How to turn

9 trillion dollars of Impossible Bank Debt

payable only in money that does not exist

into

9 trillion dollars of New Funding

payable in goods and/or services ONLY

Money System Design: a recursive re-lending analysis

by Paul Grignon pgrignon@island.net www.moneyasdebt.net

Imagine we eliminate all debt right now and give everyone an equal share of a brand new "debt-free" money supply. Is Utopia upon us?

Because everyone has an equal share, no one has enough to build a new factory or roads, or pretty much anything large scale.
To concentrate capital to build a new factory, or a system of roads, or even to build modern houses, *credit is needed.*

The conventional banking method to concentrate productive capital is by having savers deposit some of their income, putting money aside for the use of others.
These savings are aggregated by banks and other depository institutions, and LENT to factory builders and home buyers to create an economy with jobs and income flows for everyone.

In the following mathematical proof

- all participants have equal income and access to credit.
- the general populace in total, saves 5% of the total money supply in savings at a bank each year. This money is immediately lent out.
- all parties preserve all of their lending capital. Lending capital, ie. savings, is NOT spent. Only interest is spent.
- ALL money repaid to lenders is immediately returned to circulation as a loan. NONE is hoarded. The circulating money supply is 100 at all times.

Let's ***follow the process as designed.***

				twice-lent		TOTAL principal debt
year 0	Debt-free Money = 100	money saved and lent, Principal DEBT = 0				
after year 1	Debt-free Money = 95	money saved and lent, Principal DEBT = 5				
after year 2	Debt-free Money = 90	money saved and lent, Principal DEBT = 10	+	5% of 5	=	10.25
after year 3	Debt-free Money = 85	money saved and lent, Principal DEBT = 15	+	5% of 10	=	15.50
after year 4	Debt-free Money = 80	money saved and lent, Principal DEBT = 20	+	5% of 15	=	20.75
after year 5	Debt-free Money = 75	money saved and lent, Principal DEBT = 25	+	5% of 20	=	26.00
after year 6	Debt-free Money = 70	money saved and lent, Principal DEBT = 30	+	5% of 25	=	31.25
after year 7	Debt-free Money = 65	money saved and lent, Principal DEBT = 35	+	5% of 30	=	36.50
after year 8	Debt-free Money = 60	money saved and lent, Principal DEBT = 40	+	5% of 35	=	41.75
after year 9	Debt-free Money = 55	money saved and lent, Principal DEBT = 45	+	5% of 40	=	47.00
after year 20	Debt-free Money = 0	money saved and lent, Principal DEBT = 100	+	5% of 95	=	114.75
after year 59	Debt-free Money = 0	money saved and lent, Principal DEBT = 295	+	5% of 290	=	309.50

Money = 100

after 59 iterations
DEBT of MONEY = 310

As a direct result of the design of the system ...

after 20 years of savings, more than 100% of the debt-free money would be converted to a debt-of-itself-on-a-schedule.

After 59 years of savings ...

total principal debt would be 3.1 times the amount of money in existence

NEXT PAGE: An approximate **4:1 RATIO** of *principal debt to money* appears to be in dynamic equilibrium with the *default rate* in the ***current system.***

The definition of 'M2' from Investopedia

A measure of money supply that includes cash and checking deposits (M1) as well as near money. "Near money" in M2 includes savings deposits, money market mutual funds and other time deposits, which are less liquid and not as suitable as exchange mediums but can be quickly converted into cash or checking deposits.

The definition above reveals the prevalent ***ERROR of thought, universally taught in economics.*** Savings are viewed only from the point of view of the saver. In reality, a savings deposit balance is NOT "near money" and M2 is NOT even a *positive number.*

This is WHY. Time deposits, money market mutual funds etc. are ***lent***. A savings account of any kind is a record of money, created originally as the debt-of-itself-on-a-schedule of *a borrower to a bank,* currently in circulation as an *additional* debt-of-itself-on-a-schedule to one or more savers. ***P of money < NP of principal debt of that money.***

On the graph at right:

