On the Monetary and Financial Stability under A Public Money System

- Modeling the American Monetary Act Simplified -

The 8th Annual AMI Monetary Reform Conf.

University Center, downtown Chicago
USA

Sept. 20 - 23, 2012

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1. The Chicago Plan Revisited

Current Debt Money System
is
<u>Neither</u> Working
<u>Nor</u> Sustainable !

- **Financial Crises : 1929, 2008**
- **Nat'l Debt Crises: Looming Now!**

According to the IMF, between 1970 and 2010 there were 145 banking crises, 208 monetary crises and 72 sovereign-debt crises. An average of more than 10 per year!

- Money and Sustainability, 2012, p.7. -

Lessons from the Great Depression in 1930s

(1) Banking Act of 1933 (Glass–Steagall Act)

Separation of Depository Banks
from Wall Street Investment Banks

- Repealed in 1999 by
Gramm-Leach-Bliley Act

(2) Chicago Plan

Henry Simons & Paul Douglas (Chicago)
Irving Fisher(Yale) : 100% Money Plan

- Failed to be Implemented

100% MONEY

BY

IRVING FISHER

•

A banking plan designed to eliminate runs on commercial banks; largely to cure or prevent depression; and to wipe out much of the National Debt

First Edition, 1935
Second (Revised) Edition, 1936
Third Edition, 1945 (257 pages)

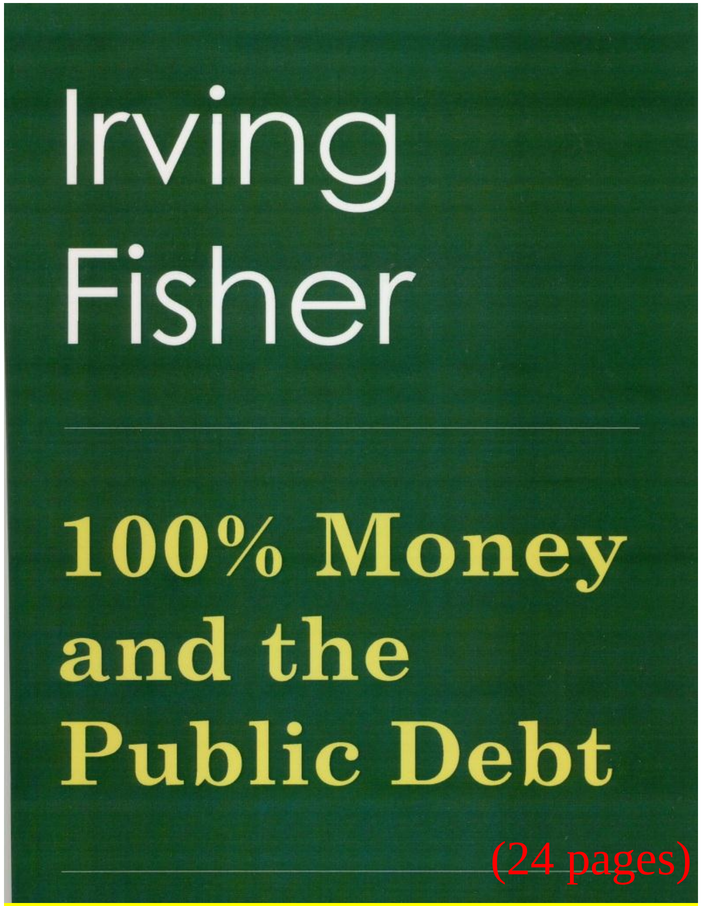
Designed
to keep checking banks 100% liquid;
to prevent **inflation and deflation**;
largely to cure or prevent **depressions**;
and
to wipe out much of the **National Debt**

(Third Edition)
NEW HAVEN
The City Printing Company

At one stage in its evolution the book was mimeographed and sent to one hundred and fifty persons for criticism.

(Preface to the First Edition, xiv)

Chicago Plan



Professor Emeritus of Economics
Yale University, 1936

As I have stated elsewhere*, I have come to believe that the plan, "properly worked out and applied, is incomparably the best proposal ever offered for speedily and permanently solving the problem of depressions; for it would remove the chief cause of both booms and depressions, namely the instability of demand deposits, tied as they are now, to bank loans." (p.8)

* 100% MONEY, Adelphi Company, NY, 1936

"Economic Forum, Spring Number, April-June 1936, pp. 406-420"

A PROGRAM FOR MONETARY REFORM

(A mimeograph circulated in July 1939
by Paul H. Douglas, Irving Fisher, Frank D. Graham
Earl J. Hamilton, Willford I. King, and Charles R. Whittlesey)

Up to the date of writing (July, 1939) 235 economists from 157 universities and colleges have expressed their general approval of this ``Program";

40 more have approved it with reservations; (86%)

43 have expressed disapproval.

The remainder have not yet replied.

A PROGRAM FOR MONETARY REFORM

(A mimeograph circulated in July 1939

by Paul H. Douglas, Irving Fisher, Frank D. Graham

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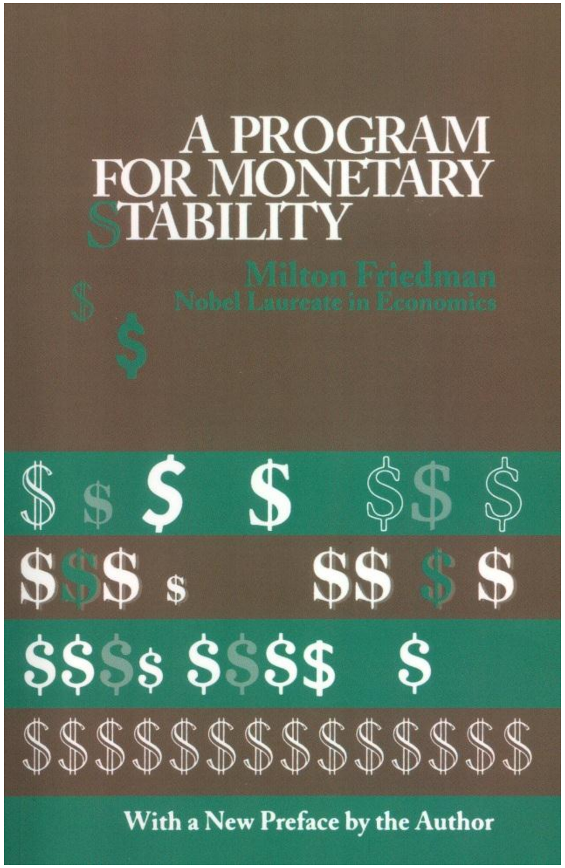
(9) Fractional reserves give our thousands of commercial banks the power to increase or decrease the volume of our circulating medium by increasing or decreasing bank loans and investments. The banks thus exercise what has always, and justly, been considered a prerogative of sovereign power. As each bank exercises this power independently without any centralized control, the resulting changes in the volume of the circulating medium are largely haphazard. This situation is a most important factor in booms and depressions.

