IT'S TIME TO BANK ON YOUTH AND TRADE
(Don't just bang them up!)

With young people everywhere up in arms (not just in London), economic historian, Dr Christopher Houghton Budd, from the Centre of Associative Economics, and Visiting Lecturer at City University, London, says it is time to invest in young people. Interviewed on 10 August 2011 by Chico Aoki, a specialist in bioethics, with financial support from the Interdisciplinary Center for Bioethics at Brazil's prestigious Campinas university, Dr Houghton Budd argues that, rather than criminalise today's youth, we should bond with them – issue bonds to capitalise what they want to do with their lives. In a wide-ranging interview that looks at the next stage in the financial crisis and the problem with the US dollar, he says that financing the initiatives of young people will also help stabilise the markets.

The interview was broadcast on Unicamp web-radio with translation by Xavier Andrillon, an agricultural economist. It is available in written form in both English and Portuguese versions.

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Chico Aoki: We are pleased to have in our studio Dr. Christopher Houghton Budd. He is an English economist, specializing in various subjects, including the study of central banks, the evolution of the economy and fair pricing in general. In addition, he proposes an economic activity with social responsibility towards human beings and countries in general.

Dr. Christopher Houghton Budd, welcome.

Christopher Houghton Budd: Thank you.

CA: Dr. Christopher, could you tell us about the activities you have developed, especially in the field of solidarity economy, primarily your works on the question of central banks: the successes, the mistakes. What could you tell us about this issue?

CHB: Strictly speaking, I am an economic historian, which means I do not only understand economics but I know the history of economics and the history of economic thought. I say that because it is important in modern economics to have a sense of why the problems we have today are the problems we have today. One of the questions is whether economics as we understand it is fit for understanding modern economic life. I say this in order to comment on central banks. I have a PhD in central banking and international finance. Part of my thesis work was to understand the history of central banks and their role today. What is critical about this is to distinguish between the function of a central bank in banking terms, what is called free banking, and what happens to a central bank when it becomes a state agency.

CA: In order to let listeners understand better, what can you say about this difference between a free central bank and a central bank that is coupled with the government of a country?

CHB: You have to get back to when they were no central banks by name. For example, the Bank of England was not initially a central bank. There was no idea of a central bank at that time, in the 17th century. In particular, with the Bank of England, its origin was a fight with the King because the King would use the resources of the country to finance his wars. So already in England Charles I had done this. He borrowed money to finance his wars and did not pay it back. He was executed, then his son Charles II did a similar thing. The third time, when William III wanted to borrow money the bankers said "This time, we'll make a contract. We will lend you 1.2 million pounds at 8% forever in exchange for a contract to have a monopoly and the name 'Bank of England'."

So this is a private bank already making a statement to the King: "Two times you stole our money. This time we lend you money on strict conditions and we get a monopoly." It is not exactly a monopoly at that point. It's a clever sort of marketing trick: "We want to be called the Bank of England." This creates a monopoly even if there is not one in law. That's also the origin of national debt. The other thing is that at that point, and also in other countries, other banks created the same arrangement with their government. But in terms of their relationship to other banks this was what we call today a competitive market.

In order to become what we call today a central bank, they had to undertake functions that were true for all banks, or common to all banks. In the case of the Bank of England, which is the one to watch, by the second half of the 19th century, the Bank of England, as a private institution had become the clearing bank for all the banks, the bank in the middle of all the banks. This is why technically it became called a central bank, because then all the banks cleared through this bank in the middle. It is a clearing house. A very famous economist, Bagehot, the founder of *The Economist,* wrote a famous book called Lombard Street, which is about the Bank of England. He describes the Bank of England as a private bank that had become at that time the bank in the middle of the system.

CA: It would be the controller of all banks. In this case, a bank that is totally private. Is that it?

CHB: No. I'll come to that in a moment. But it is important that you understand what a clearing bank does. You need to imagine a round room with lots of very shallow windows. People bring their money to the central bank and you can't see who it is. You just can see the money being pushed into the central bank. You don't know if it is good or bad money, what is covering it. But on the other side, there is someone asking for money. You can't see who this person is but if he won't take the money then the central banker will not allow it in on the other side. That means whoever creates the money, it has to be needed by everybody else. Otherwise there will be no clearing, all the money will arrive in the middle and it will not go back into the economy.

