

The Money System and the World We Seek

Thoughts from the Circle of Discernment on Money

John Howell, Phil Emmi, Paul Krumm, Steven Olshevski, and Gray Cox

Quaker Institute for the Future

Summer Research Seminar, July 17-21, 2023

Money systems vary

1. Commodities to tokens to account entries
2. National to local
3. Public to private creation of money
4. Lending to spending to giving - of newly created money

Alternative and Complementary Currencies

Anyone can create money. It is not illegal. It is done all the time.

Local currencies



Berkshares, Ithaca Hours in the U.S.



Chiemgauer in Germany



Bitcoin, Ethereum, Litecoin, Diem, etc.

Global currencies

Local currencies

Plusses – they serve local communities, offering economic resilience when other currencies are not available.

Minuses – they are only local; not without management problems; subject to counterfeiting; they tend not to last when national currencies are available.

From Wednesday session on Money

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Essential questions

- 1) Is money creation by **private agents** as it is now, or by a **public entity** or entities?
- 2) to be introduced into circulation primarily by **lending**, or by some combination of **spending** and **giving**?
- 3) **Single currency** or multiple currencies?

Features of a national monetary system consistent with Quaker testimonies: **general characteristics**

- a. Transparency, accountability, customer protection
- b. It must provide a money supply to match the needs of society and the economy.

Features of a national monetary system consistent with Quaker testimonies: **what the system must do:**

- a. **Benefit the many**, not just the few; reduce both poverty and the excess accumulation of wealth occurring in private hands.
- b. Provide **improved economic stability**, as free as possible from the boom/cycles that hurt the poorest in society.
- c. **Not be dependent upon growth** for its stability; able to accommodate levels of economic activity constrained by planetary limits.
- d. Permit and **foster social and environmental justice and earthcare.**

Features of a national monetary system consistent with
Quaker testimonies: **specific design features**

- a. It must permit the money supply to increase **without increasing public or private debt.**
- b. Any profit gained from issuing money **must serve public/community benefit**, rather than private benefit.

What changes can endow the money system with these desired features?

1) Money must be created publicly, not by private banks. At the national level 'to be publicly created' means created by government. *Indeed, the US Constitution calls for money to be created (coined) by Congress.*

2) Money must be spent (or given) into circulation rather than just lent into circulation. *Otherwise, debt goes up as the money supply goes up.*

Proposals for reform

NEED Act (National Emergency Employment Defense Act of 2011-2012)

Now the **American Monetary Reform Act**, *promoted by the Alliance For Just Money*

Shift in money creation from private banks to government

Saule Omarova's proposal (*The Peoples' Ledger*, 2021)

Shift in money creation from private banks to the Federal Reserve banks

Bank accounts associated with these proposals

(NEED Act and the Omarova proposal)

Transaction (checking) accounts – for the payment system

Investment (savings) accounts – for bank lending

Local proposals for reform

Public banking

Can keep money local; directs loans to local needs

Profits from lending support public interests

Mutual credit systems (Local exchange trading systems – LETS, Community Inclusion Currency)

An example of a functioning **mutual credit system**: the Sarafu-network at GrassrootsEconomics.org

<https://www.grassrootseconomics.org/pages/how-it-works>



Investments and donations provide funding and liquidity for CICs to develop local industries and infrastructure

CIC = Community Inclusion Currency

Personal steps that can be taken

- 1) avoidance of unnecessary debt and, especially, all credit card debt
- 2) banking with local banks or credit unions, rather than Wall Street banks
- 3) Educate ourselves and others about the need for system reform

Easily accessible on line

- Video: “Why Is There So Much Debt?” Positive Money UK <https://positivemoney.org/issues/debt/> (3 min.)
- Video: TEDxCopenhagen | Where Does Money Come From? | Ole Bjerg <https://www.youtube.com/watch?v=CvH66fz9nyU> (15 min,)
- How We Pay for a Better World <https://howwepay.us/>
- Workable Economics <https://workableeconomics.com/>
- A monetary proposal from the Athens County League of Women Voters <https://www.athensleagueofwomenvoters.org/monetary-proposal/>

