



The Bank of England



The Treasury

The Office of National Statistics

national **STATISTICS**



The Debt Management Office

Sovereignty & Seignorage

The Legal Privilege and a Financial Mechanism of Nation States

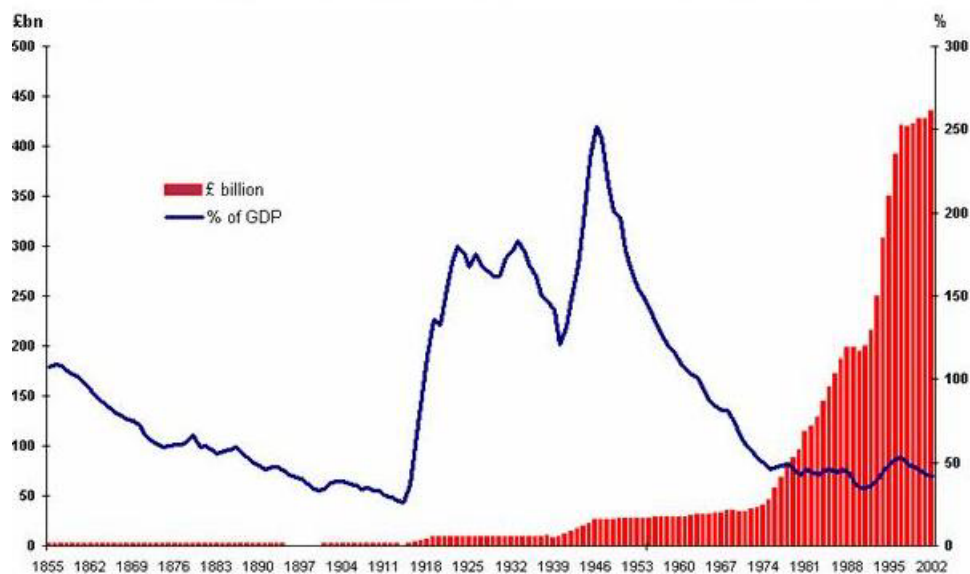
How Nations are used
to Sell their Assets
to Private Financial Institutions and Non-Financial Corporations

Sabine K McNeill FRSA

Executive Summary

SOVEREIGNTY & SEIGNORAGE investigates publicly accessible data – such as this graph from the *UK Debt Management Office* which shows:

- an unsustainably rising National Debt
- the rise of the National Debt independent of the growth of GDP.



From this investigation follow a number of conclusions on various levels:

1. on the level of *National Debt*:
 - this is the primary mechanism for supplying the economy with ‘unsustainable money’:
 - a. besides taxing, *borrowing* is supposed to be the only other means of income for the Government
 - b. however, since borrowing implies interest payments, the Government is financially dependent of its creditors whose passive income is guaranteed
2. on the level of *Money Supply*:
 - the share of interest-bearing *credit* vs non-interest bearing *cash* has gone down continuously, from 20 – 30% to less than 3% over the last 30 years
 - a. now practically all money in circulation is interest-bearing *credit*
 - b. nobody creates the money necessary for *interest payments*
 - c. hence the pace is quickening since everybody needs to chase after money they need to pay interest on mortgages, company credits, credit cards and other ‘*financial products*’
 - d. the original function of money as a *medium of exchange* has been supplanted by money as a *commodity* at a price aka interest

3. on the level of *State and Government*:
 - the financial power of the state goes down continuously, i.e.
 - a. the annual budget contains a regular share of interest payments, aka '*Public Sector Borrowing Requirement*' or PSBR which may even compare with amounts spent on the military and on education
 - b. the amount of money available for public services keeps going down
 - c. an appropriate share of '*publicly created money*' aka as *cash*, '*narrow money*' or non-interest bearing *notes* and *coins* should be re-instated and used for the common good such as sustainable activities to stop climate change

4. on the level of the *Bank of England* and the *Treasury*:
 - the number of Monetary and Financial Institutions and their offshoots rises consistently and thus their power of financial mechanisms to decide on what activities get funded
 - a. Monetary and Financial Institutions (MFIs)
 - b. Private Non-Financial Institutions (PNFIs)
 - c. Other Financial Institutions (OFCs)

5. on the level of *Inflation* and '*Economic Growth*'
 - inflation is published by the *Bank of England* as a measure of price changes
 - economic growth is published by the *Treasury* as a measure of GDP
 - GDP is published by the *Office of National Statistics*

6. on the level of *Sustainability*
 - the Treasury advocates '*sustainable rates of growth*'
 - the mathematical nature of growth is either linear, natural or exponential
 - the exponential nature of the growth of the *credit* supply is in line with the exponential nature of compounding interest upon interest
 - '*sustainable rates of growth*' can only be presented on the basis of short term statistics without the bigger picture of long term considerations that are desperately necessary to stop climate change.

"When people are destroyed and languages are destroyed, you destroy that knowledge along with it. So what do indigenous people have to offer? Indigenous people have the long-term thinking required for proper context."

"What Indians are about, I think, first of all is community. They're about mutual support. They're about sharing. They're about understanding what's common land, common air, common water, common and for all. They're about freedom."

We are now. Now is us. We're the seventh generation. I'm sitting here as the seventh generation because seven generations ago people were looking out for me. Seven generations from now someone will be here, I know. Each generation makes sure that seventh generation is coming, all the time."

Chief Oren Lyons
 in a July 3, 1991 interview with Bill Moyers
 for Public Affairs Television

Sovereignty and Seignorage

The Legal Privilege and a Financial Mechanism of Nation States

"For whosoever hath, to him shall be given, and he shall have more abundance; but whosoever hath not, from him shall be taken away even that he hath." (Matt. 13:12)

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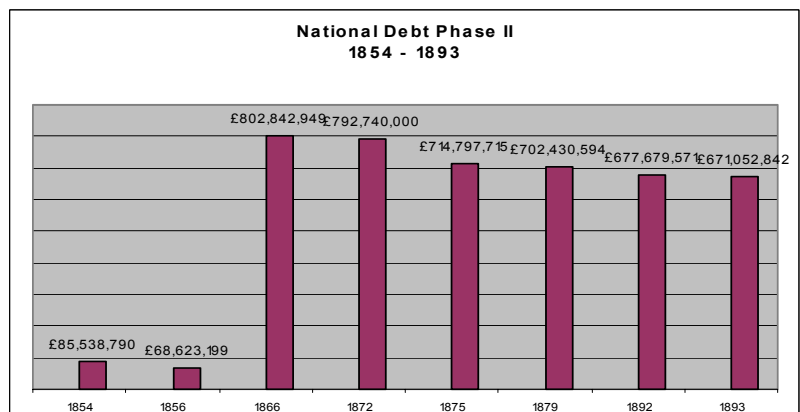
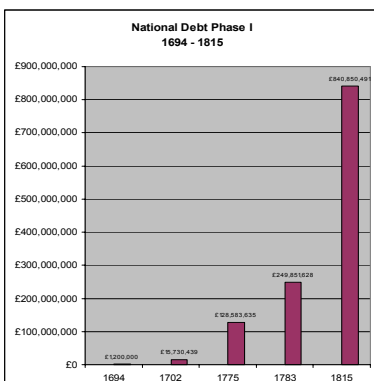
1. Introduction

The *sovereignty* of a nation implies issuing, administering and distributing its national currency through its government. Historically, this was the privilege of the King. But in 1694, the *Bank of England* was set up with the first national debt of £1.2m at 8% interest.