The crucial thing is: where the money comes from and where the money goes to is not known by the central bank. It just means that if you want to issue US dollars, the power of issue is not important. It is whether people want to use your money that is important. By this time, this is how a bank at the centre of the banking system works. It is technically a central bank. It is a private company.

Now you can take the next step to a modern central bank, which is a bank that belongs to the state and immediately interferes in the process I just described. It says: "We issue money and you must use it: it is legal tender." The essence is to have an image of central banking that in the early 20th century the central banks became captured by governments, including in Brazil. Then came a movement in the 1980s and 1990s, which is called central bank independence. That means, you try to make the central banks come back to their original place, independent of the government. Through my work with central banks I understand this history and the need to separate the central bank from the state, but I don't believe that it then should be captured by the financial markets. For me, a central bank is a private organization, which acts on behalf of the people (of Brazil, for example), but it is not captured by the state or the market.

CA: On the other hand, there is certainly a dubious position of central banks in general; despite the connotation that they are private, governments have organic, strong, influence in many countries. How do you understand this dubious position of central banks, from an historical point of view?

CHB: It is not quite like that because there are many types of central banks. For example, the Bank of England is a private company, but the shares are owned by the government. One has to be careful not to make too quickly a divide between public and private. In the case of the Bank of England, the government bought all the shares in 1946. That means it is still a private company but all the shares belong to the government. That is important because many central banks are like this and then there are other arrangements like dollarizing or like monetary institutions. For example, in Hong Kong there is a monetary institution that makes sure that Hong Kong is linked to the dollar, but it does not issue money in the way a 'normal' central bank issues money into the economy. There are many so called undeveloped countries that are considered to be financially immature so they rely on the money of the central bank of another country.

A near example for Brazil is Argentina. The Brazilian central bank is much more independent than in Argentina. So the reason why the Argentines had a problem ten years ago is that they made their currency equal to the US dollar. They fixed their exchange rate by law. I think that Brazil did not have a crisis because since 1994, you have allowed your exchange rate to float. So when I was at the central bank in Brasilia, they were very clear that the Brazilian people are much more independent and my nickname for Brazil, in central banking terms, is a country where people dance. This is not my nickname for Argentina.

CA: What is Argentina's nickname?

CHB: The country where there is space.

CA: Space for what?

CHB: This remains to be seen! But I don't want to cause a South American war!

CA (laughing): We are just talking in theoretical terms.

CHB: It is very important because in monetary policy, if you study Milton Friedman, he has a very interesting thesis. If you don't want to control the world economy from one country, you must float all the countries and ask each country what it can do that no other country can do.

CA: Today we have an issue with the dollar as the reference currency and the remaining currencies, which are floating: euro, peso, real… There is always the risk of dependence on external dollars. That can be a good thing or a bad thing for the country. This fluctuation enslaves the country in a given time, and improves its condition in another given time.

CHB: If I refer again to this comment from Milton Friedman, technically he says if you want to bring the countries together in a world economy, you have to allow the monetary policy to follow the light of each country. This is hidden behind their exchange rate. So instead of saying, "everybody should have zero inflation," which is like saying, "everybody should accept the light of the USA," you say, "Oh, interesting! Argentina has a higher inflation rate than Brazil. There has to be something about Argentina, which is not the same as Brazil and not the same as the US." And now, if I make an image of the US, it thinks its own currency is the currency of the world, and for years it has acted on this basis. And people have accepted the powerful self-image of America. And so they accepted the dollar as the world currency. But now the world has a problem.

CA: When we observe that the USA – the largest economy in the world with 15 billion dollars and a public debt of around 15 trillion – is asking to increase its debt ceiling, what about this situation with this proposal of floating currencies against the dollar in all the countries of the world? This dependence may become heavier or am I wrong?

CHB: Let's just go back to the question of the dollar in Milton Friedman's terms. His question is not how one powerful country can unite the world economy in its own interest, but how do all the countries of the world independently work together to create a world economy. So you don't follow the light of only one of them but you follow the light of all of them. Now the light of the USA until now has been its certainty to be the country of freedom. And this has justified two things in its history. Although it closed the gold window, it never broke the link to gold. So in 1971, when the USA disconnected the dollar from gold, this is the last reserve currency of the world based on one country. At this point, all the currencies have to float, not just some of them. And in effect the dollar has never floated. Now we have a very serious situation. The dollar has lost its AAA rating.

