

## **From Positive Money to Sovereign Money**

### **Advantages and Options of a Positive Money Reform**

Christian Felber, 28 April 2016; revised: July 2020<sup>1</sup>

The positive money reform is one of the three major reforms of the monetary, financial and currency system which were developed and partly realized in the course of the great depression, the largest of these being a reform of international monetary relations. The “Bretton Woods System” was implemented in accordance with the ideas and preferences of the USA and not with those of the UK (represented by John Maynard Keynes). This decision resulted not only in its short lifetime, but also resulted in the role of the US dollar as the global reserve currency: dollar hegemony. A second widely discussed reform was the 100% cover of current account balances by central bank reserves. This proposal, most prominently supported by Irving Fischer from Yale, was reviewed by President Roosevelt but then rejected, whereas the separate banking system was introduced in the USA in 1933 with the Glass Stegall Act. In 1999, under severe pressure from lobbyists from the Bill Clinton administration, this was rescinded, ironically at the zenith of financial capitalism.

All proposals, 100% reserve system, separate banking system and international monetary cooperation were again placed on the agenda, following the 2008 financial crash. The first of these has in the meantime been further developed to the “positive money reform”, largely by Prof. Josef Huber from Halle, and in the Anglo-Saxon world to “positive money”. In recent times these reform proposals have been attracting increasing attention, such as in Switzerland, where a public initiative collected the necessary 100,000 signatures which will lead to a referendum on the subject. In Iceland, due to the impact of the severe financial crisis in 2008, a study regarding the effects of a positive reform was commissioned – the result was clearly affirmative.<sup>2</sup> In a working paper, the International Monetary Fund examined the assumptions of the 100% money proposal and not only entirely confirmed them but went on to add to them by presenting further advantages.<sup>3</sup> Martin Wolf of the Financial Times, in his worldwide respected newspaper column, has argued for a positive money reform.<sup>4</sup>

This paper has three objectives: to describe the idea of the positive money reform as comprehensibly as possible, to state its most important advantages as well as to think one

---

1 Thanks to Joseph Huber, Helge Peukert, Fritz Fessler, Georg Lehmann, Thomas Mayer, Simon Sennrich, Klaus Simon.

2 <https://www.forsaetisraduneyti.is/media/Skyrslur/monetary-reform.pdf>

3 <https://www.imf.org/external/pubs/ft/wp/2012/wp12202.pdf>

4 <http://www.ft.com/cms/s/0/7f000b18-ca44-11e3-bb92-00144feabdc0.html#axzz43pjWesIF>

step further in the direction of “sovereign money”. In doing so, it is particularly important for me to emphasize that the positive money reform cannot solve all the problems of the current financial and monetary order, this cannot be done by any reform proposal. In my book “Geld. Die neuen Spielregeln” (Money – the new rules of the game), I make 47 proposals for the redesigning of the global monetary and financial system. They all fit together in the new paradigm “money as a public good” and implement facets of it. By money as a public good we mean a) that money is strictly considered as a resource, b) it serves the common good and c) the rules for our monetary system are set up in a democratic manner. The most important reform proposal is therefore the organization of decentralized monetary conventions by which the future monetary and financial order is democratically developed and decided on.<sup>5</sup>

## I. Operation and Description

1. The central bank will become the sole issuing authority for money and will not only issue cash, as it does today, but also all book money, thereby all circulating money (cash and money in current accounts) becomes legal tender. At present only cash is considered to be legal tender, as it originates from the central bank or rather from the national mints. Book or bank money is created by the commercial banks and is therefore not legal tender. This non-legal cashless money, in the eurozone, presently accounts for 84% of the M1 money supply. Legal (cash) money accounts for only approximately 16%.<sup>6</sup>

2. New positive money basically comes into circulation as a payment by the central bank to state budget and subsequent public expenditure or alternatively directly to the citizens. It only flows to the banks via the “public” and can be invested there, this is what corresponds to the general public’s picture of the banks. Money can be lent by a bank, only when money is externally “lodged”. Today banks function in a different manner: they create loans out of nothing<sup>7</sup> by booking the borrower’s debt on the assets side of the balance sheet and then crediting this exact same amount to a current account on the liabilities side. They create new money in the course of granting loans – they are modern alchemists.<sup>8</sup>

---

5 Christian Felber: „Money. The New Rules of the Game“, Springer, 2017.

6 European Central Bank, Economic Bulletin 7/2015, 18.

7 Providing there is sufficient equity capital as well as a minimum and cash reserve. The minimum reserve on the minimum reserve basis (= current account balances minus 100,000 euro) is currently at 1% in the euro system:  
<https://www.bundesbank.de/Navigation/DE/Aufgaben/Geldpolitik/Mindestreserven/mindestreserven.html>

8 Cf. Bank of England: „Money creation in the modern economy“, in: Quarterly Bulletin 2014/1, pages 14-27.

3. Current accounts will be excluded from bank balance sheets. They are accounts for electronic payments, which after the reform, from the point of view of the customer, function in the same way as current accounts do today: they are managed by the bank for a fee and are at the bank customer's disposal via online banking. Unlike today however, the customers will be the owners of the money in their current accounts. Today the bank is the owner of the content of a current account, due to the fact that this content is legally and financially classified as loans by the customer to the bank – account holders are creditors of banks, which is the reason why current accounts earn (minimal) interest and in the case of insolvency are at risk of default. This precariousness with regard to money in current accounts today leads to bank runs time and time again. After a positive money reform the current accounts would no longer be in the possession of the bank and therefore not a part of the insolvency assets and consequently subjected to a risk of default. Bank transfers take place directly from one positive money account to another.

