Presenting Monetary Reform to Newbies and Others

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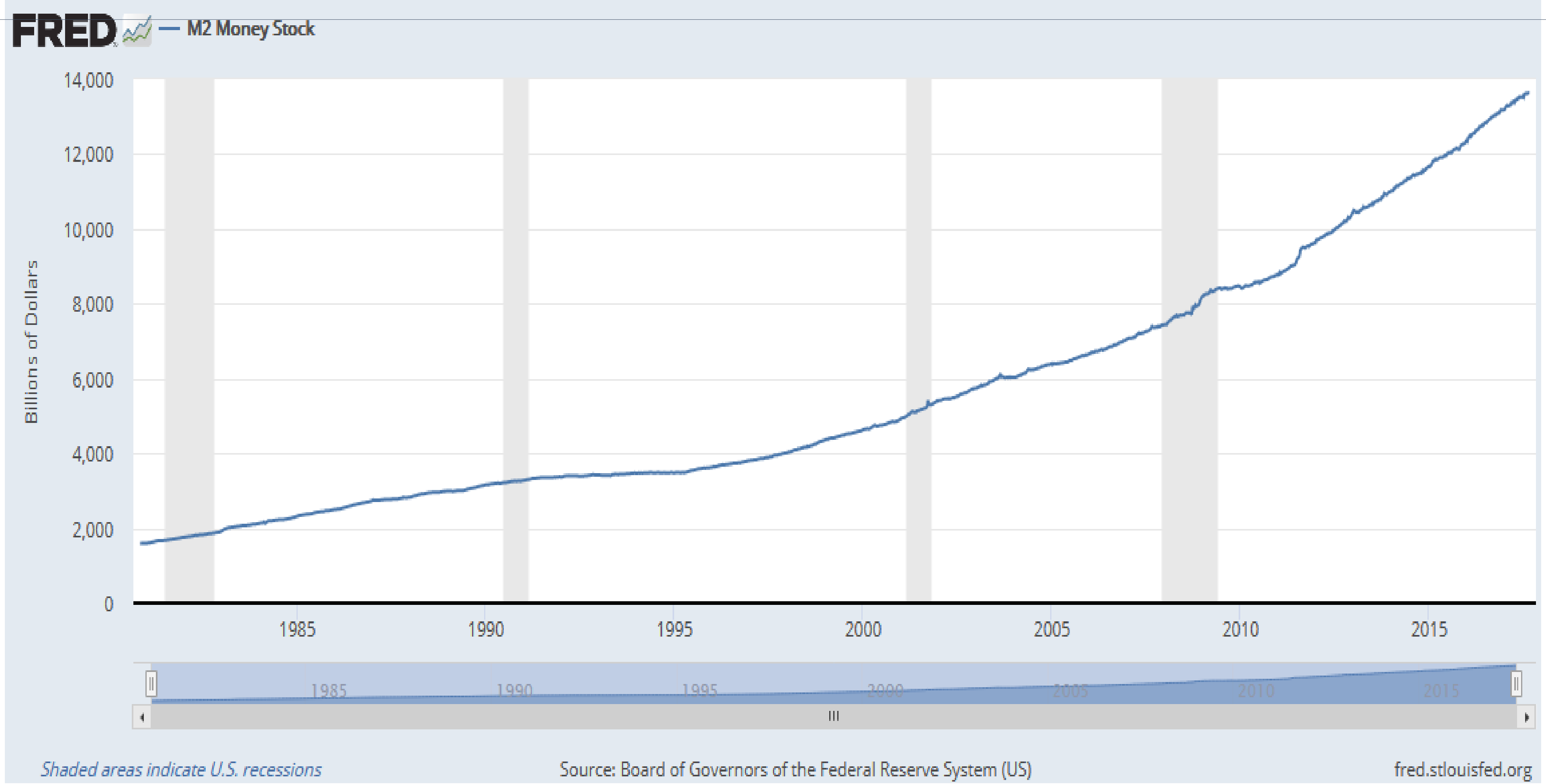
Outline of talk

1. How I present monetary reform to audiences
2. A pitch I made to a group in Cleveland on the Green New Deal and monetary reform
3. Some observations about monetary reform involving inflation, taxes, growth, and wealth inequality

Money is being created all the time – over ¾ of a trillion dollars within the last year.



Who created most of this new money?

a. The U.S. government

b. The Federal Reserve banks

c. Banks (where we have our checking accounts)