Missing Main-Product !

(17a) Under the present fractional reserve system, the only way to provide the nation with circulating medium for its growing needs is to add continually to our Government's huge bonded debt. Under the 100% reserve system the needed increase in the circulation medium can be accomplished without increasing the interest bearing debt of the Government.

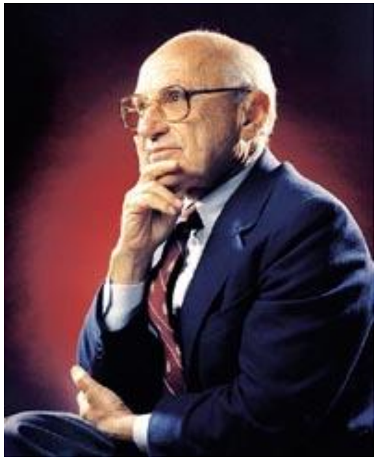
(17b) As already noted, a by-product of the 100% reserve system would be that it would enable the Government gradually to reduce its debt, through purchases of Government bonds by the Monetary Authority as new money was needed to take care of expanding business.

Chicago Plan



(1960, 1992 with Preface)

Milton Friedman
Nobel Prize in Economics,
1982



As a student of Henry Simons and Lloyd Mints, I am naturally inclined to take the fractional reserve character of our commercial banking system as the focal point in a discussion of banking reform.
I shall follow them also in recommending that the present system be replaced by one in which 100% reserves are required. (p.65)

Debt Money: Current System
- Money out of Nothing (Thin Air) -

What is Debt Money ?

Money Supply

1. **Currency Outstanding** (**Bank Notes** and Coins)

+

2. **Bank Deposits (Credits)**

Money Supply M1 (Japan, 2009, trillion yen)		
Coins	4.5	0.9%
Bank Notes	82.3	16.6%
Deposits	410.2	82.5%

Who create Debt Money?

1. **Bank Notes by Privately-Owned Central Bank**

2. **Credits Created by Commercial Banks**

(A Fractional Reserve System)

⇩

Monetary Control by (and for) the Bankers

A Monetary Reform:
Chicago Plan → American Monetary Act

A Debt Money System - Money out of Nothing -	A Public Money System - the American Monetary Act -
1. Privately-Owned Central Bank issues Money (Notes)	1. Government Issues Money (Nationalization of the Central Bank)
2. Credit Creation by Commercial Banks (A Fractional Reserve System)	2. 100% Fractional Reserve （Abolishment of the Credit Creation）
3. Monetary Control by (and for) the Elite Bankers	3. Money as Public Utility for the Economic Growth and Public Welfare

1. On the Liquidation of Government Debt under A Debt-free Money System: Modeling the American Monetary Act, Seoul, Korea, 2010
2. Workings of A Public Money System of Open Macroeconomies: Modeling the American Monetary Act Completed, Washington D.C., USA, 2011

We can liquidate Debt without triggering Recession, Unemployment & Inflation !

US Congressional Briefing
July 26, 2011
At Capitol Hill, Washington DC

H.R. 2990 (Sept. 21, 2011) (Debt Ceiling due 8/2/2011)
“National Emergency Employment Defense Act (NEED)”
A Bill to the US House Committee on Financial Services
by US Congressman Dennis Kucinich,

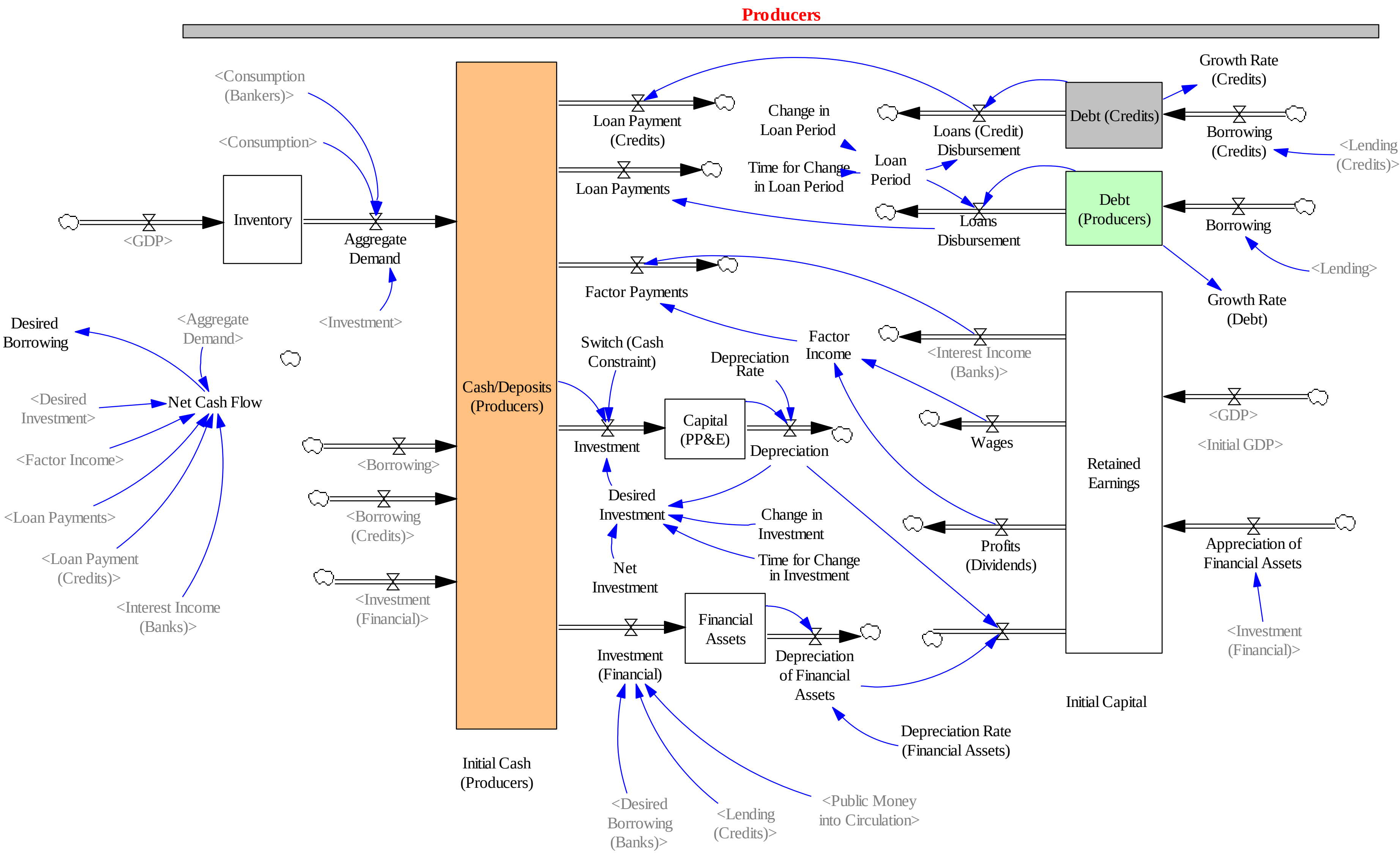
A Monetary Reform:
Chicago Plan → American Monetary Act