- **The red line is principal created as a debt-to-banks plus cash in circulation.**
- **The green line adds to the red line the *additional* principal debt to savers.**
- Conventionally BOTH numbers are treated as positive. M2 is referred to as the ***total money supply.*** WRONG!!!! In reality, the spread between M2 and M1 is ***the excess of principal debt over principal*** with which it can be paid, and should be ***subtracted*** to get the true money supply.
- In the case of the USA, illustrated at right , there is an ever-growing debt monster approaching **NEGATIVE 9 trillion dollars** that is owed to savers.
- **This money DOES NOT EXIST.** Therefore, the entire money system needs to be fed with more and more new principal debt (money) continually, at the rate of repayment of existing principal debt or faster, to avoid ***total collapse of the system.***
- Once the truth of M2 is understood, the only possible way term deposits could be 3 times M1 is for every dollar of M1 to have been ***deposited and re-lent 3 times over.*** At this ratio, it appears that in real life, ***the impossibility of P of money < 3P of additional principal debt of that money*** finds an **equilibrium** with the ***default rate, (gold line)***
- Default clears some of the debt at the cost of the ***loss of collateral of borrowers*** and/or ***the asset base of banks*** and/or taxpayer funded ***government bailouts*** and next time around ... ***bail-ins...*** in other words ***MATERIAL LOSSES*** and ***SUFFERING.***

From the graph at right:

- **normal ratio of principal debt to principal of 3 :1**
- **the same ratio at the 2008 Crash was 4.26 : 1**
- **during the height of the prosperous 90's it was just 1.94 : 1**

However, it is the *pattern* of events that matters more than the absolute numbers as explained in detail at right.

NEXT PAGE: **It was ever thus...**

A recursive re-lending analysis of our current situation

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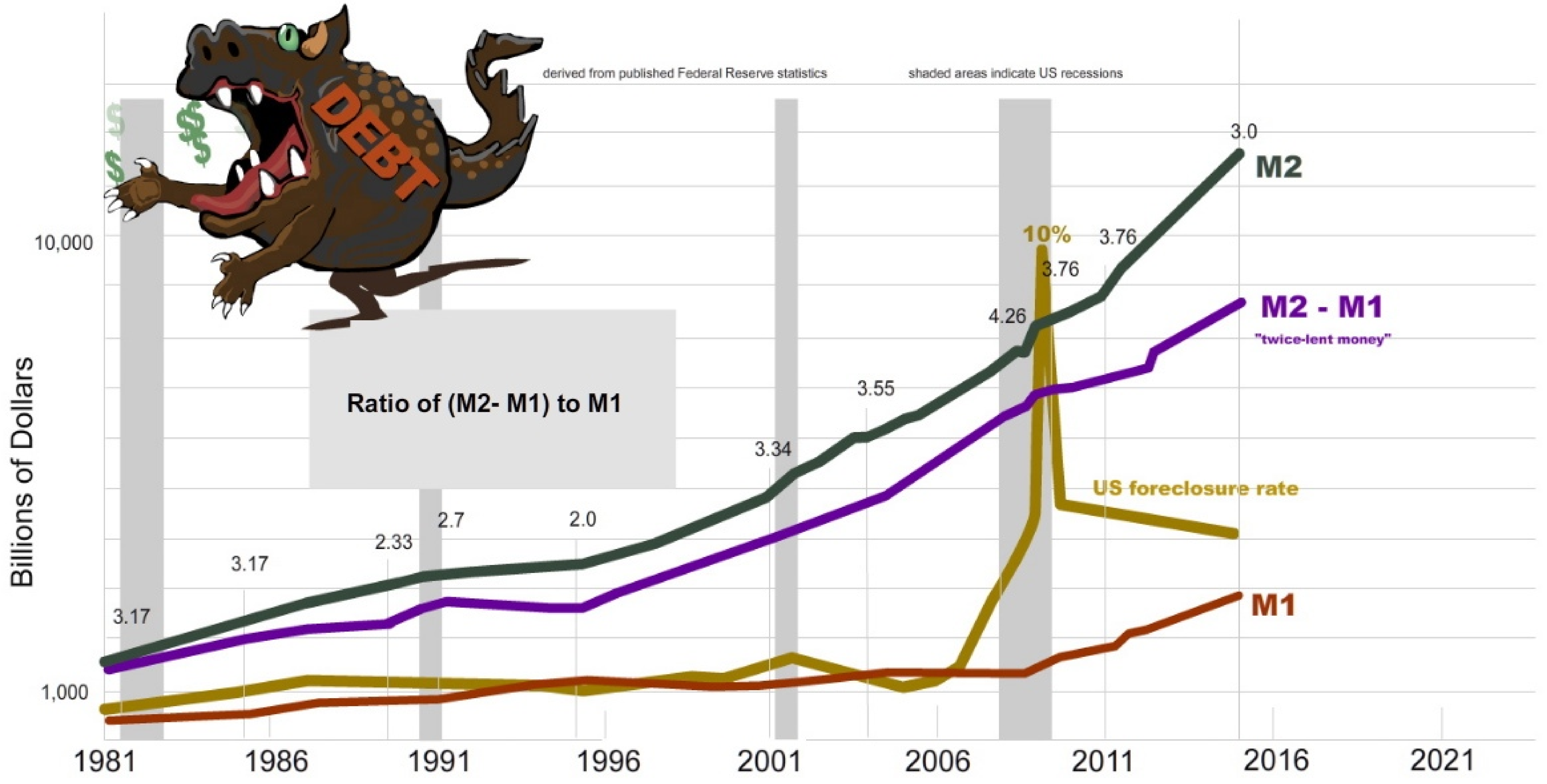


