

# THE CAPITAL SPILLWAY TRUST

Local job creation for the people, managed by the people

Response to the Green Paper

## **Financing a private sector recovery**

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For those of you new to this particular debate, my name is Chris Coles and I am a British inventor. No, not well known, but I am the inventor of all the camera phones combined with navigation systems such as GPS. My story, in part, stems from a lack of available funding two decades ago which in turn led to the abandonment of patents which would have underpinned what is now a very major international, (but sadly not British), industry.

By the late 1970's I had already placed a decade of thought into my evidence to the Wilson Committee that became a full Business Page feature in Investors Chronicle, May 1978. Another twenty years went into my presenting further very detailed evidence of the lack of available funding, which in turn led to a letter published in The Times June 2, 1992 asking: "Who leads the savings institutions towards longer term investment in the nation". My evidence on the subject of Venture Capital Trusts and first approach to the Bank of England May 1994 led to direct correspondence with Mr. Eddie George and then, at their request, being interviewed by City bankers. Thus even then, sixteen years ago; three decades of thought had already preceded the creation of what is now The Capital Spillway Trust. Add another sixteen years of careful review and additional input leading to every aspect of my own personal experience being brought together in The Road Ahead from a Grass Roots Perspective, published Sept 2009, and add a further nine months of continuous comments placed on The Times online web site. All of which have now been downloaded by many hundreds of others, from all corners of the planet, interested in this debate.

Early 2010, I again approached the Bank of England, this time Mr. Mervyn King, resulting in his personal letter to me suggesting that I contact the government. I did as he suggested but received no reply, but after the general election, I again presented my thinking to the Cabinet Secretary and now Her Majesty has ordered the presentation of this Green Paper.

The challenge is not the creation of jobs; but the creation of a working solution to financing the creation of new, prosperous, private sector jobs. As I have already successfully argued; we do not have ANY working mechanism to fund equity capital into new free enterprise job creation at the grass roots. Not just here in the UK, but right across the existing world economy.

What I am going to propose will become a new revolution, a new job creation revolution.

I am going to place the United Kingdom at the very heart of job creation; as the leading nation taking the economies of the Western world back into profit and long term success.

The primary problem we address is the millions of citizens presently employed using tax income that must be moved into new and equally prosperous, private sector employment.

Add the presently unemployed and under employed and here in the UK alone, we are short of at least 6 million, prosperous, well capitalised; private sector jobs.

A secondary, but equally important aspect - we need these new jobs now; so this solution must be able to deliver results immediately and at every level; right across the nation.

The first question to ask is why has the City of London not driven this debate? Surely, if we are addressing the matter of the private sector; why is government involved at all? The answer is very simple indeed; the general prosperity of the nation has been placed into a financial system simply not designed to address the need to constantly finance the necessary replacement of free enterprise based private sector employment; at every level of the nation.

Salaries, savings, all of the existing prosperity of the wider nation; has been subsumed, by one means or another; into the Finance, Insurance and Real Estate, (FIRE), economy. For this reason, we have no option but to accept that the savings of the people will stay where they are and that it is impossible to change that circumstance within any reasonable timescale. For a start, it would require a massive operation to change the laws underpinning the existing FIRE economy customs and practices. Further, because of the instability caused by recent events; with the “City” and the “Banks” being seen as exploiting to destabilise the wider economy rather than nurturing; it would be equally impossible to encourage the people to change their mindset within the immediate future.

So we cannot use tax, government borrowings or savings to finance a private sector recovery.

We must have a solution that both creates new jobs and does not involve existing funding mechanisms and yes, the instant response would suggest that the necessary funding is simply not available; regardless of the need - I will not accept such negative thinking.

This paper is going to show you how to create new employment; without spending additional public borrowing or tax, nor by risking the existing savings of the people.

Our necessity is going to become the mother of invention.

We must innovate by looking at the problem from a fresh viewpoint and set out to create a completely new form of financing for free enterprise job creation, specific to the single aiming point that you have already defined; that of: financing a private sector recovery.

The fact is; to create a job, you must first have a prosperous customer who can afford to buy the product or service underpinning that employment. Thus the prosperity of the grass roots of the wider nation is fundamental to the creation of new jobs, and trying to create new jobs without that additional prosperity leads to a constantly weakening economy.

To overcome this inherent problem we have tried to finance new job creation by adding to the debt of the nation and underpinning the debt with associated increases in the value of fixed assets. All that achieved is to flood the nation with more and more debt that in turn, withdrew even more of the prosperity of the nation as increasing capital and interest payments back into the FIRE economy; draining away the last dregs of the underlying prosperity.