Websites supporting monetary reform with videos and extensive resource lists

- Alliance for Just Money <https://www.monetaryalliance.org/> (Click on resources.)
- American Monetary Institute <https://www.monetary.org/>

Recent papers of fundamental importance

- *Money Creation in the Modern Economy*, Michael McLeay, Amar Radia and Ryland Thomas of the Bank of England, 2014
http://www.chfsrbija.org/uploads/9/0/4/6/90467147/bankofengland_money_creation.pdf
- *Chicago Plan Revisited*, Jaromir Benes and Michael Kumhof of the International Monetary Fund, 2012
<https://www.imf.org/external/pubs/ft/wp/2012/wp12202.pdf>
- *The People's Ledger: How to Democratize Money and Finance the Economy*, Saule Omarova of Cornell University Law School, 2021, <https://cdn.vanderbilt.edu/vu-wordpress-0/wp-content/uploads/sites/278/2021/10/19121719/The-Peoples-Ledger-2.pdf>
- *How to Spend a Trillion Dollars: Our Monetary Hardwiring, Why It Matters, and What To Do About It*, Christine Desan of the Harvard Law School, 2022
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4056241
- ["A lost century in economics: Three theories of banking and the conclusive evidence."](#) Richard Werner of Oxford University Banking and Finance, 2016
- *The Truth About Banks*, Michael Kumhof and Zoltán Jakab, 2016
<https://www.imf.org/external/pubs/ft/fandd/2016/03/pdf/kumhof.pdf>