From 1981 to 1986 M2 grows while M1 remains flat. That means more money was created as bank credit DEBT-on-a-schedule, and ALL of it was re-lent .

The residential foreclosure rate climbs until 1987 to clear some of the impossible debt.

M1 rises while the rise of M2 slows a bit. The foreclosure rate falls in response. The ratio of impossible debt to money falls to 2.33

M1 goes flat again to 1991, while M2 rises. A recession follows to clear business debt.

NOTE: Not shown on graph is a large peak in business defaults in 1990-91

After 1991, M1 rises faster than M2 until 1995-6 meaning some lenders spent their money, possibly on the dot.com boom. The default rate falls.

M1 goes flat again to 2001, while the impossible debt ratio rises to 3.34. Foreclosures rise again.

A recession and a larger peak in residential foreclosures follows.

NOTE: Not shown on graph is a large peak in business defaults in 2001-2.

After 2001, M2 far outpaces M1 up until 2008. Principal debt to principal ratio at the Crash is an unprecedented **4.26 : 1**

A huge recession and a huge peak in foreclosures follows.

NOTE: Not shown on graph is a large peak in business defaults in 2009-10

There is currently a strong upward slope to BOTH the red and green lines. However, M2 is diverging from M1 at the same rate that preceded previous recessions.

The foreclosure rate remains higher than normal, thus clearing more impossible principal debt than normal ... at the social cost of ***mathematically inevitable defaults*** that cause unnecessary ***human suffering.***

Prediction: the high default rate and steep increase in M1 work to delay the next Crash. If M1 goes flatter or the default rate falls much further, the next Crash will soon follow.

It was ever thus...

The ROOT of the problem is NOT just our current banking system.
Nor is it any banking system before ours.

The ROOT of the problem is the unquestioned "coin" concept of money as a "quantity" of ANYTHING in limited supply, the value of which is proportional to its scarcity.

Whatever the money-stuff may be, from cowrie shells to the Emperors's fiat coins, to gold and silver, fiat cash, bank credit, and finally Bitcoin and all its conceptual imitators, money being a limited quantity made valuable by the demand for *itself,* makes it possible to invisibly trap an entire populace between ***two debts of the same money.***

Before there was a banking system, power inequities always concentrated the money-stuff into the hands of the powerful.

I, Paul the peasant, may have earned my coin and paid off my debt to my Lord or some rich moneylender. But how would I know if that very coin was or wasn't already owed by someone else to the same moneylender or a different one? I wouldn't. The record of debts of a coin don't attach themselves, VISIBLY, to the coin.

I wouldn't recognize this "twice-lent" condition even if ***EVERY coin in circulation was simultaneously owed to two or more lenders.*** I would fail to comprehend that two debts of the same money create ***a trap of Perpetual Debt that cannot be escaped*** without default and loss of collateral.

I would just wonder why I worked so hard and still

lost my farm and fell into servitude due to unpayable debt.

"Twice-lent" Money, as practiced through the Centuries
A manual for hidden theft intended for the ruling classes

If necessary, we **force the rabble by law** to use **a limited supply of something as money.**

Fiat money is easily imposed when conquering.
Our soldiers are paid in worthless coins that are spent among the vanquished.
The conquering soldiers later force the coins to return to the ruler as taxes.

If the populace is using gold and silver as money,
we proceed to accumulate it via rents of various kinds and lending at interest.
This may take some time.

Once we have control of a significant portion
of a limited money supply
we can hoard the money to drive up its value
and increase the demand for loans at ever higher interest rates.
If we're not too extravagant in our own expenses,
we can add a portion of interest to principal indefinitely
... an exponential function that
draws the money supply steadily toward us.