The purpose was for the King to employ soldiers for a war against France. But the effect was for the King to become dependent on the bank by having to make interest payments. This national debt mechanism has been copied ever since by central banks that set themselves up alongside nation states world-wide. Globally, there are 189 central banks in operation.

Economic education omits that this financial / political mechanism is fundamentally flawed, since it is built on the exponential growth of compound interest. If Jesus had invested £1 at an interest rate of 2% at age 32, he would own £171.689.687.789.637.120 (quintillions) by 2004. The amount resulting at 8% from the first British national debt is £27.576.900.173.448.780 (sixtillions).

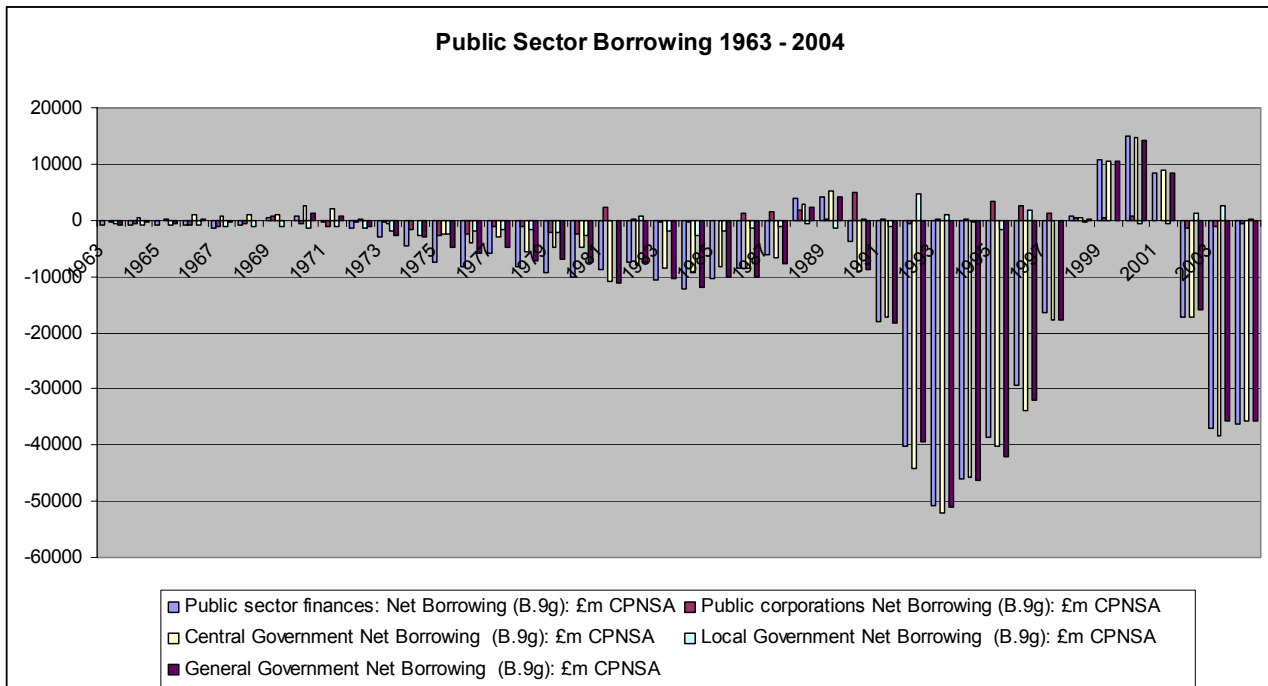
The current ‘public sector net debt’ is £432bn according to the *National Office of Statistics* to which 36 accounts or ‘debt instruments’ contribute. Among these are Central Government holdings of Local Government debt as well as Local Government holdings of Central Government debt. In 1998, the process of administering the national debt has been institutionalised into the *National Debt Office*.



Between 1815 and 1854, the debt was cancelled.

Nowadays, every annual budget has a regular amount of about 10% allocated for debt interest payments, currently £26bn.

The chart below illustrates long term data relating to public sector borrowing from the *National Office of Statistics*. Within the national debt context, it would suggest other reasons for boom and bust cycles than conventionally proposed by economists, if not question economic measures as a whole and certainly the use of statistics for purposes of political control and financial advantages.



Seignorage is the income that the state makes from the difference between the cost of printing notes and minting coins and their face value. In the late 1960's, the share of notes and coin of the total money supply was around 30%. Since then it has gone down to 1.7% in 2004.

The state ignores seignorage as a source of income and borrows or taxes instead. But corporations and wealthy individuals make use of tax havens.

The dwindling share of interest-free money in circulation has thus caused rising indebtedness not only for states but also for nations as a whole.

Furthermore, the state has less and less money available for public services and the common good. Therefore it has become virtually powerless to set agendas and finance technologies that would stop climate change and reverse the trend of global warming.

At the same time, Parliament has been made aware that the global policy framework *Contraction & Convergence* needs to be adopted and turned into policy if future generations are expected to live on an inhabitable planet. Western nations whose wealth was created by burning fossil fuels need to contract their emission quotas so that, together, all nations can converge towards sustainable quotas.

This summary therefore describes the institutional structures and financial processes that are at work so that lawsuits can be structured such that the legislative can regain the power lost to unaccountable monetary financial institutions and wealthy national and multi-national corporations.

2. Monetary Financial Institutions = the Bank of England + MFIs + OFCs + PNFCs

The money supply to the Nation is supposedly the effect of demand, while inflation is supposedly controlled by the Bank of England's *Monetary Policy Committee* setting interest rates.

