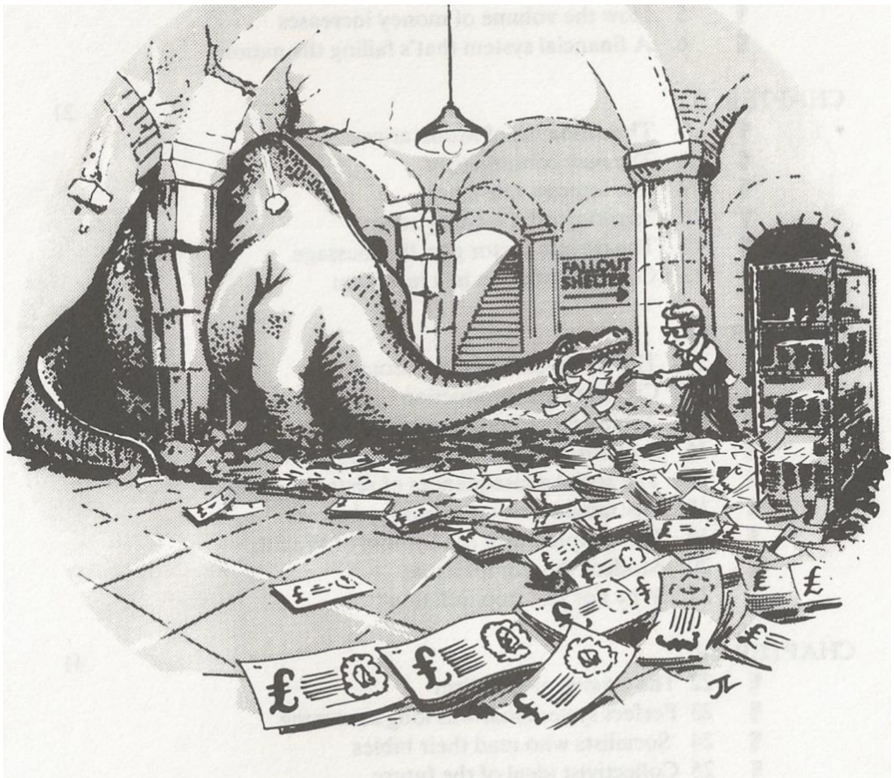
THE MONEY BOMB
James Gibb Stuart

First Edition Published March 1983
Second Edition July 1984
First produced in Ebook formats 2013



"The Dinosaur at the Treasury"

Publisher's Note

James Gibb Stuart is one of the few people in the United Kingdom who truly understand the meaning of monetary reform and how our whole society is built upon misconceptions about the creation and value of money, which have caused it to exert such a malign influence over society at large.

Following a career in the Air Force during World War II and several successful business ventures thereafter, James, a patriotic Scot, became a fervent activist in the SNP movement in the 1960s. It was through this political involvement that he came to realize the key to true independence lay in the control of a nation's wealth and the creation of its money. He also began to discover the sinister power over politics and the media wielded by rich shadowy individuals and organisations, bent on maintaining the status quo. This led him to publish his first book, 'Mind Benders', in 1979, soon followed by 'The Lemming Folk', and 'The Beast in the Temple' – all forerunners of the 'Money Bomb' published in 1983.

'The Money Bomb' was launched on the morning of the Chancellor's Budget in April 1983 and although it was featured in the 1st Edition of the London Evening Standard, by the time the second edition was on the streets, the article on the 'Money Bomb' had been pulled. Similarly, orders taken earlier that day from Publishers were mysteriously then cancelled.

Clearly 'The Money Bomb' had hit a raw nerve with the authorities and the assumption is that the powers that be, must have felt it was too close to the truth for comfort.

James has continued to amass interest from various groups around the world who are equally passionate about monetary reform, and over the years has published a dozen or so books and booklets on the monetary system, rightfully earning his title of "Grandfather of British Monetary Reform".

We have decided to publish this monetary reform classic as an ebook in its original format, since its content is still, if not more so, relevant in today's economic climate. We have not wished to edit the original text, though we have provided some updated figures and statistics, which show just how accurate Mr Gibb Stuart's predictions back in the '80s were.

CONTENTS

CHAPTER VII

CHAPTER VIII

CHAPTER IX

CHAPTER X

FOREWORD

The Money Bomb is the earliest comprehensive book about the national debt that I came across on my odyssey into understanding our capitalist money system.

The fact that it was banned from all W H Smith windows in London after a positive review in the Evening Standard demonstrates what any critique is up against: the powers that do not want the general public to know what holds them to ransom.

