Alþingi
Erindi nr. Þ 141/867
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Nefndarsvid Althingis

Austurstraeti 8-10

150 Reykjavik

Iceland

Dear Madams, dear Sirs,

it is my understanding that a proposal for a parliamentary resolution has been submitted to the Icelandic parliament, sponsored by Lilja Mósesdóttir, for setting up a committee to report on the opportunities and risks of monetary reform. I take the liberty of sending in this letter in support of the proposal.

In my capacity as a university professor of economic sociology I have continually been researching and publishing on the subject since 1996[1]. I strongly recommend setting up a committee on monetary reform along the lines proposed, investigating ways of

- how to restore the nation's monetary sovereignty, i.e. the monetary prerogative to determine the national currency as unit of account, to issue the general and regular means of payment as legal tender denominated in that currency, and to take in the full amount of seigniorage which accrues from creating money to the benefit of the public purse.

- how to regain full control of the quantity of the money supply

- setting forth basic monetary and financial goals, principles, and, as far as necessary, operational details, or alternative operational options respectively.

There is a specific piece of legislation missing in all European countries I know about: Whereas the issuance of coin and banknotes is conclusively regulated in the form of a sovereign monopoly of coin (normally held by the Treasury) and a sovereign monopoly on banknotes (held by the national central banks), the right to create non-cash money on account has not explicitly been regulated yet. As a result, within today's monetary regime of fractional reserve banking, the banking sector has usurped the power of creating money on account in the form of demand deposits. Banks create demand deposits uno actu when they make out new loans, or purchase securities, or purchase material assets and other tangibles.

In the EU-17 today, little more than 1% of the real money supply M1 is coin. Another 19% consist of banknotes. The remaining 80% is money on account, or on mobile storage devices, issued by the banks in the form of credits written into current accounts. So only 20% of today's money supply is sovereign money, whereas 80% consist of bank money.

As a consequence, central banks, in contrast to what is widely believed, have lost control of the money supply – to the detriment of the public purse and with far-reaching destabilising effects on the financial markets, public and private finances, on banking itself, and ultimately on the entire economy. A major factor in the run-up to the present crisis was a wildly overshooting money supply, the most part of it for the purpose of creating leverage for investment-banking activities in financial markets, and for funding ever higher, ultimately unsustainable levels of public debt.

There is a number of restrictions to the creation of bank money, but these are always short-term and do not pose a hindrance in the long run. For creating 100 units of money on account, the banking sector needs to refinance just a fraction of 2.5% in sovereign money (cash and central-bank reserves).[2]

The amount of newly created money which adds to the stock of money in circulation, as much as the refinancing costs avoided, represent private seigniorage to the benefit of the banks, particularly the big banking corporations. This corresponds to seigniorage foregone to the public purse where it rightly belongs, seen from a constitutional point of view.

The monetary prerogative is a sovereign right ranking among other such rights of constitutional importance, such as e.g. the exclusive legal prerogatives of legislation, public and territorial administration, of jurisdiction, the monopoly of force, or the monopoly of taxation. In the United States, Sec. 8 of the Constitution, Powers of Congress, states: 'The Congress shall have power to coin money, regulate the value thereof, and of foreign coin'. Congress and governments, however, have subsequently missed extending that sovereign right of 'coining' explicitly not only to banknotes, but also, and much more important today, to money on account and on mobile devices.

A sovereign nation-state, or community of nation-states, needs to have monetary sovereignty, hence create plain sovereign money of its own, under full control of a monetary authority, e.g. an independent central bank that is in charge of the money. This involves a separation of powers among state authorities as well as between the public-law central bank and the private-law commercial banking sector: The central bank's business is providing the money and controlling the quantity thereof, whereas the bank's business is financing economic activities of all sorts without, however, creating for themselves the money they need for doing so.

This would result in regaining effective control of the money supply, thus stabilizing business cycles and financial-market cycles, avoiding overstretched levels of financial investment and debt, as well as harmful levels of consumer inflation, asset bubbles and asset price inflation, e.g. in real estate, equity, and other asset classes.

As to the operational details of monetary reform, the committee should not too narrowly be focusing on the now historical approaches of the Chicago plan (Simons, Knight, Friedman) or 100%-money (Fisher) and similar approaches to full reserve banking. The committee should equally consider today's operationally more advanced approaches of plain sovereign money such as campaigned by the Swiss popular initiative for monetary reform[3], Monetative in Germany[4], Positive Money in the United Kingdom, New Zealand, and Ireland[5], as well as by the American Monetary Institute.[6]

Sincerely,
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[1] Among these: Joseph Huber and James Robertson, Creating New Money. A Monetary Reform for the Information Age, on behalf of New Economics Foundation, London 2000. Available at http://www.monetative.de/ wp-content/uploads/creating-new-money-original-version-2000.pdf

JH, Vollgeld, Berlin: Duncker & Humblodt 1998. – JH, Monetäre Modernisierung. Zur Zukunft der Geldordnung, Marburg: Metropolis, 3rd revised edition Nov 2012. – And others more.

[2] That figure refers to the eurozone, but is certainly similar in all OECD countries.

[3] http://vollgeld.ch/category/momo-verein-monetare-modernisierung

[4] http://www.monetative.de/?page_id=71

[5] http://www.positivemoney.org/

[6] http://www.monetary.org/