

Vanishing Bonds; Widening the debate for a better understanding

When I first wrote: The Capital Spillway Trust Response to the Green Paper, Financing a private sector recovery <http://www.chriscoles.com/page4a.html> and came up with the concept of the vanishing bond, and as I was sure many others would have their own ideas of how a vanishing bond fund might be brought to fruition, I deliberately left out any detail of how to create such a fund; regardless that I did have my own ideas.

Now that others have had the time to think through the possibilities, and that has, in turn, brought questions to the surface, I can now add some further detail to bring the whole debate up to date.

Some time ago, December 2010, I had also created a new thread on itulip.com: We Need a Truth of Value Reconciliation Commission <http://www.itulip.com/forums/showthread.php/17889-We-need-a-Truth-of-Value-Reconciliation-Commission?p=184064>

A Truth of Value Reconciliation Commission relates to my understanding that with bank leverage ratios well beyond the norm of 6 or 7, much of the notional "paper" in circulation within the wider financial system is in fact, either very difficult to value or in point of fact; entirely valueless. Vapourware! In which case, we need some agreed mechanism to enable the clear out of the rubbish clogging up the system.

Again, and of equal, if not more importance; there needs to be a recognition that as things stand, one factor stands out above all others; the present working model for the financial community has very effectively drained away the spare cash that was always, (before credit cards arrived), in circulation within what was always referred to as the black economy; Cash and other value not in circulation within the banking system. I like to call that the "Hidden" prosperity of a nation.

Today, we have almost the exact opposite; almost no spare cash or other value in the hands of the wider population; very high levels of debt and thus for all intents and purposes; that once hidden prosperity is now under the total control of the financial services industry; where it was leveraged, as Mervyn King states, "beyond 50 or more" <http://www.bankofengland.co.uk/publications/Documents/speeches/2010/speech455.pdf>

Thus there are two underlying problems, an urgent need to clear out the near worthless paper from the existing financial system; while at the same time, replacing back into circulation in the wider economy, a substantial proportion of the lost hidden prosperity.

You can re-phrase that to say: with all the money in the hands of the financial system, we have no mechanism to capitalise new employment; That people wishing to create new jobs cannot access capital from their local community.

Yet we desperately need millions of new jobs.

Up to now, the majority of the existing proposals suggest that the only solution to the replacement of local prosperity is to give every single member of the general population cash to spend. "Helicoptering" the money Ben Bernanke style. Again, we have watched Quantitative Easing, QE, continually fail when the money has been re-circulated back into the banking system to replace the rotten "paper". So that is also now no longer an acceptable solution. All that QE has done is pass the buck from bankrupt banks and other financials back onto the tax payer; already overloaded with debt.

What I am proposing does not involve the use of ANY taxpayer liability.

I am proposing that we take a large proportion of the almost valueless "paper" and convert that into vanishing bonds.

That the underlying purpose of the exercise is to transfer prosperity from the existing financial industry back into the local communities; not as direct spending money; but instead as new free enterprise equity capital investment into new employment.

Some questions:

"If the vanishing bonds are not paid off, then will the tax payers take the loss?"

The existing dodgy "paper" in circulation is already being passed to the taxpayer to take the loss; whereas, here, the vanishing bond permits the loss within the banking system to be converted into new, free enterprise equity capital, which in turn, is invested by the local community into new, very small businesses; which in turn again, is re-deposited BACK into the existing banking system as new small business banking deposits.

There is clearly no further taxpayer liability. Vanishing bonds are simply dodgy value converted into usable value for a very clearly defined purpose; new job creation right down at the grass roots of every nation using the system.

"If the businesses were viable, could they not attract capital in the current system?"

My driving point has been argued for some decades; right down at the grass roots of the Western financial model; we do not have ANY recognised system, set of rules, agreed mechanism; to deliver free enterprise based equity capital investment into new, very small businesses. That to create a new business you must have two sources of capital, equity capital to permit the creation of the overall structure of the business and working capital to fund the flow of work through that business structure; that for many years now we have had oodles of working capital; but no source of the required equity capital.

High Street banks do not invest equity capital. I have been told in writing by the Bank of England: **"The bank agrees with you with regard to the matter of capital"**.

Another, underlying structural problem, has been the widely held belief that venture capital fills that need. That is a complete fabrication by the VC industry which does not believe in free enterprise; instead works tirelessly to maintain a feudal mercantile economy that is, IMHO, largely responsible for bringing us to this present impasse.

Very simply, there is no mechanism to fund the capitalisation of new job creation right down at the grass roots; and, moreover, please; look around you; we now need millions of new small businesses to employ many tens of millions of un and under employed citizens. The Western economy is short of tens of millions of private sector jobs.

"Who decides which businesses get the loans?"

First, remember; the exercise is PRIMARILY to do two things; replace lost prosperity; create new employment. I liken this exercise to the planting of a wheat field. The farmer does not try and decide which seeds to plant; he simply gets on and plants the millions of seeds. However, look at farming; it thrives on the farmer making local decisions based upon local knowledge.