The book is as true and relevant today as it was then; for the national debt mechanism is far from being understood, because it is not taught appropriately. In fact, the London School of Economics doesn't even teach what 'money' is.

It is quite remarkable how banks and, above all, the Bank of England, get away with fudging the issue: by talking about 'broad' and 'narrow' money rather than Credit and Cash; by not spelling out the crucial difference: whether it's bank- or government-created and whether it's interest-bearing or not.

It is also remarkable how the author has described the problem in terms that are perfectly understandable without going into systemic and detailed analysis, which might blur the big picture he so clearly paints – that of a country, the creation of its money and the maintenance of its stock. His message is, after all, very simple: that a nation should create its own money, based on the value of its own resources, rather than borrowing at interest from banks. In so doing, it would also break free from the self-perpetuating cycle of inflation which results from the need to service the increasing mountain of debt by further borrowing - the expansion of the money supply without any guarantee that it will be matched by an increase in goods and services.

"Too much money chasing too few goods" has become more and more painfully apparent to me as the organiser of the Forum for Stable Currencies[1] at the House of Lords and Commons since 1998 which James Gibb Stuart has also addressed and supported. However, there is a strange kind of 'charade' that seems to be going on in Westminster: everything sounds right and reads well, but in reality things are going from bad to worse.

It can only be hoped that the internet where everybody brings their own device, where data is becoming open and where information is shared among likeminded folk will make the difference that is so badly needed.

I am glad to see the Money Bomb join the electronic world. For at the very least, it's a record of historic significance. At its best, however, new generations of monetary reformers are going to have the kind of "Aha!" experience that I had 25 years ago, so that, at long last, we will see the difference that James Gibb Stuart has devoted his life to.

[1] http://www.forumforstablecurrencies.org.uk/

With my very best wishes for lots of clicks on the Money Bomb,

Sabine K McNeill
Organiser and Web Publisher, Forum for Stable Currencies

The Forum for Stable Currencies *promotes monetary and banking reform through regular lecture series and debates at the House of Lords, London. It is a voluntary Initiative of Parliamentarians and Concerned Citizens across the full political spectrum and from all religious persuasions, and has the active support of many MPs from both Houses, including Lord Sudeley (Conservative) and Austin Mitchell (Labour MP). From 2002 to date, the Forum has tabled and promoted numerous Early Day Motions (EDMs) including "Publicly Created Money and Monetary Reform", "Interest-Free Money", and "Public Credit for Public Purposes".*

"Let me issue and control a nation's money, and I care not who writes its laws."

Quote attributed to Amschel Rothschild.

CHAPTER I

THE CASH THAT JINGLES IN YOUR POCKET

So what is money? Or is that a tomfool question, bearing in mind the commonplace nature of the commodity involved?

Everyone, you might say, — everyone in the commercialised world, — knows that money is what you have to part with every time you make a purchase or command a service. Money is what you use to pay the rent or buy the groceries or persuade the local garage to fix the family car. Most of us spend the better part of our active lives working for money, working and planning so that when we are no longer able to earn money, it will have been provided by pension or endowment, either for ourselves or our dependants, so that right up to the last moments of our natural lives there will be at our disposal either capital or income, in sufficiency to buy what we need for sustenance and comfort.

Money determines what type of car we drive, what style of house we occupy, whether we live in grotty slum or snobbish suburb,—what companions we keep or games we play,— whether we spend the summer break yachting in the Caribbean or sitting in the backyard nostalgically reading last year's holiday brochures.

Even the kids know all about money. They soon learn that money is what buys their ice-creams and their lollipops, and the rides upon the roller-coaster. Money paces us right through our social existence, from the coppers and silver coins scrounged out of mummy's handbag up to the one pound notes and fivers in that first pay packet, — and latterly on to the cheque book and the credit card, which may constitute a different kind of money, but which have eventually to be reconciled in terms of the cash balances you may hold in a bank account.

The one point upon which most people will agree about money is that, if it's difficult to get, it's even more difficult to keep. It has a habit of vanishing out of the pocket or the wallet or the joint cheque account. Many a family quarrel has been instigated by a double-pronged onslaught on the household finances, and the bitter realisation that future solvency depends upon a re-alignment of priorities by one or other of the partners.

