

A GOOD QUESTION, As We Face The Hardship Years Ahead

Why, in modern democracies, should we continue to allow commercial banks to enjoy the privilege of creating the national currency and money supply, instead of transferring responsibility for creating it in the national interest to a public agency?

A draft "Proposed Bank of England Act 2010" to implement this banking and monetary reform is now on the internet at www.bankofenglandact.co.uk. It has been prepared for "a group of economists, lawyers, engineers, former civil servants, university academics and business people who have realised that the root of the instability in the world economy, and huge burden of debt in every country, is due to the fundamental design of the banking system".

This monetary and banking reform will directly help our new government to deal with two of our most urgent economic problems. It will help to ease the burden of paying off our massive public debt - see www.bankofenglandact.co.uk/benefits-of-reform. It will also prevent future banking failures from causing credit booms and busts that result in damaging financial crises.

The reform will transfer the function of creating the money supply to the Bank of England from the commercial banks. The Bank will create the amount of money it decides is necessary to meet the published objectives of monetary policy laid down by the elected government and Parliament. The Bank will give the money it creates to the government, and the government will spend it into circulation on public purposes under normal democratic budgeting procedures. This will be a permanent, more democratic development of the Bank's recent creation of money by "quantitative easing" to support the banks.

The proposed reform will remove the present subsidy to the banks in the form of special profits made by them from being allowed to create the money supply. So, as well as requiring the government to carry out more efficiently its responsibility for a public money system that serves the public interest, the reform will motivate the banks to meet the borrowing and lending needs of the economy more efficiently and less expensively in a more competitive market economy.

More people are now becoming aware that we depend unnecessarily on the commercial banks to provide us with more than 95% of the national money supply; that the banks now create it as bank-account money ('credit') out of nothing, in the form of interest-bearing loans to their customers (profit-making debt); and that less than 5% is now created as banknotes and coins by the Bank of England and the Royal Mint as

agencies of the state. Hitherto, very few people have realised that our money supply is created that way. As the numbers grow who realise it, how will they respond to that knowledge in the hardship years ahead?

The "Banking Reform" section of the new government's coalition agreement between the Conservatives and Liberal Democrats - http://news.bbc.co.uk/1/hi/uk_politics/election_2010/8677933.stm – does not mention this more basic commonsense reform. It would, in fact, be a simpler way of dealing with almost all the points covered in the agreement.

Opponents are already complaining that the new government's "Banking Reform" proposals will put UK banks at a competitive disadvantage in favour of other countries' banks, and say that this will reduce the amount of tax the UK banks contribute to the Exchequer and the contribution they make to our economy. The same claim will be made against the simpler and more basic banking and monetary reform discussed in this note.

Those claimed reductions in benefits will almost certainly be greatly offset by the reduction in the present cost of money which every activity in the economy now has to bear - whether in booms or busts or normal times - as a result of the present way of creating it. Unbiased cost/benefit calculations covering the longer-term and shorter-term plusses and minuses (costs and benefits) would no doubt confirm that conclusion. The new government should be encouraged to commission them urgently.

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