What I propose is that in every local community, the primary decision is not the quality of the seed, it is simply the local knowledge of the honesty and integrity of the new business founder. So each local community will be able to form a local Capital Spillway Trust fund, and also anyone can also compete within any local community to form such a fund. That the local community use their local knowledge to make that decision.

Their role is simply to act as the local initiator of the process. They need employment for their local community; they set out to encourage anyone who can, to create a new small business. I have set out the basic rules in chapter 15 of *The Road Ahead from a Grass Roots perspective*. <http://www.chriscoles.com/page3.html>

To create a true free market, capital based, local economy, with as much competition between the many suppliers to the local economy as possible; only requires we accept four primary rules:

1. Only the job creator makes the decision to create a new job
2. They receive adequate Equity Capital by abiding to strict, but open rules that leave them in complete control of their new business.
3. Local savings are invested, as equity capital, back into the local community to provide the required capital to create the new jobs.
4. All transactions are made to the rules of a free market.

It really is as simple as that.

But we have already acknowledged that there are no local savings available outside of the existing financial system, so rule 3 above is a future rule for when the new investment system has become fully established; AFTER the first phase using the vanishing bonds.

"Wouldn't that be highly political, and subject to favouritism?"

The local community forms a local capital spillway trust fund and sets out to encourage others in their community to create new small businesses to create new jobs. Their primary role is simply to ensure the vanishing bond funds go to the honest, rather than the dishonest. That new business and thus new job creation is made by people they believe have the long term needs of their community at heart. They are **NOT** there to try and winnow out the best business ideas; they are **NOT** there to try and pick winners.

If the proposed business passes a very simple accreditation process, (form a legal entity via local attorneys, create a simple business plan that a local accountant will pass as reasonable); they then go on to create the business using the very simply mechanism that for every PAYE, (Pay As You Earn tax system), job you create gets you immediate access to £25,000 equity capital and £50,000 working capital in the form of 25 year 4% notes. Which money has to be deposited into the new company's bank account.

Again, ANYONE can create such a local capital spillway trust fund, so any attempt to try and collar the funds for "friends" will only serve to bring on competition from others in the local community. Importantly; the local fund cannot take a "skim off the top" of such investment; ALL the equity capital investment goes to the job creator. Again, the new business founder can only receive funds when they have an employee, so this is entirely trammelled by the local availability of potential employees. Every aspect of this concept revolves around job creation; no employee, no investment. And again, the local people that want a job will also have an incentive to move into those companies that succeed.

Of fundamental importance, the new business founder cannot pay themselves other than a locally agreed value of income until either the business is paying an 8% dividend; or, the initial value of the vanishing bonds has been repaid back to the local fund for re-use. So it is only when the successful local businesses are regularly paying an 8% dividend that the local saver may, if they wish, become involved by replacing the investment with their own money. The fine detail is already set out [here](#):

Over probably at least a decade the vanishing bonds used as equity are then replaced by local savings, and the 25 year 4% working capital notes being paid off over the 25 years.

There is no favouritism as anyone can compete at any stage in the process.

The whole process is designed to allow the passage of a very considerable sum of presently dodgy paper to be immediately converted into new job creating small businesses via vanishing bonds. No favouritism, no trying to pick winners; no skimming off the top; simply job creation; but just like farmers all over the planet plant seed.

So; why not?

One last point to make:

When I first proposed this idea, I also proposed that the vanishing bond fund be held by the national central bank, here in the UK; The Bank of England. Now, I have come to the conclusion that the political, and central executive government constraints already placed upon any such central bank, may make it impossible for such a fund to be developed in that way.

After some thought, it occurs to me that, if we could form such a fund, using existing dodgy paper from the existing system; we hold the potential for a completely free enterprise based central fund that would, in time, completely replace the long lost role of what were once called "Savings Institutions".

That we will, quite legally; create a completely new form of savings institution; entirely dedicated to the delivery of much needed free enterprise equity capital, right down at the grass roots of every nation; to create those much needed new jobs.

That The Capital Spillway Trust is not taking any deposits from the general public, (nor for that matter, any funds from any government), so it is not what would otherwise be described as a financial institution; it is a charitable fund working on job creation.

All we need are the holders of the dodgy paper, particularly if they are major retail main street banks; to step forward to work with us to complete the exercise. They would have a considerable incentive to buy in the dodgy paper at present value and pass it on to gain access to the new small business banking deposits. Yet they would remain outside of the Capital Spillway Trust itself, which will remain the central funding operation.

They would therefore get their hands on the deposits without the constraints of organising the central Capital Spillway Trust fund. A very much win win situation.

How we manage the creation of the vanishing bond fund has to be decided; but I do not believe that such a fund presents any insurmountable difficulty.

However, of much greater importance; it is my honest belief that there is no other way out of the mess we are all in today. The entire western economy is now desperately short of tens of millions of well paid, prosperous, private sector jobs. The lack of which is the main reason for the difficulties all governments are in; where they do not have sufficient tax income to pay for their commitments.

However; unless we start to create these jobs; we risk complete collapse of social order in every nation so affected.

So the question remains; who will step forward to help me?