THE DIMINISHING POUND

All of which brings us to another well-acknowledged fact about money, — that we never seem to get enough of it. Bonuses, wage and salary increases, windfalls and gambling wins all come in very handy at the time, but inexorably they are eroded by living expenses, inflation or the unexpected contingency. Almost everything on our personal horizon seems limited by money, — or the lack of it, — our life style, our work patterns, our ambitions for ourselves and our families. So when you look at things in that way, perhaps we don't know as much about money as we thought we did, — not till we have found out where it comes from and who creates it.

On the physical side there is of course a simple answer, which does not test our bump of general knowledge too rigorously. We have heard of an illustrious Crown and Government institution called the Royal Mint, which seems to spend most of its time turning out millions of shiny new coins which will eventually find their way through bank tills or supermarket cash registers into our handbags and our pay packets. In former times these coins would have been of pure silver and copper, but due to the depreciation of the currency, they are now largely of nickel and various alloys. Even so, as we spend them, or pick them up in change for larger purchases, that scarcely seems to matter. We go by the face value embossed into the metal, and so long as they are universal tender, who cares about the intrinsic worth?

But in these inflationary times our coinage has degenerated into so much small change, and most people use the banknote for their larger transactions. The Bank of England one pound note, once a handsome piece of paper, has now shrunk to an insignificant rectangle measuring some five inches by two and three-quarters,— or will the metrication moguls have had the temerity to convert that into centimetres? They say in any case that the single pound is on its way out, to be replaced by just another piece of decimal coinage.

O.K. As times change, they mess us around, turning inches into centimetres, pound notes into coins, and florins into tenpence pieces. Meanwhile money values just go on depreciating, so that one of these days we'll be counting our small notes in fivers.

THE BULK OF THE MONEY STOCK

But you and I, once we get past the lollipop and the Saturday penny syndrome, realise that coin and even the banknote issue are only a small part of the total amount of money kept in circulation. In December of 1981 the Economic Research Council published the following figures for the year 1980:—

Banknotes and coins in the hands of the public	£10,411 million[2].
Private Sector sight deposits	£20,803 million.[3]
Other Deposits within the Banking System	£38,361 million.[5]
Total	£69,575 million.[4]

So the tangible stuff you can feel in your hands, the coins and the banknotes, were only about one-seventh of what has come to be known as the money stock. The other eighty-five per cent is locked up in company balance sheets or bank data processing equipment. It includes, for instance, the nest egg which you may have tucked away in the local savings bank, and you know from experience that if you decide to have a spending spree, the bank cashier will dutifully convert that into tens and fives, single notes and coin, and send you on your way rejoicing. If you change your mind, he will even take it all back without comment the following day, putting the notes and the coin back into his tray, and crediting you with your original balance.

[2] In March 2013, notes and coins in circulation amount to £64,377 million

[3] This breakdown is no longer given, but we can assume the private sector sight deposits and other deposits within the Banking System to equal the difference between total money supply and the notes and coins in circulation ie £1,596 billion

[6] In March 2013, this total has now risen to £1,660.4 billion.

(Statistics for the above have been taken from the Bank of England website)

Maybe the otherwise pointless exercise did something for your morale. It made you realise that you did have your little bit of money, even if you had never previously held it in your hands. The history of the developing world is riddled with stories of the wild-eyed desert chieftains, Arab sheikhs and other unsophisticated men of substance who, having been persuaded to trust their wealth to the banking system, regularly call at its offices and insist upon their entire credit balance being laid out for them on the counter, so that they can check that it is being well looked after. Obviously if we all did that on the same day, the High Street banks and the Bank of England note issue department would end up in a tizzy, and there would have to be drastic reappraisals about the distribution of the money stock.

But in the meantime most of our money, — eighty-five per cent at the last point of reference, — is deposit or credit ledger money, shuttled back and forth through cheques, bank drafts or letters of credit, seldom appearing as cash in the recognised sense of the term.

MONETIZING YOUR ASSETS

So if we harken back to our original question, and say again, *what is money?* is there still such an obvious answer, — bearing in mind that the banknotes and coin with which we are all so familiar represent only about 15% of the total money stock, and the remainder, the amount that really matters, is bound up within a banking mystique which few of us really understand?

We have seen how any one of us can call forth his own microscopic portion of that intangible money stock, simply by presenting savings book and credentials at the bank or building society counter. Even if we are somewhat better upholstered, with a legacy tucked away, or a pools win, or years of fat dividends accumulating from a shares portfolio, the difference is one of scale only. All that money had to be earned somewhere, sometime, either in return for labour or services, or as profits out of productive industry. But before we could earn it, someone else had to *create* it.