4. Only when bank customers „invest“ their „lodged money“ consciously e.g. into a savings account or a fixed-term savings account will the money legally shift „to the bank“ i.e. the customer gives the bank a loan and the positive money, to the amount of the loan, is entered into the bank balance sheet – on the liabilities side as an amount owed or debt to the lender (bank customer) and on the assets side as positive money, which is now available for lending purposes. Money must first come from an “external source” before the bank has (positive) money available for lending. The balance sheet of the bank is, as a result of receiving an “investment” (a loan to the bank), extended and the stock of positive money held by the “general public” is reduced by the same amount – the amount of money in circulation remains the same.

5. If the bank grants a loan, this merely represents an asset swap in the balance sheet – the positive money is transferred to the positive money account of the borrower and is rebooked as a debt receivable from the borrower. This financial claim can now no longer be „allocated“. Positive money can only be lent once by a bank and this, to begin with, requires a bank lodgment. Granting of loans by banks would function, as most people envisage today – first of all money must be lodged and then it is possible for the banks to grant loans.

6. According to the McKinsey Global Institute, the total credit demand of companies and households in Germany amounts to 109% of GDP<sup>9</sup> and according to BIS 164%<sup>10</sup>. According

---

9 McKinsey Global Institute: „Debt and Deleveraging. Uneven progress on the path to grow“, January 2012.

10 Bank for International Settlement: „The real effects of debt“, BIS Working Papers 352, September 2011.

to Statista, private financial assets in Germany amount to 175% of GDP and thereby exceed the credit demands of the national economy, based on both calculations.<sup>11</sup> As a consequence, the borrowing needs in „mature“ national economies can be covered by financial savings.<sup>12</sup> Should these savings be insufficient to cover the actual borrowing needs, in a positive money system, banks can additionally borrow more sovereign money from other banks on the interbank market or from the central bank, as is the case today. In a sovereign money system, banks get sovereign money, which they lend out to credit customers, from three sources: savers, commercial banks or central bank.

7. Retaining „reserves“ (central bank money) becomes superfluous due to the fact that all money is central bank money, the minimum reserve is dispensed with, and a 100% reserve, proposed by previous reformers, covering of all current account balances by central bank money, is dispensed with for the same reason. One single money cycle, with only one sort of money, results from two money cycles. At present the money cycle between the central bank and commercial banks and the cycle between the commercial bank and the general public is completely separated. This is the reason why central bank electronic money never reaches the public and all book money, which we use for payments, is created by commercial banks. This double money circulation system and even a third form, „interbank money“, complicate the understanding of the current system.

8. The changeover from private bank money to legal positive money occurs in several phases. Phase one is the divestment of all current account balances to positive money accounts in the public domain, which then become positive money balances. The prior current account balances on the liabilities side of the bank balance sheets are rebooked as debts owed to the central bank (debt-for-debt swap). The central bank balance sheet is extended by the sum of all current account balances. On the assets side, its receivables from commercial banks represent the new debts, which the commercial banks owe the central bank. On the liabilities side, they account for positive money accounts currently owned by clients, which are legal tender issued by the central bank. Phase two: To the same degree that „old“ loans for the amount of the bank money balances at the commercial banks are repaid, positive money flows to the banks. On the assets side of their balance sheets, the financial claims towards credit customers are swapped into positive money, which is equal to the claims toward the central bank. If the banks pay the positive money back to the central bank (which the central bank could force through), they can offset and cancel their

---

11 Many readers also regard public (state) debts as economic credit demand; in FELBER (2017) I show how state debt can be financed without loans from banks or private institutes.

12 Not until 1970 did private financial assets in Germany amount to approx 70% of the economic performance of that time.

receivables and liabilities with the central bank. The balance sheets of the commercial banks thereby shrink, in the course of up to 20 years, to the degree of the former current account balances. Correspondingly the balance sheet of the central bank shrinks by the same amount, as with a loan repayment. Systemically this would then result in a reduction in the money supply to the amount of bank money which is in circulation at the time of changeover.

9. The central bank can however avail of the possibility to simultaneously circulate new positive money, to the same extent, by which ex-bank money (now rebooked as positive money) is discharged, and thereby the money supply could be kept constant or specifically reduced (the latter, should it be assumed that the current supply is inflated). The freshly created positive money can then flow into the state budget and be employed to reduce state debt.<sup>13</sup> As the bank money supply accounts for approximately 60% of GDP in the Eurozone, the state debt in the Eurozone could thereby be halved from currently 90% to 30% of GDP, overcompliant with the Maastricht Treaty. It is approximately the accumulated seigniorage, which the general public has done without in the last decade, by leaving the creation of money to private banks.<sup>14</sup>

10. New positive money will be circulated by the democratic central bank, creating it out of nothing and distributing it to the state or the citizens, as a present from the sovereign to itself. Possible ways are a) the direct flow into the state budget to repay state debt, b) finance public services, c) reduce taxes or d) the direct flow to the citizens current accounts in order to payout a citizen dividend. The central bank does not decide about the utilization (monetary see below), the sovereign and its representatives do this. Money supply could be maintained in a stable relation to economic performance e.g. 60% of GDP (the current sum of cash and current account balances "M1"). The money supply is increased or decreased yearly based on the forecasted measure of GDP development (general steering). Should it emerge that another money supply is more appropriate, it can at all times be extended or contracted with monetary policy tools within the framework of clearly defined targets (fine steering).