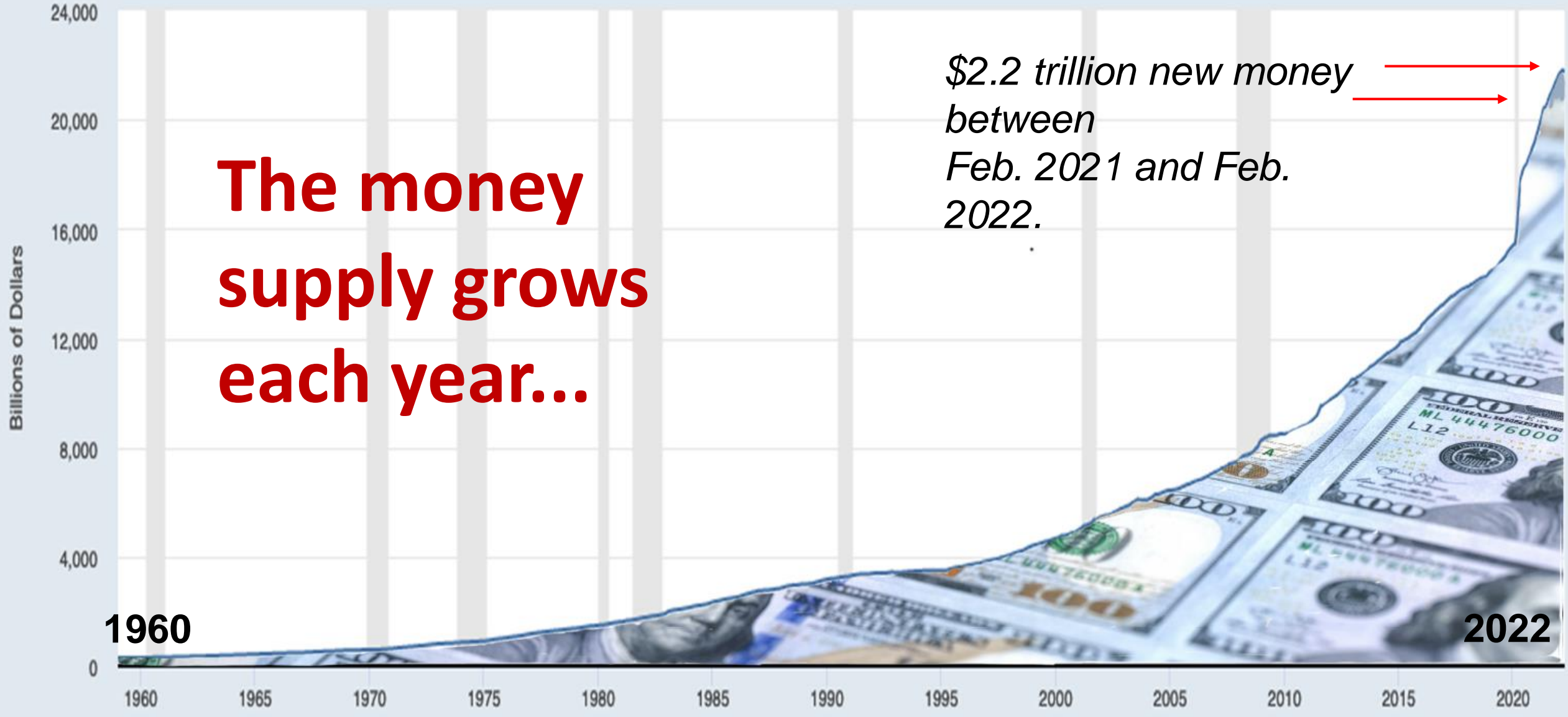
Books

- Toward a Right Relationship with Finance, Debt, Interest, Growth, and Security.(QIF Focus Book #9) Pamela Haines, Ed Dreby, David Kane and Charles Blanchard, 2016 touches on the monetary system (Chapter 9) in the context of a broad look at the impact of our economy on Quaker values.
- Debt by Design: Banking Facts and Fallacies, by Joshua Maree, 2017, explains in simple terms how the monetary system works.
- The Grip of Death, a Study of Modern Money, Debt Slavery and Destructive Economics, by Michael Rowbotham, first published in 1998. “A lucid and original account of where money comes from and why most people and businesses are so heavily in debt.”

The following slides were not used during the session but may be of interest.

The money supply grows each year...

\$2.2 trillion new money between Feb. 2021 and Feb. 2022.



1960

2022

Who creates that new money? Is it ...

- a. the Government?
- b. the Federal Reserve?
- c. private banks?
- d. I don't have a clue.