Remember, classic leverage, allowing a bank to lend the savers £1 six or seven times, means for every £1 saved through a bank, the bank gets back six or seven £'s PLUS interest.

Hindsight teaches us we cannot create a stable, prosperous economy; with leveraged debt.

No mechanism to capitalise new job creation, not enough prosperous private sector jobs and a desperately indebted nation at a complete stop. Both the government and the people have reached a dead end. No one, on either side of this debate can continue to increase debt.

The only mechanism you have not tried is to capitalise new job creation by making available the equity capital required to underpin the stability of the company creating that new job.

We need millions of jobs which in turn, require the investment of very large sums of equity capital. By my estimates, £150 billion of equity capital and £300 billion of working capital.

I have proposed that, for each new job created, we invest £25,000 as new equity capital, via the formation of a new small business which creates a new PAYE employee tax record.

That such new equity capital flows through a “Local” Capital Spillway Trust fund, (*formed by and controlled over the long term, by the local people – and importantly; for the benefit of all of the ordinary people in each local community; not their financial advisors, nor the banks, certainly not the government*), and then directly invested into the new business; who then must deposit it into their local business banking account.

The local people thus get immediate new job creation without risking their savings.

For every new job created, the nation immediately gets a new source of PAYE tax income combined with a reduction of welfare and public employment paid by tax.

The banking system gets additional security for their business lending but their relationship is with the new job creating business, not the government, nor the local people.

You can read the full set of rules covering every aspect of the use of the equity capital in The Capital Spillway Trust Proposal. Right now I will concentrate upon this very simple interface and its direct consequences.

### **How do we finance the private sector recovery?**

I propose the Bank of England create a completely new capital bond; a Vanishing Bond.

Our previous attempts to overcome the imbalance in the economy has always been to create new money that then flows out into the economy and always remains in circulation.

What I propose is that the local people, and the new free enterprise business owners, both of which having received money as new equity capital to create new jobs; instead of repaying the capital, and thus keeping it in circulation as they pay off the investment into their local community; instead “Vanish” the money as they pay it off, so that over the long term, they deflate the value of the original investment back to zero. They pay off their vanishing bonds.

In that way, over the long term, the injection of the value will not inflate the economy. Instead, the proposal is to make a major transfer of prosperity, out of the FIRE economy and back into the wider nation; not by a direct transfer, but instead, by the new business owners creating new, additional prosperity; to pay off the value of the Vanishing Bonds.

You immediately get new jobs, but the investment transfers; rather than adds, prosperity.

Looking first at the new business founder; I have both proposed they remain in complete control of their new business with only 20% of the equity capital retained by the local capital spillway trust fund; and that they are encouraged to “buy out” the entire original investment.

They may own 80%, but will have to repay the entire 100% of the investment.

The control proposed is that the new business founder cannot pay themselves more than an agreed bare minimum salary unless they are either in good profit, paying an contracted annual dividend back to the local people or, if not strongly profitable and remaining a subsistence business, they must buy themselves out by paying off the equity capital by returning all of the original investment back to the local capital spillway trust fund. After that, they own the business outright and only then can pay themselves a better income.

You will also note I have also proposed the additional control of the business accounting system being always available to the local people for their scrutiny and control. No one will be able to run off with the investment. Everyone will be under no illusion about repayment.

The employees must also save and they will be able to see, from that moment onwards, their savings are directly responsible for the creation of their local employment. Thus from this new starting point; everyone will see a direct relationship between savings and jobs. Save to invest will become the new watchword; instead of as now, save to receive leveraged debt.

As this will be a once only new start in new job creation, the local people will also know that they will have to pay off the vanishing bonds to be able to add to the long term equity capital investment for their own local community.

Again, the local people will be left with both the responsibility of when and how they repay the vanishing bonds. In effect, they have been granted the investment of their savings, into new, local, free enterprise job creation, up front, before they have saved a single penny.

I will deal with business failure in a moment.

Let us look at some related details.

The government has proposed a regional fund of £2B. Past experience teaches that local and national government will spend a large proportion of that money on themselves. They have made no estimate of the number of jobs that fund will create and I suspect it will actually serve to maintain existing local and regional government employment. Regardless, split equally between them, on my figures, (and thus allowing every penny to be spent on capitalising new job creation); that will create 11,428 jobs per region, ~ 80,000 new jobs.

We need 6 million private sector jobs now! Not at some indeterminate point in the future.