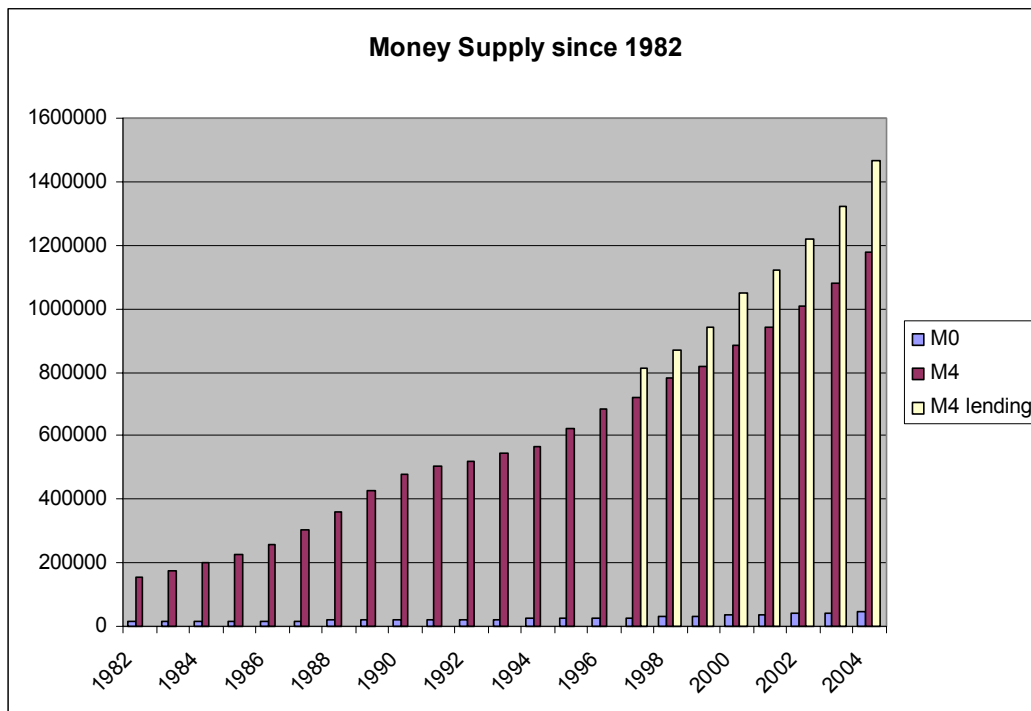
In a speech to the *Confederation of British Industry*, the Chancellor Gordon Brown said on Nov. 18th, 2003: "While there is a link between money supply and inflation, in open economies with liberalised capital markets, rigid monetary targets just cannot work." He claimed that an inflation target of 2% guarantees both stability and economic growth.

The term 'monetary' is used when referring to the currency of a nation, while 'financial' refers to money as a whole. On the Bank of England's statistical data base the money supply is not published as a sum. It used to consist of two components or 'aggregates' and has been enlarged by a third one in 1996:

- *state-created notes and coin* which is interest-free and called M0 or 'narrow' money; this privilege of states, to create and issue their national 'currency' for the benefit of their citizens, is called 'sovereignty'; within the Nation, this state-created money has been called 'publicly-created money' in a number of 'Early Day Motions' that we got tabled – in contrast to:
- *bank-created credit* which yields interest; in publicly accessible data bases it is called M4, 'broad' money or 'wholesale M4'.

Institutionally, M4 is created by MFIs: *Monetary and Financial Institutions* or banks and building societies.

- '*M4 lending*' also referred to as 'retail M4' is interest-yielding credit to
 - OFCs: *Other Financial Corporations* and
 - PNFCs: *Private Non-Financial Corporations*
 - Households, Individuals and Non-Profit Institutions: secured by dwellings or unsecured.



The above chart shows the three components M0 (interest-free cash), M4 and M4 lending (both interest-yielding credit) with the startling messages:

1. Nearly all money in circulation is interest-bearing, i.e. following the mathematical laws of exponential growth of compound interest
2. The rate of supplying interest-bearing money to the nation has been dramatically increased by adding 'M4 lending' since 1996
3. The overall rate of growth is exponential in nature which in itself is inherently unsustainable.

Questions to ask are:

1. Who benefits from interest payments as passive income?
2. Why do economists not teach the mathematical laws of compound interest behind national debts?
3. How can the law be used to reverse the trend that the more measures are taken to teach citizens about mortgages, making them 'financially capable' and companies 'internationally competitive', the more the world becomes indebted, polluted and uninhabitable?

3. The State's Annual Budget – Always enough for War, never enough for Health and Education (Labour MP Norman Smith 1944)

Governments claim that they have to either tax or borrow to raise money. In addition, they could

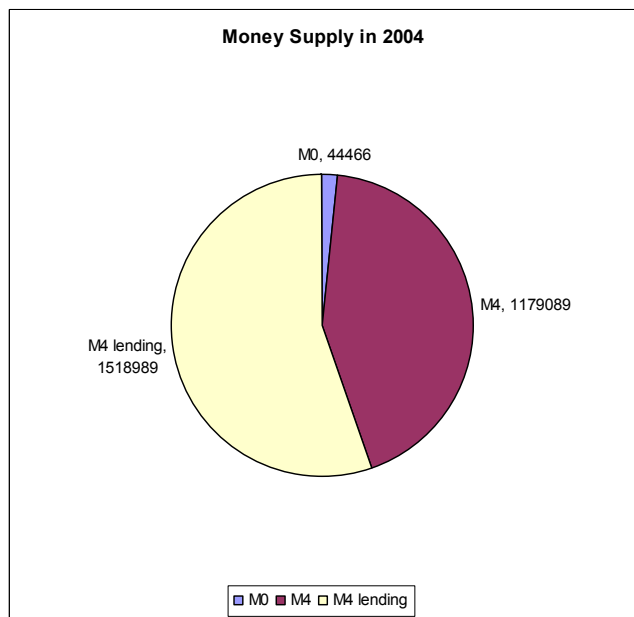
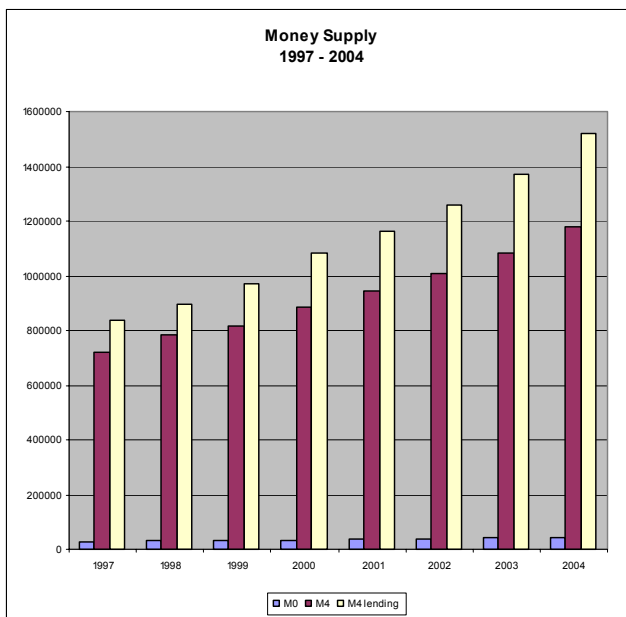
- Print *more* notes and mint *more* coins (cash) – but this is supposed to cause 'inflation'
- Get more *income* from creating more cash, i.e. 'seignorage', but the claim is made that there is the problem of 'distribution' into the economy.
- Spend such '*publicly created money*' as grants as they do anyway. Instead
 - there is never enough money but always a 10% debt interest payment in each annual budget
 - it has become policy in science and technology to let venture capital finance innovation
 - the privatisation of public services ensures that more managers and shareholders benefit than civil servants and politicians.