---

13     MAYER (2013).

14     Cf. KARWAT (2009), 10.

## II. Advantages of a positive money reform

### 1. Money becomes a public good

Three state privileges are included in money as a public good: firstly the determination of the currency (euro), the issuing of means of payment (coins, bank notes, bank money) and, thirdly, earning seigniorage. Not included is carrying out banking services, granting loans or the ownership of money (only possession thereof). Money as a public good also means that there are public central banks which are democratically controlled. Historically there were initially only private banks, which gradually established central banks of their own accord. Owing to their monopoly character, they were gradually nationalized, a process which is still on-going. The German Federal Bank and the Austrian National Bank are completely nationalized, the Swiss National Bank predominantly and Banco d'Italia is still 100% privately-owned. Public central banks were an initial step towards money as a public good. A further step was the transfer of the monopoly for cash distribution (notes and coins) to the central banks. In most states it was forbidden, by the constitution, for private banks to print banknotes and mint coins – in England in 1844, in Germany in 1875 and in Switzerland as a result of a referendum in 1891.<sup>15</sup>

If private banks issued cash money today, it would be regarded as counterfeiting and would be a criminal offence. A third, still pending step is the transfer of the issuing of electronic or book money to central banks and the transfer of the associated seigniorage to the general public. Thereby the infrastructure money – currency definition, central bank, issuing of cash, issuing of book money, seigniorage – becomes a public good. This clarity is gratifying to see and is on par with modern democracies. In monarchies money was a royal prerogative, it could soon be a prerogative of the democratic sovereign.

### 2. The separation of money and credit

The issuing of money (sovereign monopoly) and the granting of loans (commercial service) would be separated. The state would be responsible for the infrastructure money, the banks for financing the economy. For the electricity, telecommunications and rail sectors, the “debundling” of the infrastructure (money) and services (credit) has been accomplished, with the argument that the market thereby functions better. In Great Britain the privatization of the railway infrastructures and public drinking water supply has led to catastrophic results.<sup>16</sup> In principle the state can also take over the financing – the credit business. This was/is done in the form of local trustee savings banks or provincial (mortgage) banks. This is however not the matter at hand, it is about the task of issuing money. If money creation and lending are

---

15     MAYER / HUBER (2014), 141.

16     Cf. REIMON / FELBER (2003): „Schwarzbuch Privatisierung“, Ueberreuter, Vienna.

linked, a credit boom leads to a money flood and a recession to a money squeeze. The economic cycles are enhanced to manically-depressed fluctuations, positively inter-looped. In contrast the monetary system would stabilize itself, if the control of money supply were uncoupled from lending. Money supply and financing would then be two separate processes in the economy.

### 3. Separation of powers

Some of the voices in favor of a positive money reform suggest that the central bank should be declared as a fourth power or authority, the “Monetative”, which receives the sole right to distribute money. Such an advancement of the separation of powers would also correspond to the idea of “money as a public good”, and also the separation of the issuing of money and lending of money. It would prevent the danger of the takeover of money creation by global internet companies and would continue the trend of the establishment of public central banks while democratizing them at the same time. The ECB is already “independent” within the framework of its official mandate. The targets are set by the EU treaty, which in turn was determined by the EU council and parliament as well as the national parliaments.

The sovereign does not at present have any direct say concerning the objectives and targets of the central bank. In a sovereign money system the central bank is public, its targets are determined by the sovereign and its committees are composed of representatives from all sectors of the democratic community. Within its “sovereign” mandate the “Monetative” would be independent, as courts are a separate state authority, and it would protect monetary policy against the uncurbed appetites of governments to print more money. This is already valid for the ECB, although it one-sidedly serves the interests of the wealthy within the scope of its independence. This is due to the fact that its committees are undemocratically put together and do not perform any sovereign mandate but rather those of governments and parliaments who have the tendency to adopt the perspective of the elite class.<sup>17</sup>

The EU Treaty commits the ECB, as a matter of priority, to price stability (i.e. devaluation protection for financial capital) and prohibits direct state financing, both being important agenda points for the wealthy class.

### 4. One money cycle and one money supply M

There are currently two separate electronic money flows. On the one hand, there is the flow between commercial banks and their customers, the general public, through which bank money is created and put into circulation as “non-legal” tender, and on the other hand there is the flow between the central bank and the commercial banks – all banks have a trading

---

17 Michael Hudson: „Central banks are strongly influenced by the commercial bank lobby and represent their interests, not those of the citizens“, in *Der Standard*: „Europe will slowly but surely collapse“, 24 December 2015.

account at the central bank with their the bank sort code, otherwise known as the BIC. Via this account they, the commercial banks, receive loans from the central bank, “park” money there and hold the mandatory 1% minimum reserve, with which they cover a part of the bank money (actually only the client’s claims towards the banks) with “real” money. A part of the “interbank” money transactions also takes place through the central bank accounts – a “transfer” from bank to bank usually takes place, when a bank transfers demand deposits of customers to another bank on the liabilities side and at the same time central bank reserves on the assets side. This is however also possible without central bank money, namely via interbank loans (see the following point). In a positive money system there is only one money flow, M0 and M1 merge into one money supply M – positive money flows from the central bank to the state budget and from there to the public to positive money accounts and from there on to commercial banks. Bank transfers would be carried out from one positive money account to another, outside the framework of bank balance sheets and without reserves.