Again, no doubt, others will suggest that we must create new jobs using a “Dragons Den” system to ensure we always invest in the most successful business proposals. Dragons Den investors try their best to pick the plums; the very best potential winners. But we are not in the business of picking winners, the best analogy might be the difference between a gardener trying to sort out the very best cabbage to try and win a gardening competition and farmers planting many thousands of fields and harvesting many millions of cabbages. The challenge is one of logistics. We are not creating a few hundred or a few thousand jobs; we have to think in the millions. We have to think like a farmer planting fields of wheat to produce billions of wheat seeds; in our case, billions of tax and savings income.

THAT is the underlying aiming point; not jobs per se, but increased economic activity, producing savings and additional tax income for the nation. We are in the business of increasing the overall prosperity of the economy to enable us to balance the books.

Job creation is the tool, but the product is additional prosperity; built upon a vast new foundation of more than 1 million very small new businesses. THAT is the aiming point! Ergo; the logistics dictate the solution.

If we create 6 million new jobs, and assuming five new jobs created for each new business, we must create 1.2 million new businesses, ~ 170,000 new start-up businesses per region.

But now look at the results. The Vanishing Bond fund will create 6 million long term new, but much more stable and prosperous jobs.

Say average income of £15,000 p.a. so personal income will increase by £90 billion p.a.

Overall, the local EQUITY capitalization of the nation has increased by £150B

Let us look at some other figures:

PAYE Income Tax. Assume an average of £2567 x 6 million = £15.4B p.a.

Add an account for reduced welfare costs for say, 5.7 million un/underemployed £50B p.a.?

Retirement pension payments @ say 9% pa; £1350 x 6 million = £8.1B p.a.

Remember these figures do not take any account for example of indirect tax revenues that such an injection of capital into the overall national economy will bring.

Again, remember; in the simplest business model, for every £1 in wages we need £3 business turnover, then the national GDP increases by £270B p.a. or ~ 25%

In short, we will have transformed the capital base of each region, increased tax income, increased savings, linked savings to the investment of equity capital into jobs and paid off the original investment by setting a challenge to everyone to pay off the vanishing bonds.

I submit that, with the at present well recognised social difficulties, faced particularly in inner cities, there is a desperate need to, as rapidly as possible, increase the invested equity capital base of the grass roots of local society. I also submit that, try as hard as you like, you will not come up with any other viable solution to the overall problem; of quickly regenerating such a large and prosperous capital base within local society.

Without diverting from the principals of free enterprise and without government grant and other tax hungry incentives.

In essence, I am proposing to replenish the “hidden” prosperity of the wider nation; without such replenishment, you all know for a fact - recovery will be moot.

We must not forget that I have also proposed we need a working capital fund of £300B made available as £50,000 tranches of 25yr ~ 4% stock to set against the equity capital of £25,000 per new job created.

At first sight this part of my thinking might seem irrelevant and counter productive. My answer is to ask: What are we trying to achieve? We are surely in the business of creating a long term STABLE economy. If all we do is capitalise these new businesses and then leave them at the mercy of a rapacious uncompetitive banking system; the banks will have every incentive to destabilise these new companies to gain access to the invested capital.

I do not believe that the existing FIRE economy has any real interest in the long term stability of the economy. Rather, the record shows, unequivocally; they are in the business of destabilising the economy for their own ends. We must prevent continuing instability.

We are not setting out to be driven this way and that by a few dozen very large, private sector businesses; we are setting out in the interest of the much wider nation. Our responsibility is to see these new jobs stabilise and succeed. I have already set out in detail how the working capital element should be handled by adding them to the local market scene.

The Bank of England should immediately create and make available, as a national fund, £450B of new Vanishing Bonds at zero. 0%

The chain of access to £150B of these bonds will be via new companies being created, in turn via HM Revenue & Customs creating new PAYE records for the new jobs created.

The balance of £300B will be made available via local marketplaces set up specifically for the purpose of dispensing them in 25 year tranches of £50,000 @ 4%p.a. and only open to the holders of the new PAYE certificated equity capital investment into these new companies.

The working capital Vanishing Bonds are thus paid off; “Vanished”, at 4% p.a. by both the people and the new job creating businesses. Over the full life of the Vanishing Bonds, they will vanish within 25 years. Importantly, now you will have well capitalised companies rather than, as previously; grossly under capitalised companies falling down at the slightest “gust”.