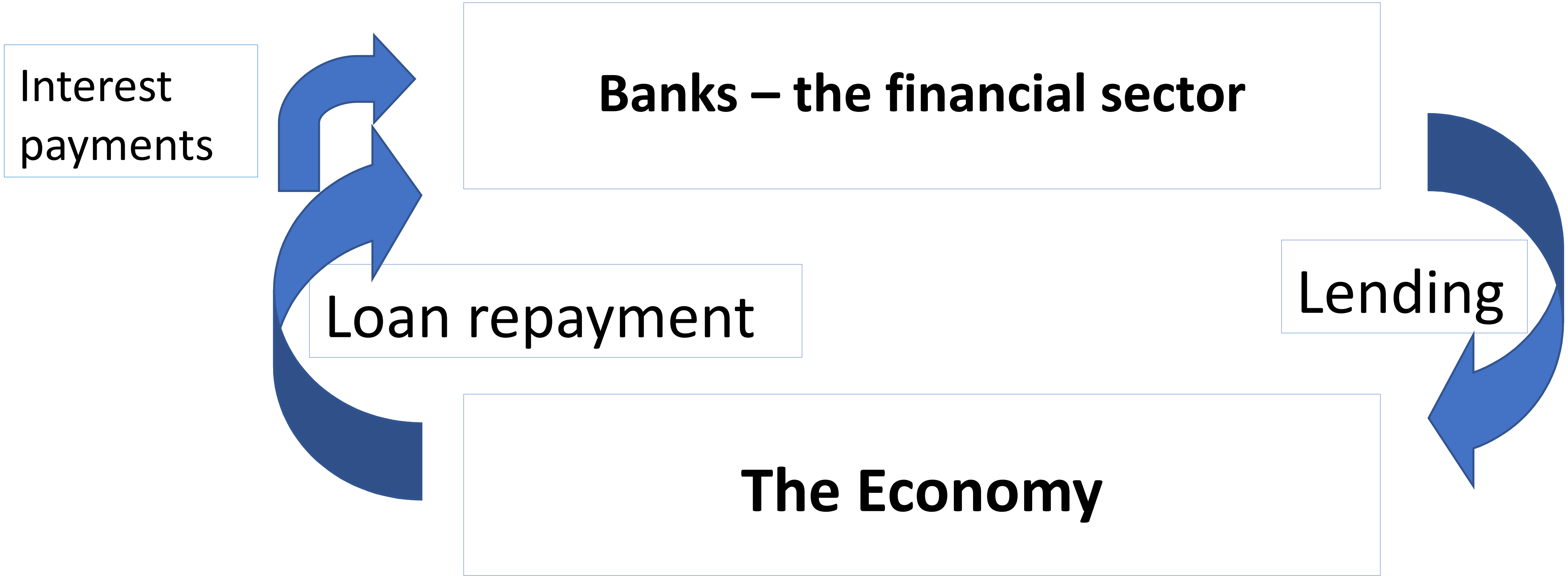
d. I don't have a clue.

Money comes either from banks or from the government.

Government can create money.

Banks can create credit which we use as money. Yo-yo money.

Big Picture of the Money Flow



1. The money supplies varies, depending on lending rates and repayment rates.

2. Where does the <u>borrower</u> get the money to pay the interest?
Where does the <u>economy</u> get the money to pay the interest?

How do banks create money?

In order understand this you have to understand

Bank balance sheets

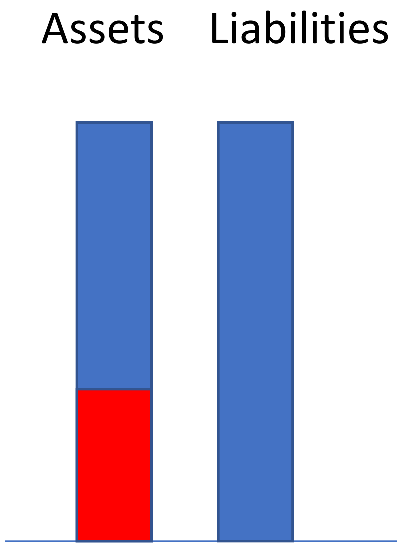
<u>Assets</u>

Cash (reserves)

Securities

Loans outstanding

Physical facilities



<u>Liabilities</u>

Deposits

Capital (equity)

Assets: what the bank owns or is owed to the bank;
Liabilities: what the bank owes to others

Table 1. Commercial Banks Assets and Liabilities on December 2013

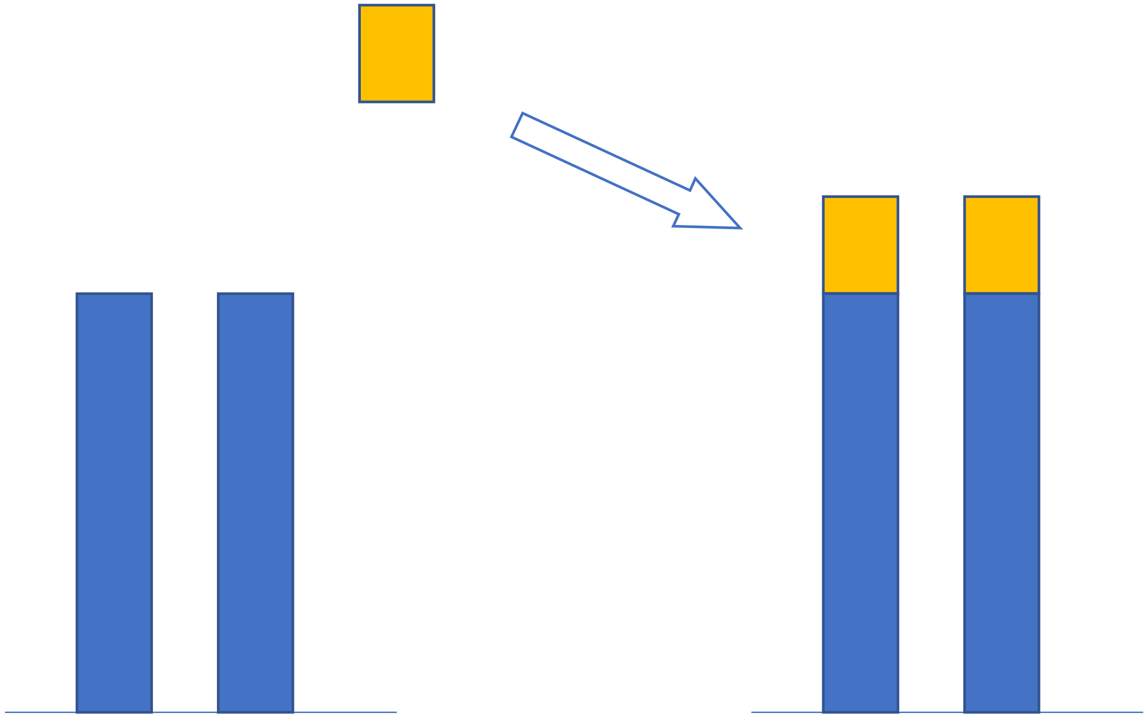
Assets in billions of dollars		Liabilities in billions of dollars	
Securities in bank credit	2,515.0	Deposits	
Loans			
Commercial and industrial loans	1,334.2	Large time deposits	702.8
Real estate loans	3,498.2	Other deposits	8,114.2
Consumer loans	1,155.8	Borrowings	
All other loans and leases	756.5	Borrowings from U.S. banks	97.1
Allowance for loan and lease losses	*(123.3)*	Borrowings from others	840.3
Fed funds	81.8	Trading liabilities	116.7
Loans to commercial banks	8.9	Net due to related foreign offices	40.5
Cash assets	1,379.1	Other liabilities	360.1
Trading assets	119.9		
Other assets	1,060.0	Capital	1,514.6
Total assets	11,786.2	Total Liabilities plus capital	11,786.3

