PositiveMoney

THE PROGRESS SO FAR

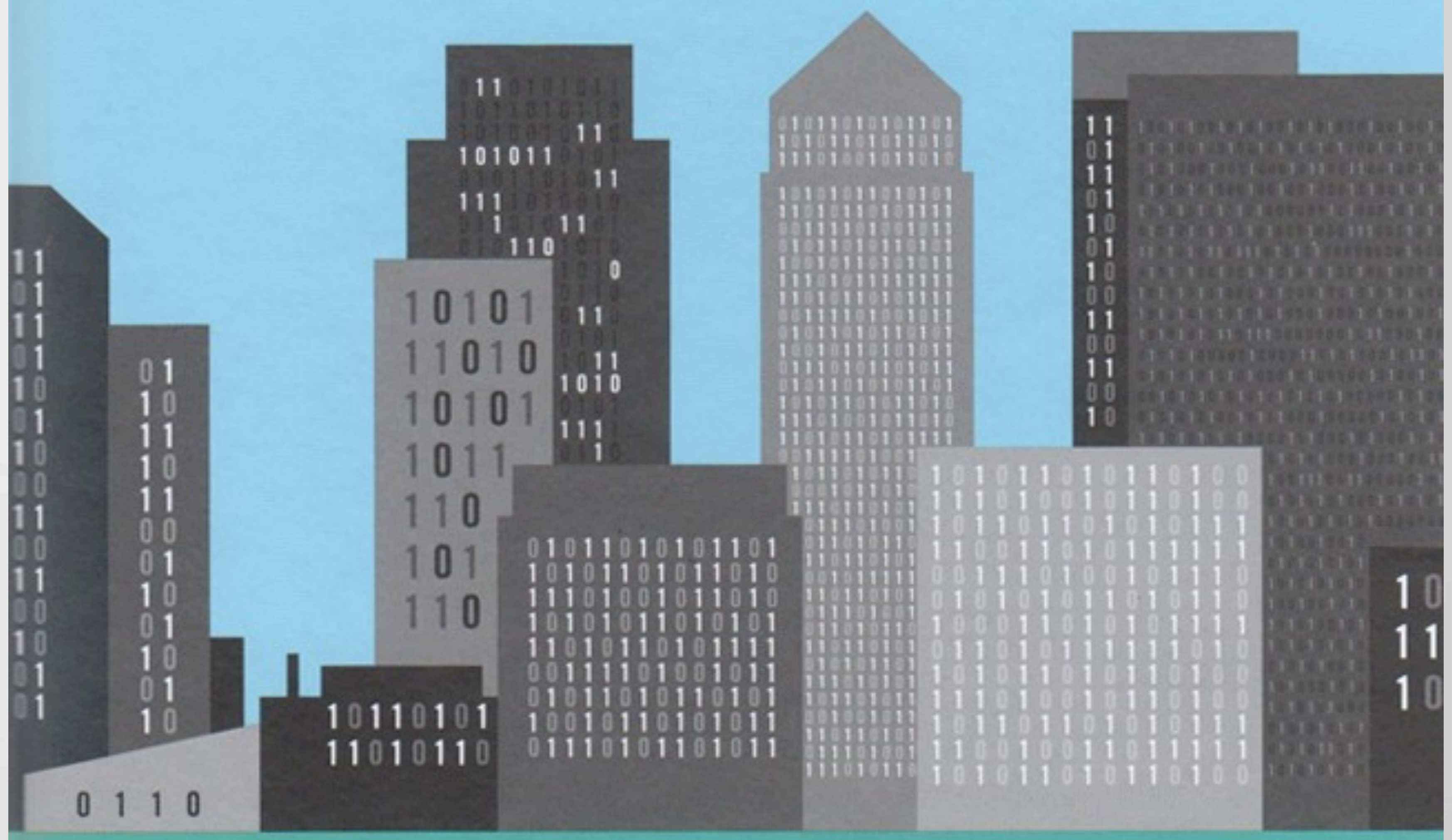
Nearly 3 years in...

"I don't believe you. I think you just made that up..."

JOSH RYAN-COLLINS, TONY GREENHAM, RICHARD WERNER, ANDREW JACKSON
FOREWORD BY CHARLES A.E. GOODHART

WHERE DOES MONEY COME FROM?

A GUIDE TO THE UK MONETARY AND BANKING SYSTEM



"...A CLEAR PATH THROUGH THE COMPLEX THICKETS
OF MISUNDERSTANDINGS OF THIS IMPORTANT ISSUE"
PROFESSOR CHARLES A.E. GOODHART

Opinion

THE LAST WORD January 20, 2013 3:26 am

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Pre-school lessons for the bankers

By Pauline Skypala

Banks, and other financial services companies, may be allowed into UK schools to help teach personal finance, under proposals put forward by MPs, the FT reported recently. Moreover, they would be allowed to use branded material in the classroom.

Predictably, given the prevailing view about banks and bankers as public enemy number one, most of the online comments on the story are sceptical about the ability of bankers to deliver any lessons of value. What are they qualified to teach, given the parade of dubious products and services they have persuaded customers to buy, and their abject failure to run their own businesses soundly?