The initial equity capital element will be paid off much sooner. Let us assume we set as a target, each profitable new business pays a minimum dividend of 8% p.a. (Remember they must do that to permit the founder to pay themselves a satisfactory income). Allow 1% for the local Capital Spillway Trust fund internal costs and, say, .25% towards The Capital Spillway Trust for long term support, conferences, leaflets etc. then that leaves 6.75%. The people have incentive from only receiving 2.75%, (on money they were given for free), until the vanishing bonds are fully paid off. At that point, the vanishing bonds have “vanished” but their value, now transferred to the local communities as the savings of the local communities, will retain the full dividend income on the total investment. The founder will retain their ownership of the business, but be obliged to pay a return to the local Capital Spillway Trust fund equivalent to the full original investment. If they receive, say, £200,000 equity capital, they have an ongoing commitment to pay a minimum 8% p.a. dividend on the full £200,000.

The subsistence business founder must pay back the original equity capital investment in full to gain access to an adequate personal income. The local fund may thus reinvest that returned capital as new investment, or, if they wish, use it to “vanish” their Vanishing Bonds.

Between the people and founders; they will have ample incentive to get access to the better income from their investment while also retaining the potential to make new investments.

In this manner, we create immediate new prosperity in such a way that, as the original bonds vanish, they will be replaced by creating prosperous conventional businesses adding to the overall prosperity of the nation. The new prosperity is transferred across by profit.

The business that fails has received investment that would have produced an income for both the founder and the local people. When it fails, both the business founder and people lose out. So the answer here is the value of the Vanishing Bonds will vanish when the business fails, but as we can see, both sides lose out; no one has any further income. Both sides lose out from the failure of any local initiative while the value of the investment remains in circulation within the local community. Unlike a bank loan, the initial investment remains as prosperity.

Local people are not risking their savings to create a “local” Capital Spillway Trust Fund. Any local group of people may do so; indeed many separate groups of people may do so in any local community. These local funds encourage others in their community to create new companies via Companies House with the existing local solicitors and accountants providing the legal and regulatory overview as they already do with all local businesses. When any new business so created takes on an employee, they must as always create a PAYE tax record for the new employee. At that point, the new business will receive £25,000 equity capital investment on free enterprise terms. As the business continues along its development, it will need access to working capital and that will be made available via many markets set up to dispense such to these new companies in the form of 25 year loans at 4%. (Take a look back in time and the nation’s history will teach you that when we were a major force with an industrial revolution in progress, those were the terms, 25 year notes @ 4%).

NO ONE may spend the money willy-nilly; all the money is used for the development of the business to create new, long term, stable employment. The local Capital Spillway Trust fund does not receive any income UNTIL the business becomes profitable when they receive a minimum of 8%. Of that, 4% minimum goes to “vanish” the bonds, 1% their local costs, .25% to The Capital Spillway Trust leaving them 2.75%. When the full value of the Vanishing Bonds are paid off; vanished, their income increases to a minimum of 7.75%.

Subsistence level businesses, (paying all their taxes, employees wages and the founder a small income, but not highly profitable), must repay the original equity investment back to the local fund for reuse before the business founder can earn more than a subsistence income.

Even these are to be encouraged to retain a relationship with the local fund for the long term.

Any failure eliminates the possibility of either side gaining any income. All have incentive for the investments to succeed. As as much as possible of the money so invested will have already been spent within the local economy; local prosperity will even result from failure.

All the money has to travel from the initial Vanishing Bonds, immediately into new equity capital investment into new job creation and working capital into new business development. Of particular interest, in this way, the existing FIRE economy cannot skim off a penny before it is fully invested into new job creation. The FIRE economies incentive will be to follow through with suitable products to suite the new business environment which will inevitably become very much more competitive.

Yes, there will be a strong imperative for existing medium and large businesses to feel threatened by the new competition created. Competition is always good. They will have to adapt to survive. However, I am sure they will follow through and as this transfer of prosperity gains traction, there might be a powerful argument; based upon the added stability caused by a small business community being founded upon a strong capital base; for every business to follow suit. That the long term result will be much greater economic stability built upon a strong small and medium business community. (The German model I believe).

Perhaps, when the initial success shows the way forward, the vanishing bond will become an integral part of the long term revival of the Western economies. In which case, we ought to think forward towards a much better capitalised business nation.

Finally, some will step forward and say it is impossible to create new jobs on this scale. My answer is to say I am not by any means the first person to suggest that the solution to the Western economic model is the re-capitalisation of the grass roots of our society; but perhaps I am the first to show how that can be done; successfully. Moreover, it will not cost a single extra penny from the existing failed economy to find out; so, why not?

For those of you that have yet to read the underlying documents; The free PDF book titled The Road Ahead from a Grass Roots Perspective, The Capital Spillway Trust Proposal, The Capital Spillway Trust Constitution, (for the local capital spillway trusts), and my comments placed on The Times, London times online web site, (which no longer exists); can all be found on my personal web site [www.chriscoles.com](http://www.chriscoles.com).