Source: Board of Governors of the Federal Reserve System. February 7, 2014. Assets and Liabilities of Commercial Banks in the United States (Weekly) - H.8. Available at http://www.federalreserve.gov/releases/h8/current/default.htm (access date: 02/12/14).

How do banks create money?

Balance sheet of a bank making a loan

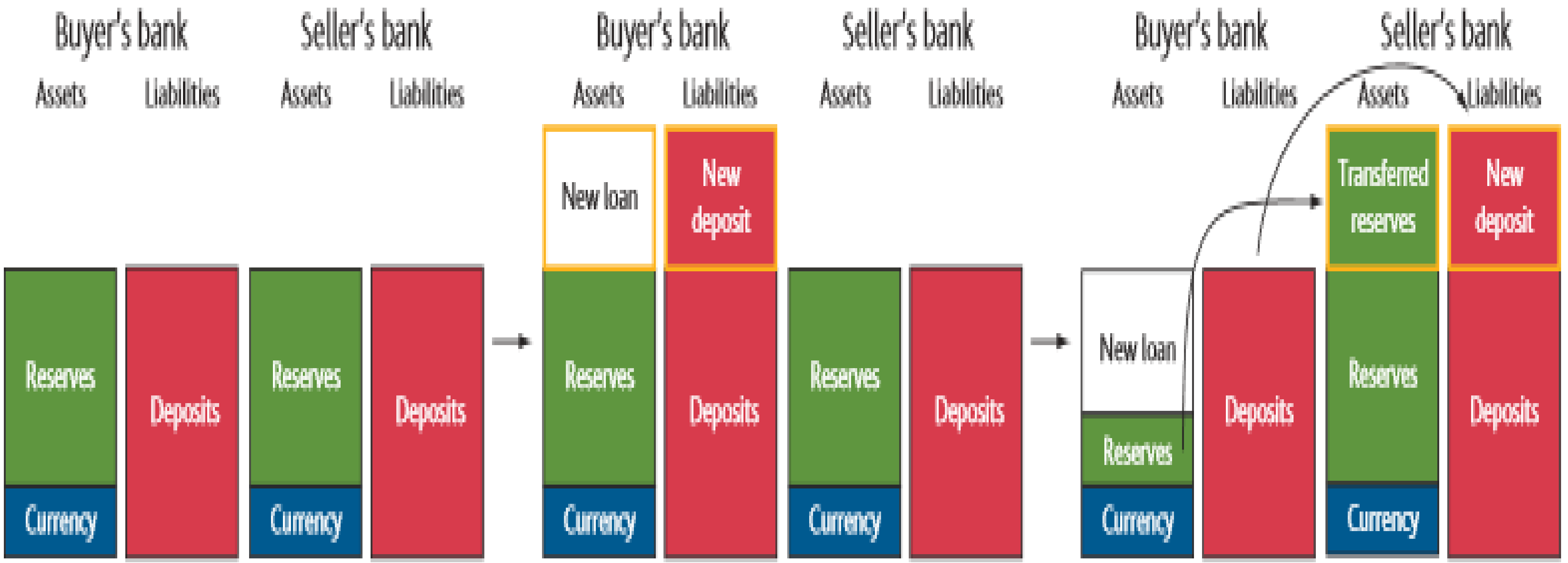
Balance sheet of a bank receiving a deposit



before after

From M. McLeay, et al. Money Creation in the Modern Economy, *Quarterly Bulletin* (Bank of England), 2014, Q1, pp. 14-27

Changes to the balance sheets of the house buyer and seller's banks



Balance sheets before the loan is made.