This means two things that I want to explain briefly: everything depends on what people think the image of the USA is, what the USA is that no other country can be. Leonard Cohen understands this: "Democracy is coming to the USA." It's a famous song and he means that Americans think that democracy has already come to the USA, but he says that democracy *is* coming. It is an image they have but they delude themselves if they think that they represent it. That's a very important image to have: America does represent something, but not yet. And it means it has to be something that people genuinely recognize, not something the US reinforces with its army or with the tricks it plays with the Chinese economy: passing dollars through China and pretending that China has all America's dollars. If someone understands historically where this is coming from, it's bound to be the case that American income will come into the wrong relationship to its debt and this will crash the dollar. The dollar has already crashed because when it loses its AAA rating this is a complete crash of the dollar.

Now comes the interesting stuff. In arriving at this point in history, the rest of the economy would have been made poor. And now the question is: how does the impoverished world economy rebuild itself? So, I don't see poor countries, I see countries that have been made poor because of foreign policy.

CA: But on the other hand, we observe that many countries, e.g. in Africa, in South America, have been also extremely exploited in the past by the countries that are holding the global economic power today, with the removal of minerals, commodities, etc. Now there is a large domination from an economic point of view. How can these countries recover from this impoverished position by themselves? Would it be a proposal for a *de facto* development of these developing countries in economic terms, not only in industrial terms but also commercially, in the production of goods and commodities?

CHB: First it is important to understand what happened in the 20th century. All that really happened was that the imperial powers said to their colonies "now you can be non-colonies, that means your market will not be yours, nor will your resources: they'll stay with us." People don't speak like that but this is what happened. Now I'll give an example of what happened next. Colombia was a colony of the US if you look at it in terms of its economic relationships. It had to export its coffee at the price determined by the US, but then they said, "Not anymore. That is not the true price. We will now sell the coffee at a price that is real for us in Colombia." This event is lost in the sad subsequent history of Colombia. If you look at the lost destiny because of all the narcotics stuff that happens in Colombia, nobody has the image that Colombia said, "from now on we sell our coffee at the price that benefits us."

CA: This discussion about fair prices and the independence from the countries themselves to set fair prices is quite interesting. Is there a correct price, a true price? What does it mean, what is the concept that exists in relation to this matter?

CHB: So I took the example of Colombia, as a first case. But now if I describe the idea of a true price – a true or correct price is one that both parties through their transaction can profit from, not just one party. I used the example of Colombia to show that the coffee price in Colombia favoured only the US. By that I mean by pushing the price of coffee down, the amount of money that Colombia could have had is now much less and all the money they could have had is now lent back to them by the US. So when they say, "We want our price to be a true price" – this is not their language, it is mine – this is a declaration of war against the US, of monetary war. (And we have Chile as a very good example of what happens when you do this. In 1972, this was ITT country, the western half of Latin America. This was the statement in the US Congress when they sanctioned the bombing of the palace of Allende.)

And now another example of true price. In 1973, at the London stock exchange, Sheik Yamani, the finance minister from Saudi Arabia, said "For years, you have been setting the price for oil. Now we change the price to be in our favour, retrospectively. So the price will go up high enough to recoup the money you took from us in the years before." This resulted in two things: immediately the oil crisis, and the long-term effect of the dollar losing its AAA rating. Because what these examples are is that the people of a country, the citizens of a country said, "We have to control our own monetary economy." This has three components: we have to discuss the price, not to be told the price of all our commodities. We must issue our own money. And we create our own credit. That means we don't need the IMF or the World Bank.

I am not being political, I am just trying to describe why the dollar lost its AAA rating. It is not possible to continue with a world economy that is created and controlled by only one country, the US, which sets the price, issues the US dollar for the world and controls credit creation through Wall Street. I just mean that technically it is not possible to continue. I am not against it in theory; I understand the theory of this. But now every country, the citizens of every country have to create money, issue credit and name their prices. This will stabilize the dollar and overtime the relationship between its income and its debt will become a healthy one.

