

# **Kingdom Report**

Week of 15 February 2020

## **Part 2 Solutions: Fintech and a 21st Century Financial System**

After all the horror stories of government corruption you think the solution is private enterprise. Until you find out the biggest looters of our national wealth have been private enterprises. There is a solution...the Fintech revolution in finance.

For the last number of years we have suffered through a depressing news cycle of endless stories of government corruption from top to bottom. If you are under the illusion that if we could get government out of the way and just let corporations loose we would create a world of prosperity for all....you need a wake up call. My advice: I was clued into a new group by our premier business magazine Finance Mail called 'Open Secrets' who have done an incredible job of uncovering corruption in the corporate world of banks, lawyers, consultants and accountants. Go to their website [www.opensecrets.org.za](http://www.opensecrets.org.za) to the 'publications' tab and under there is a publication free to download (164 pages) called "The Corporations and Economic Crime Report" Book 1 'The bankers'. They give you a fascinating insight of how consultants, bankers, lawyers and accountants game the system to loot far more billions than what politicians can manage.

This type of corporate corruption is of course not unique to South Africa. It is world wide and pervasive. One whistle blower who worked for PwC accountants in Luxembourg confessed how he helped secure 548 secret deals in Luxembourg to ensure that more than 300 of its multinational clients could reduce their effective tax rate below 1%. That sort of financial engineering allowed Amazon with \$13 billion in profits to pay no US taxes last year.

The big banks of course are critical to the movement of money out of the country. The estimate in the report is that over \$50 billion of illicit financial flows move out of Africa each year and Nigeria and South Africa account for most of that flow.

The amount of and complexity of financial fraud from both the government and private sector is of such a scale that police and regulators and courts are just not able to even touch the tip of the iceberg.

Let me just give you a wider perspective of what I am doing with this blog in our current series. I am saying not only new political/nation state structures are needed into a large Southern Africa Union, which will of itself be a very attractive investment destination, create a large internal market, integrate resources in a borderless region....but we also need to a revolution in a new financial architecture if we are to prosper. We are as most countries in the world stuck with a banking and finance structure with its roots in the 19th century and unsuited for the 21st century.

### **The Fintech Revolution**

I believe the Lord has a solution for every problem we face. I also believe that within our great Church there are people who are able to implement those solutions. I am going to give you ideas that can now be implemented and in fact are being implemented by countries such as China that can radically overhaul our financial system and drastically lower fraud, boost tax revenues and direct much needed revenue and investment into our national infrastructure.

These are:

- 1) E-Currency or Crypto-Currency
- 2) Blockchain
- 3) Banking and currency revolution
- 4) Tax revolution
- 5) Sovereign Wealth Fund

Each of these leads to the next in an integrated new financial system suited for the 21st Century and largely impervious to most of the looting and fraud of the current system.

### **China's Crypto Yuan**

The crypto-yuan, which may be on offer in 2020, will be fully backed by the central bank of the world's second-largest economy, drawing its value from the Chinese state's official stamp of approval. Other national authorities are bound to embrace this powerful idea.

Little is known about the digital yuan except that it's been in the works for five years and Beijing is nearly ready to roll it out. The consensus is that the token will be a private blockchain, a peer-to-peer network for sharing information and validating transactions, with the People's Bank of China (PBOC) in control of who gets to participate.

To begin with, the currency will be supplied via the banking system and replace some part of physical cash. That won't be hard, given the ubiquitous presence of Chinese QR code-based digital wallets such as Alipay and WeChat Pay.

It may start small, but the digital yuan can disrupt traditional banking. No wonder that for China, "blockchain and the yuan digital currency are a national strategic priority — almost at the level of the internet", says Sanford C Bernstein fintech analyst Gautam Chhugani.

I will explain in a moment why a central bank issued digital currency is going to revolutionize the financial system. But first the importance of Blockchain.