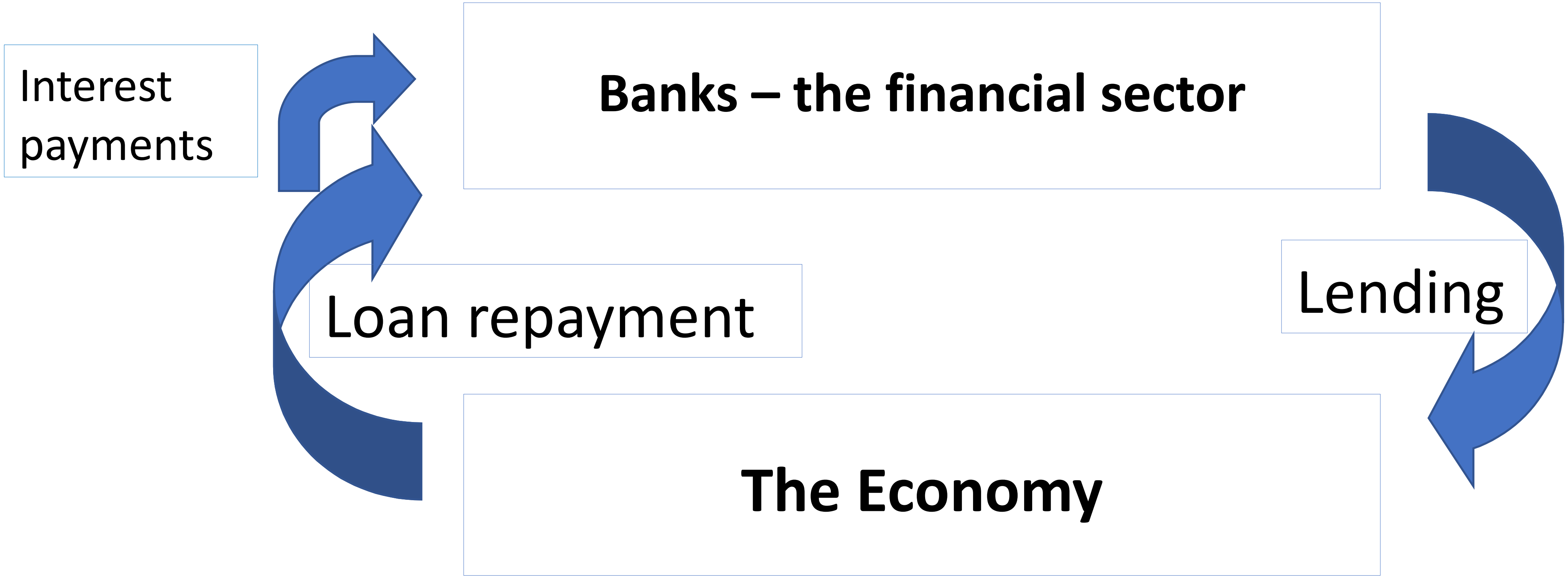
The mortgage lender creates new deposits...

...which are transferred to the seller's bank, along with reserves, which the buyer's bank uses to settle the transaction.

Consequences of the current bank-money system

1. Interest paid on every dollar in circulation = concentration of wealth within the private sector – which means concentration of power.
2. Instability of the entire economic system – booms and busts, the uncertainty for business and the suffering from job losses
3. Unsustainability of an economic/monetary system which depends upon growth
4. Austerity for the public sector – poor schools, poor government services, deteriorating infrastructure, a stagnant economy

Big Picture of the Money Flow



1. The money supplies varies, depending on lending rates and repayment rates.

2. Where does the borrower get the money to pay the interest?
Where does the economy get the money to pay the interest?

An alternative monetary system – sovereign money

Shifts money creation from the private banks to the federal government.

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The National Emergency Employment (NEED) Act introduced into Congress in 2011 by Representative Dennis Kucinich makes this change.

Government under the NEED Act

1. Will have, in effect, a new revenue source.
2. Will annually provide 25% of the new money created to the states on a per capita basis.
3. Will pay off the federal debt as it becomes due.
4. Sets up a mechanism to regulate new money creation so as to maintain the value of the currency, i.e., to minimize, and possibly eliminate, inflation.
5. Can provide funding for needed federal programs.
6. Can provide a direct citizens dividend.
7. Can adapt to increases or decreases within the economy without the threat of recession or depression.

Banking under the NEED Act

1. Bank lending through Intermediation. Money deposited with banks as **savings accounts (time deposits**) and as **equity** will be lent out as mortgages, car loans, business loans, etc.

2. Payment systems. Money deposited in banks as **transaction (checking) accounts** will not be loaned out; it will be held in “bailment,” fully accessible to depositors for making payments, and backed directly by the federal government.

3. Banks will no longer be bailed out if they fail. The need for that will be gone, since the payment system will no longer be threatened by bank failure.

Results of monetary reform

1. Slowing of the concentration of wealth – no longer interest paid to banks on all the money in circulation.
2. A stable economy allowing businesses to plan – no more boom and bust
3. A sustainable monetary system – one that does not need growth for its stability
4. An end to government austerity – opportunities for fixing the infrastructure, addressing climate change, education, healthcare, etc.

How to pay for the Green New Deal and other needed programs

Estimated cost of proposed programs

Green New Deal	*$5 trillion/year for 10 years*
Universal Basic Income	*$3 trillion/year*
Medicare For All	*$1.2 trillion/year*
Free tuition/student debt forgiveness	*$0.125 trillion/year*
Infrastructure	*$0.433 trillion/year for 10 years*
Paid family leave	
Social Security expansion	
Total	***$8.758 trillion/year***

<u>**2019 US budget**</u>	<u>**$4.4 trillion/year**</u>
Estimated cost of new programs	**$8.8 trillion/year**

Estimate by DavId Pakman of how much could be squeezed out of new or increased taxes	**$3 trillion/year**

Enacting all of these new taxes still leaves a gap of $5.8 trillion per year.

Withing the current system, What about more government borrowing?

Could the government borrow an additional $5.8 trillion per year to cover the gap?

In 2019 the government borrowed about $0.9 trillion (the annual deficit).

The current federal debt is $22 trillion. The interest on that debt is the 3rd largest government expenditure, behind only healthcare and defense.