#### 5. A diminished interbank market

Today banks create not only bank money for non-banking institutions but in addition interbank money in “interbank current accounts”, which they mutually grant, with these being known as nostro and loro accounts. Banks expand their business immensely by making use of these interbank loans. According to the Federal Bank of Germany, interbank financing accounts for a quarter of the total balance sheet of German commercial banks.<sup>18</sup> Some authors have concluded that “ the actual problem lies in the creation of interbank money and not in bank money.”<sup>19</sup> In the course of a positive money reform, interbank money could therefore also be phased out so that the banks can only credit with positive money and buy bank bonds only with positive money (the money supply remains the same in both cases). Strangely enough the former chief economist of the ECB describes the money market in the same manner: “The most important function of the money market is liquidity balancing between financial institutions. Banks which have central bank money at their disposal, which they temporarily do not require, offer these funds on the money market and banks which have a corresponding short-term deficit can avail of central bank money.”<sup>20</sup> It would then no longer be possible a) to grant a loan to another bank with created interbank money and b) mutually grant loans / sell bonds by the crediting on interbank accounts. Two large balance sheet items would disappear and, together with this risky interconnection between banks, systemic financial instability would decline.

---

18 In Germany, in October 2015, the total balance sheet sums of all banks amounted to just about 8 trillioneuro, of which 2 trillioneuro were diverse forms of interbank financing. DEUTSCHE BUNDESBANK, 6 and 16.

19 SIMON (2014), 48.

20 ISSING (2011), 35.



Bank bailouts, to avoid the chain reaction / domino effect (“too interconnected to fail”), would then be unnecessary because the interconnectedness of the banks would only be, by comparison, thin positive money threads. Loans to the public as well as interbank loans could then only be granted on the basis of positive money.<sup>21</sup>

Banks could neither create bank nor interbank money and all banks would only have positive money at their disposal for granting loans, to the degree of the balances in customer savings accounts or to the amount of the loans they have received from the central bank. The interbank market would lead to a balancing of the national (aggregate) savings and loans throughout the complete bank system with banks which have a surplus in saving balances passing this money on, in the form of positive money, to banks which have a surplus in loan demands. Conversely, only banks in possession of savings or positive money loans from other banks could grant loans. The central bank could impose an ethical credit assessment on banks with refinancing requests, in order to assure that the loans are being used for “real” purposes. This would be the most pragmatic way to end credits to leverage money-from-money transactions.

#### 6. Trading for own account: speculation opportunities of banks severely limited

Banks lose the possibility to buy securities (shares, bonds etc.) by creating money, where the seller’s current account / loro account is simply credited with the requested purchase price. Therefore it would no longer be so easy for banks to participate in the development of speculative bubbles and inflation of financial booms. Besides equity capital, they would only have positive money as “play money” at their disposal. Should positive money become expensive on the interbank market as a result of a developing speculative bubble, and should the central bank require the granting of real loans as a condition for refinancing, banks might prefer to use their scarce positive money for speculative trading rather than lending. Consequently, a positive money reform should not only go hand-in-hand with a general ban on financial credits but also with a separate banking system: banks which accept savings deposits and grant loans may not, at the same time, trade in securities for own account. The ability of the commercial banks to create bank and interbank money today leads to multiple positive reverse coupling, which creates high systemic risks. Banks can:

- grant credit to the public „out of nothing“
- purchase securities with created bankmoney from clients
- mutually grant loans „out of nothing“
- buy bonds and securities from each other on credit

---

21 In the case of an interbank loan, the positive money level on the asset side of the creditor bank is diminished: The positive money is swapped against a credit claim. The balance sheet of the debtor bank is extended: on the assets side their positive money level increases and the loan is entered on the liabilities side.

All these loans and purchases are financed with money that banks create ex nihilo (out of nothing), which is the reason why an incredible inflation of and subsequent contraction in money supply within the private debt monetary system can occur, a fact which was already pointed out emphatically by Irving Fisher in the Great Depression. From 1990 to 2012 the M1 money supply in Switzerland rose by 7.8% annually, while the economy only grew by 1.4%.<sup>22</sup> In Iceland, the money supply increased by the factor of 19 between the years 1995 – 2008,<sup>23</sup> which is inconceivable in a positive money system.

### 7. Significantly simplified

The current extremely complicated monetary system – because it was never consciously or even democratically created – would be significantly simplified in a number of respects:

- a) by moving from a double money cycle to a single positive money cycle
- b) one single money supply M would replace M0 and M1
- c) the differentiation between legal and non-legal tender would be dispensed with<sup>24</sup>
- d) the term bank money would become unnecessary
- e) the reserve system would be completely dispensed with
- f) payments would take place outside bank balance sheets, without reserves
- f) the necessity to secure current accounts via a savings deposit guarantee would be dispensed with
- g) interbank money, which today exists within the money supply statistics, would be history.