Economists teach that the state's annual budget represents about 40% of the total money supply. On the Treasury's website, budget data is only available since 1998. Then the share was at 24% and went down to 19% in 2004.

4. Why do five successive Early Day Motions relating to 'publicly created money' only get support from in total 63 MPs?
5. Why does the government not respond and commission an independent inquiry into the possible benefits of publicly created money?
6. Why is it not public knowledge how money supply is linked with inflation via interest payments?
7. Why was the *Debt Management Office* established in 1998?

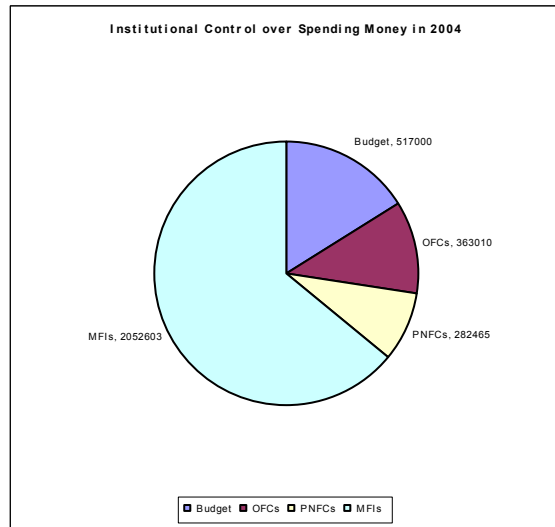
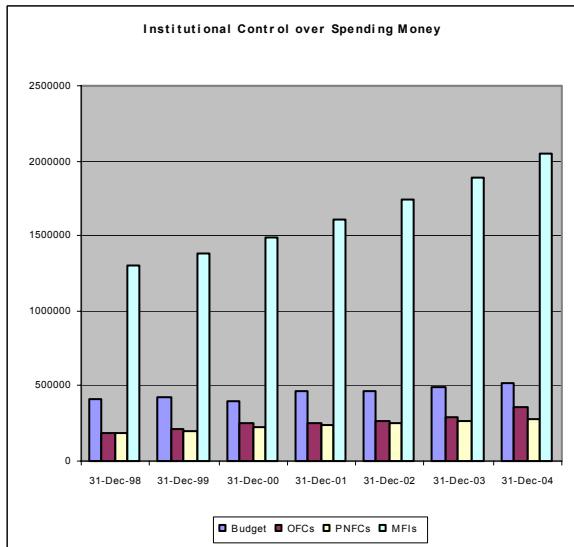
8. Why was the establishment of the *Financial Services Authority* deemed to be necessary in 2000 addressing four statutory objectives:
 - a. market confidence
 - b. public awareness
 - c. consumer protection
 - d. and the reduction of financial crime?
9. Why does the *Financial Services Authority* decide to spend £1.5m on educating about mortgages? [Press release November 2005]
10. Why does the public believe that the Government runs the economy?
11. Why does Gordon Brown think that accountability of the Bank of England is covered by 'Target Two Point Zero' for inflation when inflation is measured only by the quarterly increase in percentage with 1996 taken as 100%?
12. Why are banks' profits at record levels while the population is in record debt?

The introduction of M4 lending in addition to M4 introduced new institutions as sources of credit and thus interest payments as passive income:



The consequences are:

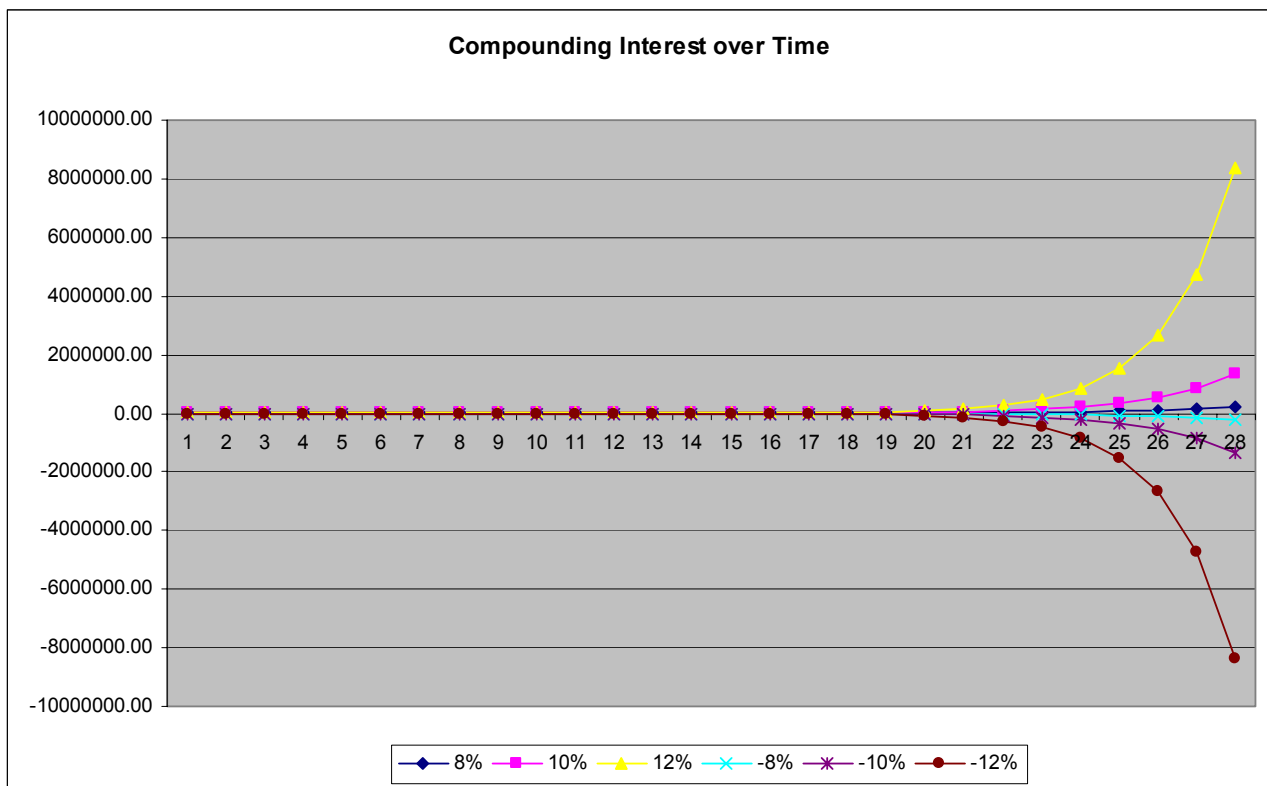
- On the level of *institutional control* over spending money as grants or credit
 - the state's sovereignty to create the nation's money is not only shared between MFIs but also OFCs and PNFCs
- on the level of *quality* of money in the supply
 - the increase of interest-yielding credit implies an increase of influence of the *financial* economy over the *real* economy of environment related products and services
- on the level of *amount* of money available for circulation
 - since 1997, M0 has increased by 1.4%, M4 by 39.5% and M4 lending by 59%.



