BOOKS AND REPORTS

Modernising Money, Andrew Jackson & Ben Dyson, Positive Money, Londen 2013.

https://www.positivemoney.org/modernising-money/; a summary can be downloaded for free from http://www.positivemoney.org/wp-content/uploads/2013/01/Modernising-Money-Free-Overview.pdf

This book provides a detailed description of the ins and outs of the transition of the British monetary system from private to public. The book begins with a brief history of money and continues with a description of the current monetary system and its economic, social and ecological impact on the economy and society. The need for growth inherent in linking money creation to debt and thereby to the need to pay interest leads to the pursuit of short-term profit rather than long-term public goals. This leads to the unsustainable exploitation of resources and activities which, though profitable in the short run, have no social utility or run counter to the public interest. The book points out that the current monetary system puts enormous power in the hands of a small group of people with neither responsibility for nor accountability towards society.

The second part of the book shows how the privilege of creating money can be taken away from private banks which from then on will work only work with already created money. This can be achieved by placing the responsibility of creating money with a Monetary Creation Committee. Newly created money will be channelled into the economy in various ways: through government spending, direct payments to citizens, repayment of public debt, and lending through the existing banking system.

The book lists the benefits of the proposed reform: it will end financial crises caused by speculation, increase government revenues, decrease debt and hence debt obligations, and ensure a stable money supply. The need to grow disappears and much more room is created for investment in the environment and social services. Money creation is transparent and the impact of the financial sector on society and politics decreases. Banks are no longer "too big to fail", meaning they need not be saved but can fail if they do not function properly. The book argues the reforms can be instituted in the UK alone without weakening the British pound: the greater risk is an increase in value.

Sovereign Money, Paving the way for a sustainable recovery. Positive Money. http://www.positivemoney.org/wp-content/uploads/2013/11/Sovereign-Money-Final-Web.pdf

Freely downloadable report with a proposal for "Sovereign Money Creation" (SMC): creation of money by the (British) central bank, to be provided directly to the government for public investment, tax cuts and possibly a lump sum payment to citizens: a “citizens’ dividend”. The report focuses not so much on a complete transformation of the financial system as on the creation of a tool, SMC, that can lead to a sustainable recovery of the economy rather than, as presently, a temporary recovery based on even more debt. In the longer term SMC can avoid economic stagnation and contraction by providing government with the means to ensure sufficient demand for goods and services. The report shows in detail how SMC can be put into practice and clearly describes the steps to be taken and the benefits and foreseeable effects. It also discusses the risk of abuse by politicians and how this can be prevented: by putting the decision making on the amount of money to be created with a central bank monetary committee operating independently of government and parliament. Government and parliament decide on how the money is spent but are required to submit a spending plan to the Committee prior to the creation of the amount involved. Thus money creation and decision-making on spending are strictly separated. The report indicates that a similar approach has been proposed by leading economists such as John Maynard Keynes and Milton Friedman, and that the UK Treasury too has indicated that it is possible for the financial authorities to finance government deficits through money creation. The report also quotes former British central bank governor Adair Turner, who in a speech in 2013 referred to the taboo in economic circles on the idea of public money creation for financing government spending.

Creating a Sovereign Monetary System. Positive Money, 2014.

http://2joz611prdme3eogq61h5p3gr08.wpengine.netdna-cdn.com/wp-content/uploads/2014/07/Creating_a_Sovereign_Monetary_System_Web20130615.pdf

Freely downloadable report with a detailed proposal for monetary reform: the transition to a "sovereign monetary system" in which the right to money creation is reserved exclusively for the state, and banks can no longer create money through lending. The report is largely based on the above described book *Modernising Money*.

Creating New Money, Joseph Huber and James Robertson, 2000. New Economics Foundation; http://www.neweconomics.org/publications/entry/creating-new-money

This book / report by NEF (free download), dating back to well before the 2008 financial crisis, discusses extensively the different aspects of what the authors call "seignoriage reform". Seignoriage refers to the right to create money and collect the benefits of using that right. The book describes the importance and benefits of taking away the right to create money from private banks and allocate it to a public institution, the central bank, so that the benefits of seigniorage accrue to society as a whole. New, debt free money would be put into circulation through government spending, and not as presently through lending by commercial banks. The book indicates the steps in the reform process and the roles of different agencies, and discusses what countries might undertake it. It also indicates who wins and who would lose: both the economic, social and environmental benefits are described and the advantages for public finance, households and businesses.