Main Product	By-Product
Removal of the chief cause of Booms and Depressions - Monetary Instability - Financial Instability - Income Inequality	Liquidation of Government Debt without causing - Recession - Unemployment - Inflation - Contagious Recession

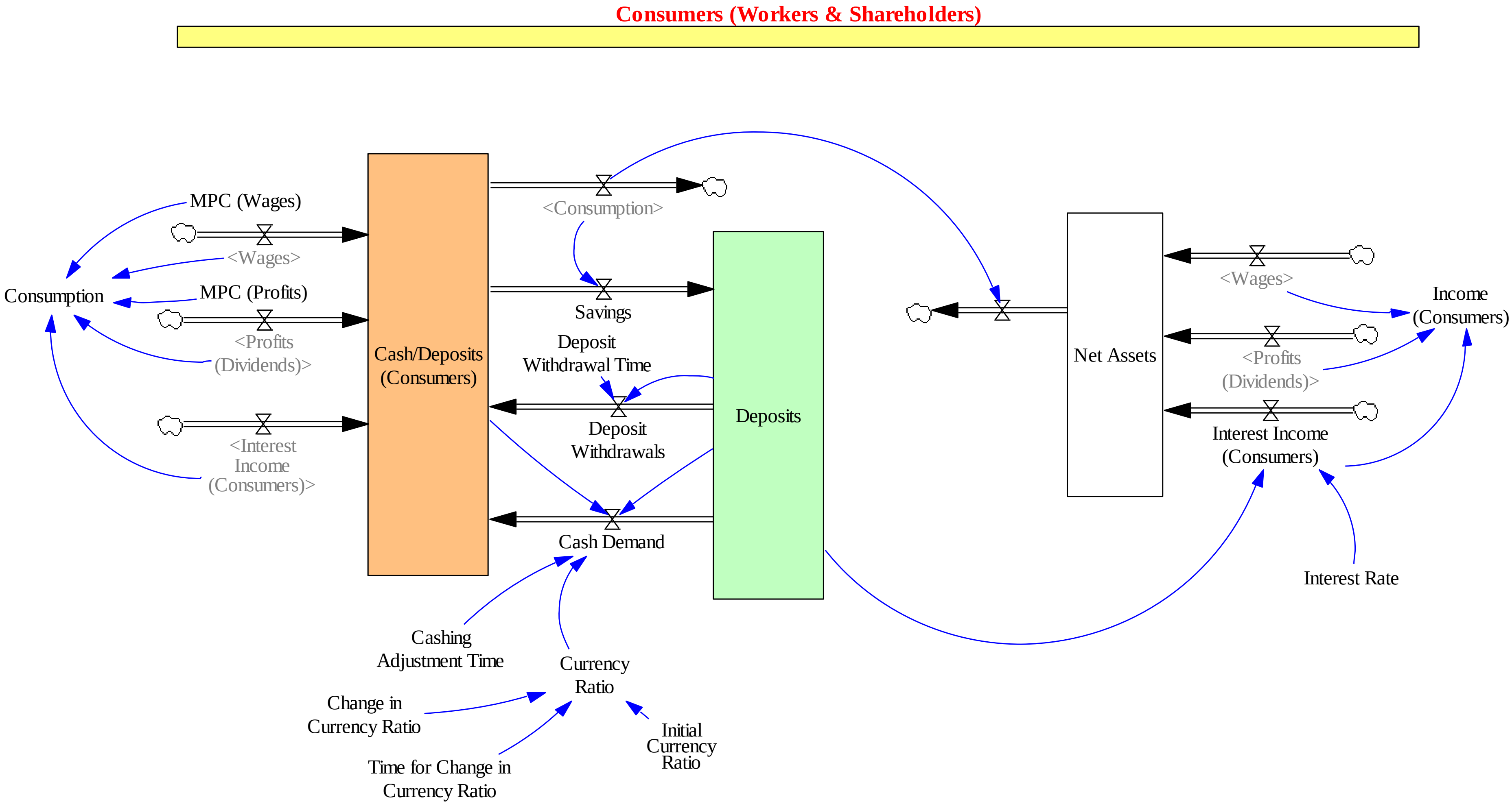
2.