Banks and bankers need to address their own educational needs before they are let anywhere near schoolchildren.

Their first lesson must be on what money is and where it comes from. There is some disagreement about both: some say money is simply an enforceable promise to pay, and governments created money by requiring citizens to pay taxes in coin. Others say it derives from barter, and money can be anything accepted in exchange for goods or services, including shells, cigarettes, etc. The Economist last year carried an interesting discussion on the origins of money and the possible implications of one particular theory for the dollar and the euro.

The question of who, or what, creates money today is the subject of even more debate. Is it the government, central banks or private banks? The average man or woman in the street would probably, and wrongly, name the first, although recent widespread use of quantitative easing may have raised awareness of central bank powers in this respect. Few would venture the opinion that most money in circulation is created by private banks when they make loans, but this view is gaining currency, although it remains controversial.

Banks may not be keen for customers to understand that they can create money out of nothing and then charge for it, if that is indeed what they do. They prefer to be seen as intermediaries, lending out money deposited with them and profiting from the difference between interest charged to borrowers and interest paid to depositors. This is how their activities are typically described.

More

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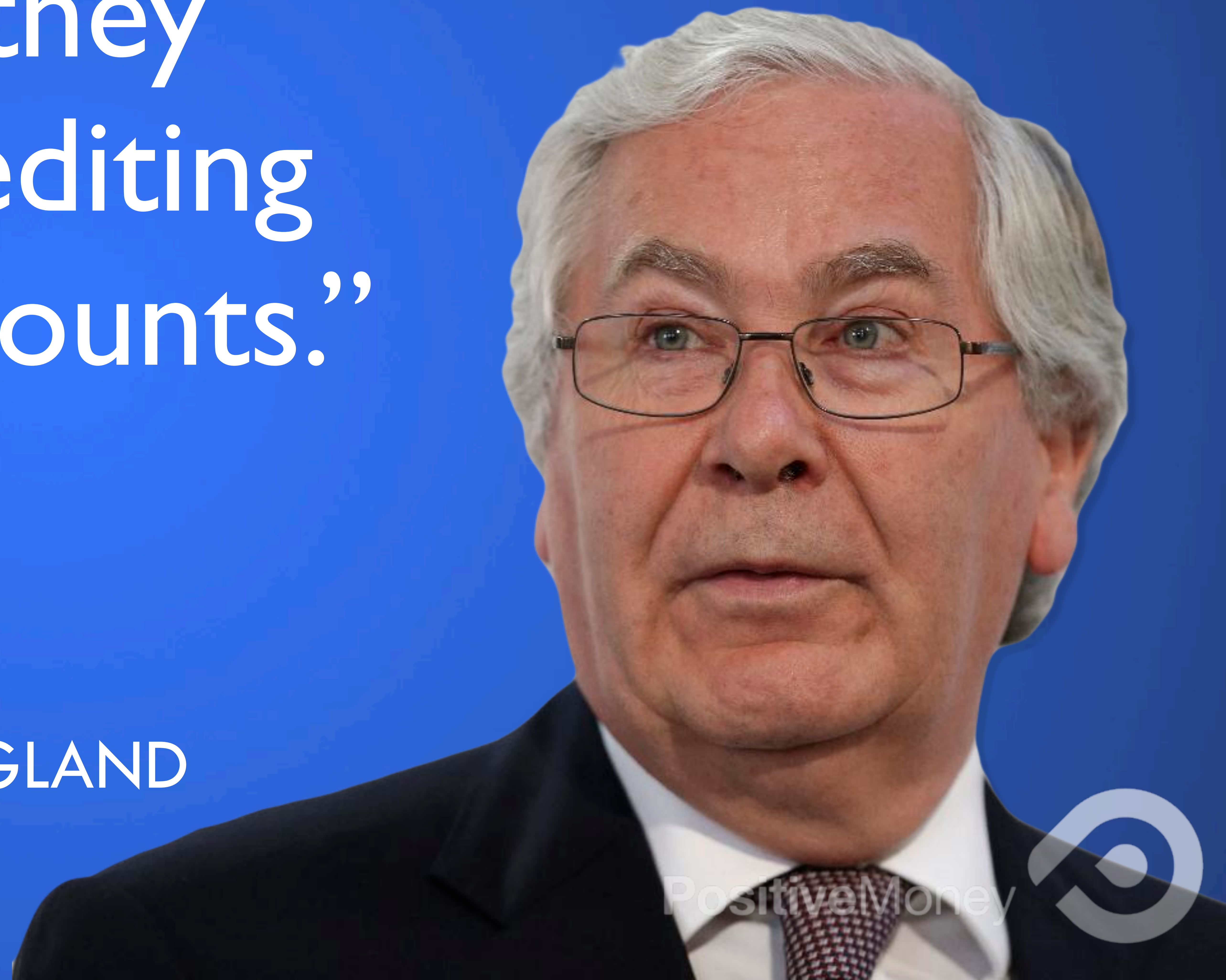
"When banks extend loans to their customers, they create money by crediting their customer's accounts."