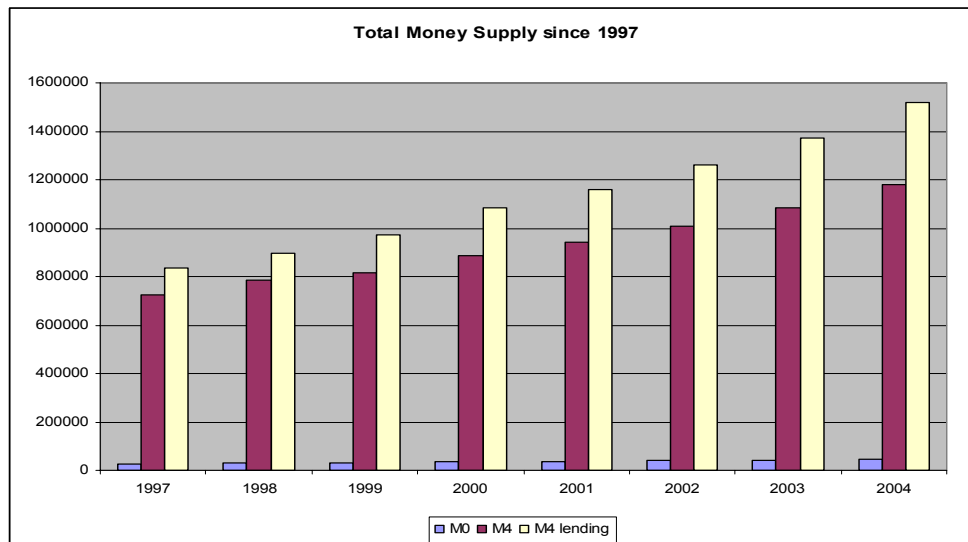
Money needs to come from the total supply to pay for repayments of both capital and interest. However, it is difficult to illustrate the share of interest and the share of capital in the total money supply since interest payments are transactions that are recorded but statistically not available.

But over longer time periods, more and more people can't find enough money for interest payments, are more and more indebted and have their houses repossessed.

Exponential growth works for positive interest on capital in the same way as for negative interest on debt, as illustrated in the chart below.



Exponential growth is inherently unsustainable, independent of the immorality of the rich getting richer and the poor more indebted.



4. Seignorage – a Legal Source of Income for Central Government

The Italian consumer group ADUSBEP has won their case against the *Bank of Italy* on the grounds of distributing the income from seignorage to the nation rather than the shareholders of the *Bank of Italy*.

http://www.laleva.org/eng/2005/10/italian_central_bank_to_pay_back_illegal_profits_from_seignorage_judge.html

In Canada, John-R: Dempsey is a forensic litigation specialist and criminologist. His preferred areas of law are: white collar crimes, government corruption and fraudulent banking practice. John has filed three class actions “The People vs the Banks”. <http://www.freewebs.com/classaction/>

There are currently 58,500 Google hits on seignorage. The *Treasury’s* website does not produce any search results nor does the *Bank of England’s* or the *National Office of Statistics*. However, ‘Dollarization and Seignorage’ can be found on <http://www.econ.upenn.edu/~uribe/seignorage.pdf>

The article by authors from the Rutgers University and the University of Pennsylvania begins with “When a country decides to replace its domestic currency with the US dollar, it automatically ceases to collect the stream of seignorage revenue, which is instead redirected towards the US central bank. A central issue in the debate about dollarization is the distribution of seignorage income between the governments of the United States and the economies that are considering the adoption of the dollar as the sole legal tender. One of the main road blocks for dollarization has been the reluctance of the United States to agree to any kind of formal sharing rule.”

Since seignorage is a privilege of the state, the legislative process ought to be used to reinstate this source of income for public services and, above all, climate change and environments as the common good.

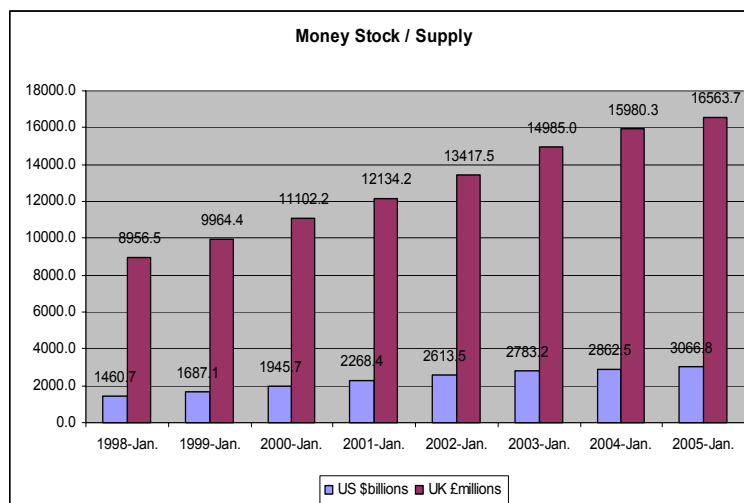
5. Dollarization – the Financial Mechanism for Globalising Indebtedness

Besides 189 central banks, there are many private banks that operate internationally and three international banking institutions

- The Basel Bank for International Settlements
- The International Monetary Fund

- The World Bank.

The *Federal Reserve Bank* contains data on the US money supply of dollars which can't be compared with the UK supply of Sterling, since US figures are in \$billions and UK figures in £millions. However, what can be compared is the increase between a start and end date, i.e. the growth of the respective money supply.



Between the comparable periods for which data is available on the web, the US supply grew by 52.4% while the UK supply grew by 45.9%.

The dollar is the international reserve currency and the data on the money stock is unlikely to include all dollars in circulation and accounts world-wide.

The book *Modern Jihad* by Loretta Napoleoni examines the dollars behind the terror networks estimated to represent some 10% of all financial transactions.

Basel statistics on the web detail figures about lending and borrowing countries.