Debt vs Public Money System Simplified

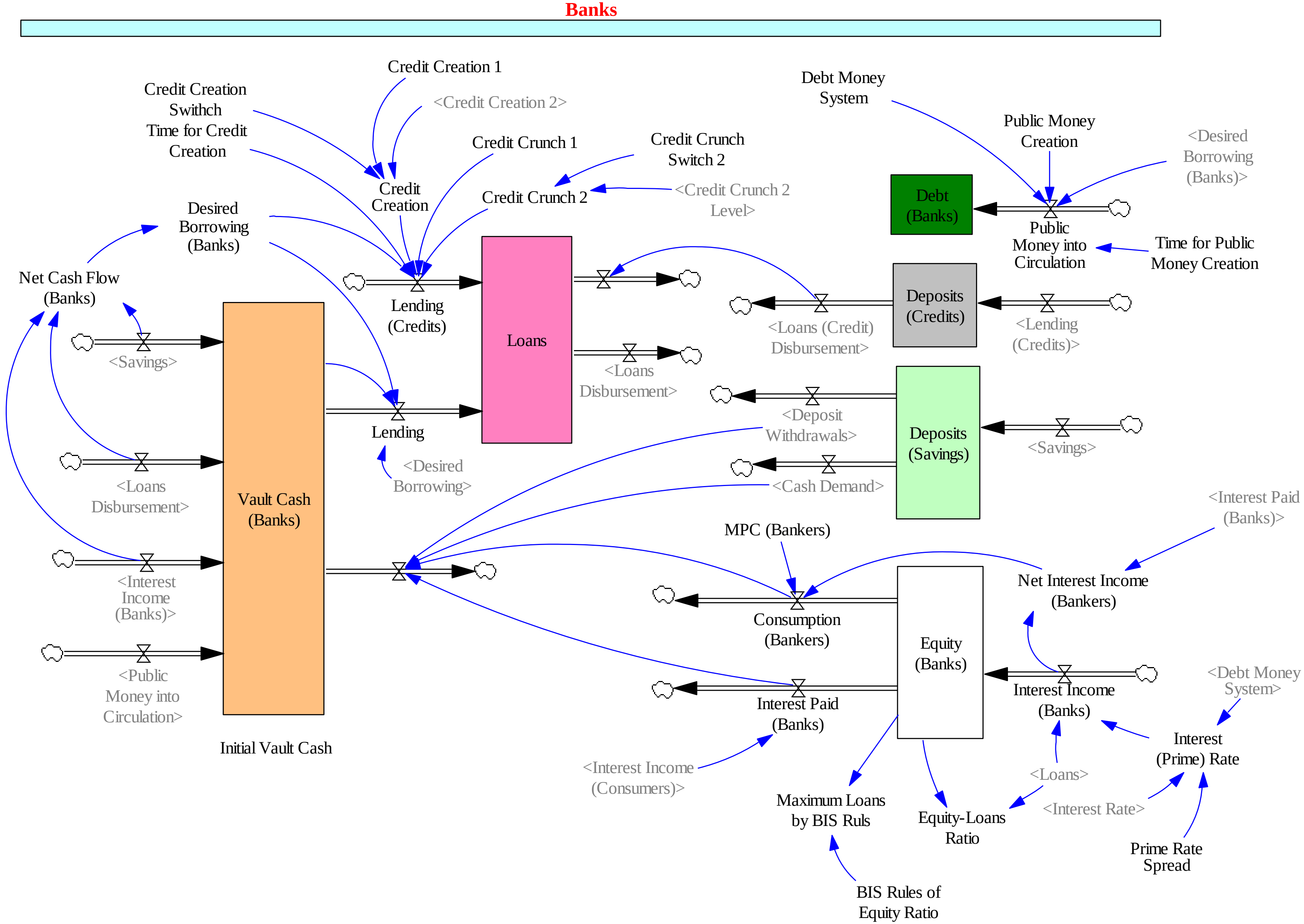
Transactions of Producers



Transactions of Consumers



Transactions of Banks

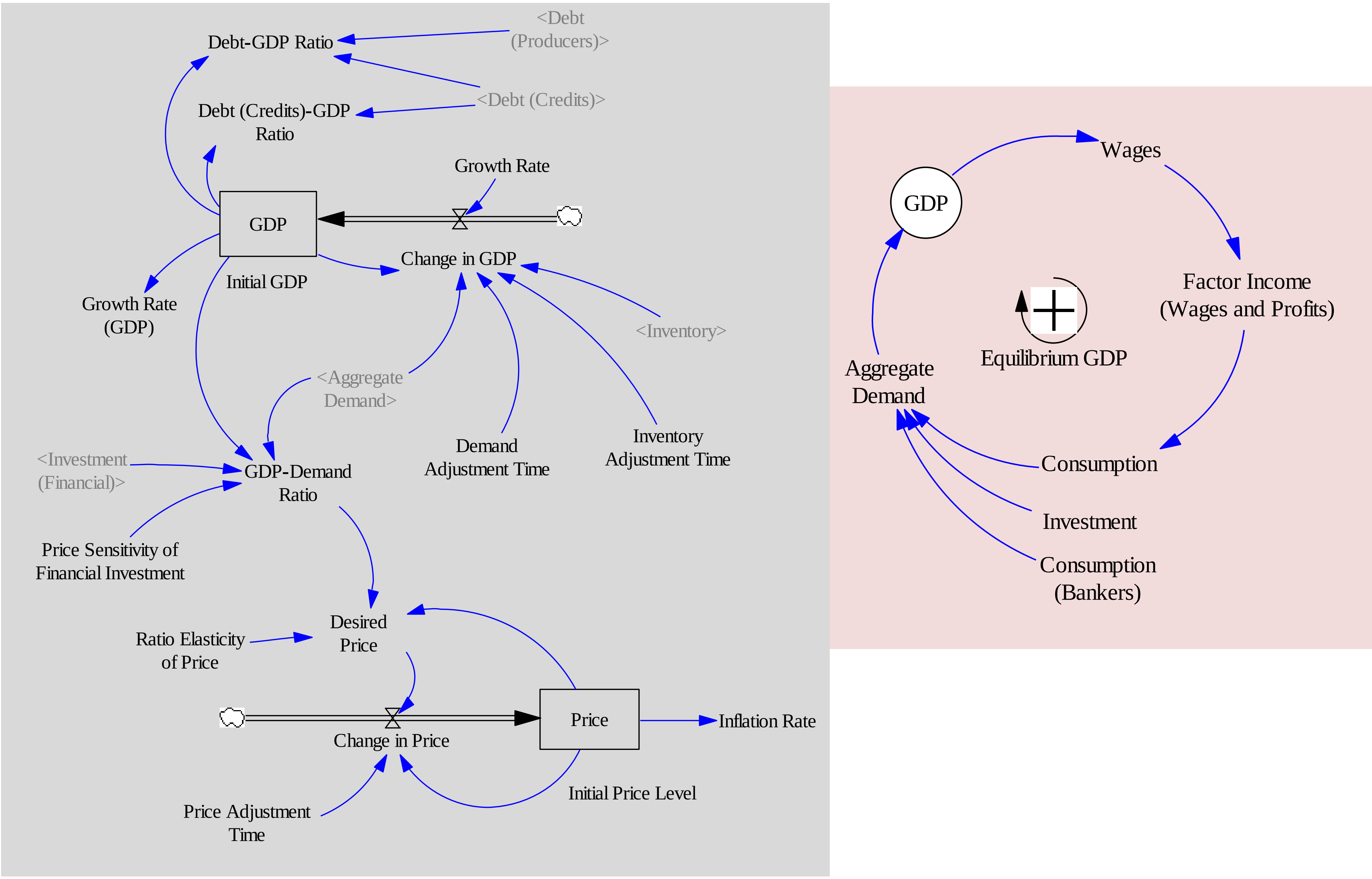


3.