SIR MERVYN KING
GOVERNOR OF THE BANK OF ENGLAND
23RD OCTOBER 2012



Institute for
New Economic Thinking

Full speech: search for "Adair Turner INET Hong Kong"

August 24, 2012 5:42 pm

Euro defies gravity – but not for much longer

By Merryn Somerset Webb

To keep eurozone broad money supply from contracting will take a whopping €3tn

Late in 1958, Per Jacobsson, the very distinguished economist and then managing director of the International Monetary Fund, had a conversation with General de Gaulle. When he reported the talk later, he said he had given the general a vital piece of advice. "I do not think," he said, "that there will ever be esteem for a country that has a bad currency".

He went on to explain recent French monetary policy like this: "In 1802 Napoleon gave France the gold franc. And this gold franc remained unchanged until 1914 – to the outbreak of the First World War. It survived the two lost Napoleonic wars; the war of 1870-71; it survived the revolutions of 1830 and 1848; and all the changes of government during the Third Republic."

The point he was trying to make was simple and while he was referring particularly to the French ("an intelligent, hardworking and thrifty people" to his mind) it is one that stands for most populations: "If you give them monetary stability they can stand a great deal of political instability . . . but both political and monetary instability . . . that is too much."

It makes sense – think of what monetary instability (and hence a bad currency) means. It means capital flight – everyone dumping the bad currency for one they consider good; it means inflation; it means hoarding of real assets; and it usually means some kind of expansion of the state (as the government tries to control the side effects of having a bad currency with price controls and the like).

More

MERRYN SOMERSET WEBB

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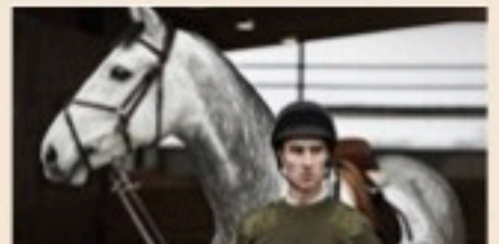


FT FUNDS

TREASURY ‘GETTING IT’:

3 /19270/2011 EC MCS

FINANCIAL SECRETARY TO THE TREASURY

10 DEC 2011

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Sheryll Murray MP
House of Commons
London
SW1A 0AA

7 December 2011

Dear Sheryll

Thank you for your letter of 16 November enclosing correspondence from your constituent, [redacted] about Banking Reforms. I am replying as Minister responsible for this policy area.

In regards to your constituent's question about money creation, the Bank of England alone has control over the monetary base, which consists of currency (banknotes and coins) and reserves held by commercial banks at the Bank of England. Commercial banks are responsible for extending credit to individuals and businesses and have no authority to create or print money, digital or otherwise.

When commercial banks make loans, they also create deposits, which are included in M4. M4 is a broader measure of the money supply, including certificates of deposit; commercial paper, bonds and other financial instruments. Commercial banks' ability to lend is constrained by the need to ensure they retain sufficient liquidity to meet the demands of their creditors. Further information about the monetary base and M4 can be found on the Banks' website:
http://www.bankofengland.co.uk/mfsd/iadb/notesiadb/content.htm

The current system does not permit the uncontrolled expansion of the money supply. The UK has an inflation target of 2 per cent annual inflation as measured by the Consumer Prices Index. The Monetary Policy Committee of the Bank of England sets Bank Rate, the interest paid on commercial banks' deposits at the Bank of England, in order to achieve this target. An increase in the interest rate increases the incentive to save and makes it more expensive to borrow: the money supply adjusts accordingly.

Please pass on my thanks to Mr Schofield for taking the trouble to make us aware of these concerns.

Yours sincerely
Mark

MARK HOBAN

1 /07440/2013 EC MCS

ECONOMIC SECRETARY TO THE TREASURY

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Chi Onwurah MP
25, 7-5 Pink Lane
Newcastle upon Tyne
NE1 5DW

- 4 MAR 2013

Dear Chi,

Thank you for your letter of 4 February enclosing further correspondence from your constituent, Mr Richard Shelley of 24 Cottenham Chare, Newcastle upon Tyne, about banking. I am replying as Minister responsible for this policy area.

As noted in my earlier correspondence under fractional reserve banking commercial banks do not need to hold deposits wholly in cash. Instead, banks maintain a fraction of deposits in cash reserves and lend out the remainder. They remain obliged to redeem all deposits on demand.

This system is fundamental to the availability of credit in the economy. The Independent Banking Commission has stated that "A complete move from fractional to full reserve

Centre for Central Banking Studies

Handbook – No. 27 Liquidity forecasting

Simon T Gray

BANK OF ENGLAND

Liquidity forecasting

What is liquidity and why do central banks care?

Liquidity — in terms of a monetary aggregate rather than ease of trading an asset — can be defined as narrow (or high-powered or central bank) money at one extreme; or the widest definition of broad money aggregates at the other. Both are of interest to central banks, as they have implications for both monetary and financial stability.(1) Increasingly

(ii) that the central bank may need to react in order to continue implementing an appropriate monetary policy stance.