One small but necessary change to my own thinking has been that, while I have freely given the use of these proposals to the ordinary people for their own use; for the time being I am going to retain ownership and control over The Capital Spillway Trust itself. My reasoning is very simple, it is imperative that the underlying thinking is retained as a working structure for the benefit of everyone; at every level of the nation. In any other circumstance, it would be possible for the defined purpose of the trust to be diverted away from its primary function; supporting the ordinary people of each and every local community in new job creation.



Any profit created by The Capital Spillway Trust itself will be ploughed back into new job creation on the same basis as any other local capital spillway trust fund. We will not need any branches, or any very substantial head office. No one will be employed on anything other than normal local commercial terms. No bonuses will be paid to anyone. The long term aiming point is to create a completely new, totally independent savings institution; dedicated to the capitalisation of new, free enterprise based job creation at every level of the nation. Indeed, any nation; as I believe this new thinking will find many supporters world wide.

### **Some very salient points**

The new business will only require the founders pay the initial costs of forming the company and producing a viable business plan. This will be a once in a lifetime opportunity.

You will hang, right out in full view; the potential for ANYONE with get up and go, to create a profitable, free enterprise based, private sector, job creating business for themselves.

Not a single penny of their existing savings risked by anyone.

Not a single penny invested without a new job being created.

Not a single penny spent by any government employee; all the money goes directly into new, free enterprise based, private sector job creation, right at the grass roots of the nation.

The necessary legal and accounting framework is already in place in each local community.

The clear potential for a massive reduction in welfare costs allied to a corresponding increase in tax income. Perhaps for the first time in generations, the government's books will balance.

We should also now see that this new investment opportunity will draw many presently employed by government to see it in their own interest to become local employers themselves

Competition between these new companies will ensure the added prosperity will also be reflected in the earnings of the employees. They have to be able to attract and keep an employee to retain the equity capital investment while maintaining a good profit.

Thus, apart from a small proportion which the rules target towards developing inventions and longer term research, almost all the investment is driven by the availability of employees; if you cannot find the people you will need to work for you, you cannot receive investment. The investment will thus naturally; without any further incentives; flow towards the unemployed.

One very interesting aspect is that we should see a clear recognition of the need to reign in fixed asset price inflation. Those local communities that keep their fixed asset costs under firm control will see a much stronger success rate for their local investments. Why? Because it will be dividend income that brings the new prosperity; not asset price inflation.

Finally, this will form the firm foundations for the long term development of new regional stock exchanges, which must now be firmly based upon legitimate trading to the rules of a true free market; and thus targeting both the equity and working capital needs of these new small and medium sized businesses in their local communities.

## **Private Sector Job Creation**

There is no doubt in my mind that we can and will, very quickly; create 6 million private sector jobs using this system. What people have to bear in mind is the missing potential.

We have lived through decades of negative attitudes towards new, private sector job creation.

Over the last half century we have lost almost all of our previous industrial strength. Steel is a very good example. We do not even have a working Blast Furnace, let alone the countless thousands of small businesses that make everything from a spanner to table knives and forks.

The “Global” economy will argue we cannot compete. I will argue we will have to recognise that the only way to compete is to once again become reliant upon your own local community for as much as we need as a nation. Instead of buying the cheapest from a super market, but seeing a large part of our nation unemployed; we are going to have to learn that we must both encourage others to produce a better, yes, more expensive product here; but see the nation; our communities, our children, in long term and prosperous employment.

Now we can look forward to many more in prosperous jobs designing and making everything we need; but at much higher quality. Fine ceramics on a fine, hand made table, bought from the local community where your son or daughter also earns a good living is a starting point. But long term we must now recognise that we have everything to hand to once again become a successful and prosperous nation. The one thing always previously lacking was the necessary financial investment to permit us to succeed. Not any longer.

At last we can bring a complete stop to the silly idea that somehow job creation is some form of “dodgy enterprise”; that the job creator is somehow antisocial and a potential thief of the people’s savings. Now we can let everyone understand that ANY well paid job, where their employer pays their taxes and local costs, is a job worth its weight in gold to the local and national economy. Job creation will become the pinnacle of achievement for anyone in their local community; the person most will look up to as an example of leadership.

We do not have to always buy from Japan or China. But to change direction, (or face a future of continuing to be the slaves of another national economy or the “banks”), we have to have the courage to believe in the capabilities of the young to learn the lessons of the past and start out to create a new prosperity.

I have the temerity to believe we can change direction and once again succeed. So, why not?

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