The *World Economic Outlook 2005* report of the IMF is on *Building Institutions*. The national debt started: by a debt as the basis for paying an army. Now institutionalised credit is used to pay armies of civil servants. Its chapter IV begins by describing 'inflation targeting' having become an "increasingly popular monetary strategy with 21 countries (8 industrial and 13 emerging) having become inflation targeters".

6. Sovereignty – the Privilege to Issue, Administer and Distribute National Currency

13. Why does Gordon Brown, admitting that there is a link between money supply and inflation, want to please the US and advocates 'economic expansion through free trade and free markets as the key to growth and prosperity'? See Press Release Nov. 18, 03:

http://www.hm-treasury.gov.uk/newsroom_and_speeches/press/2003/press_118_03.cfm

7. Inflation – the Current Measure of 'Financial Stability'

On the Bank of England's website, *Target Two Point Zero* is a sub-section to educate students about the supposed ability to regulate the money supply through interest setting.

It also highlights the basis for accountability of the Bank of England to the Treasury: as soon as the inflation target of 2.0 is exceeded either above or below, political measures are to be taken.

The target is given by the *Consumer Price Index (CPI)*, a measure introduced in 1996. Set at 100% for that year, the use of the CPI is misleading. For what is published is the rate of change rather than absolute values, and at short-term (monthly and quarterly) intervals without historic pasts and prospective developments.

However, as outlined in the IMF report, this stems from the definition of ‘price stability’ by Alan Greenspan, Chairman of the Federal Reserve: not to take into account prospective price changes. ‘Targets’ are thus short term increase figures ignoring long term developments.

Short term figures always look acceptable:

- a maximum of 1.6%, 3%, 6.1% and 3.4% for four consumer price indices between 1988 and 2004.

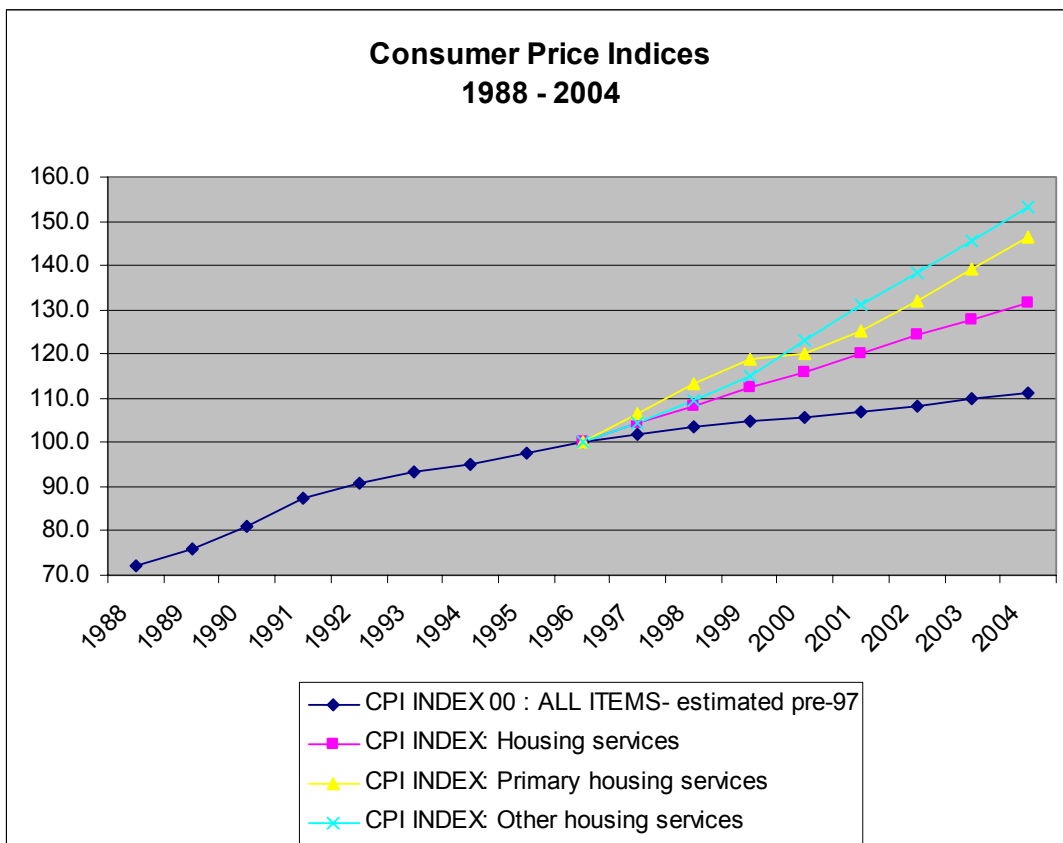
But the *longer* term figures between 1988 and 2004 indicate increases of

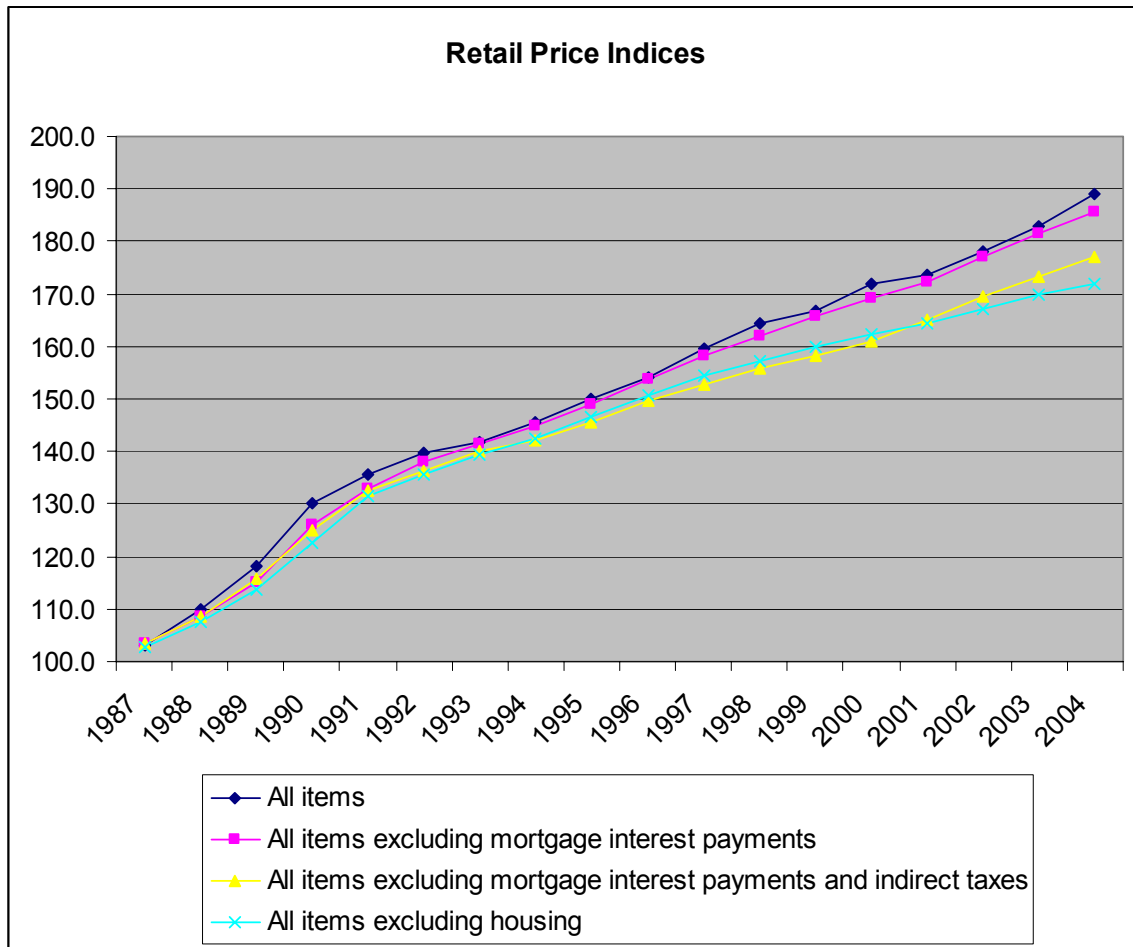
- 39.1%, 31.6%, 46.4% and 53.2% respectively.