Suppose we return for a moment to that hypothetical spending spree, decide that we're going to make it a real bumper of a binge, — and what's more, — that we're going to do it all on *borrowed* money! Depending on the size of the commitment, this time the bank will want some kind of security,—perhaps a life insurance or share certificates, or even a mortgage on the country cottage. In their eyes the loan will have been justified because you have real wealth in your possession which you are prepared to pledge in return for the borrowings. What you have done is to *monetize* some of that wealth in order to finance your prospective purchases, and since you have called up funds which were not previously in existence, the bank has accommodated your impending extravagance by *creating* a credit which adds to the nation's available money supply.

HOW THE VOLUME OF MONEY INCREASES

Remember how in 1980 the Economic Research Council's statistics put the total funds in circulation at £69,575 million, of which only about £10,000 million was in the form of banknotes and coins. Interpolating from the same tables, we find that in 1974 money stock was only half as much at £35,300 million, with banknotes and coins at £5,000 million. So the total *volume* of money had doubled over a period of six short years, and it had all happened by basically the same procedure as you yourself inaugurated when you went to your High Street bank manager, planked down your collateral and asked for a temporary loan.

All of which tells us that individuals, businesses, companies and large corporations, by their demands for finance, are prime movers in the inflation of the money supply. Banks themselves are in the business of lending money, and have occasionally been known to drum up trade when their accounts are in the doldrums. But they cannot normally persuade you to accept a loan and pay the accruing interest, unless you the borrower have signified your desire and your intention to be committed.

So in those six years from 1974 to 1980, whilst the Royal Mint and the Treasury were adding a mere £5,000 million to the banknotes and coin in circulation, the banking system was providing us all, individually or corporately, with another £30,000 million in the form of credit, represented by term loans, overdrafts and other types of withdrawals in excess of existing liquidity. All legitimate enough within the established financial system! As we have seen with the commitment of some of our own resources on that hypothetical spending spree, all that happened was the monetization of other forms of wealth for the convenience of the customer, — and no doubt also for an enhanced flow of goods and services.

Obviously the monetization of wealth is no bad thing. Without it the average employer could not meet his weekly wage bill, the manufacturer could not invest in the development of new products, the farmer could not live whilst his crops were ripening, or the stockbreeder whilst his beefs were fattening on the meadow. But does this mean that during those six years between 1974-80, Britain as a nation had accumulated an additional £35,000 million of real wealth which a consensus of the population was in favour of monetizing? Not really, as it happens! Much of that vast upsurge in lending, round-tripping, selling and leasing back, which became such a feature of the 'seventies, was occasioned by the currency inflation which gave everything a sharply enhanced money value without contributing anything to its real worth.

Banks had been the key functionaries in this process. As the demand for loans and overdrafts accelerated, they obliged by creating a vast reservoir of new credit, all secured against new securities or mortgages, — or perhaps against existing mortgages which had been dramatically upvalued to compensate for the depreciation of the currency.

A FINANCIAL SYSTEM THAT'S FAILING THE NATION

So we now know a little more about our money. We know that the bulk of the money which keeps our economic and financial system in operation is credit which the banks have created on demand. We can say also that in terms of the prevailing wisdom, this is sound and legitimate provided the credit is secured against some measure of real worth, such as property or land, and is used in the promotion of productive activity such as farming or manufacturing, or in the construction of worthwhile capital projects.

The lending can be secured against buildings or land or productive complexes already in existence, — or as an act of faith, it can also be secured against some tangible investment which has yet to be brought into being.

What happens, however, when this lending and borrowing cycle gets out of hand, — when banks for instance are sidetracked from their traditional role of financing agriculture and productive industry, and find it more profitable to operate on a speculative fringe activity such as the inner city property boom which took place during the period of the Heath Government 1970-74? The money supply is still vastly inflated, and as the cycle intensifies, all manner of businesses, corporations and institutions are drawn into the vortex, the grand sum of their exertions to be finally measured, not against notable achievements in real wealth, but against some hypothetical consideration of pecuniary gain, — as for instance the exorbitant rents to be obtained for luxury office blocks in plum sites in our city centres.

Suppose then that something goes wrong with the calculations. The office blocks are built and completed, right down to the coloured bathroom suites and the wall-to-wall carpeting, — and it has all been done on money borrowed at 16% per annum. If the economic climate should change, and the management companies can no longer find tenants willing and eager to pay the fabulous rents demanded, — if in fact it proves either impossible or impracticable to hire out the premises at more modest rents, and they end up by lying empty, what then? The developers become unable to pay the ultra-expensive service charges on their borrowed capital, and the banks are obliged to foreclose on their loans.