CA: To get an idea, can you tell us whether the euro's creation was an attempt to play exactly this role, to put the US against the wall and try to balance the economy, at least with respect to European countries?

CHB: No, not in my opinion. In my opinion the European Union is a very simple problem. There are people who believe, and I understand why they think this, that it is impossible for one country and its government and its money to run the world economy. So we have this situation of the US and before them Britain running the world through its foreign policy and through its currency, the pound sterling, which was the world currency. Then the US took this position. But this can only be temporary in historical terms. Then there are people who say that the next thing is to have a world polity, with a world government and a world central bank that issues the world's money.

CA: That cannot be the World Bank, let alone the International Monetary Fund.

CHB: It would require the IMF and the World Bank to be not what they were intended to be. They were to be the equilibrating institutions of the single economy of all the peoples of the world. The role of the IMF is supposed to be to manage the liquidity of the world, not to control it in favour of the dollar. So all that becomes a big problem. And now if you accept the idea that you have to go from a national country running the world to a world government with a world central bank, there is a need to find out how this would work. This is the European Union project. Is it possible to introduce into 27 countries a central bank, which is not answerable to any of these peoples but answerable to an unelected government, the Commission, and then issues a currency that has no democratic basis. Because of the euro now you can say "OK, it worked in Europe, it will work worldwide." For me the euro is about creating a political project, which will enable us to move from the US dollar to a world central bank with a world currency, but issued by a world government. But for me the image should be one of the all the peoples of the world issuing their own money and creating their own credit. All currencies floating against each other. Then you would create a world clearing house. This is the opposite image.

CA: We lived recently the crisis of 2008. How does money behave in this kind of situation, when a large country, almost bankrupted, cannot pay its debts, honour their commitments through the public system? We always hear that there must be a cover that supports the issuance of money by countries. In the United States there is a fight between Republicans and Democrats to raise the debt ceiling to meet the country's commitments. How can money be produced from one moment to the other by the treasury, especially the U.S., having a worldwide impact? What do you have to say about it?

CHB: I would approach this crisis in an unusual, unexpected, way. What phenomena are all happening at the same time? One is: the income of the US and the debt of the US are in a wrong relationship? That means finally the US cannot be the world currency. All the attempts made since 1971 to avoid this problem now no longer work. You can't hide this problem anymore. Then, I would be looking at what else is happening at the same time. And I would point immediately to two phenomena. If you don't find the basis of a new world currency, the economy will become militarized. It would be kept as it is by military and police forces. This is what we call the Iraq war.

But then there is a second phenomenon: graduates without a future, the Facebook generation. You can see the Facebook generation saying that it has no future, and it is not a political statement, it's existential. The markets have come out of the subprime because the governments bought their toxic debts. They got their money back and went into the commodities markets. Now they buy all the world food and they sell it at a higher price five minutes later. In terms of Shakespeare's 'Merchant of Venice', they are having their pound of flesh but they are drawing blood. Shylock wants to have his debt repaid by Antonio and Portia, the judge, says, "Shylock, you can have your pound of flesh, you can have your money back, but you must not draw blood. You must not make it impossible for people to buy bread." This is a huge phenomenon today that is driving most of today's problems. The financial crisis has now become a real economic crisis, and young people are saying: "We have no future and no food." Sending in the army or the police will not solve this.

And now I want to describe what will replace the dollar. It can stay as the world currency but we need to look at young people in every country and we need to base the cover of the money in that country on the services or the goods they provide for other people. And the basis for credit in those countries is: you invest in the initiative of these young people. So if a young person says, “I want to open a restaurant,” this is the foundation of money. If people want to eat in his restaurant, they will pay him money. So by being a restaurateur *he* emits money, not the central bank. When he says, “Please lend me the capital to open my restaurant,” this is the basis of credit. It is not created by the central bank or the markets; it is created when we lend money to young people *without* collateral. So for example, if you issue a youth bond, this will have huge consequences in the countries where young people see no future. So you don’t have to start by saying, “What do we do with young people?” You have to ask them, “What do you want to do with your life and how do we capitalize what is that you want to do?” Then young people all around the world will show you what the next economy is.

