presentation was clear, jargon-free and robust. She began by saying she Is not going to talk much about Positive Money's proposal, what she does agree with is that we should be looking at what is happening right now. The UK is experiencing the worst pay decline since the Victorian era, with current account deficits, low interest rates, lack of demand, whilst we have a growth in millionaires, one in eight workers can't afford three meals a day, and 1% of the population owns 45% of the wealth. These are upsetting statistics indicating significant problems, we are in the middle of a crisis of neoclassic economics.

Positive Money, New Economics Foundation and the Finance Innovation Lab have all critiqued the system, but nothing has changed in economic thinking. The idea is absurd, but the macro-economic and finance ideas like efficient market hypotheses, there is a plethora of evidence against them, but they still persist. The shock of the crash turned into a crisis of government spending, and the people who had done the least to cause the crash suffered the most.

Who said that the UK should become Europe's investment banker? There's no evidence that a large financial sector gives a better return, the financial sector is essentially rent-seeking, so the city's contribution to growth and jobs is outweighed by financial instability, and even if we look at bank lending and where it goes in the good times, less than 10% of new loans are made to business. We have a housing crisis, people having to take on more and more debt in order to survive.

Banks are offered protection by the government. NEF estimated £25b a year, and the state steps in and bails them out, which costs £7.4 trillion, so what can we do? When the UK was dominated by five shareholder banks…. we should now question the institutions. The Governor of the Bank of England understands we can't go back, he knows we need tougher regulations, but it's clear that there has not been a discussion about what is the purpose of finance.

Positive Money did a survey amongst MPs and found there's a huge lack of knowledge, it's taboo to talk about the economic system, for example, eresa May told a nurse who wanted a pay rise that there was no magic money tree. However, as we know, there is a central bank and there are local banks issuing money, and the rich get richer by boosting asset prices.

When the Bank of England increased Quantitative Easing, the idea that this is the best they can do is completely unacceptable. We know people power matters, we've been outside the Bank of England, we've got the Treasury to look at options, they began holding an inquiry, but this got shelved because of the election, and the Treasury Select Committee plans to re-open it, what's clear is that central banks are not being adequately scrutinised, so it's going to be very difficult for what is going to emerge to be fair.

Q & A:

What are the world's big problems - what reforms might solve them?

Q. What about Green QE?
Ed Balls said it would have been better, but it's not going to happen. Fran said they chose the banks QE, in 2009, but it went on too far and it's a toxic mix.

Q. Richard Kay - of the LETSystems Trust – commented that we are not thinking creatively enough, the financial system is not pluralistic, we developed a political system by becoming pluralist, the internet is pluralistic, so why is economics not pluralistic? He has been involved in developing a local currency - Coventry LETS (based on Michael Linton's Local Exchange Trading System, which is based on the Mutual Credit model) – and said that we created our own monetary system, it came down to land, but it has still been a valid exercise. So the question is how are radical ideas broached? http://archive.lets.net/gmlet/design/home.html • http://www.letslinkuk.net

- Martin Wolf replied that all central systems are based on confidence, which raises two interesting points, confidence will break at the moment you don't want it to, so it's a defective system, only the state can provide it, the monetary system is parasitic on the state, most of the proposals are dependent on the state. You've asked about the attitude of people in the financial system towards alternatives, my own impression is that they never think about alternatives because the present system is working well for them. We can imagine that reforms will have an effect, but the main argument against change is that the alternatives are deeply unfamiliar, and will shatter confidence in what we already have.

- Ed Balls – replied that the people patching it up were driven by ignorance or greed, the confidence will come by government leadership. A senior banker says to him, you politicians don't care about the banks, the supermarkets are the real enemy, and there's a group of people in governments who just think if they wait long enough we can go back to how it was before, you could have an anti-government free market and wealth will trickle down. He was battling against it all his life, but the only solutions are not going to happen by individual governments, to make companies make things happen they have to co-operate internationally, the G7 IS weaker in his lifetime, they have to deliver as a collective. A chart displayed earlier showed that during a lengthy period of time, the trend of growth was flat, now we've got a lot of growth of financial assets, that's the cause of the problem we have, the speculation on property prices.

Q. Mary Fee of LETSlink UK asked whether panel members know about the model being followed by the Bank of North Dakota, which is being promoted by Ellen Brown, where the state government has taken over the banking system with its established branches and is using the profits to build national infrastructure – see: **https://ellenbrown.com/tag/bank-of-north-dakota/**

Q. Dave talked about the need to taking the wealth away from the rich and giving it to the poor because with the Debt-based monetary system, it doesn't matter how hard we work, we can't play our money back, we rent our money from the banks.
- **Emily Maitlis** said in regard to re-distribution and the new Corbynist direction, that Labour could have reset the whole banking terms after the banking crisis and they failed to do it, so now we have slow growth, rising inequality etc,
- Ed Balls would agree with some of what Jeremy Corbyn says, but unless you have international cooperation our politics continues to be sour.
- Fran Boait added that you are doing your best within the existing system, but we have to reform the system as a whole.
- Ed Balls added that we have introduced national minimum wage, but New Labour was too right wing to do anything radical.

Q. Colin Bex, of the Wessex Regionalists Party, offered his analysis that we need to get sovereign power into the people, and unless we deconstruct the existing government and financial systems and make it democratic, there is no chance of reform.

Q. Frank from NEF wondered whether we could expand on the benefits of Sovereign Money being a monetarist idea (QE for the banks) into a Keynesian idea, which would benefit the people.
- Someone from the floor added in support of this idea, that the crux of the matter is how money is created, and thought that the best way forward would be to bring back the Bradbury pound, which was introduced in 1914 by the Secretary of the Treasury John Bradbury to assist the war effort, and suggested that along with this we could bring in Universal Basic Income.

Q. Cynthia Row, referred to the McKinsey's Big Data analysis….http://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/big-data-the-next-frontier-for-innovation

- Martin Wolf - radical ideas deserve an hour each, don't agree with it, one point related to Colin's it's important to separate Fiscal and Monetary policy decisions, most of what we are after is a change in fiscal policy. Could take the view that we have sovereign money, the essence of what we do is to ensure that a very specific and vital range of financial crises can't happen. The aim of this proposal is to ensure that we get away from Armageddon, we could be new Keynesian or Monetarist, the point is that the system is robust. Then you have another discussion about how you use the system. The monetarists agreed that private creation of money is destabilising, that's what the Chicago school believed. Is it easier than to regulate banks role. If you nationalise everything, you don't innovate and you are cut off from the rest of the world. You would have to have private agents that governments deal with. The question is what do you do. One nation go it alone won't work, we need an international solution to poverty, so this is a small part of a much bigger debate.

- Fran Boait: last thoughts are that we need to diversify ownership e.g. community currencies, multi-stakeholder, asset prices etc. We are running the economy on asset-price debt, house prices are going up but my children won't be able to afford it. We need the banks to work within the public interest, need a variety of banks, central banks are so powerful, only be questioned by technocrats, they need to put the public interest first. We should be having these conversations with MPs...

Q. **Colin Bex** added: "filthy evil corrupt psychopaths…." MF/mf/ Draft at 170925