We then see the opposite syndrome to credit creation, which is the cancellation of debt. In so far as the money supply is concerned, you could yourself participate in this unwinding of the *credit creation* process if, having geared up for that stupendous spending spree by the lodgment of securities against an impressive bank loan, you eventually decided that the expense was ill-advised, and asked the manager to take back the facility in return for your house titles.

By your initial demand for a loan, and the banker's willingness to oblige, you had contributed to a temporary growth in the money supply. By your subsequent change of heart, — and decision to repossess your security, — you had ordered a destruction of the extra money brought into existence. The banker created the credit for you, and cancelled it when it was no longer wanted.

These simple facts of modern banking and finance are now quite generally known and openly recognised, — even though there is still a tendency to project an aura of mysticism around the entire money-begetting process, on the basis that it is something which ordinary mortals cannot be expected to understand.

Reasons for this will emerge as the argument progresses. But in the meantime we can reckon to have enlarged our minds and increased our sophistication upon matters concerning money and money supply. It is an understanding and a sophistication which will be vitally necessary in the chapters that follow, since it will become clear to us that no longer can we afford to let the banker practise his art outwith the scope of public debate and criticism.

Why? Because the financial system as presently constituted *is failing the nation!* That's why! It's been running for too long without a radical change of direction, — and we are now forced to learn much more about money than the manner in which it vanishes from our handbags and our pocket-books.

APPENDIX D – Public Sector Net Debt Figures

Taken from official figures published by the Office of National Statistics. Updated figures can be found on their website: www.ons.gov.uk

Explanatory Note

To show the escalation of the National Debt over the years, we have included 3 columns of information: two different sources from the office of Nationals Statistics, one showing the debt in millions, the other in billions, and the end column showing the annual servicing of the national Debt i.e. what we need to pay in interest charges every year. The reason for including 2 columns showing what should be the same thing, i.e. the cumulative debt, is because of the dramatic difference between them from 2008 onwards. This is because the one quoted in millions includes the cost of the financial interventions following the Banking Crisis of that year, whilst the other does not.

Public Sector Net Debt and Interest Repayments

(All 3 source documents come from the Office for National Statistics)

	Public Sector Net Debt		Annual Debt Interest Repayments (in £ billions)
	in £ millions	in £ billions	
1975 1st Quarter	52098	52.1	2.4
1976 1st Quarter	64739	64.7	3.1
1977 1st Quarter	73575	73.6	4.1
1978 1st Quarter	79541	79.5	4.9
1979 1st Quarter	88605	88.6	5.9
1980 1st Quarter	98192	98.2	7.6
1981 1st Quarter	113835	113.8	9.2
1982 1st Quarter	125199	125.2	11.2
1983 1st Quarter	132546	132.5	12.1
1984 1st Quarter	143604	143.6	13.2
1985 1st Quarter	157017	157.0	14.7
1986 1st Quarter	162464	162.5	16.6
1987 1st Quarter	167753	167.8	17.2
1988 1st Quarter	167381	167.4	18.4
1989 1st Quarter	153719	153.7	19.0
1990 1st Quarter	151926	151.9	19.8
1991 1st Quarter	151047	151.0	19.5
1992 1st Quarter	165750	165.8	17.5

1993 1st Quarter	201913	201.9	18.4
1994 1st Quarter	249104	249.8	20.1
1995 1st Quarter	289498	290.0	22.8
1996 1st Quarter	321374	322.1	26.1
1997 1st Quarter	347223	347.2	27.6
1998 1st Quarter	352031	352.0	29.2
1999 1st Quarter	350712	350.7	28.7
2000 1st Quarter	344352	344.4	25.0
2001 1st Quarter	311143	311.1	26.0
2002 1st Quarter	314257	314.3	22.0
2003 1st Quarter	346034	346.0	20.7
2004 1st Quarter	381502	381.5	22.0
2005 1st Quarter	422065	422.1	24.0
2006 1st Quarter	461671	461.7	25.5
2007 1st Quarter	497806	497.8	27.7
2008 1st Quarter	621898	527.2	30.2
2009 1st Quarter	2108256	624.0	30.8
2010 1st Quarter	2228556	828.7	30.5
2011 1st Quarter	2241893	1001.5	45.3
2012 1st Quarter	2166278	1103.6	47.9
2013 1st Quarter	2206595	1186.0	47.1

Note: The 2013 figures are forecasts