### **Blockchain**

Blockchain is software system whereby every transaction can be recorded between two entities and placed in a chain of unbreakable verification on what is known as "distributed ledgers" I can't spend much space here in explanation and encourage you to read more about it in Wikipedia. The key is to understand that instead of each individual bank keeping a ledger of who has made what payment....the central bank of

a nation will keep a national distributed ledgers among the banks of all financial transactions whose trail of payments as to where the money is cannot be altered. In the same way all national assets like share certificates or house ownership or contract agreements can all be put on a secure national blockchain ledger.

Countries all over the world are moving into this new technology. China isn't the only one experimenting. Fast, cheap, cross-border payment settlement is one application of JPMorgan Chase's Quorum, an Ethereum-based blockchain platform on which the Monetary Authority of Singapore is running Project Ubin, an exploration into central bank digital money. The Russian government is also tasking their central bank to initiate a new Ethereum based blockchain system for their own crypto-Ruble.

### **Banking and Currency Revolution**

This will have enormous implications. Here is why. The very way that money is created will change. The creation of credit money will be taken away from the banking system and pure money creation will be restored as the sovereign right of the government. This is how it works:

Our creation of credit money comes out of the 19th century and long before that. Originally gold was deposited with a bank and they would give a receipt for that gold. The receipts were more useful to trade with that physical gold. Soon banks were permitted to issue more receipts than they had in gold. Then gold fell away entirely and paper receipts magically became "money". Then the banks made another discovery. If I deposit R100, that R100 could be loaned to Paul and Paul deposits in the bank and then the bank can loan it out to Bob and then Bob deposits it in the bank etc etc...this is known as fractional reserve banking...meaning a deposit of R100 can be turned over and over through debt creation into R1000 of credit. That is our money today...very little actual cash but a lot of credit money based on debt creation.

This is an extremely unstable situation. That is why there are booms and busts. Too much debt creation until someone cannot pay their debts. The system only works if each person pays their bills. But the real problem is this....I borrowed R100 but in a year's time I must repay R110. That extra R10 must somehow be created. It can only be created by more debt creation. If people do not keep making debts the system collapses because there is never enough money in the system to pay all the debt.

This crisis in monetary policy is well known. That is why when the world economic crisis hit in 2008 it was because the debts had grown too large to be paid. So the New York fed literally created \$16 trillion in new digital money and lent it out to banks all over the world to bail out the world banking system from collapse. The banks got bailed out...they people did not.

Economists know what the answer is, it is called "The Chicago Plan" (Look it up in Wikipedia") I quote ***"The basic idea is that banks should be required to have full coverage for money they lend; this is called 100% reserve banking which would replace the fractional reserve banking system.***

*Under this proposal, banks would no longer be allowed to create new money in the form of credit in connection with their lending activities. Instead, the central bank should be solely responsible for all the creation of all forms of money, not just paper money and coins. The advantages of such a system, according to the authors, are a more balanced economy without the booms and busts of the current system, the elimination of bank runs, and a drastic reduction of both public and private debt.*

Crypto-currency and blockchain will allow central banks around the world to stop financial panics and banking collapses by reverting to 100% reserve banking but with this revolutionary change: The government will issue the digital currency and all financial transactions will be recorded on blockchain.

What does this mean for the banks? They would have to go back to the days of 'Building Society' days or in America 'Savings and Loan'. Meaning they can only loan out the savings of people who wish to invest in mortgages or car loans. They cannot create credit by loaning out the same money over and over.

This is what crypto-currency blockchain does: That piece of R100 note now has your name on its id number. It can only be loaned out with your blockchain id signature to the next person who then owns that money. If you do not loan it out or pay it out it stays in your digital wallet. The bank cannot touch it. That stops credit money creation. It also stops bank failures. It also stops all the con-men who con banks into loaning out your money to their con artist scheme and thereby get their hands on millions with fake guarantees or certificates of worthiness from corrupt accounting firms, they then move the money out of their new account to some offshore location lost out there in a maze of shell companies.

The Chinese and Russian and Singapore governments and many others around the world are going to put a stop to this international fraud syndicates and get their hands on the \$15-\$17 trillion stashed away in off-shore bank accounts.

If South Africa follows suit here are the 2 major implications for us as a nation apart from stopping most of financial fraud:

### **The Tax Revolution**

With a national money system based on digital currency and blockchain and e-wallets for each citizen here is what we can do.