If there is a shortage of liquidity, then the central bank will (almost) always supply the need. There have been a few occasions where a central bank has not been able to supply sufficient cash to meet the economy's needs — notably when there is hyperinflation or civil unrest (or in one Latin American

“If there is a shortage of liquidity, then the central bank will (almost) always supply the need...As regards a shortage of commercial bank reserves held at the central bank, the risk is that a shortage would mean payments could not be cleared at the end of the day. It is to avoid this risk that central banks have in place credit standing facilities (SFs) — though they will normally aim to supply liquidity via open market operations (OMO) — to avoid spikes in market interest rates.” (Gary, 2008)

Central banks tend to forecast banks' free reserves, and estimate excess reserves (see definitions, below), because they believe:

(i) that a disequilibrium — whether too much or too little liquidity — tends to promote behaviour by banks which the central bank does not want; and therefore

in a number of countries. Banks could try to offset this loss of income by making riskier loans in search of yield (with consequences for financial stability and possibly inflation, if there is excessive lending); or they might refuse to take customer deposits, especially interest-bearing deposits (with consequences for the development of financial intermediation, and possibly inflation if this encourages consumption rather

(1) See for instance 'What is global excess liquidity, and does it matter?', Ruffer, R and Stracca, L (2006), *ECB Working Paper no. 696*.
(2) See for instance, taking the broad definition, 'On the macroeconomics of asset shortages', Caballero, R (2006), *NBER Working Paper no. 12753*.

"I am a teacher of economics and finance with a **BA in Economics and an MBA**, and much of what was said in the documentary 97% Owned was new to me.

I am forced to follow the normal course syllabus, but I would like to present the Positive Money perspective to my students because I think it is **much more relevant to the realities of the world as it is now.**"

A TEACHER

WP/12/202

IMF Working Paper

The Chicago Plan Revisited

Jaromir Benes and Michael Kumhof

INTERNATIONAL MONETARY FUND

The Telegraph

IMF's epic plan to conjure away debt and dethrone bankers

So there is a magic wand after all. A revolutionary paper by the International Monetary Fund claims that one could eliminate the net public debt of the US at a stroke, and by implication do the same for Britain, Germany, Italy, or Japan.

The IMF reports says the conjuring trick is to replace our system of private bank-created money. Photo: Reuters

By Ambrose Evans-Pritchard
2:31PM BST 21 Oct 2012

“IT IS THE NORMAL MONETARY SYSTEM, IN WHICH THE ‘PRINTING’ OF MONEY IS DELEGATED TO COMMERCIAL BANKS, THAT NEEDS DEFENDING. THIS DELEGATES A CORE PUBLIC FUNCTION - THE CREATION OF MONEY - TO A PRIVATE AND OFTEN IRRESPONSIBLE COMMERCIAL OLIGOPOLY.”

