G20 AGENDA FOR APRIL MUST INCLUDE MONETARY REFORM
A Crash Campaign

(You are encouraged to email this document to anyone you think may be interested in it.)

SUMMARY and INTRODUCTION

1. The objective is to get proposals for monetary reform - national and international - included in the Agenda for the G20 meeting on 2nd April 2009.

2. The fall-back purpose is that, even if G20 governments do not agree to discuss these questions in April, active pursuit of that objective now will help to increase already growing support for monetary reform. Then, having taken off, it could snowball through the internet and other channels into a powerful, longer-term international campaign.

3. The reforms to be proposed to G20 governments are as follows.

(1) National monetary reform will genuinely nationalise national currencies, by
(a) transferring to nationalised central banks responsibility for creating debt-free the whole of the public money supply; and
(b) prohibiting anyone else, including commercial banks, from creating bank-account money out of thin air - just as forging metal coins and counterfeiting paper banknotes are already criminal offences.

(2) International monetary reform will introduce a genuinely international debt-free currency,
(a) created by a new international monetary authority,
(b) to provide a more efficient, more stable and fairer basis for international exchanges in the global economy,
(c) co-existing with national and euro currencies,
(d) but no longer relying on any of them as international currencies.

Both these reforms will create money free of debt, not as debt - as it is created now. The national reform will transfer the function of creating money from a particular sectional interest (banking) to a national monetary authority (the central bank) serving the public interest. The international reform will transfer it from one particular national interest (the USA creating dollars) to a genuinely international currency issued by an international monetary authority serving the global interest. These reforms are not only right for the longer term. Actions taken to deal with the present crisis will be more effective if designed as stepping stones to these reforms.

A brief explanation follows. For fuller explanation see paragraphs 12-20 and 21- 27.

Note: G20 (Group of Twenty) member countries are Canada, France, Germany, Italy, Japan, UK, USA, Russia, Argentina, Australia, Brazil, China, India, Mexico, Saudi Arabia, South Africa, South Korea, Turkey, and Indonesia (+ EU and World Bank and IMF representation). For more about the April meeting see www.g20.utoronto.ca/g20plans/index.html and www.londonsummit.gov.uk/en

BRIEF EXPLANATION

4. A large number of banking booms and slumps have happened in the past twenty years in various parts of the world. They are always more damaging to the many people who suffer from them than to the top bankers, regulators and politicians who are responsible for them. The present one is the most damaging since the Great Crash of 1929 and the following Great Depression in the 1930s.

5. As always, the responses of governments are now focusing on symptoms only, not on the underlying causes - like builders trying to stop a house continually slipping downhill by repeated expensive repairs to the roof and upper floors, not realising that the foundations are unsound.

6. Money is the foundation of national and international financial systems. The way money is created and issued, by whom, and in what form (as debt or debt-free, in one currency or another) largely determines how a financial system works.

7. The ways money is created today for national economies and the international economy lead inevitably to frequent, highly damaging booms and busts. Even in normal times, they result in a skewed money system that generates incentives for almost everyone in the world to make money in socially, environmentally, and economically damaging ways.

8. Most people will benefit from monetary reform. Very many non-governmental organisations (NGOs) should therefore support it. They include those concerned with social issues (poverty, welfare, social injustice, health, human rights, etc), environmental issues (climate change, energy supply and use, water, food and agriculture, etc); the problems of ‘developing’ countries; and general, economic and public policy issues (world future prospects; local and community economic development; ethical investing, trading and consuming; corporate social responsibility; etc).

9. The national and international proposals outlined here share similar features. Both will create money debt-free, not as debt - as it is created now. The national reform will transfer the function of creating it from a particular sectional interest (banking) to a national monetary authority

(the central bank) serving the public interest. The international reform will transfer it from one particular national interest (the USA creating dollars) to a genuinely international currency issued by an international monetary authority serving the global interest - not, as may well happen, to a small group of competing countries supplying "reserve" currencies. These reforms are not only right for the longer term. Actions taken to deal with the present crisis will be more effective if designed as stepping stones to these reforms. An example is what is now being described as "quantitative easing".[1]

10. An important point to be noted, although it is not directly relevant to the G20 meeting, is that monetary reform in the shape of decentralised monetary development within nations also needs to be encouraged. It will involve the further spread of alternative community currencies and regional currencies like Time Dollars, LETS, Chiemgauers and others already existing in many countries. They can provide a basis for new community institutions like local banks, credit unions, and investment funds, leading to greater local economic and social self-reliance. These desirable developments for the longer term could also provide a partial domestic response to crises like the present one.