Approaches to funding the gap

1. **Sovereign money – government created money replacing bank creation of money (e.g. the National Emergency Employment Defense Act introduced into Congress in 2012)**

2. **Government borrowing from the Federal Reserve banks in the form of low, or zero, interest loans, never to be paid back**

3. **Public banking – nationalizing the big banks, which could then lend to the government at low, or zero interest rates, rolling those loans over each year (= never paying off the principal)**

(For #2 and 3 see Ellen Brown's book, <u>Banking on the People</u>, (2019))

Conclusions (of the talk gave in Cleveland**)**

1. Now is the time to seek opportunities for a better world during this period of political chaos and fear that seems to surround us.

2. Now is the time to be considering the monetary system – its centrality and the role its reform can play in bringing us a better and sustainable world.

Many thanks

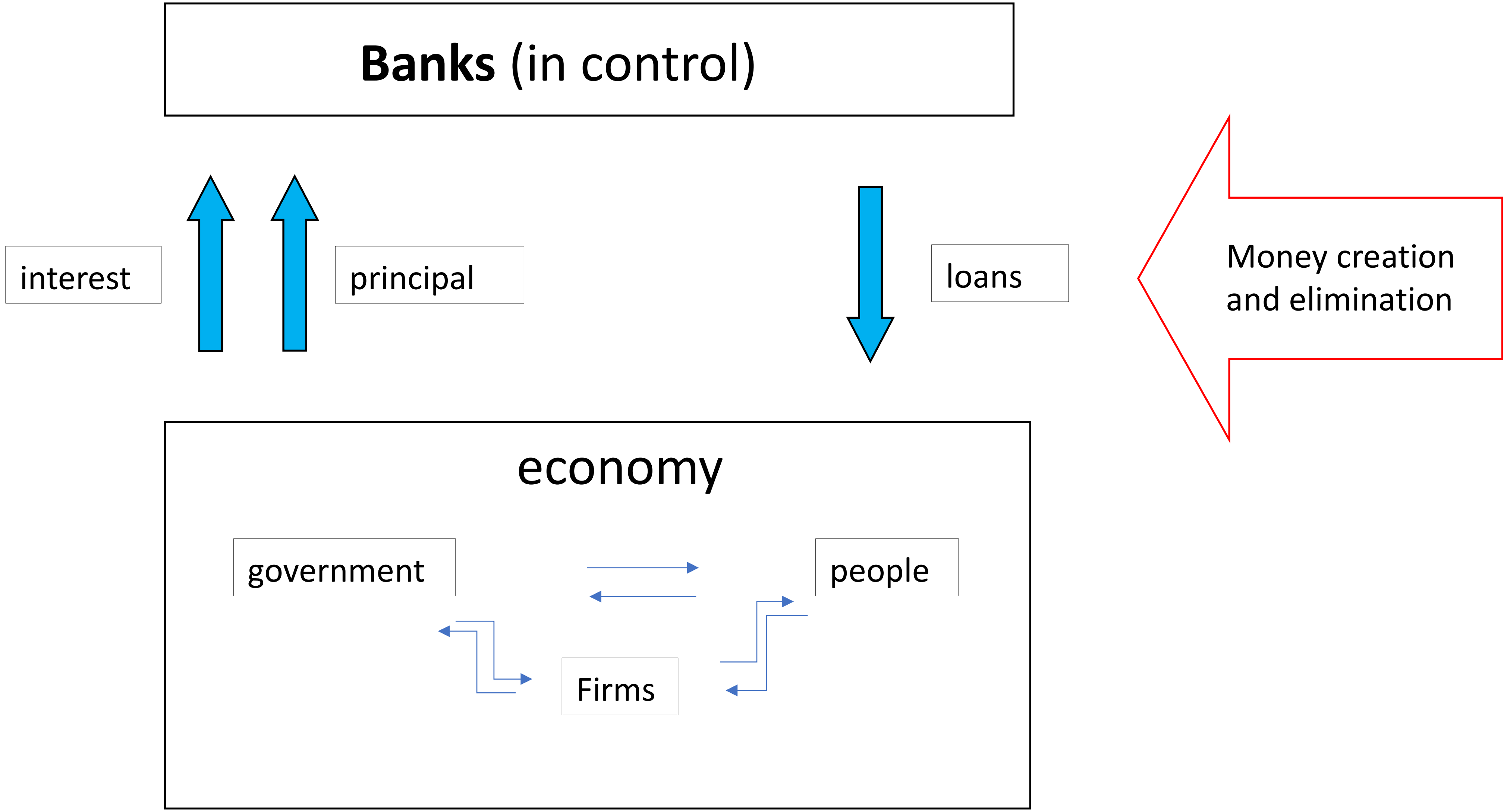
To Greg Coleridge for introducing me to the topic of monetary reform.
To the American Monetary Institute where my thinking matured.
To the Athens Monetary Literacy Group for their contributions to my thinking.
To the Alliance for Just Money for its commitment to action.