MARTIN WOLF

FINANCIAL TIMES

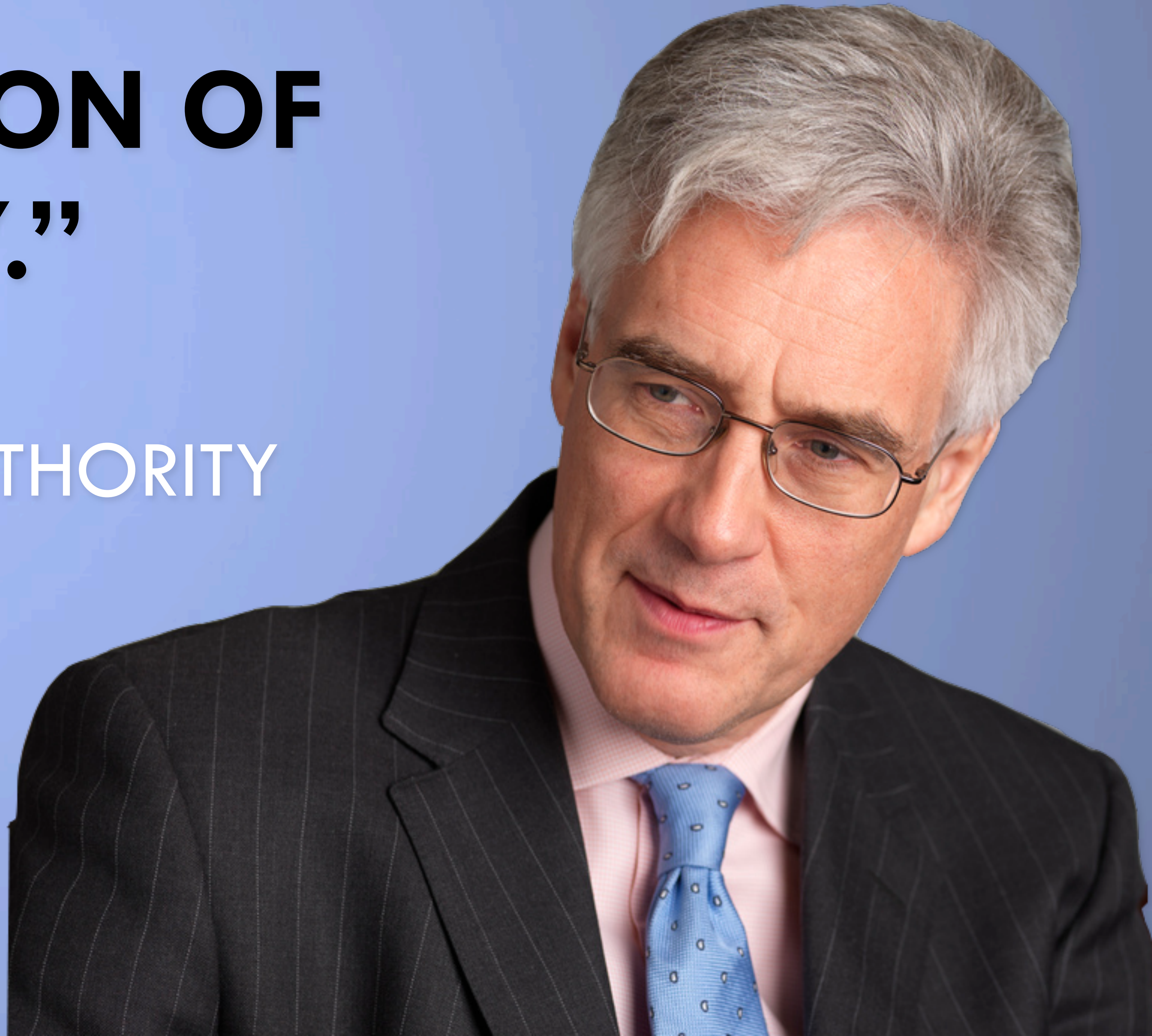
28TH JUNE 2012

"THE FINANCIAL CRISIS OF 2007/08 OCCURRED BECAUSE WE FAILED TO CONSTRAIN THE PRIVATE FINANCIAL SYSTEM'S CREATION OF PRIVATE CREDIT AND MONEY."

LORD (ADAIR) TURNER

CHAIRMAN OF THE FINANCIAL SERVICES AUTHORITY

2ND NOVEMBER 2012



DEBT, MONEY AND MEPHISTOPHELES: HOW DO WE GET OUT OF THIS MESS?

ADAIR TURNER

CASS BUSINESS SCHOOL

6th February 2013

It is five and a half years since the financial crisis began in summer 2007 and four and a half years since its dramatic intensification in autumn 2008. It was clear from autumn 2008 that the economic impact would be large. But only slowly have we realised just how large: all official forecasts in spring 2009 suggested a far faster economic recovery than was actually achieved in the four major developed economies – the US, Japan, the Eurozone and the UK. UK GDP is now around 12% below where it would have been if we had continued the pre-2007 trend growth rate: and latest forecasts suggest that the UK will not return to 2007 levels of GDP per capita until 2016 or 2017. In terms of the growth of prosperity this is truly a lost decade.

This huge harm reflects the scale of pre-crisis financial folly – above all the growth of excessive leverage - and the severe difficulties created by post-crisis deleveraging. And failure to foresee either the crisis or the length of the subsequent recession reflected an intellectual failure within mainstream economics – an inadequate focus on the links between financial stability and macroeconomic stability, and on the crucial role which leverage levels and cycles play in macroeconomic developments. We are still crawling only very slowly out of a very bad mess. And still only slowly gaining better understanding of the factors which got us there and which constrain our recovery.

We must think fundamentally about what went wrong and be adequately radical in the redesign of financial regulation and of macro-prudential policy to ensure that it doesn't happen again. But we must also think creatively about the combination of macroeconomic (monetary and fiscal) and macro-prudential policies needed to ... deleveraging.

“[I]n the upswing of the cycle we should have been massively more worried than we were pre-crisis about the excessive creation of private debt and private money; and...we should be wary of relying on a resurgence of private debt and leverage as our means of escape from the mess into which excessive debt creation landed us.”

LORD (ADAIR) TURNER
CHAIRMAN OF THE FINANCIAL SERVICES AUTHORITY
6TH MARCH 2013

"The success of monetary policy, credit subsidy, and macro-prudential policies depend in large part on the stimulus to private credit and money creation, persuading households to increase mortgage debt or businesses to borrow more money.

...

We got into this mess because of excessive creation of private credit and money: we should be concerned if our only escape route implies building up a future excess."

LORD (ADAIR) TURNER

CHAIRMAN OF THE FINANCIAL SERVICES AUTHORITY

6TH MARCH 2013

“The second option [an alternative to QE] is OMF. It seeks to stimulate demand **directly by putting money into individuals’ or firms’ pockets, whether by tax cuts or by increased public expenditure**. In quantity it would be **far smaller** – perhaps several £10bns rather than £100bns.”

