

Lending Positive Money

A submission to the inquiry into [Financial regulatory framework and home ownership](#)

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September 1st 2024

[Positive Money](#) is a worldwide movement with the following vision:

No matter who we are or where we come from, most of us want to live in a healthy and fair society. We value the things that really matter: that means housing we can afford, a doctors' surgery we can get an appointment with, buses and trains that run on time, good jobs, clean air and green spaces.

But big corporations and banks have influenced some politicians to design our economic system so that money flows to a rich elite rather than to society as a whole. Instead of putting money into schools, hospitals and protecting our green spaces, they invest money in making homes unaffordable and in fossil fuels, and put us all at risk.

Positive Money believes that instead of allowing a rich elite to exploit people and nature to line their pockets, we should redesign our economic system for social justice and a liveable planet—so that we all have the things we need to live well, like clean air, good jobs and homes we can afford. [Positive Money Vision](#)

Instead of redesigning our economic system to make positive money, the following outlines how to evolve the existing loan system to generate positive money.

Australia can move towards positive money incrementally by asking banks to volunteer to use simple interest instead of compound interest on loan repayments. Today, banks use compound interest on borrowings and simple interest on deposits. The asymmetry inevitably leads to money flowing from those with little money to those with more, evolving into hierarchical, exploitative, transactional communities. Removing the asymmetry will evolve the same communities into relational, prosperous, and fairer communities.

Banks have implemented compound interest by making money today worth more than tomorrow. They do this by debiting loan accounts with interest and bank fees to extend the loan. The banks “forget” that debiting a loan account to extend the loan requires the bank to give the borrower the money from the extension to pay the interest. Most borrowers are unaware that debiting a bank account extends the loan, and most banks do not honour the loan extension by crediting the borrower's loan account.

The government licenses banks to create new money by lending it. A bank can create money by depositing money into a borrower's account. The borrower promises to pay the money back,

plus an interest fee to cover the bank costs. Later, banks extend the loan with the cost of interest and create more money to extend the loan to pay the interest. They keep the payment but do not decrease the loan and require the borrower to pay the interest again. They only report to the government once they have collected the interest. The second interest payment is called a capital gain. Compound interest is not a fraud; advertising one interest rate while charging another is likely to be considered fraudulent by the courts.

Buying new money from a bank is twice the total cost of interest. A loan's productivity is the total interest plus the total capital gain divided by the loan amount. Reducing the total interest paid is a major productivity gain for the economy and can benefit both savers and borrowers.

Using compound interest means the borrower pays the interest twice: once as a fee to the bank and once the bank calls a capital gain. The bank transactions are invisible to the borrower, and few borrowers understand they are charged double interest; they only feel it is wrong.

Anyone who pays interest or fees on a bank loan or credit card (including state and local governments) can verify the double interest and fee payments by looking at their loan account. They will find the bank has debited their loan account with interest and bank fees but does not credit any of their bank accounts with the money from the loan extension. Instead, the banks keep the money, meaning the borrower pays the bank the advertised interest and bank fees twice.

The extra interest payment could have gone to the bank depositors or the borrower, but it went to the bank shareholders and is treated as a capital gain to them.

Banks advertise borrower repayments as costing $x\%$ per year. In practice, they charge two times $y\%$, where y is a daily interest rate. This amounts to more than two times $x\%$; hence, bank loans mislead the borrower. The courts will decide whether it is fraud.

When banks stop charging double interest to borrowers, it will likely result in the following.

- A typical house loan repayment will drop by 30%, and rentals will drop.
- A typical credit card repayment will drop by 70%.
- The Reserve Bank can set a target inflation rate of 0% and achieve it while growing the real economy.
- Deposit rates will likely stabilise close to the borrowing rate.
- Bank dividends will remain unchanged, but bank share prices will likely drop.
- Asset prices will remain the same, but asset inflation will stop.
- Governments will require banks to lend to community organisations with different loan rules to reduce the need for taxation.

These positive results occur because simple interest is the least expensive loan repayment method. Lowering the cost of the same activity increases productivity, which in turn increases wealth.

Anyone (especially local and state governments) with a bank loan can request that their bank change their loan to simple interest. If the bank does not agree, they can complain to the Australian Financial Complaints Authority.

Making bank loans fair to borrowers and savers will happen quickly if state and local governments insist they only pay interest once on their bank loans. The finance industry uses the same technique in different forms. Correcting loans will spread to other areas of the finance industry, improve productivity, and increase community wealth.

The courts will likely find Compound Interest a fraud, even if unintentional. It is an unnecessary cost to the community and reduces trust and cooperation within society because borrowers believe they pay interest once. Find out more at [Banking is an Unnecessarily Fraudulent Business](#).