Minimum reserves would be dispensed with, as all money supply in positive money accounts is covered by central bank money – it is essentially central bank money. The minimum reserve can be traced back to goldsmiths, as they and the original custodian banks were obliged to maintain a minimum amount of the loaned money at the central banks in the form of gold reserves. Thereby in the case of the deposited gold reserves of the clients all being withdrawn at the same time, at least a part of the outstanding money was covered and could be paid, even if this was not sufficient, which was regularly the case during bank runs. As a result, the 100% money idea was developed in the 1930s. All current account deposits should be covered by central bank loans. This would be costly for the banks and an unnecessary complication of the monetary system, so it would be easier merely to have central bank money, which is positive money and legal tender, then “unreal” money must not be covered by “real money”. Only “bank” money must be covered, which is non-central-bank

---

22 MAYER / HUBER (2014), 88.

23 Frosti Sigurjónsson: „Monetary Reform - A better monetary system for Iceland“, Report commissioned by the Icelandic Prime Minister, Reykjavik, March 2015.

24 If authorities today insist on non-cash payments, they forbid the citizens from paying with legal tender, which is absurd. Positive money would also be legal tender in electronic form.

money and not legal tender, and which is today created by the commercial banks, without explicit legal base and without meaningful controls.

#### 8. The central bank can control the money supply

At present the central bank cannot directly control the amount of money in circulation, it can only indirectly control it by means of the level of interest rates. With higher base rates, loans to commercial banks can be rendered more expensive and central banks attempt to either curb or extend lending and money growth in this manner. The fact that commercial banks in the Eurozone hold only about 1% of their balance sheet total as reserves in the central banks makes this supposition lack plausibility and therefore Joseph Huber talks about a “myth.”<sup>25</sup> In a positive money system, the central bank would be the sole issuer of money and could directly control the money supply e.g. in a stable relation to GDP. The M1 money supply as the sum of all means of payment (cash and “liquid” money in current accounts) serves primarily to make payments in the economy, which is why it is meaningfully related to GDP.<sup>26</sup> The central bank could strive towards a stable relationship within a flexible corridor with defined boundaries and it certainly would not increase the money supply in a short time by a factor of 19, as was the case in Iceland where the development of money supply is in the hands of commercial banks and coupled to lending and the acquisition of assets. As a matter of principle, credit supply could remain limited to the existing saving capacity following a positive money reform, more so as this is many times higher than GDP in developed economies. Should the credit demand of the economy exceed the saving deposits at the banks, the central bank, as it does today, can make more money available, in the form of loans. Today the central bank makes large amounts of money available to the commercial banks (the so-called “fat Berta” and “Quantative Easing”), without this flood of money being transferred into real loans. Instead the banks and investment trusts speculate with this additional central bank liquidity. In order to avoid this, the central bank could grant loans on condition that these are solely used for real loans which can be granted to companies, which is exactly what the ECB did for the first time in June 2014 with the “TLTRO” Programme. This would therefore not be a new feature as a result of the positive money reform. The understanding that the money flood does not lead to real loans, but to financial speculation instead, prompted the central bank to implement initial attempts to steer loans.<sup>27</sup>

---

25 <http://www.vollgeld.de/kritik-und-gegenkritik/>

26 Although the money circulation velocity can vary, this can however be caused by speculation – the author proposes measures for the complete closure of the global finance casino along with the positive money reform.

27 Targeted longer-term refinancing operations, similar to those implemented two years previously „Funding for Lending“-Programme of the Bank of England. The ECB TLTRO Programme involved 400 billion euros. Up to mid-2015, 384 billion euros were requested after four auctions. *elEconomista.es*, 18. Juni 2015.

A combination of a positive money reform with general credit controls would be more effective and, with this in mind, the fact that loans may only be granted for real economy investments, on the basis of the already mentioned ethical credit assessment.<sup>28</sup> Then all (real) credit applications, which pass the ethical and financial creditworthiness assessment, could be financed by saving deposits in the economy. A “credit crunch” from the source of money, the central bank, could be easily prevented in the positive money system. On the other, hand, a “speculation crunch” would be specifically provoked. A today passive central bank, which blindly satisfies every money wish and contributes to the occurrence of bubbles and crises, would turn into an ethical central bank that equally prevents credit crunches in the real economy as well as speculative bubbles in the financial system.

#### 9. Anticyclical monetary policy = economic cycle policy possible

Unlike the current central bank monetary policy, the positive money system central bank can conduct anticyclical monetary policy and therefore strengthen an anticyclical fiscal and budgetary policy of parliament and government. Together they would be in a better position to stabilize the economic cycle, booms could be more effectively curbed and recessions could also be stifled. If the economy crashes, the money supply will be expanded further than the economy (analogous to public expenditure), and in the case of a boom relatively contracted, in order to maintain a stable supply in the economic cycle. Today the central bank cannot directly steer money supply and therefore its resources to do this are limited. As an example, let us consider base rates: on the one hand higher interest rates are used to fuel financial speculation in boom times. On the other hand, low interest rates do not reliably lead to higher investment levels in recessions, when companies perceive no demand. Monetary policy can thus be called a rope, which can be pulled (borrowing can be curbed) but not jerked. In recession times low interest rates do not reliably lead to higher investment levels, for years now the base rates in the EU and USA are near the zero line but the economy is making no headway, the “Japan Syndrome” sends it regards. The ECB, for the first time in April 2016, impressively proving its desperation with regard to the ineffectiveness of its “rope jerking attempts”, offered the banks money for taking out loans!<sup>29</sup>

How desperate or helpless must a central bank be, when it pays commercial banks up to 0.4% interest to take out loans, with which they do not speculate? How absurd is a financial system, in which banks can grant loans for money-from-money transactions at all?

The expansion of money supply through other central bank instruments, apart from the base rate, such as a) increased loans to banks, b) penalty interest for bank deposits or c) the

---

28 Cf. Art. 157 Bavarian Constitution: “The monetary and credit banking system serves value creation and the fulfillment of the needs of all the population.” That rules out loans for money-from-money transactions (in this case: finance credit).

