

Letters

Web: www.afr.com/home/letter.aspx

Depression-era cure for financial crisis

There is no need for the government to incur a big deficit to stimulate the economy if it adopts a modern version of the Bankhead-Pettengill Bill introduced in the United States Congress in 1933 (“Swan admits big deficit inevitable”, February 2).

The bill was overtaken by the New Deal. The bill would have created \$US1 trillion dollars of self-financing and self-liquidating “stamp scrip” to be issued by the government as legal tender. Half the money was to fund welfare and the other half to fund infrastructure.

All the money created would be cancelled in one year by the revenue it generated. The money would become self-financing as each week a stamp of 2 per cent of the face value of the notes issued had to be affixed to the back of each note to keep them valid. Over 52 weeks the post office would obtain stamp sales

of 104 per cent of the issue to provide the cash to redeem the notes and obtain a gross margin of \$US40 billion for its services.

Merchants would profit by not needing to pay over 2 per cent on each credit card transaction. They would need only to pay 2 per cent of the money remaining in their tills each week. Stamp scrip could be given away to businesses to replace bank loans of distressed businesses on condition that the benefits were shared with their stakeholders.

Today, electronic money could be issued, distributed and stored on the SIM cards of mobile phones. The phones could be scanned or swiped to make payments for purchases, including 2 per cent of any weekly balance to be automatically transmitted to the post office.

Unlike conventional money that can be saved, cost-carrying money

forces people to spend to get the economy going again.

Economists John Maynard Keynes and Yale’s Irving Fisher supported the use of stamp scrip to keep the value of conventional money stable.

But more importantly today, cost-carrying money would stabilise the financial system as it reverses the incentive to invest in toxic financial assets rather than real assets.

Besides rescuing the economy and avoiding a government deficit, cost-bearing money provides an incentive to invest in technology that allows nature to yield its resources more productively to sustain humanity.

This letter is based on my academic paper, Options for rebuilding the economy and the financial system.

Shann Turnbull
Woollahra NSW