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Two kinds of money



Currency

Bills and coins

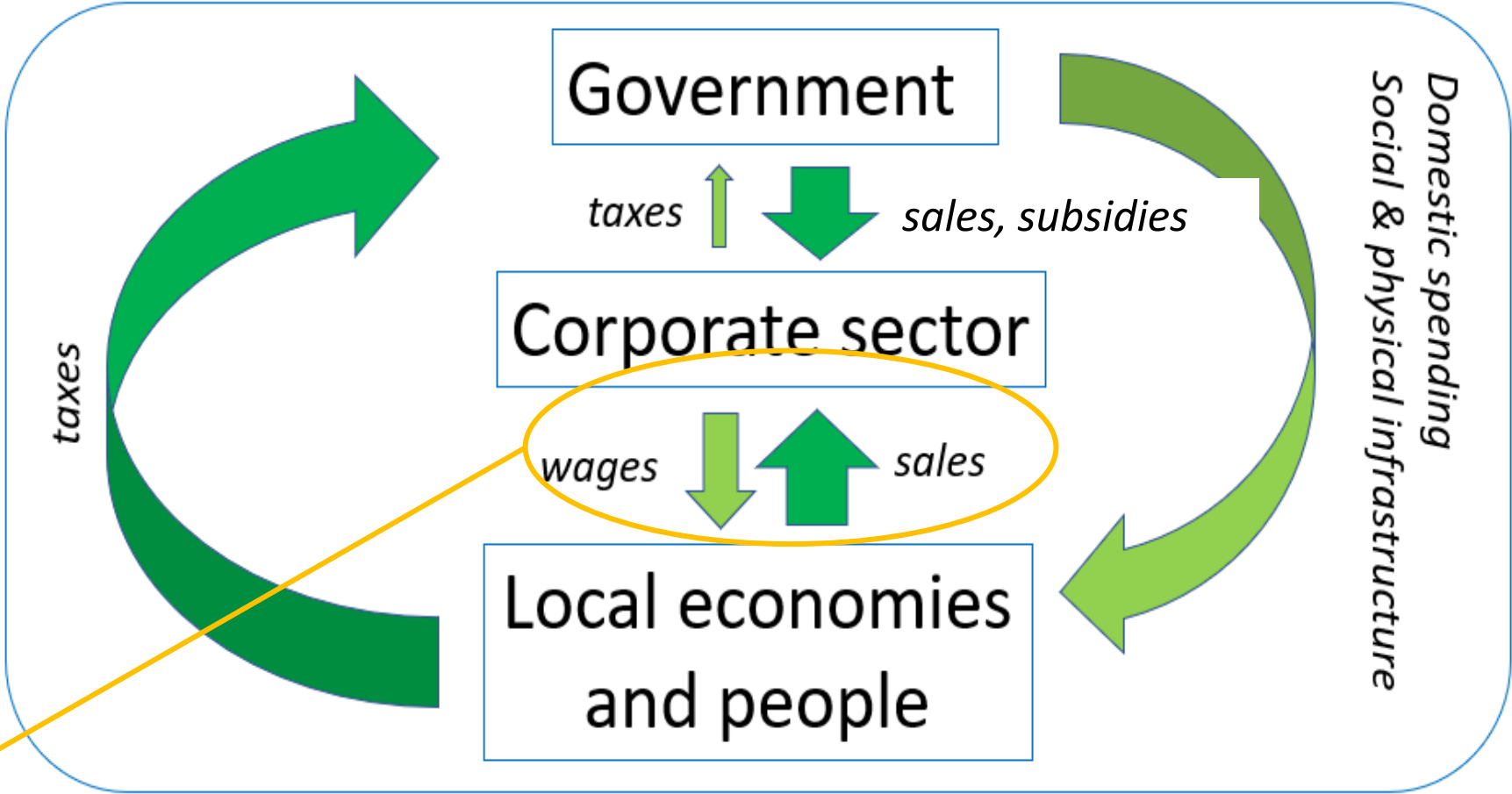


Account money

Comprises 95% of our money.

*Created by private banks –
not by government.*

Money flow in the economy



marketplace

Money flow in the economy

Bank Lending (money creation)