29 „Money for less than zero“, *economist.com*, 15. April 2016.

purchases of assets - does not achieve the desired effect. “Quantative Easing” sounds exciting, however it represents a fundamental contortion to achieve economic boosting. According to information from the Bank of England, it acquired assets from funds and shadow banks in the belief that “those companies will then wish to rebalance their portfolios of assets by buying higher-yielding assets, raising the price of those assets and stimulating spending in the economy”.<sup>30</sup> Good luck with that!

It would be more effective and direct, if fresh money came into circulation via public expenditure or directly to households („helicopter money“), both options would directly boost demand and represent the strongest hauling rope for the economy.

<b>Money Growth Accelerators</b>	<b>Money Growth Brakes</b>
Money creation by commercial banks	Money creation by the central bank
Random central bank policy (e.g. Quantative Easing)	Targeted central bank policy (e.g. loans to commercial banks, only for real lending purposes)
Mixed banking system (commercial and investment banks combined)	Separate banking system

#### 10. Seigniorage benefits society as a whole: „Sovereignage“!

Profit oriented commercial banks are at present appropriating seigniorage, without pursuing economic targets such as system stability or just distribution. In the current bank money system, seigniorage consists of the difference between the cost of current accounts and alternative refinancing costs, as the commercial banks have to refinance the money they create when lending, however “only” through extremely low – or even negative – interest current accounts. They usually do not first have to wait for high interest saving investments or resort to expensive bank bonds or take out loans from other banks, at likewise higher LIBOR. In a positive money system, they only have these alternative options, however not the money creation option via current accounts. The realized, relative seigniorage must not be disclosed anywhere by the banks and as a result it remains in the dark. Joseph Huber estimates that the seigniorage of the commercial banks in Germany is between 15 and 25 billion euro annually and in Switzerland, between 6 and 12 billion Swiss francs.<sup>31</sup>

Possibly, to these calculations have to be added the relative gains from asset purchased via current account deposits – the second mecanism of money creation by commercial banks today.

30 Bank of England: „Money creation in the modern economy“, pages 14-27 in *Quarterly Bulletin* 2014/Q1.

31 HUBER, Joseph (2013): »Finanzreformen und Geldreform – Rückbesinnung auf die monetären Grundlagen der Finanzwirtschaft«, pages 33-59 in: VEREIN MONETÄRE MODERNISIERUNG (2013), 49.

In a “sovereign money” system, the seigniorage for the central banks would be the difference between the nominal value of the new money and its production costs. It could directly service society as a whole via a “citizen dividend per capita”, reduction of state debt, reduction of taxes or financing of public services and goods. As the money benefits the citizens, a better term than the – still feudal! - „seigniorage“ would more properly and up-to-date be „sovereignage“.

With an M1 money supply of 64% of GDP in the Eurozone<sup>32</sup> the money supply could, while maintaining the objective of a constant money supply in relation to GDP, be expanded by 1% at 1% economic growth or by 0.64% of the Eurozone GDP. In 2015 this amounted to 66 billion euro in the EU budget pot – this is half of the European Unions yearly budget!

#### 11.Cash accounts are safe and do not require deposit protection

Due to the fact that current or “cash accounts” would not be part of the bank balance sheet in a sovereign money system and would remain the possession of bank customers, the deposits would not become part of the insolvency assets in the case of bankruptcy and the state deposit guarantee for demand funds would be unnecessary as well as an argument with regard to the rescue of insolvent banks. Cash accounts, just like secure deposits, could be exited from an insolvent bank and transferred to a solvent one, thereby removing the core reason for bank runs.

The background is the differentiation between depositing and investment of money. Although money as a means of payment is managed by the banks, it is only an (electronic) deposit such as jewelry in physical depotsits. Only when the saver invests the money for a minimum period e.g. 3 or 6 months, are these deposits transferred into the possession of the bank, its balance sheet, and in the case of insolvency they belong to the insolvency assets of the bank. If the state wants to protect its citizens’ investments, a state deposit guarantee can be provided. It would represent an exception of a free market economy, where the investment risk is carried by private investors and not by the general public. A possible legitimacy for a state deposit guarantee would be the common good orientation of the bank, by defining legal criteria e.g. separate banking system, the banning of money-from-money transactions, dividend payout ban or ethical assessment of all loans. A further important condition for a state deposit guarantee would be the capping of interest rates, as even minimum interest rates have a powerful redistributive effect. As in the case of 1% savings interest, capital of € 10,000 would generate interest of € 100 per year, a saver with a savings capital of 100 million euro would receive an “out-of-work basic income” of 1 million euro, which is an amount which 99% of the population cannot earn even with the utmost effort in a complete

---

32 According to ECB, the M1 money supply was 6.67 trillion euro, in January 2016 (Economic Bulletin, Issue 2/2016, 18). In 2015, the Eurozone GDP was ca. 10.4 trillion euro. M1 money supply was therefore 64% of GDP.

lifetime. Up to 1967 interest rates in Germany were capped by the base lending rate, it was possible to maintain the top savings interest rate at a low level, in order to minimize the redistributive effect.

