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Independent Political Party

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"People's Quantitative Easing": The principles behind it

The reality that sovereign national governments can create public credit and expend it for the Common Good, has now erupted as the central issue of MP Jeremy Corbyn's bid to become the next leader of the Labour Party in the UK. Corbyn's policy for the government creation of such credit—dubbed by some a "People's Quantitative Easing"—has terrified and enraged the City of London bankers whose crimes will be stopped under "Corbynomics". This, indeed, is the rub: will the City of London and Wall Street mafia continue to create credit for their own private usurious and speculative ends, for which the public ultimately pays through bloody austerity, or will national governments seize that power back from them?

That sovereign power of credit has actually been wielded from time to time by sovereign governments, precisely as Corbyn proposes, if all too rarely. Under its first Treasury Secretary Alexander Hamilton, it was the bedrock upon which the bankrupt new nation of the United States was consolidated after the Revolutionary War of 1776–1783; it was reasserted through President Abraham Lincoln's "greenback" policy which enabled the United States to survive the insurgency by Southern slave owners and their Wall Street backers and, even as the Civil War raged, to build the great Transcontinental Railroad which finally unified the nation; and it was instituted once again by President Franklin Roosevelt in the 1930s and 1940s, to pull the United States out of the Great Depression and create the "Arsenal of Democracy" to help win World War II.

Public credit for the Common Good was also the rock upon which Australia's own National Bank, the Commonwealth Bank, was established in 1912 by Australian Labor Party MP King O'Malley, who proclaimed on 30 September 1909 in Parliament, "I am the [Alexander] Hamilton of Australia." Prime Minister John Curtin and Treasurer Ben Chifley reasserted it to finance the Allied victory in the Pacific during World War II (including building a world-class machine tool industry from scratch), and it was to be the pivot upon which they intended a great postwar industrial and agricultural expansion of Australia, before the British-directed local financial oligarchy and the Privy Council in London overthrew those plans. (Both the Hamilton and O'Malley/Curtin/Chifley policies were presented in depth at the CEC's March 2015 international conference, "The World Land-Bridge: Peace on Earth, Good Will towards All Men".)

Such public credit for the Common Good has even taken place in the UK itself, as under the 1945–51 Labour government of Prime Minister Clement Attlee. Attlee nationalised the Bank of England for that purpose, and in the second reading of the Bank of England Bill on 29 October 1945 which accomplished that, his Chancellor of the Exchequer Hugh Dalton cited Australia's successful government-owned Commonwealth Bank as a key precedent.

With the assistance of a nationalised central bank, Attlee's government achieved: near-full employment; a 20 per cent increase in farm output between 1947 and 1952; nationalisation of 20 per cent of the economy, including (in addition to the Bank of England) civil aviation, coal mining, the railways, canals, communications, electricity and gas utilities, and the steel industry; the construction of a million new homes between 1945 and 1951; a comprehensive welfare system which alleviated the conditions of abject poverty suffered in the 1930s and drove significant improvements in public health, infant mortality and life expectancy; and the National Health Service, a publicly funded health care system which offered treatment free of charge for all, and treated 8.5 million people in 1948, its first year of operation (between 1948 and 1951 the government's spending on health almost doubled from £6 billion to £11 billion).

Now, Jeremy Corbyn has put the issue of the deployment of public credit for the Common Good once again squarely on the agenda, and the bankers and their whores in the mass media and political parties are screaming bloody murder,

the Blairites in the Labour Party as shrilly as the most rabid Tories. Why? Because "It won't work"? No, precisely because it *has worked* in the past and *will work* again. But it will mean a tectonic shift in power away from the City of London, whose financial oligarchy managed the British Empire in its 19th-century heyday. Now assisted by its junior partner Wall Street and the IMF and World Bank, that British "informal financial empire" (in the words of its own apologists) still rules much of the world today.

From his own experience as Britain's Chancellor of the Exchequer beginning in 1852, William Gladstone explained the ruling principle: "The hinge of the whole situation was this: the government itself was not to be a substantive power in matters of finance, but was to leave the Money Power supreme and unquestioned." Now, however, with the aid of the Corbyn campaign, as ordinary people are beginning to question the Money Power and how credit creation actually works, or should work, the private bankers are suffering their worst nightmare.

The simple facts of the matter

Private banks create money in their normal course of business because they are allowed to lend out some multiple of their deposits. Central banks, on the other hand, create money out of thin air. But whether privately or publicly created, everything hangs upon what the newly created credit is *used for*—for investment into the real physical economy, or for speculation. In the 1920s in the USA, for instance, the big Wall Street banks lent the funds of their depositors largely into speculation. That inevitably led to a financial bubble and then the crash of 1929 and the Great Depression. In order to put the economy back on a solid footing, President Franklin Roosevelt in 1933 enacted the famous Glass-Steagall bill, which mandated a strict separation of normal commercial banking (i.e., that related to the real economy) from the sort of speculative activities typical of such private banking empires as Brown Brothers Harriman, the world's largest in the 1930s and which, not surprisingly, financed the rise of Hitler.