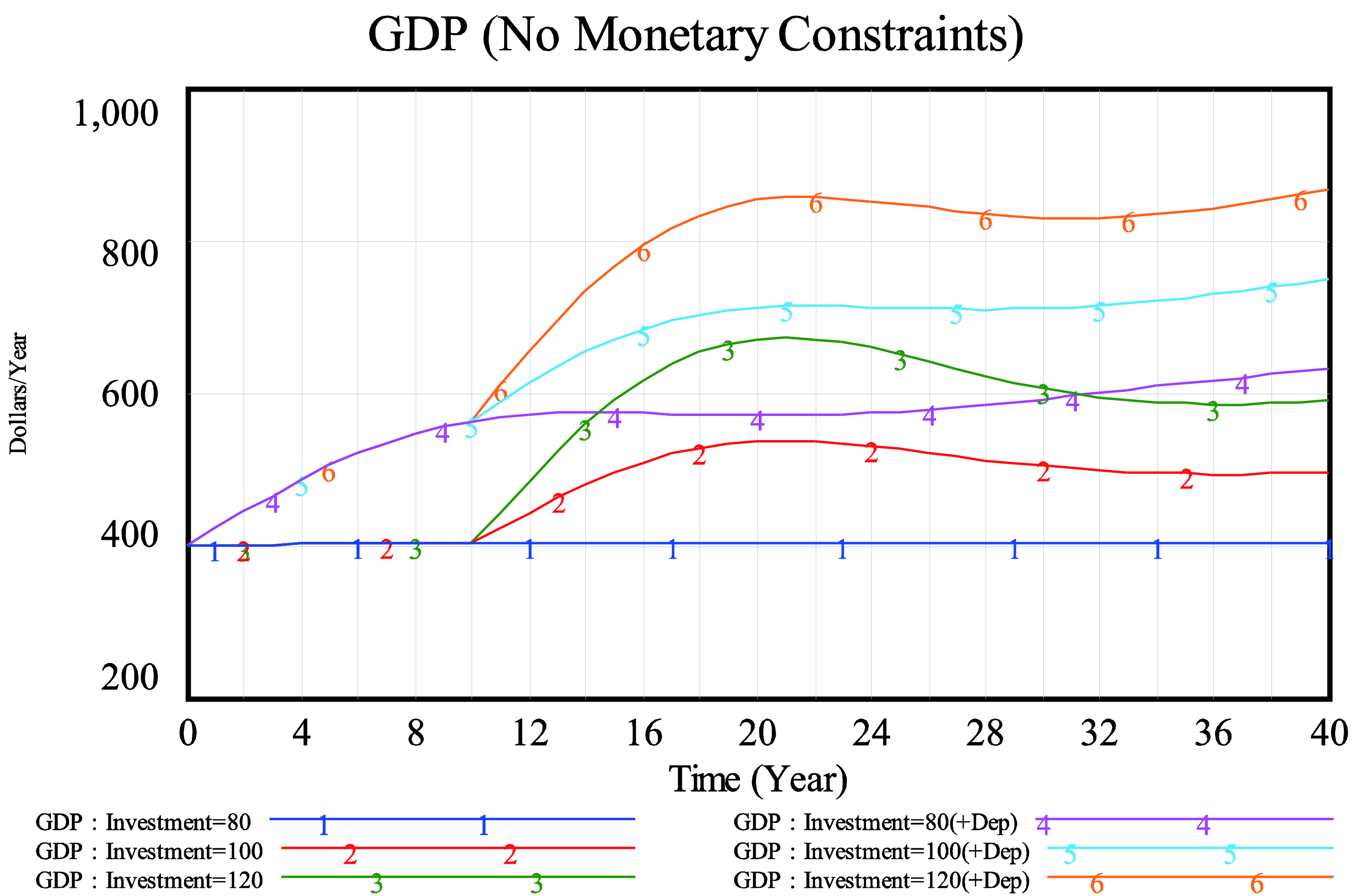
Behaviors of

A Debt Money System

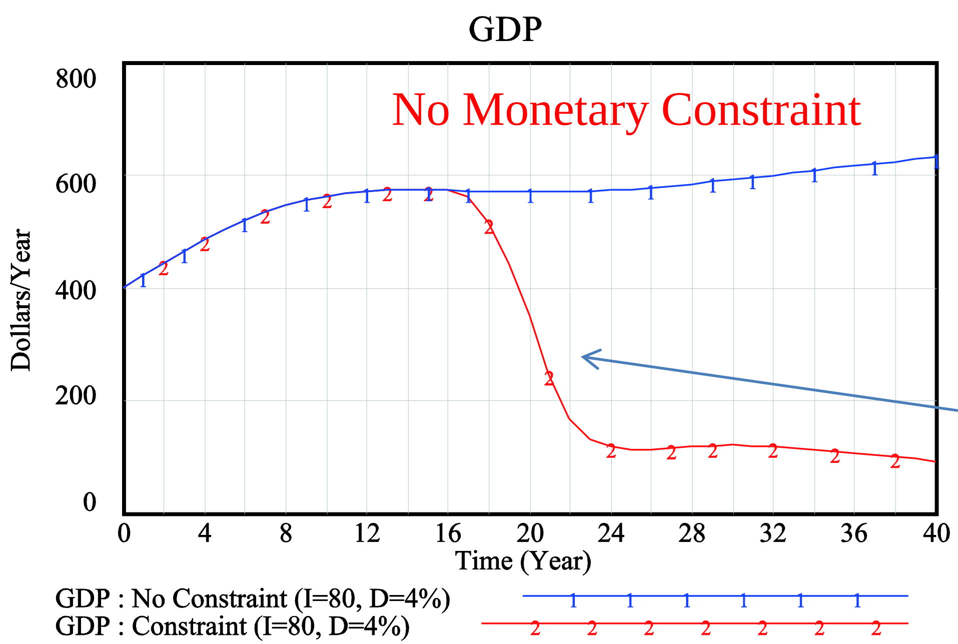
Keynesian GDP Determination



Keynesian GDP Determination



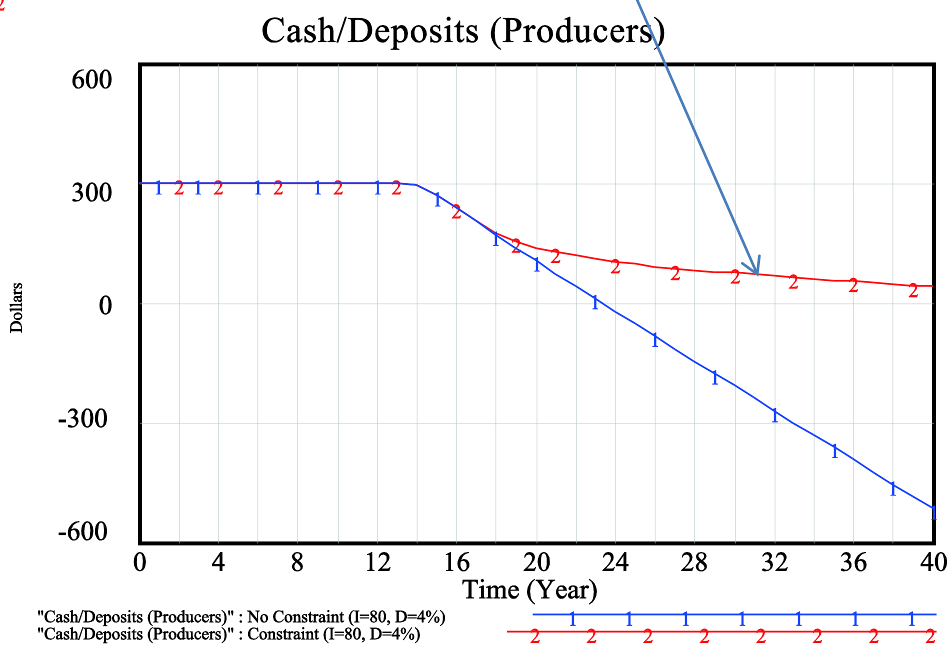
Monetary Constraint GDP



From now on let us assume