As an alternative to a positive interest stimulus, negative interest could be paid on positive money accounts or, parallel to the deposits, progressive account charges could be implemented. This would, according to prevailing logic, create a stimulus to transfer money from cash accounts to savings accounts. This already exists in the free market economy of today. As is generally known, markets can do everything – the Commerzbank charged fees to individual major customers for the first time in 2015 and at the start of 2016 medium-sized customers were also charged an “individual credit balance fee”. This was the transfer of their 0.3% “penalty interest” on their deposits to their customers. The Alternativbank Switzerland has applied negative interest rates to current accounts of private customers since April 2016.<sup>33</sup>

Typical for the prevailing paradigm is the point of view that interest on financial investment is so to speak a basic right. If the real interest rate sinks under the inflation rate, we speak of “financial repression”, as if somebody were resorting to violence. Here only the richest are affected, due to the fact that they receive higher capital income compared to what they pay. 90% of the population are damaged by every interest payment – even if they receive marginal savings interest, they belong to the net capital income losers. Interest rates are a redistribution mechanism to the advantage of the net capital income winners. As a result of the fact that “interest income is problematic in a totally fundamental sense”, Professor Jürgen Cremer from Koblenz has made an interesting proposal which states that in order to be completely independent from savings investments banks could refinance every loan, with an interest rate of zero, which has passed the ethical credit assessment either directly at the central bank or, locally, at the loan-granting bank. With this, the dependency of banks on savings would also be a thing of the past along with maturity transformation and the interbank market.<sup>34</sup> Money as a public good opens the doors to undreamt-of political scope with regard to the objectives of system stability and just distribution.

## 12. Beneficial impact on state finances

Since 2002 it has been contractually forbidden for the European Central Bank to grant loans to EU member states.<sup>35</sup> As a result these states are forced to issue expensive government bonds in order to finance their state debt and are at the mercy of the market dictated interest rates. This is absurd from the point of view that the states pay daylight robbery interest rates

---

33 *Frankfurter Allgemeine Zeitung*, 9 February 2016. *Süddeutsche Zeitung*, 15 April 2016.

34 CREMER (2013), 14 – 16.

35 Article 123 of Treaty on the Functioning of the EU (VAEU) (ex-Art. 101 EGV).

to the banks and on the other hand save these banks from bankruptcy. The quiet argument behind this ban on state financing via the central banks is that this would lead to too much money being printed, which is exactly what the commercial banks are presently doing and is reflected in the critical expansion of the supply of bank and interbank money. It would be simpler and more distributively just, if the central bank paid out freshly created money to EU member states and granted them cheap (interest-free) loans to a limited extent. In the course of a positive money reform, the former would be automatic and the latter could be achieved by a sovereign change in the central bank mandate.<sup>36</sup>

The transition to positive money could then be implemented by replacing the supply of discharged money (the former current account balances) with the same supply of fresh positive money, therefore the money supply would remain the same. The freshly circulated money can be entered on the liabilities side of the central bank balance sheet of the state central bank account and on the assets side as positive money.<sup>37</sup> The state can withdraw this money and pay its debts to the value of the amount of actual bank money volume. In the Eurozone this is on average 64% of economic performance and thereby more than two thirds of state debt! In Austria and Germany it would be almost 80%, as state debt in these countries is under the Eurozone average. In Switzerland the complete state debt could be erased. This advantage of a positive money reform has not been questioned by any critics, as far as the author is aware. This is more astonishing in view of the fact that the topic of state debt and control thereof has been the mainstay of political discussion for years and has led to enormous social and human costs, addressed as „austerity politics“.

---

36 Cf. FELBER (2017), section Solving the Problem of Sovereign Debt, pages 65-70.

37 CREMER (2013), 11.



### III. Frequent Arguments against the positive money reform

#### 1. "Bank Nationalization is the wrong path"

Misconception: We are not talking about bank nationalization but the nationalization of money creation. The banks remain in private or public hands, as is the case today. It is a matter of the separation of money issuing and lending, of the monetary and financial system.

#### 2. The aim of controlling money supply is monetarism and has failed

There are various reasons for containing money supply. Monetarism, which the positive money reform movement clearly distances itself from, strives to steer money supply via material goods inflation and this has indeed failed. The positive money reform does not strive towards this and believes this is not an option and furthermore, would like to prevent money supply explosion as a result of the coupling of lending and money creation, as well as curb financial inflation. Paradoxically the ECB, whose literal task it is to guarantee price stability, does not seem to have any problem with radical price instability of financial assets.

#### 3. "A well-conceived and independently configured Monetative can also be mistaken"<sup>38</sup>

This is correct, however it also applies to the current model. An independent central bank can always make mistakes or abuse its power, also today. Especially with regard to money supply, many observers tend to be of the opinion that central bank policy could turn out to be a fatal mistake. One could also think that it is forced into committing this mistake within the current system of bank money and interbank money.

#### 4. Saving deposits are not sufficient in order to satisfy the demand for loans in the national economy

Heiner Flassbeck, who I hold in high esteem, writes, "If the volume of loans being given or volume which is allowed to be given corresponds to the amount which is available from saving investments, the economy as a whole cannot grow".<sup>39</sup>

This statement depends on the amount of savings deposits and Flassbeck's statement is correct and applies to the time when savings were less than the lending demand on the national economy. However this relationship has, in the meantime, been reversed and in a positive money system the central bank can principally also lend to banks, as discussed.

