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Review of the Parliamentary Resolution on Reforming the Mechanism of Money Creation

145th congress 2015 to 2016. Document no. 171 – 169^{th} issue

In my capacity as a long-standing expert in monetary systems and reform I warmly welcome and strongly support the parliamentary resolution on reforming the mechanism of money creation.

The approach offers a unique opportunity for the Icelandic nation to regain sovereign control of its currency and stock of money, including the benefit of full seigniorage from money creation which helps balance budgets and keep down domestic public debt.

The envisaged measure is moderate and balanced. It allows the monetary and financial institutions involved, their personnel and infrastructure to remain what they are, except for the bankmoney (deposit money) that would be phased out and replaced with central-bank money, so that the central bank, rather than the individual banks, would create all means of payment for the transactions of banks and nonbanks alike. The connection to international payment systems as well as domestic payment procedures would basically remain the same, too, whereby an amendment would have to make sure that a money transfer to a customer ends up in the respective customer money account rather, as is the case today, just in the central-bank account of the customer's bank, while the customer gets but a promissory credit entry (a largely unfulfilled bank liability to the customer).

As the central bank would attain full control of the domestic stock of money, and both long-term seigniorage to the public purse as well as short-term credit to the banks can be used as a way of channelling money into circulation, there would never be shortage of money; and no money overshoot either as the basic benchmark for money creation would be the demand for GDP-contributing finance and real productivity at full structural capacity, complemented by inflation, asset inflation and interest rates as key indicators.

Usual reactions on the part of banks and central banks – for example, that monetary reform might be not be connective to international payment systems and thus be unfeasible in a single country, that banks would face difficulty in obtaining the necessary means for funding credit and other proprietary business, that there would be credit monitoring and credit guidance, and less business opportunities – do not apply and are apparently due to an ill-informed understanding of what the reform actually is about and what precisely it entails.

Monetary reform is about sovereign control of the currency, it is not about controlling the banking business, and just as little about reregulating financial markets.