Scrap our entire tax system as it now is constituted. Instead introduce a financial transaction tax. What is that? When you use your credit card you will see that it is either a Visa card or MasterCard. These two organizations provide an international payments system for all banks and usually charge the vendor a fee of about 2% for the service. You don't feel it. That is a financial transaction tax. But instead for the national tax fiscus every financial movement, every time money moves from one account to another, from buyer to a seller, a small percentage of each transaction is paid to the government as tax. That means that our very efficient world grade banking system collects that small fee and pays it into the South African Revenue Service account. No end of the year tax calculation, No PAYE. No company tax and

accountants cooking the books to see how much income they can hide. No thousands of people in SARS offices keeping track on your income and what are you hiding. No company can escape it, all financial transactions on the stock exchange are taxed, all currency speculation of buying and selling Rands are taxed. By the way our currency is one of the top ten in the world for speculators to speculate in...tens of billions a day in transactions.

The rate of percentage on each transaction can be changed by the government, lower rate for food purchases, higher rates for luxuries. Everyone's taxes would be far lower than now....and huge amounts of lawyers, accountants, government officials become redundant.

### **National Wealth Fund**

With government issuing all currency directly the outlet for that new money creation should be a national wealth fund. My favorite approach is as follows:

Take the \$50 billion that our SA Reserve Bank has at present and set up a national wealth fund at the Southern African Development Bank with this as starting capital. The SADB issues R750 billion in 1% bonds to the SA Reserve Bank which gives the Reserve Bank an income of R7,5 billion per year. That income is to be used to set up and maintain a national blockchain asset and payments distributed ledger in conjunction with our 6 prime retail banks.

By the way, that \$50 billion belongs the people of South Africa. Those are our national reserves, and the worst thing previous SA Reserve Bank governors did with our dollar reserves was wasting it on "defending the rand". You cannot fight the market, the job of foreign exchange accumulation is not the job of the Reserve Bank, our great national retail banks can handle the buying and selling of forex and we need in any case to drop all exchange control and with it the need for \$50 billion of reserves, reserved for what and for whom? I'd rather have those reserves mobilized into our economy as follows:

The SADB with R750 billion in assets uses that to pay off all outstanding debt of Eskom and all assets of Eskom get transferred into the National Wealth fund. The debt free and recapitalized Eskom drastically reduces electricity prices to South Africa. Additional investments of the remaining R300 billion invested in infrastructure of the national electricity grid; the national water and sanitation systems of the municipalities; buying out Arcelor-Mittal steel and invest in new state of the art steel equipment including buying out the stainless steel operations and invest in new equipment and make South Africa the lowest cost producer of steel and stainless steel for our manufacturing industries. This will also revive investment in our smelters to turn manganese into ferro-manganese and the same with ferro-chrome and ferro-silicon.

Further infrastructure spending is done through the years by the SADB issuing more 1% bonds to the SA Reserve Bank for more crypto-rands to inject into the economy through a multiyear program of infrastructure investments in roads, ports, railways etc.

There is a further advantage with our new crypto-digital-rand financial infrastructure: By 2024 Elon Musk and his Starlink 12,000 internet satellites will be providing low cost high speed internet to every square foot on planet earth. That means that anyone in Southern Africa and especially Zimbabwe with a phone can open a crypto-rand e-wallet and pay to anyone else in Zimbabwe what they want to purchase or trade with no possibility of government interference.

The South African government of course will take a tax on that transaction,,,,,or Zimbabwe can have that tax revenue passed on to them if they decide to join the new Union of Southern Africa and its stable and prosperous economic zone.

There is plenty more I can say here but this is only the beginning of a discussion we need have among we Christians about the future of finance and prosperity in our nation. We need to bring the economists and business people and IT geeks into this conversation.

We have one of the best banking systems in the world. We have an abundance of natural resources. We have an abundance of tech knowhow and creative entrepreneurs and a continent full of opportunity.

We need to stop preaching about the "great financial transfer" and actually stop the great transfer of wealth out of our economy through fraud and deceit and start getting our finance systems under control and direct our savings into investment and wealth creation.