CA: Capitalism as it is today theoretically means that the individual takes risks. He has some funding for a particular project, takes risks and may eventually get bankrupted. What has happened is that large countries have funding, companies often get bankrupted and individuals do not. There is a concentration of capital in small groups. Very few people have a lot of money, while the vast majority has nothing. How do we solve this equation?

CHB: One way of describing the situation we have today is that the financial markets – that is to say agencies: pension funds and organizations, not actual people – have cornered the market in credit. And in every market, when you corner the market, you crash the market. So all these agencies, all the pension funds are institutions, not people. They have taken all the credit to themselves. In any market, when you acquire everything you then crash the market.

So there is only one solution: you extend credit to actual people, not institutions, who have a life in front of them, who are full of enthusiasm, skills and talents and you ask them: “What do you want to do in service to your fellow men and how do we capitalize your initiative?” You then create a new bond, a bond that is money that is lent only to young people on condition that they are not collateralized. The collateral is that you help them achieve their intentions. You have no interest in real estate collateral.

CA: You were saying that we have alternatives. It would actually be to make loans to individuals and take them out of large institutions? This would be a way out for the development of the world, so there is a future for young people? We are now facing many problems, for example in Somalia, where food insecurity is huge – obviously it is not just because of the lack of money, but also because of other social and environmental conditions. All this is set against the background of international dominions from a monetary point of view. So we do have a future ahead? Young people may think of a future?

CHB: In the case of Somalia, I would begin with the young people of Somalia. I would ask them: "What would you want to do in Somalia, for your fellow Somali people? What do you think you can do for the world?" For example, the wife of David Bowie is a beautiful Somali model. They live in New York. She is doing wonderful things for the world. I think she is a UN ambassador for Youth or something like that. How many more Somali people have similar things that they could bring to the world? They can't all marry rock stars. In this case, David Bowie is her access to credit. So we need a David Bowie fund in Somalia, that any young people in Somalia can access. This would be a problem for all the politicians, anyone who is corrupt, anyone who thinks that the resources of Somalia belong to other people than the young people of Somalia, anyone who in order to preserve the price of wheat, dump it into the ocean rather than feed people with it.

For me Somalia is a kind of fiction. It is a result of very unpleasant policies that are not interested in what I am saying. And you will find that the young people, whether they are in Somalia, or India or Brazil, they all have the same kind of gesture: "I need a career. I need a job. I need to be capitalized for what I want to do and not for what you want me to do, because you guys have no jobs left. And I need to buy food to eat so I can do what I want to do."

I will say it again: this is the foundation of future money. It does not matter if it is denominated in dollars; this is secondary. But if we keep taking the dollars out of the world economy, this is a problem. We have to say to these young people: "We have all these dollars. What do you want to do with these dollars." And they will say: "First, I need something to eat because what I want to do, I can't do it with a headache or an empty stomach. I need to be healthy. I don't need houses and cars; I need capital so I can do what I want to do. This is why I need dollars." This will stabilize the dollar.

CA: Anyway, what we observe is that in poor or developing countries this mentality continues. We do not perceive that countries manage to separate political issues from financial issues. They seem to be inextricably linked. I would like to ask: what is the role of governments in developing this type of policy? What often happens is that the big banks fund activities and the individual often does not have an asset that can serve as a collateral for a loan and fund an activity.

CHB: First of all, I don't believe there are any poor countries; there are many countries that have been made poor. There is not such a thing as a poor country. There are countries in which people, especially young people, are denied access to the resources of their country because they are denied access to credit – because we insist on investing in pension funds; we don't invest in young people. Most governments are being friendly to markets and this is 'great' because in this way the markets externalize all the social problems that they cause. Externalize is a concept in economics meaning that you pass on the costs you have incurred to someone else's balance sheet. So the financial markets do not see the effects they are having because if young people cannot get credit, and therefore start taking drugs or misbehaving or leaving school, these very real costs are not borne by the financial markets, they are borne by governments.

So, what a government could do is the following: it could say: "Because we have such bad problems with young people, all these externalized problems create a huge cost, and for this we have a very large budget." So it keeps the budget where it is, for disaffected youth, and then goes to the markets and creates a bond for investing in young people and says to the market, which is really people around the world: "Lend to the Brazilian government millions of dollars and we will on-lend this to young people at zero interest so they can create tomorrow's economy. And if you need any interest on this bond, it will be paid by our budget for disaffected young people because if they find their own way in life, they will not become addicted and they will not cause all these problems. So lend us millions of dollars, we'll lend it interest free to young people and the interests on these bounds will be paid for by the budget for addiction, penal colonies, and whatever we otherwise do with young people."