↑ deposits

↓ withdrawals

principal

interest

loans

marketplace

taxes

Government

taxes ↑

↓ sales, subsidies

Corporate sector

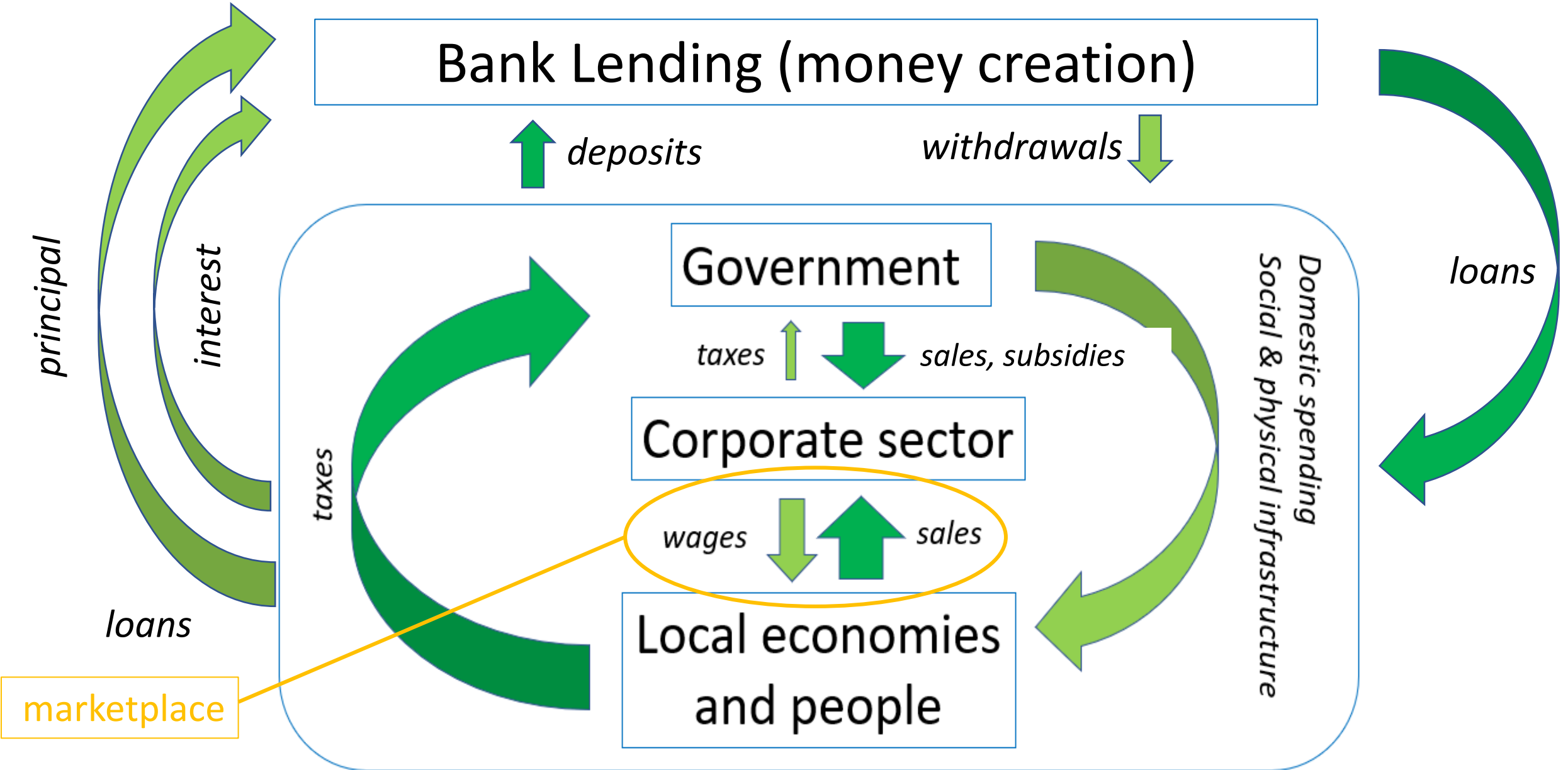
wages ↓

↑ sales

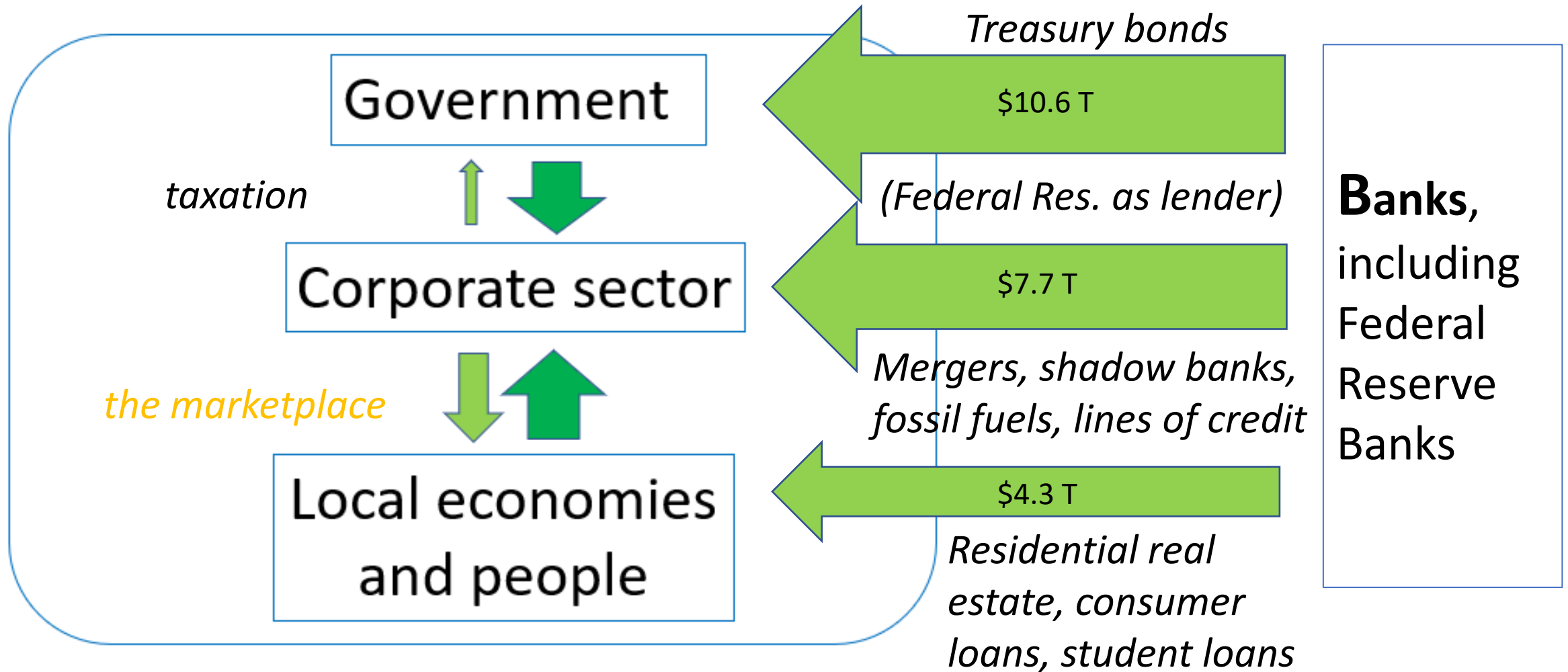
Local economies and people

Domestic spending
Social & physical infrastructure

loans



Where does bank lending go?



Summary of current monetary system

Banks loan - the money supply rises with each loan.

Bank loan repayments - the money supply falls with each payment.

Therefore, the money supply = a function of the rates of lending vs. the rates of loan repayment.

All of our money is on loan from banks, therefore

Without debt we have no money.

Banks continually receive interest on all of the money in circulation
= on all of that debt.

Cryptocurrencies – new monetary players enabled by technology

*Transactions occur globally
without bank processing
delays*

And at lower costs.



Cryptocurrencies – new monetary players enabled by technology

Bitcoin is an asset, seeking to become a currency.

A good asset – *its value must rise*

A good currency – *its value must be stable*

- Energetically very expensive.
- Too slow for routine transactions.
- Not backed by any commodity or currency.
- Bitcoin's promise of privacy has proven somewhat illusory.



How much privacy should there be in financial matters?

Privately issued digital currencies **do pose a threat** to the existing money systems.

Global currencies facilitate international commerce.

Diem (& others) claim to be backed by existing currencies and are called “**stable coins.**”

Example: Facebook’s Diem, formerly the Libra

Could they come to displace national currencies?