I = \$80 + 4% Depreciation

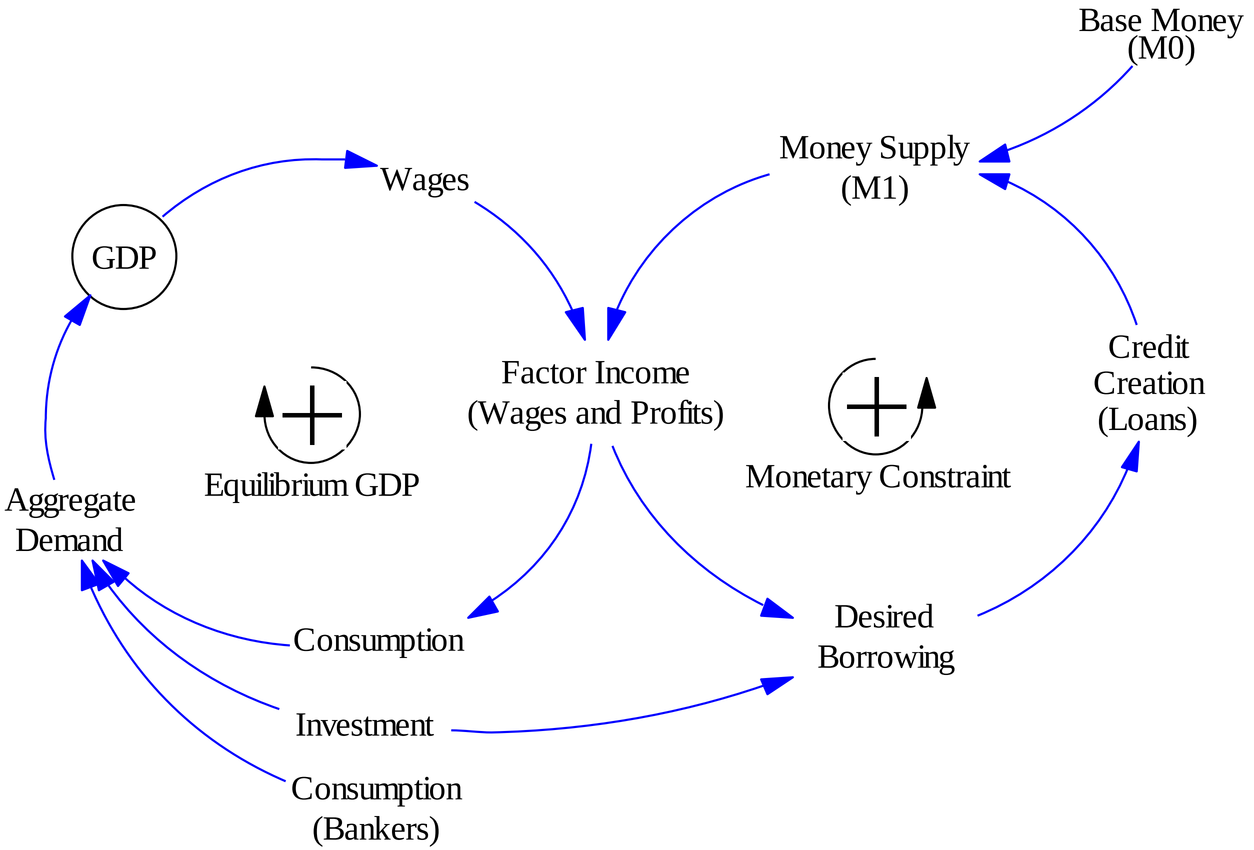
Monetary Constraint



In a Capitalist Market Economy
Producers are in a state of Cash Deficiency

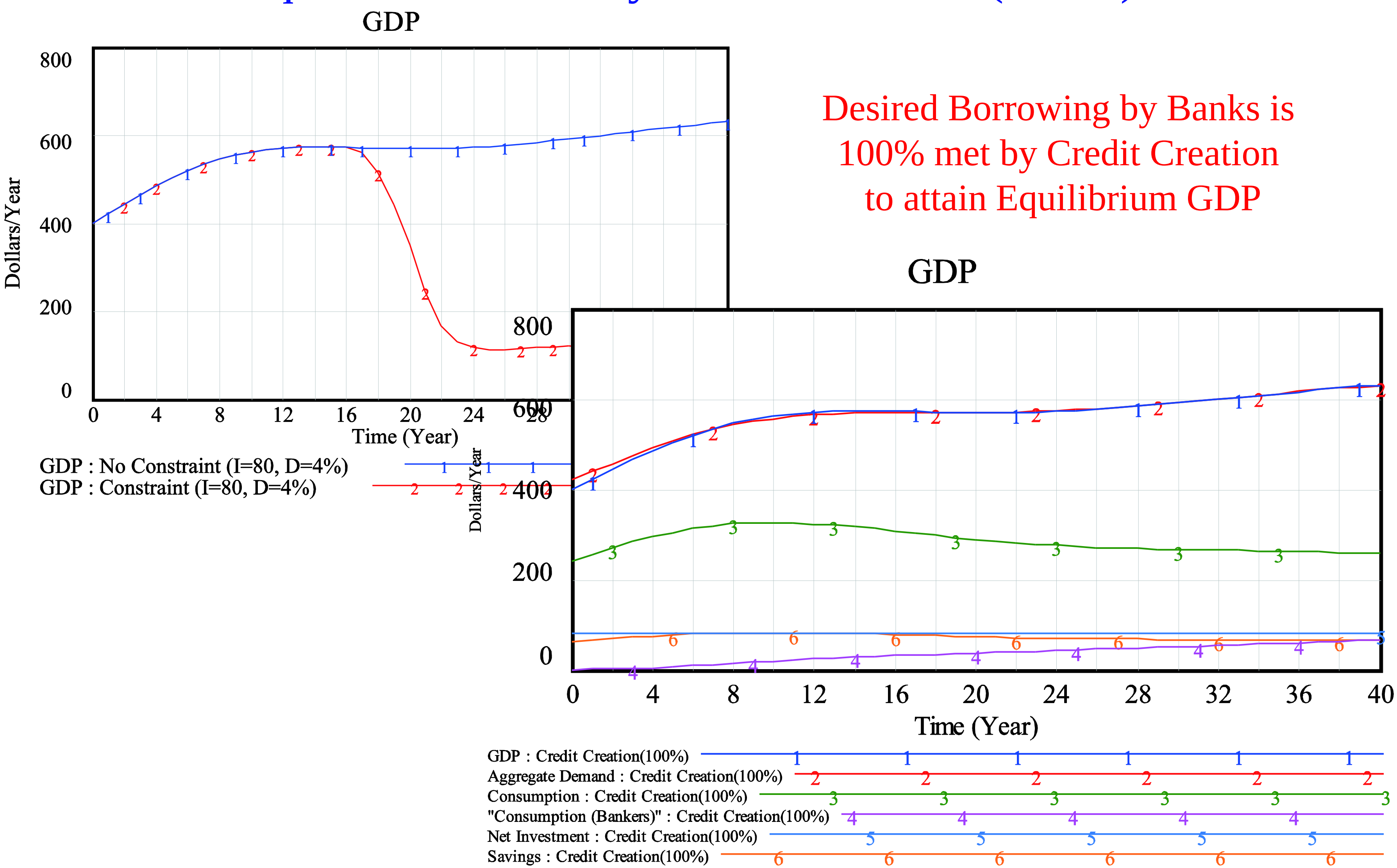
Net Cash Flow
= - Savings (Consumers and Bankers)
- Loan Payment