CA: Dr. Houghton Budd, now I would like to emphasize the issue of electronic money: how does it work? Is there real money as the basis for these worldwide electronic transactions?

CHB: I think what is electronic money is a crucial question. This is basically an epistemological problem, a question of how we understand money. Electronic money is to begin with money we cannot see. And it is only a problem because before there was electronic money we thought that we could see money. But nobody has ever seen money and nobody will ever see money. They make an image to themselves of what they think money is and they think 'that is money'. So, before electronic money, we have our images. And these are essentially physical images, mechanistic images. When electronic money comes about, you need a metaphysical image.

Now if you look at most of economic and monetary theory, it understands itself by an allusion to the physical, mechanical, world and especially to the industrial revolution and economic materialism. For example, the flow of gold between countries to stabilize their balances. Now if you look at modern finance, the money is electronic – that is, you can't see it physically. The markets work 24/7, they never sleep. So you can start to make an image: what world is it that never sleeps? It is not the world of the physical economy. Now you come to something like the phenomenon of the financial markets, which make money out of nothing.

CA: This, just for the listener to understand, means that in fact there are people who put money in the stock market, seeking profits, without actually producing anything?

CHB: That's what is said, they make money out of nothing. At least that is how we describe it. But we have to be careful because when we say that 'we make money out of nothing', if we are thinking physically about the economy, we will say that the financial economy robs the real economy. But if we think *meta*physically about the economy, we can ask ourselves what in real economic terms is created out of nothing. And I would say that in real economic terms, if you want to create something out of nothing, you begin with what a young person begins to think he can do with his life.

And so we have a situation, I think: the reason why we have financial markets which create money out of nothing is like a shadow image of something else, the huge implicit creativity of young people today. And if the markets just transferred their money to this 'nothing', not only would they stabilize the real economy, much more critically they would stabilize their own activities. And that's why I say, until now it has been a financial crisis, all the fictitious values of real estate are now coming down to a normal place. But once hedge funds start going into commodities, especially food commodities, this will become a structural problem that you cannot solve by printing money. It would have been very different if in 2008 the governments had said, "we will lend you money to stabilize the markets on condition that in five years time, that is now, you start invest to in young people."

CA: But none of this was done, right?

CHB: No, because the idea to do this is not there. That is why I say that the Facebook generation, whether in Somalia or in Tunisia or in Syria or in London, those millions of young people want to do something for their fellow human beings – but nobody believes in them, so nobody gives them credit. The world itself says: "Nobody gives credit to young people, nobody believes in young people."

And now the problem is: nor they can afford to eat. This is structural. You can send in the army or the police, but this will not solve anything. All that will happen is that young people will see: "Oh! There are jobs in the army and in the police." But you can't have an economy in which everybody is a policeman or a soldier. You can't have an economy in which every farm is becoming a golf course. I am not making political statements; this is just an economic analysis.

CA: In Brazil, during these last eight years under Lula's administration, approximately 30 million individuals were included in the economy, reaching class C – given that we have 5 classes A, B, C, D and E. The government offered money to these families and conditioned it on education and health requirements. In a way, the government played a role in creating a more powerful economy within the country and created a greater amount of middle class people, which have the capacity to be entrepreneurial.

CHB: Here I have to be careful. I don't know the details of Brazil and I don't want to get into endorsing or not endorsing any government. But in very general terms if someone does not have a house, a roof over their heads, how can they serve their fellow men? So I see that is very important to create many Lula houses for example, but this does not make someone an entrepreneur, this just stops the rain falling on him.

If I take another policy, the people in the favelas of, say, Rio, who don't have access to credit because they don't have a bank account and they don't have a real address. When Lula required them to have a bank account, I was very disappointed because that requires you to have an address, that means that the bank has a collateral, that means you don't believe that the people of the favelas can create their own lives.