In addition to CPI, the *Retail Price Index (RPI)* and RPIX are published as indicators for inflation by the Treasury, but again only in terms of increase in percentage over monthly and quarterly time intervals.

RPI prices have been fixed at 100% on January 13, 1987. Percentage figures are misleading when it is not clear what value or year is used as the 100% reference.

The CPI has been introduced as part of the harmonisation with EU standards.





These charts paint a distinctly different picture than *Target Two Point Zero* likes to convey, with increases of

- 86% in ‘all times’ of the CPI since 1987
- 82.3% excluding mortgage interest payments
- 73.7% excluding mortgage interest payments and indirect taxes
- 68.9% excluding housing.

Housing has thus been responsible for 17.1% of inflation, the difference between the first and the last index, over this period of 17 years between 1987 and 2004. 1% per year adds up to 17%. And that’s why it is not sufficient to look at monthly and quarterly increases in percentage terms.

Horses for Courses or *Indicators for Indices* has to be the message here, so that *short-term* indicators are embedded in *long* term contexts and true or real inflation can be measured the way that people feel it in their pockets.

Money supply and inflation affect people differently at different stages in their life.

But nature, environment and climate are an on-going process where regular short-term human activities have cumulative effects long-term.

The same combination of short-term data with long-term perspectives ought to be adopted by policy makers and institutions collating and interpreting financial, monetary and economic data.

Institutionally, maybe ‘citizen experts’ should join committee like in juries and NGOs.

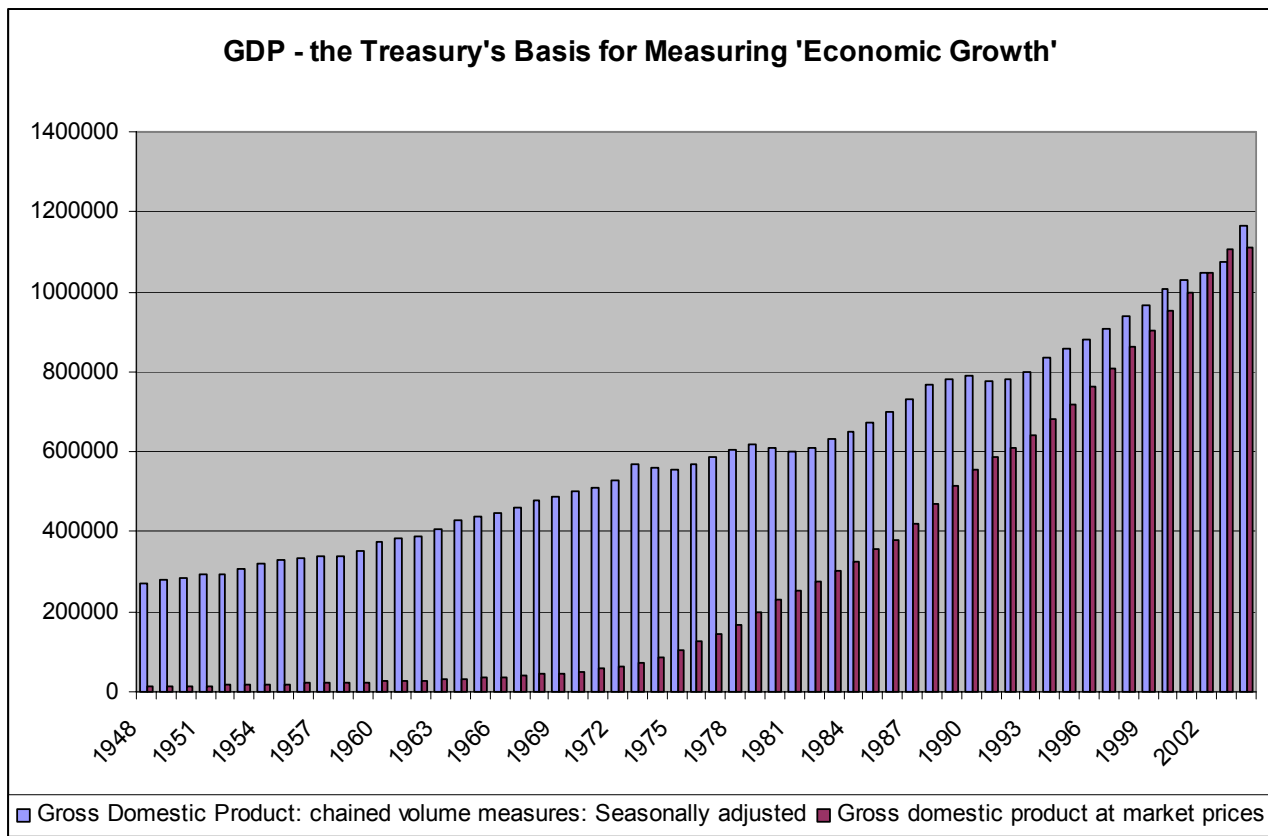
Process-wise, institutions ought to be advised how to interpret and publish data such that it is honest and non-exploitative.

8. GDP – the Current Measure of ‘Economic Growth’

The Treasury’s website writes: “Gross Domestic Product (GDP) is a measure of the total domestic economic activity. It is the sum of all incomes earned by the production of goods and services on UK economic territory, wherever the earner of the income may reside. GDP is equivalent to the value added to the economy by this activity. Value added can be defined as income less intermediate costs. Therefore growth in GDP reflects both growth in the economy and price changes (inflation).”