The inevitable result is that
most of the money supply
will end up being owed simultaneously
to two or more lenders from amongst our class,
without anyone having any perception of the fact,
other than
a huge increase in debtors defaulting.

We will relentlessly increase our landholdings
at the expense of the less powerful
and, in whatever form permitted by the current prevailing morality,
add debt slaves to our possessions
including, whenever possible, the ripe young daughters of debtors.

The debtors will blame themselves
for whatever sin they feel guilty of
and at risk of eternal damnation for,
as trained by our accomplices in the Church.

Praise the Lord and may He make the Simple People
continue to Produce Wealth and Happiness

... for *US.*

Escape from Impossible Debt by Paul Grignon pgrignon@island.net www.moneyasdebt.net

9 trillion dollars in impossible principal debt must be unwound.
That can only happen by the savers ***spending the 9 trillion dollars*** ... on what?

Assuming current savers want to continue to save,
The way forward is to change savings into ***debts payable in goods and/or services ONLY.***

The USA has an annual GDP, a total of ***goods and/or services SOLD*** approaching ***18 trillion.***
Therefore, there is mathematical room to gradually unwind impossible principal debt in a peaceful and non-disruptive way so that no one loses.

• We don't need to change the current system.
• We don't need debt forgiveness.
• We don't need new legislation to begin the process.

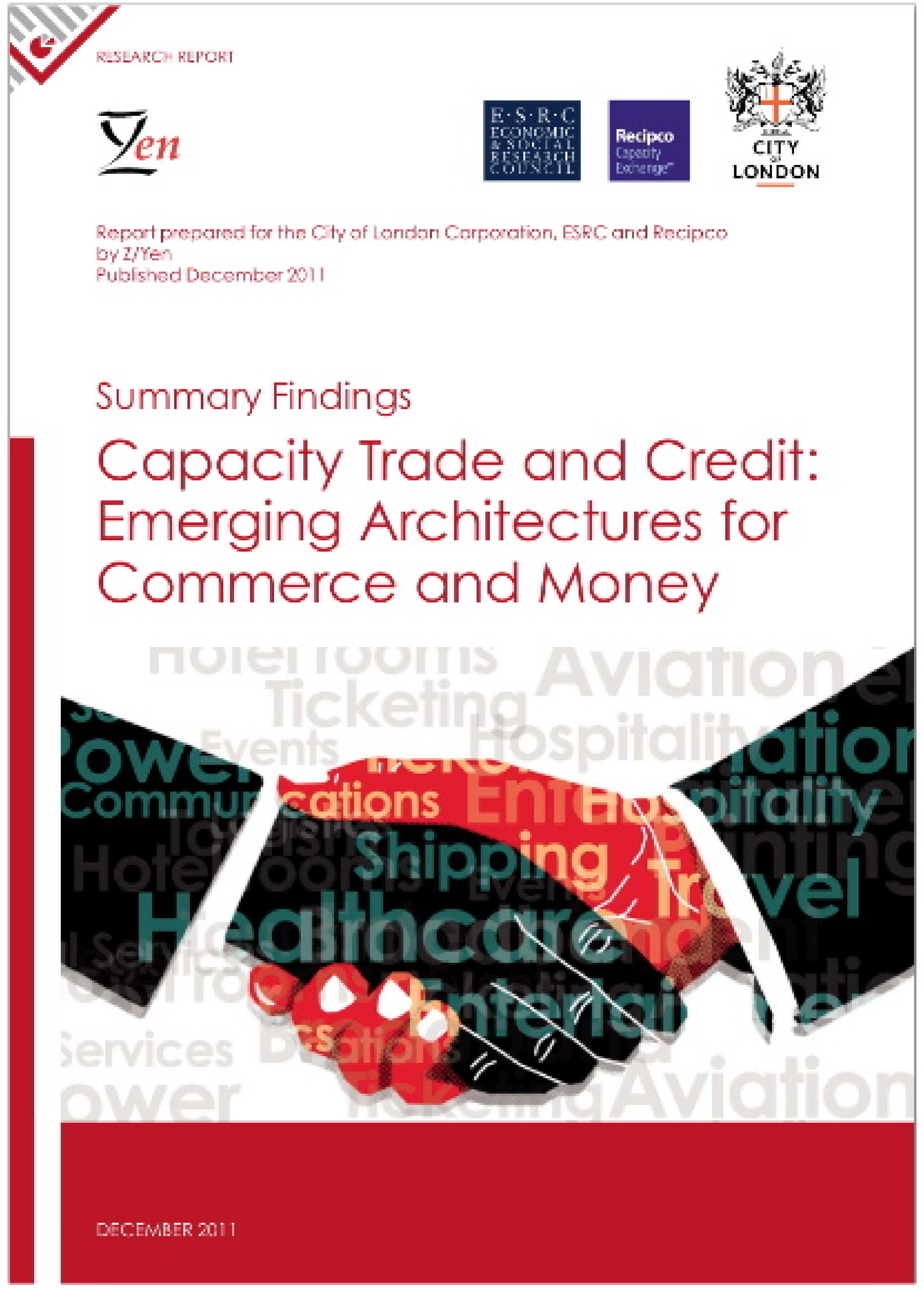
What we do need is to drain the excess principal debt from bank savings
into a parallel and integrated money system based on a different principle:
money as "a promise of something specific from someone specific".