So I see the gesture, the importance of making credit available to people. But the minute you make it conditional on a collateral, on real estate, you say you are not interested in the person you are lending to. I understand that you need to get to this person to give your money back, but I think we could be much more creative about how this is done. An obvious example is Grameen Bank: lend money and your community makes sure you pay it back.

CA: Yes, regarding the realization of a new kind of financing, the history of Grameen Bank is certainly very interesting. Dr. Houghton Budd, could you please end up with your main conclusions and tell us if we have solutions for the financing of individuals in the world and how States, NGOs and private organizations can serve as inducers of individuals? Of course we need to have some backing for all this.

CHB: How I would summarize my ideas? I recently published a book which is called 'Finance at the Threshold' and I was asked to describe the financial crisis in the kind of way I have been talking today, but the readership of the book is intended to be professionals in the field of finance: central bankers, policy makers, people in financial houses, business schools, accounting schools. I made a resumé of how I thought the financial crisis had come about, very carefully based on what professionals said, not on what I think. All the professionals are saying that, for example, the efficient market hypothesis does not work and therefore we have no idea what the future of finance is based on. It is not me who says that, it is the chairman of the Financial Services Authority of Great Britain. Then I describe what is a solution or a way to understand the problem.

So I have a chapter which is called *Beyond Banking*, meaning we have to understand what banking is so that we can become our own bankers. But to do this you have to understand what I call 'deep accounting'. Everyone should understand and be able to be his own accountant. We should teach this in every high school, beginning with 16 years olds. The last chapter is called *Banking on Youth and Trade*. We teach to these young people not only the theory of banking and accounting. All of this can be understood by 16 year olds. If they can work a Blackberry, they can certainly work out a financial market. And then, already with a 16 or 17 year-old, you ask them to make projects and you provide them with capital. A colleague said: "You can't be serious in ending your book like this." My reply was: "You can't be serious that we who have created the mess think that the mess we created can continue."

What is the point teaching the theory of central banking if central banking does not work? My main concern is that I think the government could play a very large role in facilitating this understanding of finance, of this way of looking at economic life, and especially the central banks. And my image of each of the central banks in the future is: it is independent of the state *and* independent of the markets. If it does this, it just becomes a place where we perceive what is happening in the economy. We can't do anything about this; it is called 'signalling' in central banking. You think there is a problem and you think the interest rate should be changed but you can't change it. If a state – for example, Brazil – would allow the central bank to issue bonds for young people in the way I already described, the interesting question would be what interest would the markets put on those bonds.

CA: Well, this is a complex problem because, for example, in Brazil the overdraft interest charge is around 150% per year, while our inflation is around 4.5%. To find this real interest rate when banks earn money by just working with money, interest on top of interest, is complex. What do you think of this?

CHB: If I look at the central bank of Brazil, it is not independent in the way I describe it. My image of an independent central banker: you take a log and a long piece of wood and you stand on this log and keep it in balance. But if there is a person on either end pushing it down or pushing it up, you can't do this. Every central banker knows he has to find the interest rate which would arise if the real economy and the financial economy were in balance. But if people interfere in this relationship, then he can't balance.

So, to end, he might have an intuition that the right interest rate for funding young people is 3%, but then the policies have to unfold from the kind of things I have been describing. Do we want to invest in young people or don't we? And lending to someone because he has a street address and a bank account is not lending to a young person.

CA: Then the solution is really to bet on the young people from all countries...

CHB: What other solution is there? Seriously. Everything else has been tried.

CA: Now does the population have the power to demand that from the governments or the private system? This clash may eventually lead to war. There are silent wars, hidden in everyday life that are constant struggles to give people the opportunities to shine as people, as human beings...

CHB: I don't know, but what I do know is that if people do not have an income or something to do, there will be no money to pay the financial markets. Every central banker knows that if you create social conditions that create riots, it means you have got your interest rates wrong. I would say again: we have a worldwide phenomenon. Young people are showing that the structure of the economy is just out of balance. It will not be a solution to declare war on young people.

CA: What are your final thoughts, as we reach the end of the programme?

CHB: I would like every young person to understand how they are going to finance their own dream, their own life and then go to their local bank and ask them for the money – without a guarantee from their parents and without the collateral of a real estate.

CA: Thank you very much, Dr. Christopher Houghton Budd!