11. Decentralised community currencies do not need to be co-ordinated internationally. But, it must be accepted that, if the present national and international money system continues to function as it does, it will continue to make most people too dependent on getting enough of their national currency to provide them with a livelihood, to allow them to commit themselves to decentralised alternative currencies instead. The G20 should therefore be asked to concentrate on the straightforward, widely understandable reforms of the currently dominant national and international money systems as proposed above. As well as relieving us all of the damaging effects of the present arrangements, those reforms will open the way to more decentralised patterns of financial and economic life for the future.

NATIONAL MONETARY REFORM

12. The monetary reforms introduced in different countries will no doubt be adapted in detail to suit differences in their political and economic environment. Taking the UK situation as fairly typical, less than 5% of the public money supply is now created and issued as banknotes and coins by agencies of the state. Commercial banks create most of the remaining 95% out of thin air simply by writing it in the form of bank-account money into their customers' accounts as loans to be spent into

[1] Discreetly so described in order to disguise that it is perfectly reasonable and possible for the central bank to supply newly created money directly to the economy, as the public interest requires.

circulation.[2] It is often still called "credit" as if distinct from money - to avoid mentioning the fact that commercial banks create most of the public money supply.

13. If the present arrangement was not the status quo and we were starting from scratch, nobody would seriously suggest that the same businesses should combine the two conflicting functions:

- putting 95% of the public money supply into circulation efficiently and fairly on behalf of society as a whole, and
- competing for private profit in the market for lending and borrowing.

It would be obvious that to mix the two would reduce the efficiency and reliability of both.

14. In practice, crises of financial stability do inevitably result from combining them. The reason was famously expressed from the commercial bankers' point of view by the outgoing Chief Executive Officer of Citibank in 2007. Shortly before receiving his multi-million dollar 'golden parachute' to compensate for being 'chucked out' of his crisis-stricken bank, Chuck Prince explained that, "As long as the music is playing, you've got to get up and dance". Once the herd starts stampeding, it's better for bankers to be wrong with the herd than right but alone.

Separating The Two Functions

15. A basic monetary reform consisting of two complementary measures will separate the two functions.

(1) It will transfer to nationalised central banks the responsibility for creating, not just banknotes as now, but also the major component of the supply of public money that consists of bank-account money now mainly held and transmitted electronically.

(2) It will prohibit anyone else, including commercial banks, from creating bank-account money out of thin air - just as forging metal coins and counterfeiting paper banknotes are criminal offences.

16. These complementary measures will genuinely nationalise the national money supply but not the commercial banks. After the reform, when the present crisis is stabilised, the commercial banks that have been nationalised can be denationalised, and can compete freely in the profit-making market for borrowing and lending already existing money.

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[2] For details of how this works see David Begg, Stanley Fischer and Rudiger Dornbusch, *Economics* ('the student's bible'), McGraw-Hill, 7th edition, 2003, pp 316 and 318 - http://www.mcgraw-hill.co.uk/textbooks/begg

17. The first of the two measures will make an agency of the public responsible for directly creating and maintaining the public money supply in the public interest. The second will lead to a more competitive market for facilitating loans between lenders and borrowers than today. Losing their present privilege of creating the money they lend will bring the commercial banks into line with ordinary private-sector businesses that are not given their main materials as a free gift. It will encourage them to provide more services to customers more efficiently than now, and also make it easier to attract new entrants into the payment services industry.

Nationalising the National Money Supply

18. Transferring responsibility for creating all new bank-account money to the central bank will catch up with what happened to banknotes under the Bank Charter Act of 1844. That Act recognised that, having originated as notes of credit from private banks and merchants, and having developed into means of payment over several centuries, banknotes had turned into money. Consequently, it transferred the right to issue them to the Bank of England. So, similarly today almost everyone knows that the money in our current bank accounts ("sight deposits") is no longer just "credit" but is money instantly available for spending just as banknotes are. Responsibility for creating it should have been transferred to the central bank many years ago.

19. The proposal for the UK is that an operationally independent central bank should continue to implement monetary policy objectives published by the elected government. But it will no longer do so indirectly by managing interest rates to influence the amount of new money created by banks as loans. It will itself decide at intervals how much new money needs to be added to the money supply. It will then create it and transmit it debt-free as public revenue to the government. The government will then put it into circulation by spending it on public purposes with other public revenue, according to the democratic legislature's normal budgeting procedures. Only in any exceptional monetary crises that still arise, will the central bank help to decide how the money it creates should be spent. It should continue to be operationally independent, in order to minimise the possibility of elected government politicians ordering it to create unnecessarily large additions to the money supply to help them politically, for example, to win a forthcoming election.