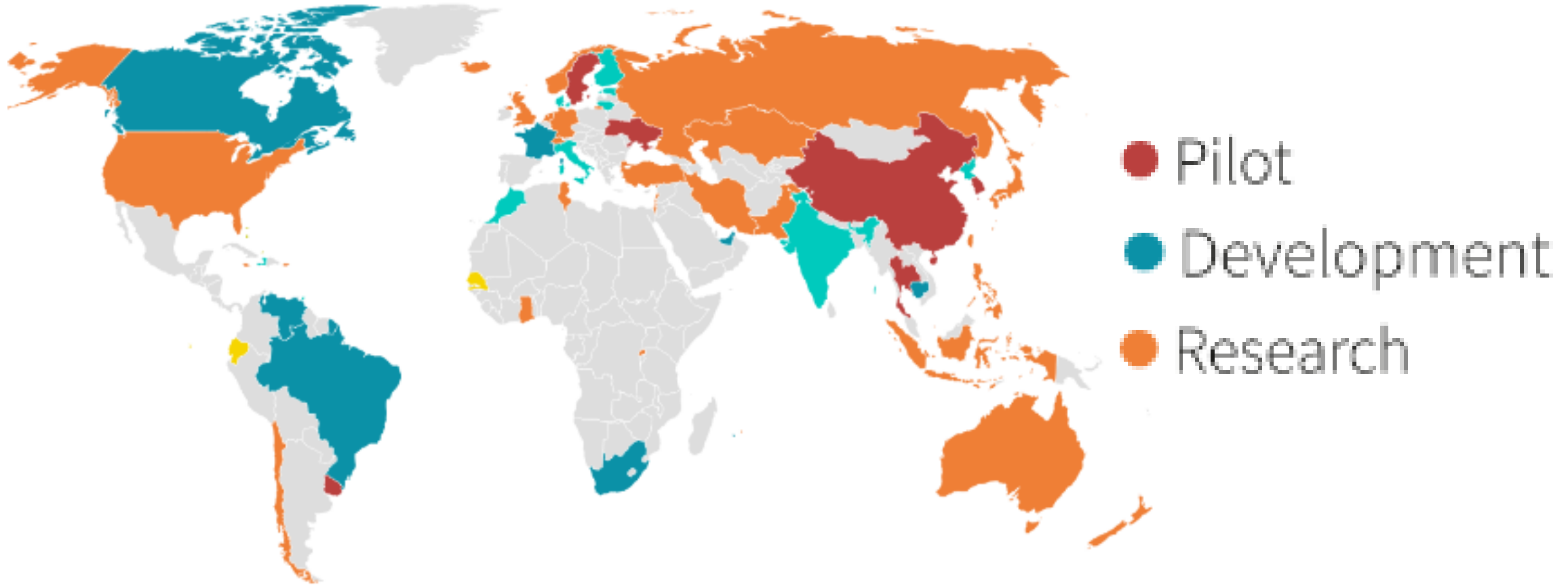


Privately issued digital currencies **do pose a threat** to the existing money systems.

What is the response of the establishment?

Create central bank digital currencies.

Central Bank Digital Currency Development



What is a CBDC?

Everyone can have an account at the Central Bank (CB).

Consequences:

- As deposits shift to CBs, deposits decline in commercial banks.
- Less in bank deposits means less bank lending and less money creation.
- Lending shifts to the lending of pre-existing money
- Money creation taken up by the CB

What would be the consequences of money creation by central banks, instead of by commercial banks?

That depends..

If central banks lend money, interest-free to governments, with no expectation of repayment, it is equivalent to government creation of money, freeing governments to meet the needs of their people without incurring debt by borrowing.

If

CBDC questions

In countries **whose central banks are government owned**, with CBDC the government would be in full control of the money supply – its introduction into circulation and its withdrawal from circulation.

In countries like the US whose central bank is privately owned, elected government would not be in full control.

Without revision of the Federal Reserve Act, the Fed would decide how much money to make available to government and to others - and under what conditions.

What would it do?

Why is there current interest in CBDC?

For central bankers, it provides a way for central banks to regain control of the money supply.

For monetary reformers, it is seen as a possible pathway to the transfer of money creation from banks to governments.