Some thoughts on Monetary reform:

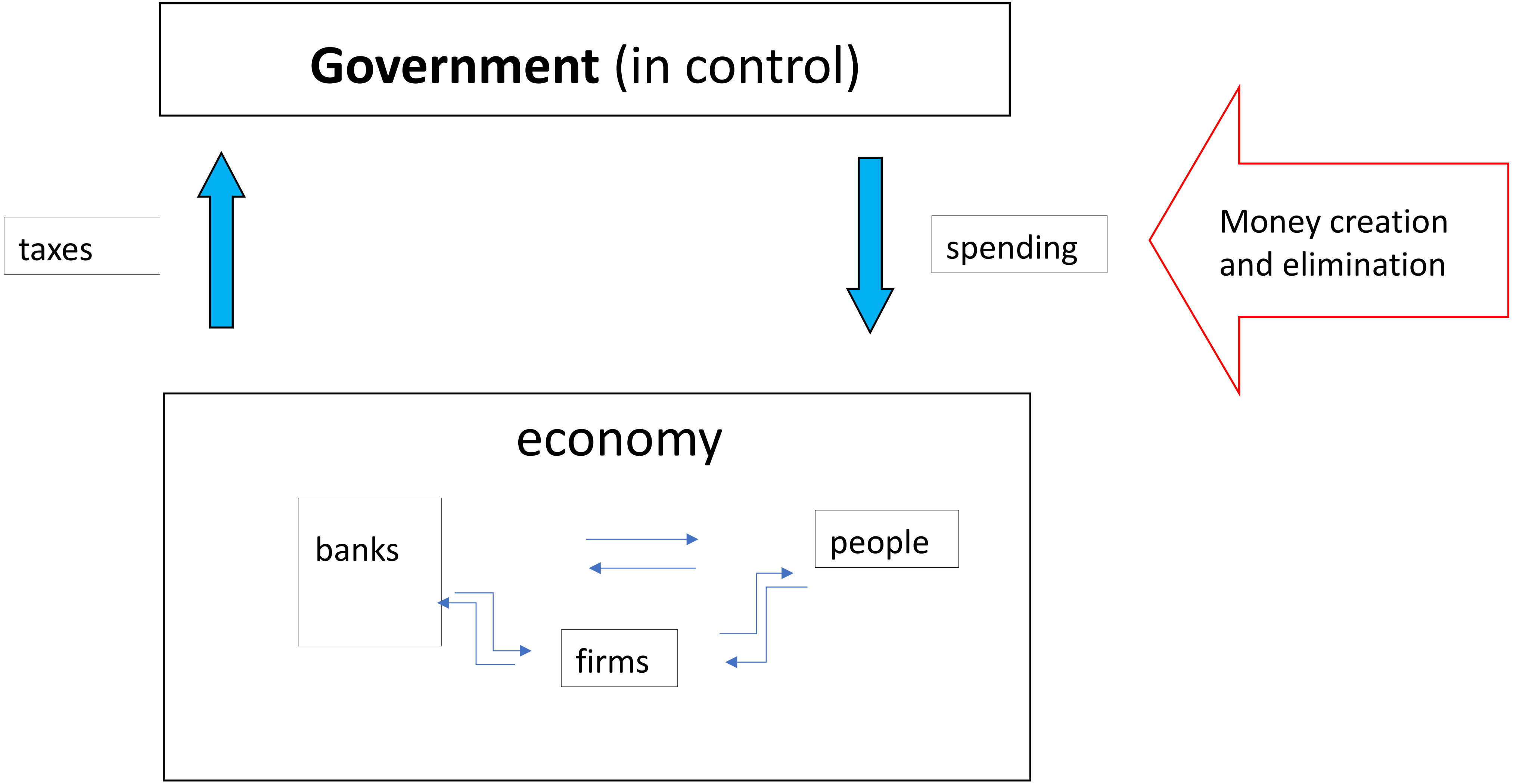
a. taxes, inflation and growth

b. maldistribution of income and wealth

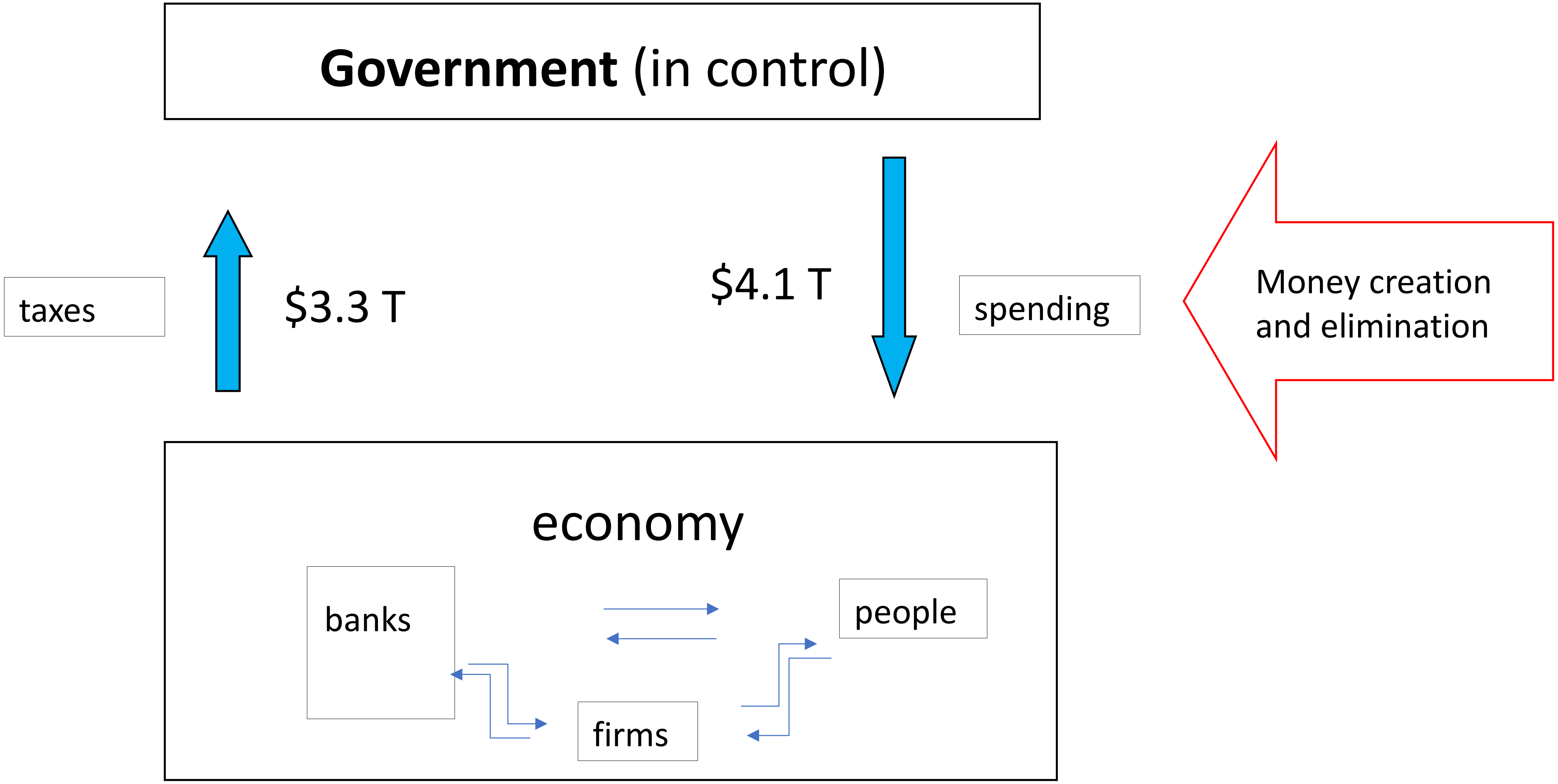
The current system of money creation and circulation