20. In the UK it has been objected that, if introduced by one country only, the proposed monetary reform would damage the economy: being deprived of the subsidy they get from creating money as loans would put UK banks at a competitive disadvantage against competitors from other countries, and "would lead to the migration from the City of London of the largest collection of banks in the world". Economic commentators are now suggesting that, in fact, a dominating financial sector is a disadvantage to

an economy. Nonetheless, if possible, it would be helpful to nullify this objection by introducing national monetary reform simultaneously in at least a few of the most economically influential countries, such as USA, UK, Japan, the Eurozone, and possibly Russia and China. That is why national monetary reform should be on the agenda for the G20 meeting.

INTERNATIONAL MONETARY REFORM

21. The proposal is to promote the establishment of a genuinely international debt-free currency, co-existing with national and regional (like the euro) currencies, to provide a more efficient and more stable basis for international exchanges in the global economy.

22. The new currency would be issued by a world monetary authority, with operational independence to implement the monetary objectives published by the United Nations and accountable to it. It would issue the new currency as a new source of public revenue for UN expenditure on global public purposes - peace-keeping and climate change, for example - and possibly also for *per capita* distribution to UN member nations.

23. The background is that by 1995 the Independent Commission on Global Governance was already saying that the international monetary system should be more genuinely international and less dependent on private capital markets: "the US has had the unique luxury of being able to borrow in its own currency abroad and then devalue its repayment obligations", and "the international monetary system's dependence on private capital markets exposes it to the risk of a collapse of confidence in the system as a whole".[3]

24. Since then the dollar's dominance has been increasingly criticised. By 2002 the world was estimated to be paying the US well over $400bn a year for using the dollar as the main global currency. A Pentagon spokesman justified this as a fee to the US global policeman for maintaining world order. Critics have seen it as the US making poorer countries pay for its over-consumption of global resources. World trade was described as "a game in which only the US can produce dollars, while everyone else produces things for dollars to buy".

25. More recently practical threats to the dollar's international position have grown. Iran has threatened to switch its oil trading into euros. Russia's President, Dmitri Medvedev, announced in February 2008 that the rouble will become a regional reserve currency. It was suggested that, if China eventually replaced the US as the world's main superpower, the yuan would replace the dollar as the world's dominant international currency.

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[3] *Our Global Neighbourhood,* Oxford University Press, 1995, pp 181, 183.

26. In 2007/8 the BRICs group of countries - Brazil, Russia, India and China - and other 'emerging' countries were flexing their muscles. India and China caused the collapse of the recent seven-year world trade negotiations in Geneva, to protect their peasant populations. In May 2008, ministers from India and other BRICs countries demanded an international monetary system founded on the rule of law and multilateral diplomacy in "a more democratic, fair and stable world where emerging markets have a greater role and the dominant powers are contained by the same rules as everybody else." On 28 January 2009 Russian Prime Minister Vladimir Putin warned the Davos World Economic Forum that the world should not rely on the dollar as its only "reserve" currency, and emphasised the Russian rouble's claim to become a reserve currency: "Excessive dependence on what is essentially the only reserve currency is dangerous for the world economy; therefore it would be expedient to encourage an objective process for the emergence of several strong regional currencies in the future."

27. So it is possible that, failing steps to introduce a genuinely international currency, monetary chaos could follow a further decline in the dollar's supremacy coupled with the effects of the present global banking crisis. The world's people, and the world's businesses, could end up in a disorganised global economy dependent on private sector investment in a variety of competing 'reserve' currencies including the dollar, euro, yen, yuan, rouble and pound.

REASONS FOR HOPE

28. The emergence of the G20 as successor to the G7/G8 as the top-level world forum on international economy and finance reflects an encouraging move towards global economic and financial democracy. Its new members, and perhaps even some of the old G7/8, may be ready to support an Agenda for April that reflects that fact.

29. President Obama's emergence on the international stage is also encouraging, in spite of all the problems he faces. Steeped in the American historical tradition, he will know that Thomas Jefferson and Abraham Lincoln were among the various founding fathers who outspokenly opposed giving power to banks to create money.

ACTION SUGGESTED

30. People in all the G20 countries should act urgently,

- to mobilise pressure on their governments by early March to include national and international monetary reform in their April agenda, and
- to achieve widespread media coverage in their countries of the arguments for those reforms.

That can be done through many channels.

31. They include writing and other ways of communicating:
- to the politicians who represent us in our legislature;
- to the press and broadcasting media;
- to NGOs that support our concerns with development, social justice, environment, ethical economics, or any of the numerous other causes that suffer from how the present money system works;
- to other people able to do any of these things themselves, and
- by speaking at meetings about those concerns.

32. If, in order to disseminate the contents of this paper as widely and effectively as possible, you find it helpful to do so without attributing them to the author, please go ahead.

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