---

38 FRICKE, Thomas (2014): »Hochzeit für Geldverbesserer. Vollgeld, Freigeld, Free Banking und andere Radikalvorschläge – brauchen wir nach der großen Finanzkrise eine völlig neue Geldordnung?«, Short study commissioned by MEP Sven Giegold/European Parliament: <http://www.sven-giegold.de/2014/kurzstudie-hochzeit-fuer-geldverbesserer/>

39 <http://www.flassbeck-economics.de/abo-artikel-unser-geldsystem-xiii-vollgeld-das-moderne-gold/>

#### 5. There are also other ways of restraining the financial markets

This is undoubtedly true and the positive money reform is only one important component of a sovereign and common good-oriented monetary and financial system. The same objection equally applies for every other reform – closing down of tax havens, financial transaction tax and limits on the size of banks. No reform proposal would be able to solve all problems at once and the strongest synergy would unfold in a positive money reform, as described, in conjunction with credit regulation and a separate banking system

#### 6. The outcome of the changeover is unforeseeable

Technically speaking „private“ book money is discharged and replaced by public book money. The exact same process was successful in the nineteenth century when private banknotes were removed and central bank notes (banks notes used as a means of payment) were brought into circulation. At that time the financial system did not collapse. Curiously the very widespread innovation euphoria comes to a rapid standstill when it comes to more justice, equality and democracy. In the past, money was the privilege of the king, it will soon be a right of the sovereign citizens!

A detailed scientific treatment of the most frequent points of criticism can be found at:

<http://www.vollgeld.de/kritik-und-gegenkritik/>

## **„Money is a public good“**

Compilation of criteria (work in progress)

1. The definition of currency is a sovereign task of the state.
2. The central bank is a public institution.
3. The committees in the central bank are composed of representatives from all walks of society.
4. The aims of the central bank are determined by the sovereign.
5. The central bank is an independent currency and money authority – „monetative“.
6. The central bank obtains the issuing monopoly for cash and book money.
7. Seigniorage benefits the general public and turns into „sovereignage“.
8. All banks are obliged to adopt a common-good orientation.
9. Loans may only be granted for financing real investments.
10. All loan requests are subject to an ethical credit assessment.
11. Savings interest will be regulated according to the criteria distributive justice and system stability.
12. The central bank can, to a certain extent, finance state debt and also on an interest-free basis.
13. Inequality of income and wealth is democratically limited.
14. The free movement of capital will be linked to tax cooperation.
15. Establishment of a cooperative international monetary system on base of a global reserve currency („Bretton Woods II“).<sup>40</sup>

## Selected Literature

BRICHTA, Raimund / VOGLMAIER, Anton (2013): »Die Wahrheit über Geld«, Börsenbuchverlag, Kulmbach.

CREMER, Jürgen (2013): »Vollgeld«, ausgekoppelter Aufsatz aus: »Grundlagen der Ökonomie – Geldsysteme, Zinsen, Wachstum und die Polarisierung der Gesellschaft«, 2. überarbeitete und erweiterte Auflage, Metropolis.

DEUTSCHE BUNDESBANK (2015): »Bankenstatistik Dezember 2015«, Statistisches Beiheft 1 zum Monatsbericht.

DIETZ, Raimund (2011): »Geld und Schuld. Eine ökonomische Theorie der Gesellschaft«, Metropolis, Marburg.

FELBER, Christian (2017): »Money. The New Rules of the Game«, Springer. The original German version from 2014 was awarded the [getAbstract International Book Award](#).

FISHER, Irving (2007): »100%-Money. 100%-Geld«, Verlag für Sozialökonomie, Kiel.

HUBER, Joseph (2010): »Monetäre Modernisierung. Zur Zukunft der Geldordnung«, Metropolis, Marburg. HUBER, Joseph (2013b): »Vollgeld und 100%-Reserve«, Working Paper, online: <https://vollgeld-jh.squarespace.com/vollgeld-und-100-prozent-reserve>

HUFFSCHMID, Jörg (2002): »Politische Ökonomie der Finanzmärkte«, VSA-Verlag, Hamburg.

ISSING, Otmar (2011): »Einführung in die Geldtheorie«, Vahlen, München.

KARWAT, Klaus (2009): »Vom fraktionalen Reservesystem zur Monetative: eine Darstellung in Bilanzform«, Working paper, online: <https://vollgeld-jh.squarespace.com/papers-und-manuskripte-zur-vollgeldreform>

MAYER, Thomas (2013): „Wie Vollgeld in Umlauf bringen? Bilanzierungsmöglichkeiten aus Sicht der Zentralbank«.

MAYER, Thomas / HUBER, Roman (2014): »Vollgeld. Das Geld-System der Zukunft«, Tectum, Marburg, Working Paper, online: [www.vollgeld-initiative.ch/vertiefung/](http://www.vollgeld-initiative.ch/vertiefung/)

PEUKERT, Helge (2012): »Die große Finanzmarkt- und Staatsschuldenkrise. Eine kritisch-heterodoxe Untersuchung«, 4<sup>th</sup>, revised edition, Metropolis-Verlag, Marburg.

SIMON, Klaus (2014): »Grundfehler des herrschenden Geldsystems«, pages 15-54 in: BENDER, Harald, BERNHOLT, Norbert, SIMON, Klaus: »Dienendes Geld. Die Befreiung der Wirtschaft vom Wachstumszwang«, oekom, München.

VEREIN MONETÄRE MODERNISIERUNG (Ed.) (2013): »Die Vollgeld-Reform. Wie Staatsschulden abgebaut und Finanzkrisen verhindert werden können«, Zeitpunkt, Solothurn.