Glass-Steagall was repealed under President Bill Clinton in 1999. Coming on top of a similar, sweeping deregulation of finance in the City of London in 1986 (the "Big Bang"), this unleashed the global bubble economy of today, where speculative instruments of all sorts now total over US$2 quadrillion, against a world GDP of only US$77 trillion. Inevitably, this channelling of credit away from the real economy into a speculative bubble led to the 2007-08 Global Financial Crisis. Now, the same Too Big to Fail (TBTF) banks in London and Wall Street which caused the GFC are 40 per cent larger than then, mainly because the central banks of the USA, Europe and Japan have since created US$8 trillion of additional money through Quantitative Easing (QE) and pumped it almost solely into those banks, to save them at all cost. So where did they get all that money from? The Bank of England itself gives the lie to the hysterical, anti-Corbyn proclamations in the UK, as in Australia, that "You just can't go and create money!" As the Bank itself explains in their "Quantitative Easing Explained" leaflet: "*The Bank creates money* and uses it to buy assets such as government bonds and high-quality debt from private companies" (p. 7, emphasis added). In a related video, the Bank adds that QE is "new money that the Bank creates electronically". But both in the UK as well as the USA or the EU, this QE has been nothing but a bailout for the TBTF banks: the new $8 trillion has gone almost entirely into purely financial assets, and it has been rigorously proven that the banks have lent almost *none of that money* into the real physical economy.

Now, just as before the GFC, the TBTF banks have used much of the QE to buy up mortgage-backed securities. This has once again created a gigantic global real estate bubble, led by the soaring home prices in Sydney, Melbourne and London, among other of the world's major cities. By contrast, the "People's Quantitative Easing" which Corbyn proposes, is simply the national banking policies of the US, Australian, and even British governments in their better days, when national banks would create money to invest in new physical assets; in particular infrastructure as the driver for economic growth, as the Chinese have amply demonstrated of late, as documented in a presentation at the CEC's March conference, "China: Great Infrastructure Projects at Home and Abroad". Just as the Chinese have done, and the BRICS nations as a whole plan to do with their New Development Bank, the Asian Infrastructure Investment Bank (AIIB) and other new credit facilities, sovereign governments can create credit and direct it into building bridges, railways, roads, dams, power stations and buildings for hospitals and schools, as well as capital spending for new plant and equipment.

Any new infrastructure or plant and equipment (in particular machine tools which embody new technology) will lower the physical cost of production while increasing economic output, and thus produce a net *physical* profit. All newly-created credit will therefore be "backed up by" actual physical production, not by hot air as at present. In reality, "money" is not the issue at all. For instance, on 20 January 1913, when the Commonwealth Bank first opened for business, the bank's first governor Denison Miller proclaimed, "This bank is being started without capital, as none is required at the present time, but it is backed by the entire wealth and credit of the whole of the Commonwealth of Australia." The extraordinary resources and productive power of the entire Australian continent had not hitherto been released because the private bankers had kept a chokehold on the creation and deployment of credit. In the event, a modest transfer of funds from the State Savings Bank of Tasmania (organised by longtime Tasmanian MP King O'Malley) and savings of the public deposited in the bank at its post office branches, was sufficient to launch the bank onto its extraordinary course of financing World War I and building Australia's young economy.

Nor is there any danger of inflation, as the City of London-owned Blairites squeal, as long as such new credit is directed into a constantly expanding physical economy. Again, the whole issue is: *What is the credit extended for?* If for an expanding physical economy, there are virtually no limits to the process. If for speculation, any such credit is too much. Given that the City of London dominates global finance, Corbyn's campaign threatens its grip over the entire world, not just the UK. That's what the ruckus is all about.

In addition to national banking, the UK and the rest of the trans-Atlantic sector and Australia urgently need Glass-Steagall-modelled legislation to rein in London and Wall Street because the world is otherwise headed for a worse crash than even the 2007-08 GFC. As Corbyn's close associate, longtime Labour MP John McDonnell, emphasised in a 12 August article in *The Guardian*, "All the factors that caused the 2007-8 crisis are reappearing on the scene", and Corbyn therefore intends to enact a "full-blown Glass-Steagall system to separate day-to-day and investment banking". In fact, legislation to enact Glass-Steagall-style banking separation failed by only a 225-274 vote in the House of Commons and lost by a mere 9 votes in the House of Lords during the 2013 debate on the *Financial Services (Banking Reform) Bill 2013*.

So the next time some idiot of a politician whines in a nasal voice with barely-controlled hysteria, "Where will the money come from to pay for this?", just inform the ignoramus, "The same place as it always has: from a government-run national bank committed to expanding the real economy." Or, as it is sometimes called in the post-GFC, less-scientific lingo of today, from "People's Quantitative Easing".