According to the report pictured at right, an estimated 20% of world trade is already being conducted
in this form of money ... referred to as "common tender", "capacity", "barter" or "producer" credits.
The participants in this marketplace are actively seeking a global payments solution and proper regulation.

By having the banking system offer Producer Credits as savings,
the public gets a ***superior form of savings*** AND ***impossible money debt can be unwound*** because ...
by this process ***9 trillion in impossible money debt*** becomes ***9 trillion in "crowd funding" for immediate production and jobs.***

10 Advantages of Producer Credits:

1. Producer Credits are ***redeemable for real goods and/or services*** ONLY (ex.GM cars from GM);
2. this means a ***guaranteed sale for the Producer*** that spent the Producer Credit, thus eliminating any possibility of creating a legacy of debt;
3. the current holder of a Producer Credit is, in effect, a pre-purchaser with a ***legal claim on the output of the Producer;***
4. and, because a Producer Credit is a contract for delivery of pre-purchased goods, the current holder of a Producer Credit is a ***secured creditor.***
5. Producer Credits can be made into ***'inflation-proof" savings*** by indexing the value unit in which they are recorded to a fixed basket of world commodities.
6. Inflation-proof Producer Credit savings can be rolled over indefinitely forever with ***no loss of value.***
7. Producer Credits can be created with a maximum value at maturity like a bond, making a ***"planned economy"*** happen spontaneously.
8. An automated market could revalue Producer Credits in real time to ***automatically enforce balanced budgets*** on all participants.
9. The exchange of Producer Credits during their lifecycle, would provide a wealth of ***useful planning information*** to economists.
10. One simple rule can keep the entire system honest, and eliminate credit rating agencies, simply because ***cheating is made self-defeating*** by the math of the system alone.



Excerpts from the report to the City of London above:
"Multilateral reciprocal trade is an emerging sector that has the potential to create complementary credit systems alongside traditional financial credit."

"Capacity exchanges appear to have the potential to increase trade and growth, and to provide other economic and social benefits."

"Reciprocal trade is made possible on a multilateral basis by allowing counterparties to defer 'payment' for goods and services through a mutual credit system – i.e. a form of money – that is redeemable ONLY in other goods and services..."

Escape Route from Impossible Debt

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The Producer Credit system annexed to the current banking system, would use bank savings to fund short-term production directly.
As illustrated below, all money is returned to circulation ***debt-free.*** No mathematical conundrums arise.

after year 1	Money = 100	money spent on Producer Credits = 5	production funded and delivered has a VALUE of 5	Debt = 0

In the current system, the ***9 trillion dollars of impossible principal debt*** is a TIME BOMB that can only be remedied by stealing our deposits (bail-ins).
The laws have already been changed in anticipation of doing just that. And the police state has been armed to the teeth to deal with potential mass chaos.

This would be tragic beyond comprehension, considering that ***9 trillion dollars of impossible principal debt*** can be transformed into ***9 trillion dollars of FUNDING*** simply ***by selling Producer Credits to savers as an inflation-proofed investment in the things they actually buy.***

To escape from twice-lent money

we need to accept a new concept of savings:

Producer Credits

time-limited promises of real goods and/or services from specific suppliers.

Producer Credits **retain their value** independent of the fate of national currencies.

Producer Credits are direct funding to **create jobs and rebuild industry.**

As diagrammed at right, this process could ***eliminate impossible debt*** by turning it into ***9 trillion dollars of new funding*** as quickly as one could imagine putting all that money to work.