LORD (ADAIR) TURNER

CHAIRMAN OF THE FINANCIAL SERVICES AUTHORITY

6TH MARCH 2013

“[Overt Money Finance] could in some circumstances be essential and in some others **be less harmful than alternative policy tools**. And, that it is possible and essential to design institutional constraints and rules that would guard against the misuse of this powerful medicine which, taken into large quantities, would undoubtedly become a poison.”

LORD (ADAIR) TURNER

CHAIRMAN OF THE FINANCIAL SERVICES AUTHORITY

6TH MARCH 2013

Anatole Kaletsky
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A breakthrough speech on monetary policy

By Anatole Kaletsky | FEBRUARY 7, 2013

ADAIR TURNER | CENTRAL BANKS | QUANTITATIVE EASING

Wednesday night may have marked the "emperor's new clothes" moment of the Great Recession, in which the world suddenly realizes its rulers are suffering from a delusion that doesn't have to be humored. That delusion today is economic fatalism: the idea that nothing can be done to break the paralysis in the global economy and therefore that a "new normal" of mass unemployment and declining living standards is inevitable for years or decades to come.

That such economic fatalism is nonsensical is the key message of a truly historic speech delivered on Wednesday by Adair Turner, chairman of Britain's Financial Services Authority and one of the most influential financial policymakers in the world. Turner argues that a virtually surefire method


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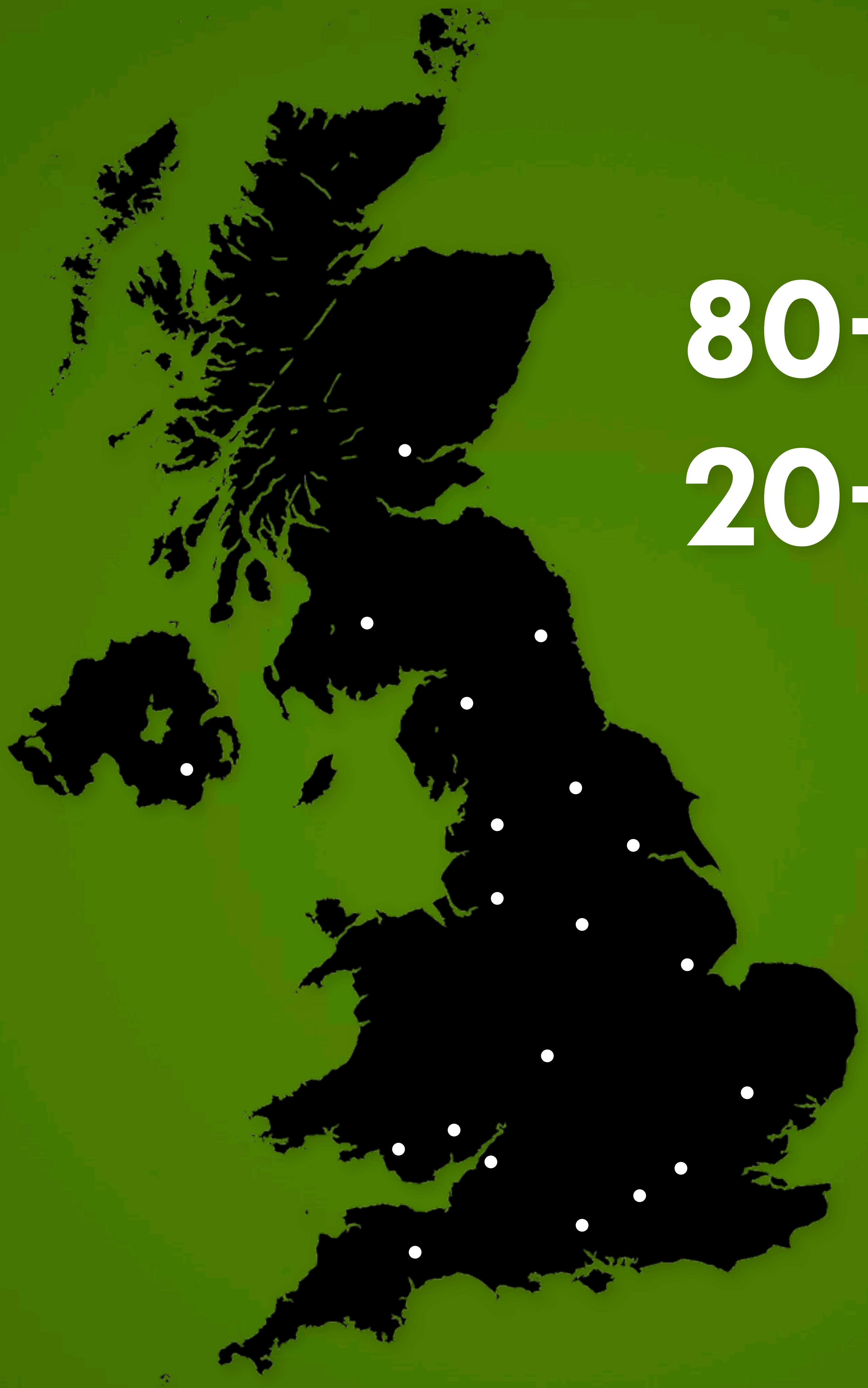
WHERE ARE WE NOW?