The icons of ‘economic growth’ and ‘price stability’ are thus rather camouflaged:

- GDP figures *include* the inflation of price changes which grows naturally due to the inflationary nature of the money supply
- Inflation figures are monthly and quarterly increases in *percentages* rather than longer term increases.



The chart above shows the data compiled by the *Office of National Statistics* which the Treasury uses to compile a ‘GDP deflator’: “a much broader price index than the CPI, RPI or RPIX (which only measure consumer prices) as it reflects the prices of **all** domestically produced goods and services in the economy. Hence, the GDP deflator also includes the prices of investment goods, government services and exports, and subtracts the price of UK imports. The wider coverage of the GDP deflator makes it more appropriate for deflating public expenditure series.”

In the Glossary, the GDP deflator is described as a ‘measure of domestically generated inflation’. It is meant to be a price index that includes data from the *financial* economy of investment goods, the *public* economy of government services and the *international* economy of imports and exports.

This kind of fruit salad or levelling economic statistics may suit those who want to advocate price stability despite economic growth, for the growth inherent in inflation has to be turned into growth of GDP while inflation has to be made look to be small.

Such levelling is inappropriate, however, when analysing the inflationary nature of the money supply as the cause for environmentally detrimental activities.

In its section on how to use this measure, the Treasury writes about

- ‘Cumulative inflation’ between one year and another
- How much would a certain amount of money of one year be worth in another.

Instead of measuring the rise of inflation between one year and another, ‘cumulative inflation’ is supposed to be measured from the GDP that includes many other activities over many different time frames.

In the pursuit of truth, justice and in defence of our climate, the demonstration of accurate forecasts validated by tests on historic data will be conclusive evidence for better statistics and above all superior interpretation.

Of course, our investigative analysis is biased: we want to demonstrate the evidence for links between the exponential growth of carbon emissions and the exponential growth of profits and indebtedness.

9. Sovereignty & Seignorage – the National Companion of Contraction & Convergence, the Global Policy Framework for Climate Change

Contraction & Convergence (C&C) is a global framework for tackling climate change which has attained great international acclaim and acceptance. See www.gci.org.uk Its message is clear: the exponential growth of CO₂ and greenhouse gas emissions of the West has to contract so that, together, countries can converge towards global equity and sustainability.

At a meeting of the *Forum for Stable Currencies* at the House of Lords on 07/09/05, Aubrey Meyer of the *Global Commons Institute* presented C & C which I matched with *Sovereignty & Seignorage* on www.monies.cc/s-s.htm

Since then I have begun to work on *The Money Fuse of the Climate Bomb* as a book proposal for Pluto Press.

I have also been appointed *Visiting Research Fellow* to the *Computer, Communications and Mathematics Department* of the *London Metropolitan University*, where I have launched the *Global Monitoring Project (GMP)* with MSc students.

GMP will become an information system combining national economic data with global data on climate change from publicly available data bases.

As a mathematician, software designer and systems analyst, I have also developed scale independent measuring methods and a proprietary forecasting engine for *any* numerical data.

Thus I can derive new measures of *quality* for science, finance and economics which can not only be presented in historical settings but also future scenarios.

Hence I trust that we can influence and change what is currently happening to substantiate any legal undertakings.

10. Climate Change: The Legal and Economic Challenge

When asked what I want to achieve with legal action, I responded:

- a. General education and awareness raising
- b. The right political action for concerted efforts to stop the trends of global warming.

I had in mind to stage a case with major PR effort which requires money of course.

Since producing this document, it is clear that on behalf of our climate and environment, we, the people, can name and shame all the directors of the Bank of England, of MFIs, OFCs, PNFCs and other key institutions such as the Government, the FSA (Financial Services Authority) and DMO (Debt Management Office).

But do they know what they are doing?

In political terms, the UK needs to become independent of the US.

In institutional terms, the Bank of England, the Treasury and the Government have to act in the interest of the nation and the planet as a whole.

That means in policy terms, making best practice efforts regarding

- climate change
- Publicly created money for purposes of the common good
- Public services such as health, education and the environment.
- MFIs, OFCs, PNFCs, the Financial Services Authority and the Debt Management Office
- Financial victims of institutions such as Inland Revenue or Custom and Excise, causing bankruptcies or house repossessions

Written for Peter Roderick of www.climatelaw.org after the seminar of the *Environmental Law Foundation on Climate Change: the Legal and Economic Challenge* on October 26th, 2005.

Sabine K McNeill studied mathematics and computing in West Germany and began her career as systems analyst at CERN (European Centre for Nuclear Research) in Geneva. In 1981 she came to London with the vision of a ‘Peace Network’ of people and computers protecting our planet. After having met Lord Sudeley in 1998, she co-founded with him the *Forum for Stable Currencies*. This series of public events discussed the legal challenges of financial, monetary and economic issues in the House of Lords and the House of Commons under the sponsorship of Austin Mitchell MP.

Following the reform of the House of Lords, Lord Ahmed became the sponsor – symbolising the significance of Islamic principles where the practice of making money out of lending money is a deadly sin. As a mathematician, Sabine demystifies this practice through the unsustainable growth of compounding on interest upon interest.

As a private and independent researcher, she developed highly innovative approaches to forecasting scientific, financial and economic data which she wants to apply first and foremost to climate change. Her prototype software has been described as the most significant work since relativity theory and her innovations encompass a measurement theory that provides a breakthrough for a number of current scientific impasses.

Having been rescued from the bombing of Dresden by her then 22-year old mother, she is passionate about funding activities of planet earth as our public commons. Therefore she promoted five Early Day Motions proposing *Publicly Created Money* as one of the mechanisms to redress the imbalances of our monetary system.

She has been acknowledged with the prestigious *Attwood award* for her work at the House of Lords which she was attracted to due to its long term thinking independent of party politics.

The **Forum for Stable Currencies** has offered discussions regarding the causes and effects of the creation of money in over 50 meetings. Topics ranged from ‘bank victims’ who were made bankrupt and committed suicide due to overindebtedness and the differences between the balance sheets of banks and other corporations to local, regional and private currencies as solutions to our debt-based system.

The last meeting held covered *Contraction & Convergence* as the political framework for Western countries to reduce their CO₂ emissions so that, together, all countries could converge towards sustainable levels of pollution.

Sovereignty & Seignorage is meant to match these framework principles and demonstrate how the power of the nation state has been undermined by the mechanisms of monetary and financial institutions.

Based upon data from the publicly accessible data bank of the *Bank of England*, the *Treasury* and the *Office of National Statistics*, *Sovereignty & Seignorage* is a long term analysis of the devastating effects of banks creating money as credit while the state borrows and taxes when it could produce publicly created money for public purposes and the common good – such as our planet as our global commons.