

INFORMATION MONEY AND THE END OF GLOBAL DEBT

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GLOBAL DEBT AS STATUS QUO

Today most enterprises, private households, banks and even national states are overly in debt. If you think in terms of conventional accounting you would think that for each liability there ought to be a claim (because assets equal liabilities and owner's equity in the balance sheet equation), but in fact, in reality it's not always the case.

The main cause for this problem is how private banks create about 97% of our „money“ when they grant a loan. Legal tender are only the coins and bills that we carry in our wallets. The numbers we see on our bank accounts have a different history. They come into existence as the loan of a private bank to a bank customer (a private person or a business). But when banks grant a loan they create it only in their (electronic) accounts:

- On one hand banks create the claim against the debtor (in fact, banks want their money „back“), an IOU of the customer, but
- on the other hand the bank creates a debt too, an IOU for the bank to the customer, so bank loans create twice a debt – for the customer as well as for the private bank!

All the electronic money we see on „our bank accounts“ (in fact banks are the only legal owner of the „money“ on the bank accounts, customers only have a claim against the bank from a legal perspective) are only debts of banks, that we „use as money“ in circulation.

This fact has very well been verified (best documented in english language on the pages of <http://www.positivemoney.org>) and can't be neglected any more. But it creates three major problems:

- Bank loans only create money for the capital, never to pay interest. The money to pay interest must always be „earned“ in the real economy, that means in the real economy we all have to compete against each other to take away enough money from each other to pay the interest the banks claim from us.
- Banks go more and more into debt when they grant more loans. Each and every bank loan is the debt for the bank, that means that on a certain point banks can't go on granting loans and this is the moment when the „credit crunch“ takes place and banks collectively „want their money back“.
- When banks „want their money back“ and debtors pay back the bank loans, then the electronic money just disappears in the same way it was created when the loan was granted – by an accounting entry. This creates heavy deflation and mass insolvencies in the real economy, a phase where we are right now in economic history.

So when a bank grants a loan of 100,- it creates an accounting entry like that:

Claim (against customer): 100,- / Liability (to customer): 100,-

The liability of the bank is the asset of the debtor (the „money in the bank“).

Later, when the debtor pays back the loan, the reverse accounting entry is used:

Liability (to customer): 100,- / Claim (against customer): 100,-



In this system we create a separate set of accounts for each individual and create money and delete it on an individual level. The money creation works in the same way as for positive money:

Cash (person X): 100,- / Equity (person X): 100,-

Again this electronic way of money creation is controlled by electronic rules (democratic legal rules stored in an electronic knowledge base). But instead of „giving and taking coins“ when we pay for something, the vendor gets fresh money newly created and the customer gets some tokens deleted, so when vendor A sells something to customer B we use the following set of accounting entries:

Vendor (person A) Cash: 100,- / Equity (person A): 100,-

Vendor A „is payed“ by fresh created money from the „democratic central bank“ based on democratic rules (in the electronic knowledge base representing our democratic laws).

The customer B can pay a different (e.g. lower!) price, than vendor A received, based on democratic electronic rules, because their accounts are de-coupled and not linked together any more: Expense (person B): 50,- / Cash (person B): 50,-

This way persons able to work in real economy can always stay busy and deliver their services to everyone even when their customers „can't afford“ to pay what the vendors want to earn. What they earn is regulated in democratic rules, and what customers pay is regulated in democratic rules too – but we can implement „asymmetrical prices“. Today many goods of our economy are much too high priced and cannot be sold any more to average customers because of the necessity of „symmetrical prices“ (after the model of „giving and taking coins“). But in the post-materialistic world of sheer accounting money we can manage different prices for vendors and customers. Vendors get their money newly created (on the grounds of transparent, democratic rules) and customers pay what they can afford (again on the basis of transparent, democratic rules for different demographic groups in our society).

This way money is always deleted when we spend it and not given away. Therefore no money volume exists, no risk of deflation nor inflation threatens us any more. Money circulation is irrelevant, because it doesn't „circulate“ but „fluctuate“ on an individual level. We don't make contracts between individual persons any more but every person has a „social contract“ with the whole society, where all it's needs and potentials are documented and where it can be changed permanently to make individual evolution and fulfillment possible. The „society“ acts as a „dummy contract partner“, because the whole social net is always flexible enough to support us as individuals with goods and services and if we start to cooperate and end competition all our intelligence combines to a massive, global „production factory“.

Our current electronic money is an abstraction of a „physical medium of exchange (coins) that we give and take“, which we simulate on our (bank) accounts. Information Money is the abstraction of the contract partner so that we can end the zero-sum game and the economic competition to switch to a cooperative economy, where we share all our ideas, needs and facilities for our common good and individual freedom.

The „Digital Democracy“, where legal rules are graphically represented in such a simple, symbolic way, that every normal person can understand it and can engage in democratic processes without the need of formal law studies, can even today be implemented. The tools for that are already available and are used in everyday business in many industries: <http://www.lpa.co.uk/vsr.htm>

The result of „Information Money“ and „Digital Democracy“ would be the political system of „Cooperative Individualism“ where we all can live a free, independent life and nevertheless freely cooperate wherever we want it or the need arises. The idea of Cooperative Individualism is also not a new one (<http://www.cooperativeindividualism.org/>), but only today we've got the tools and the knowledge to implement it and to explain it to our fellow citizens.

So, please, let us start as soon as possible!

Sincerely *Franz Hörmann*

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Short lecture on our debt based money system in english:
<http://www.youtube.com/watch?v=J7i3qOCDkSo>

Short animation of a new, cooperative society using Information Money:
<http://www.youtube.com/watch?v=2WRSt5GLxmc>