Credit Creation



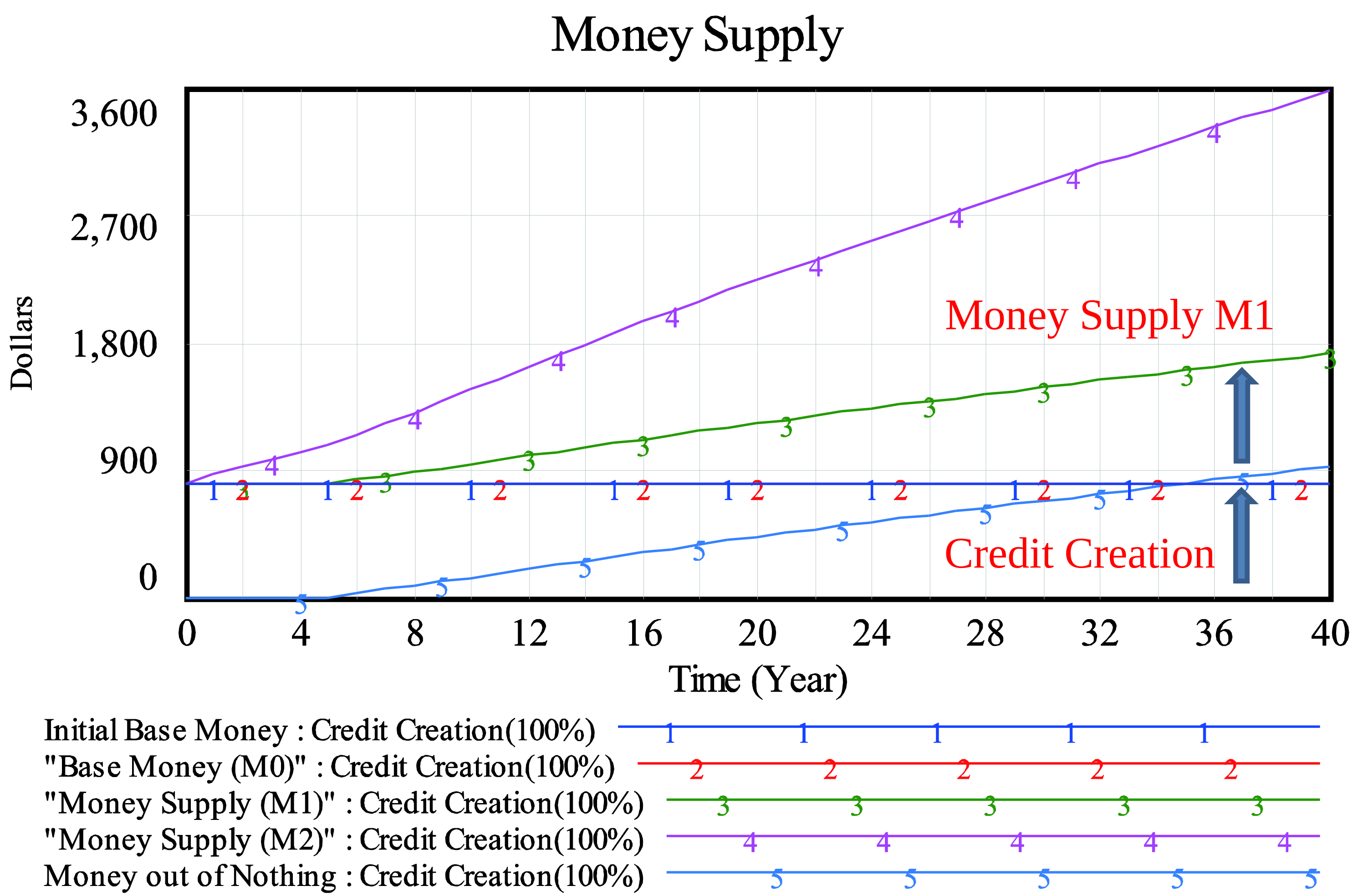
Under a Debt Money System,
Cash Deficiency is filled in by
Credit Creation

Equilibrium GDP by Credit Creation (100%)

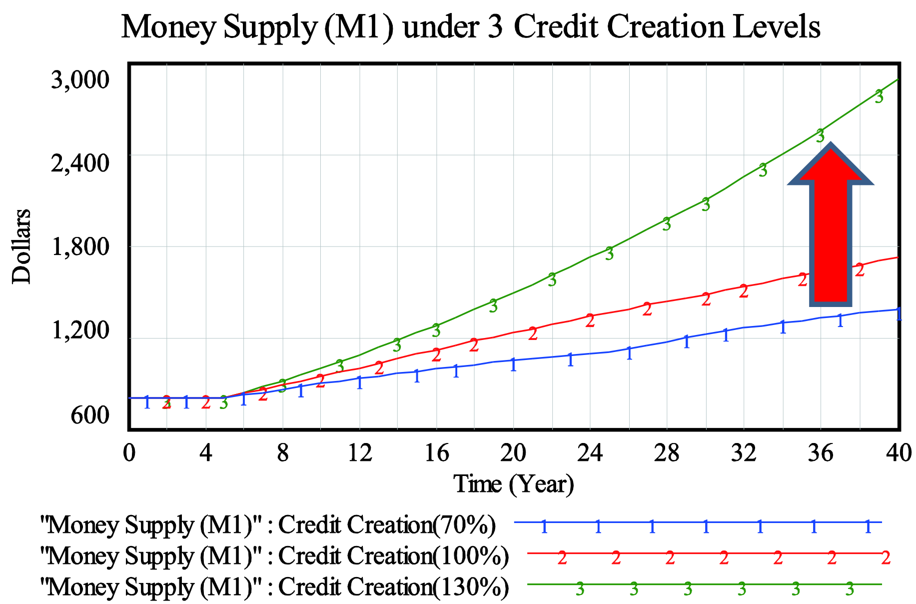


Desired Borrowing by Banks is 100% met by Credit Creation to attain Equilibrium GDP