SUPPORTERS: ~~10,400~~ 11,100

: ~~8,662~~ 9,901

: ~~3,751~~ 4,461



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On the demonisation of debt

Izabella Kaminska | Nov 15 2011 19:55 | 186

Congratulations to Ben Dyson, self-prof
finally discovering, err, money. Or, how

In a column in the Guardian on Tuesday
how the solution to the system's curren
fact that "money has been privatised". S

Apparently banks manufacture digits ou
their own evil agenda. How sinister.

To quote Dyson's website:

> A bank doesn't have to have any
>
> If we tried not to go into debt, t
> money and economy would grin
>
> This is no conspiracy, we've gon
> of England to make absolutely s

FT Alphaville readers (or anyone who h
other economic historian, or taken ever
they use on a daily basis) will, of course
probably last considered to be breaking

Having staggered upon this amazing fac
financial credentials to boot) has decide
entitled "Positive Money" — a move wh
debt everywhere by forcing banks to on
by banning banks and nationalising ban
becomes responsible for all bank accou

Hurrah!

If only it was that easy.

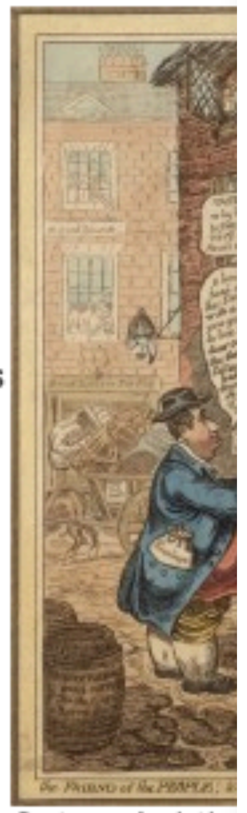
Naturally, we understand that Dyson's

Britain and banking: Back to the 1830s

By Lee Williams
Econoblog, Notebook, Opinion
Thursday, 12 July 2012 at 9:58 am

Like 33

Unparalleled levels of imprudent lending; corrupt banking practices; soaring inflation and rising unemployment; government bank bailouts and an economy dependent on increasing levels of debt to sustain growth. Sound familiar? It would have done to Britons in the 1830s. The fact is that we have been in a remarkably similar economic crisis before and the reasons for it could be almost identical.



Cartoon depicting … door circa 1800. … calling down fron … Taxes! Taxes! W… pay them all? I s… house nor hole t… man replying, 'A… Why what the de… house? Haven't y… live in? And if th… into the garret o… must be had Joh… cashit's all for th… By James Gillray

In Britain during the early 19th century, paper money was not as we know it today – all reassuringly bearing the head of the Queen and the stamp of the Bank of England. Back then, the Bank of England had the monopoly on the creation of metal coins but private banks – literally – had a license to print money of the paper variety and stick whatever images they liked on it. The result of the bank's power to print money had disastrous consequences: inflation, as too much money flooded the economy and unsustainable lending, as banks lent out more in paper money than they could possibly back up with real reserves.

When the bubble finally burst in the late 1830s, catalysed by a similar crisis in America (sounding familiar again?) the ensuing lack of confidence in the system led to a run on the banks which had to be hastily curtailed by the Bank of England bailing out a prominent northern bank (how about that one?). In 1839 a similar predicament forced the Bank of England into the ignominious position of having to borrow £2 million from France.

The problem was ultimately resolved by an act of parliament. In 1844 the Bank Charter Act curbed the private banks' ability to create paper money and ultimately phased it o… power to create money was now solely in the hands of the Bank of Eng… today we think of as the norm, so much so, in fact, that money being c… any private organisation with sufficient (or even insufficient) funds is p… unthinkable.

But wait a minute, because, unthinkable as it may be, that's exactly wh… The causes of our modern banking crisis may be uncomfortably similar… the 1830s. Today it's not paper money that the banks have a license to… money.

The incredible situation happening today is that banks effectively create… when they lend it to customers. This means that the numbers which ma… account when your bank agrees to give you a loan are just that – magi… bank has somehow taken this money from some other existing fund or…

Yes, banking's a mess, but be part of the solution. Move your money!

There is a better way for banking – but it relies on us voting with our financial feet

Deborah Orr
The Guardian, Friday 13 July 2012 20.30 BST
Jump to comments (449)

Banks should lend from their captial, not from money conjured out of the thin air of cyberspace, writes Deborah Orr. Photograph: David Cole/Rex Features

In the immediate wake of what was initially dubbed the credit crunch, a large number of people vouchsafed the idea that it had been "everyone's fault". We'd all partied wildly through the boom, apparently, racking up debt like there was no tomorrow, and completely forgetting that we'd eventually wake up with a terrible hangover. Naughty.