The Chicago Plan Revisited - Jaromir Benes and Michael Kumhof. IMF Working Paper WP/12/202

http://www.imf.org/external/pubs/ft/wp/2012/wp12202.pdf

This publication of the International Monetary Fund (IMF), cited a few times in the main text of this booklet, "tests" the plan for public money creation from the 1930s: the "Chicago Plan", named after the university of its most well-known proponents. The plan proposes the transfer of the responsibility for money creation from private banks to government. The functions of money creation and credit supply, in the 1930s as well as today both reserved for private banks, would thus be separated. At the time the proposal was supported by a large group of economists, including some of the most prominent of the period. The plan almost made it into law and was close to implementation under the Roosevelt administration, but in the end the bank lobby prevailed and managed to block the legislation.

For lay persons the more interesting part of the publication is not so much the mathematical modelling with which the assumptions about the benefits of the plan are tested but the brief description of the history of money, of different financial systems, and of advantages and disadvantages of those systems. The analysis shows that systems based on money creation by private banks have led to frequent smaller and larger crises and periods of hyperinflation. The notorious German hyperinflation of the 1920s was the result primarily of speculation by private banks, with support of a central bank that had been privatized shortly before, under pressure from the Allied winners of the First World War.

The report also describes how through the centuries public money creation has been the rule rather than the exception, and has worked well in most cases. It also gives pointers on how to ensure the latter: 1) Do not have the money system managed by a convicted felon, such as John Law in France from 1717 to 1720, and 2) Don't start a war, or when you do make sure you win it. The following summary is given: "*To summarize, the Great Depression was just the latest historical episode to suggest that privately controlled money creation has much more problematic consequences than government money creation. Many leading economists of the time were aware of this historical fact. They also clearly understood the specific problems of bank-based money creation, including the fact that high and potentially destabilizing debt levels become necessary just to create a sufficient money supply, and the fact that banks and their fickle optimism about business conditions effectively control broad monetary aggregates. The formulation of the Chicago Plan was the logical consequence of these insights*." The report indicates as the main problem of private banking that in good times too much money is created, leading to speculative bubbles and crises, whereas in bad times too little money is created as banks curtail their lending just when it is most needed to help the economy recover. The non-technical sections of this report are a "Must read" for all economists, politicians and journalists dealing with economic and financial issues.

1.1 MORE TECHNICAL PUBLICATIONS

Money creation in the modern economy. Michael McLeay, Amar Radia and Ryland Thomas, Bank of England (2014).

http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q102.pdf

This paper by the Bank of England explains how in modern economies money is created by commercial banks when they extend a loan. It thus dispels the popular misconception that banks act only as intermediaries, by lending out savings and money provided by the central bank. The paper indicates that ultimately the amount of money entering the economy depends on the monetary policy of the central bank, with as tools interest rates and quantitative easing.

Where does money come from? Tony Greenham & Josh Ryan-Collins, New Economics Foundation, 2012.

http://www.neweconomics.org/publications/entry/where-does-money-come-from

In line with the title this book provides a detailed description of the workings of our current money system, in particular the fact that the money supply is determined mainly by the demand for credit. The book gives an overview of the history of money and banking, describes the current system, the regulation of money creation and distribution, and public finance and foreign currency. The conclusions contain recommendations for further regulation and reform.

Full Reserve Banking. An analysis of four monetary reform plans. Study for the Sustainable Finance Lab, Charlotte van Dixhoorn, 2013.

http://sustainablefinancelab.nl/files/2013/07/Full-Reserve-Banking-Dixhoorn-SFL.pdf

This report contains the findings of a research project on monetary reform commissioned by the Sustainable Finance Lab of the University of Utrecht, The Netherlands. The report is based on interviews with both supporters and opponents of monetary reform. The study summarizes and compares four proposals for monetary reform, including the Chicago Plan and that of Positive Money. The study concludes that it is doubtful whether public money creation as proposed by Positive Money will really have the intended effects and benefits, and mentions there are risks and disadvantages. However, this conclusion is not substantiated whereas the drawbacks of the current system are barely discussed.

Unfortunately the report, which doubles as an MSc thesis, does not provide information on how the conclusions of the report were arrived at. Apparently they are a kind of summary, a middle road between the wide range of opinions expressed by the interviewed experts. Since this group includes many established economists the critical attitude towards monetary reform and the call for more research ("full reserve banking is a valuable research topic in an attempt to find a new structure for our monetary system") comes as no surprise. It may be concluded that the overrepresentation of conventionally thinking economists among the respondents has, unfortunately, led to a poorly justified questioning of the benefits of monetary reform. Especially the critique of the monetary reform approach of Positive Money is not substantiated. Perhaps an inevitable outcome, given the design of the study and the methodology chosen. The study is added to this list of publications because of its comparison of different monetary reform systems and because it illustrates well the obstacles to monetary reform posed by mainstream economics and its practitioners.