The system of money creation and circulation under monetary reform

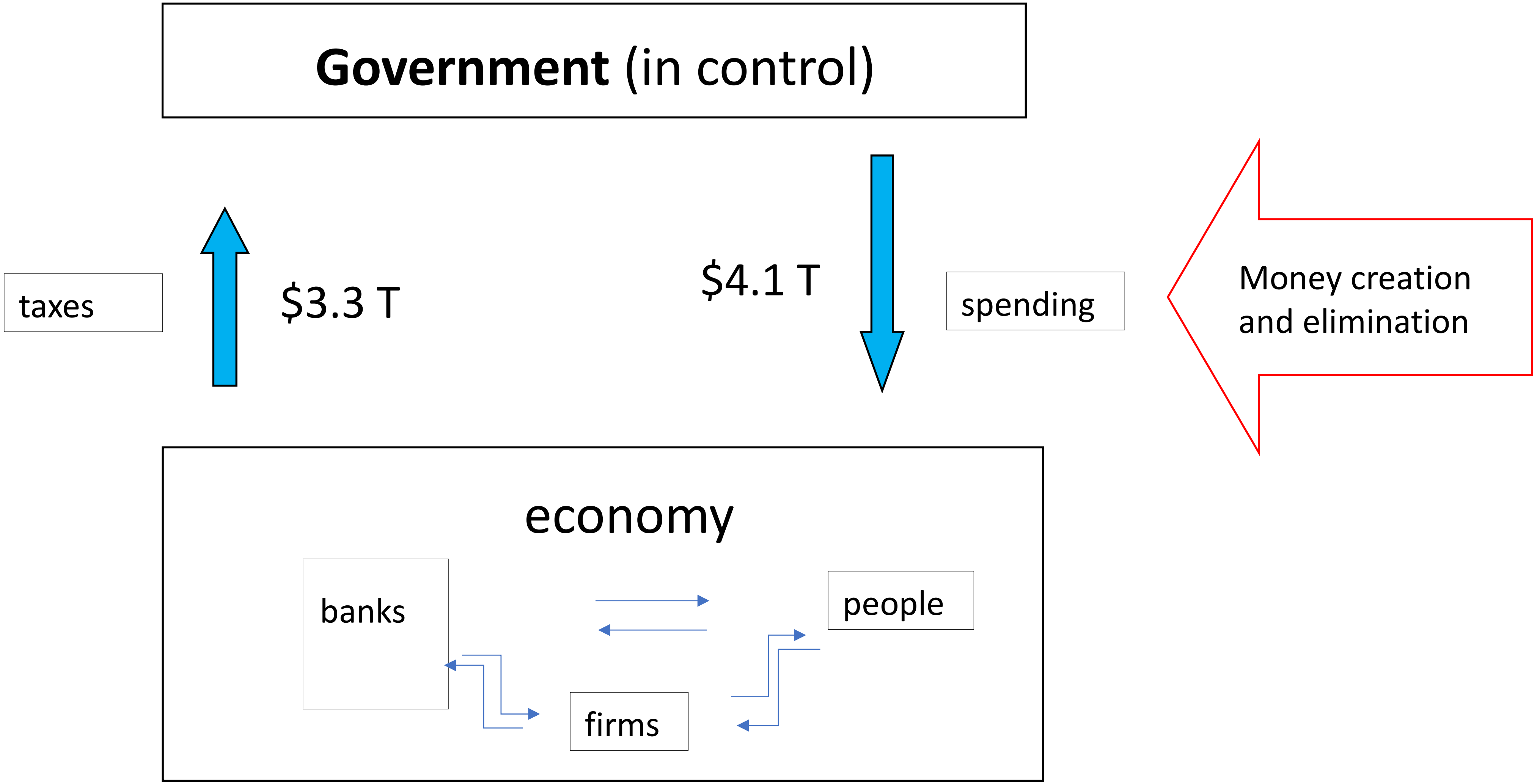


2018 under monetary reform



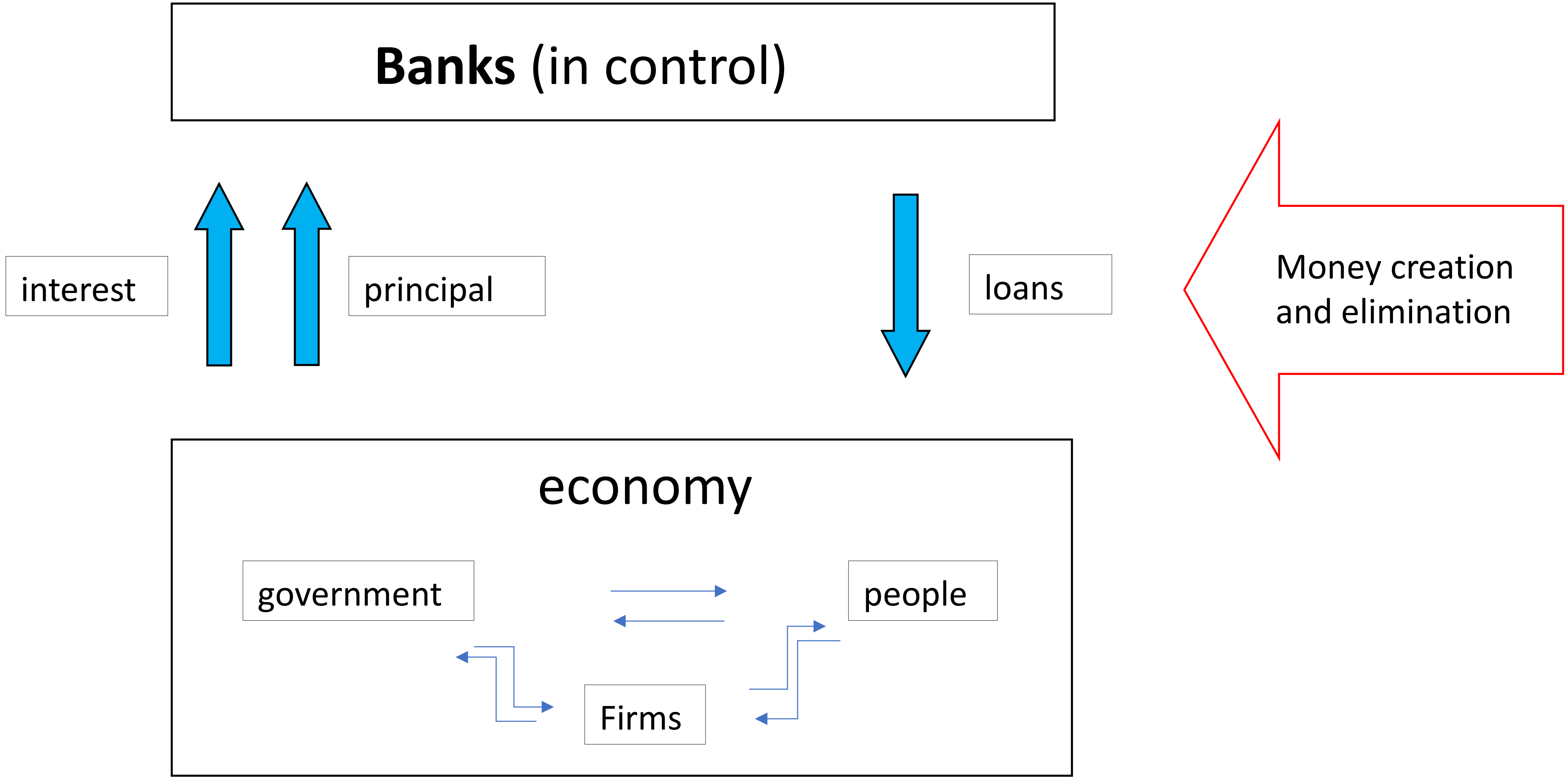
The money supply would have increased by $0.8 T (5.5%). the actual increase was $0.6 T (4.2%)

2018 under monetary reform



If $1 T more had been spent (GND), the money supply increase would have been 12.5% .

The current system of money creation and circulation



Where markets are not competitive, effective monopolies can raise prices, and inflation can occur as wealth is transferred from the people to the owners of firms and to those who profit directly from firms by being stockholders, whether the economy is growing or not.

This will be true under MR as it is now, if it is not addressed by legislation and regulations to make markets competitive.

Therefore:

1. Under MR large increases in government spending, such as for the GND, the rate of government spending should not exceed the capacity of the economy to use it for increasing goods and services. That means it should not occur too rapidly. Otherwise inflation is likely to occur.

2. To avoid inflation and excessive wealth concentration, whether the economy is growing or not and under any monetary system, markets must be kept competitive. Monopolies or monopolistic practices must be prohibited. In cases where it makes sense to have a single supplier, that supplier must be publicly owned; it must be a public, non-profit utility.

3. MR is essential in order to achieve a stable, non-growing economy consistent with the limits of a finite planet. We cannot continue with a money creation system that demands growth.

Conclusions

1. Under MR taxes must accompany government spending in order to avoid increases in money supply beyond that which the economy can match with increased production of goods and services.

2. In the future the economy must be able to accommodate no-growth, and, when that happens, the rate of government spending must equal the rate of taxation in order avoid inflation.

3. Reduction of the extreme wealth inequalities will require more than monetary reform. It will require fiscal steps, e.g., elevated taxes on the wealthy and government spending that benefits the poor more than the wealthy.