Five years on, and not much has changed, beyond nomenclature. Credit crunch became credit crash, and as the latter title proved to be not quite doom-laden enough, consensus gradually settled around Global Financial Crisis. This, too, is an inaccurate term. A crisis is a turning point, for better or for worse, determining a future course of events. Certainly, the failure of international banking provoked a crisis. The crisis, however, has not been in finance. It has been in politics, particularly in public spending. Global Governmental Crisis would be a more apposite title for this ongoing chaos. And the political chaos is simply a consequence of political failure to fully acknowledge what went wrong with banking, and determinedly set about fixing it.

Much lip service is paid to the idea that over many years in Britain there has not been enough investment in manufacturing. What is overlooked is that one sector did a gargantuan amount of manufacturing during this period. The big international banks manufactured money, using very simple raw materials. All they needed were computers and borrowers. Every time they made a loan, the banks simply typed the amount they

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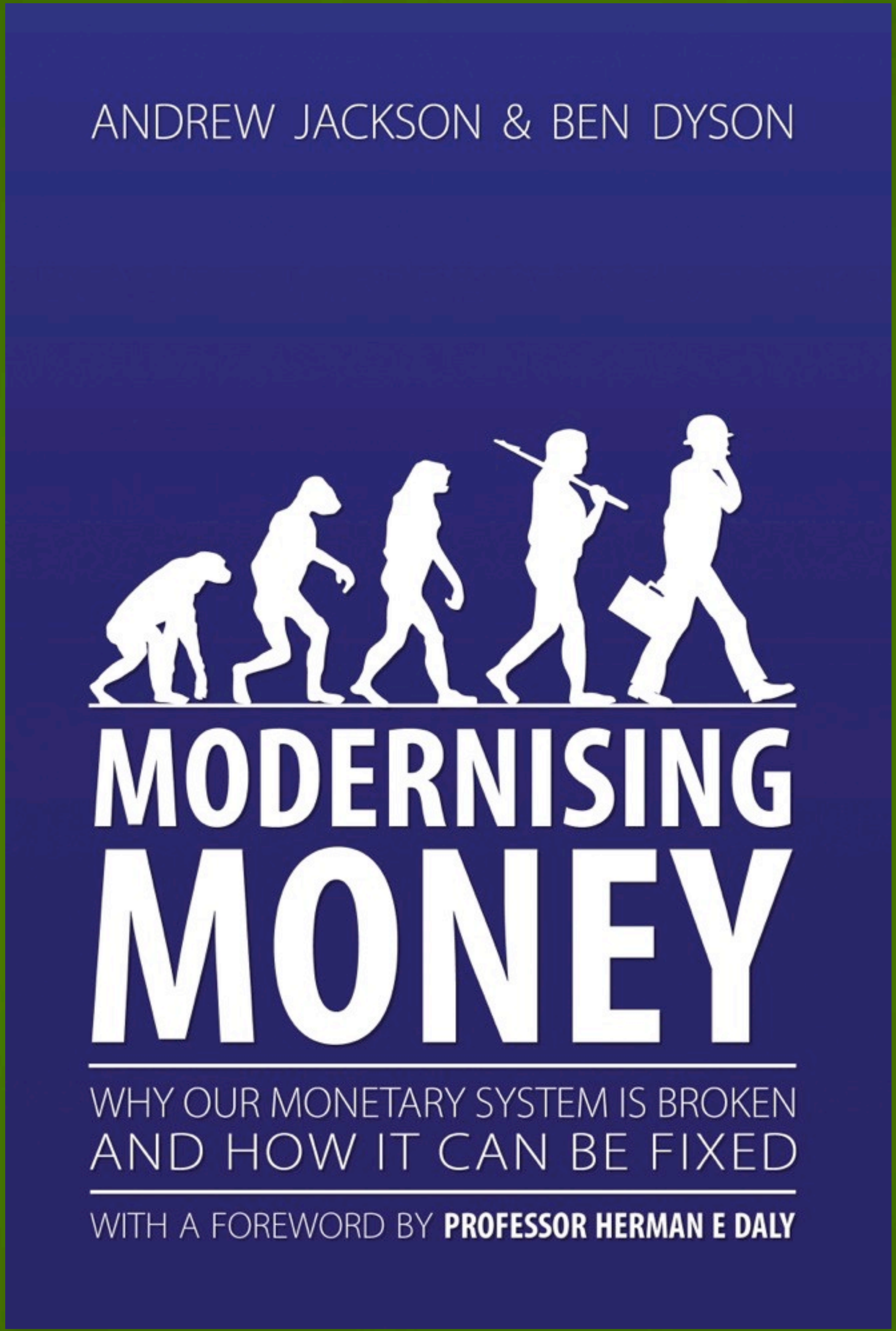
Deep Space Industries unveils plans to mine asteroids in space for precious resources


ANDREW JACKSON & BEN DYSON
MODERNISING MONEY
WHY OUR MONETARY SYSTEM IS BROKEN AND HOW IT CAN BE FIXED
WITH A FOREWORD BY PROFESSOR HERMAN E DALY

+ TRANSLATIONS INTO 11 LANGUAGES


Ireland: Media exposure and connections
Germany: Converting Banking 101
Italy: Beppe Grillo, Wall Street Italia
Spain: Converting our proposals to Eurozone
France: New campaign

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