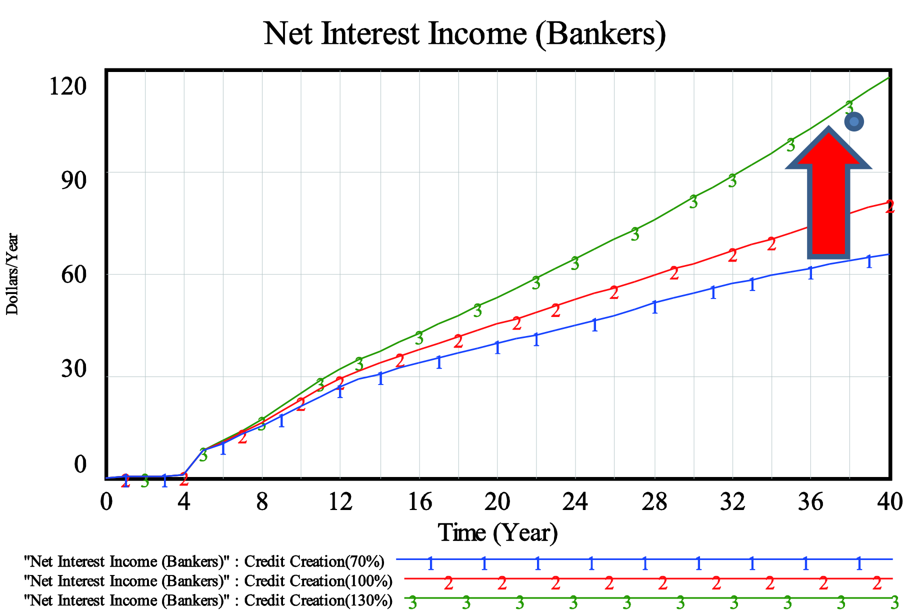
Money Supply: M0, M1 and M2



What Drives Bankers To Create Credits?



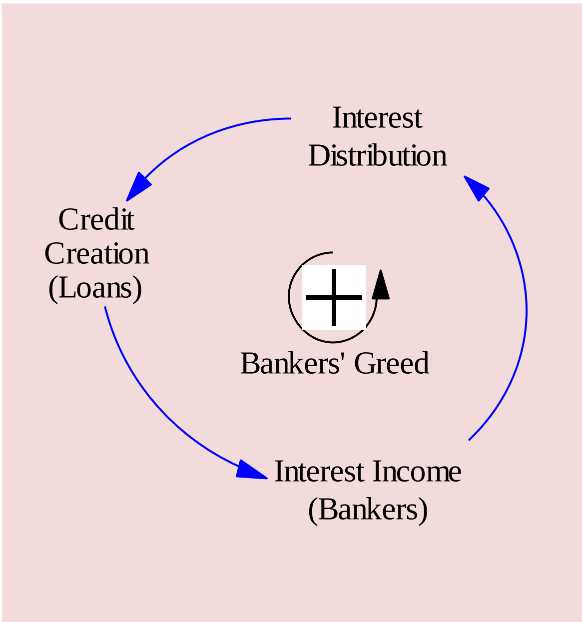
As More Credits are Created



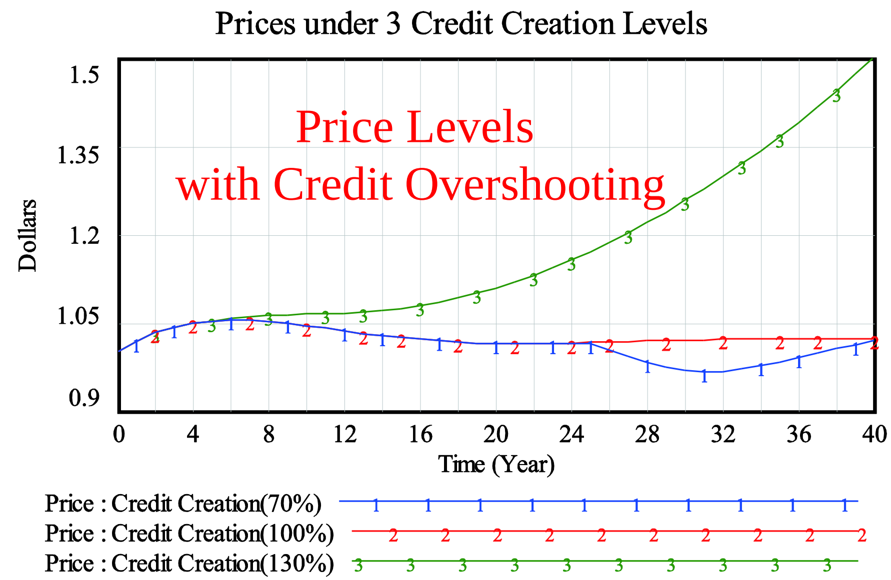
Bankers' Interest Incomes Increase!

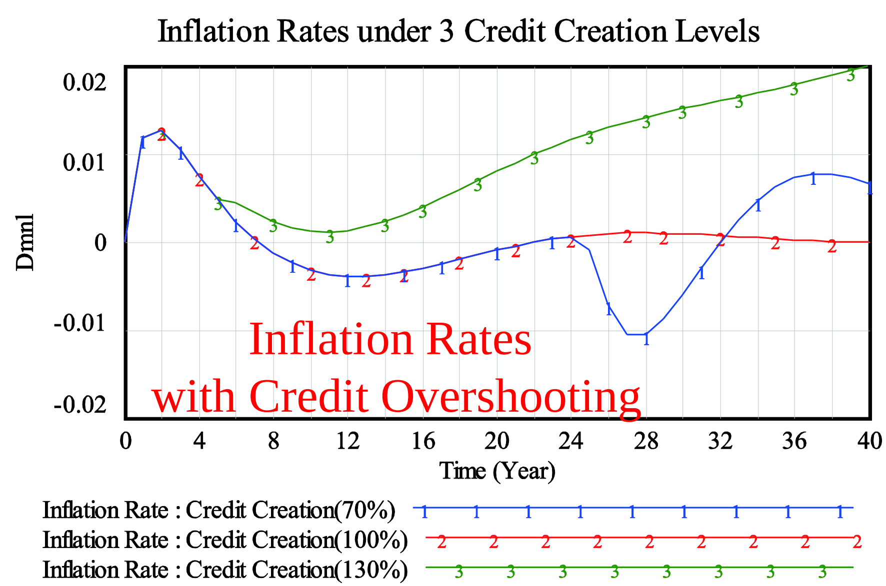
Bankers' Rent Seeking !!!

Consequences of Greed (1): Credit Overshooting!

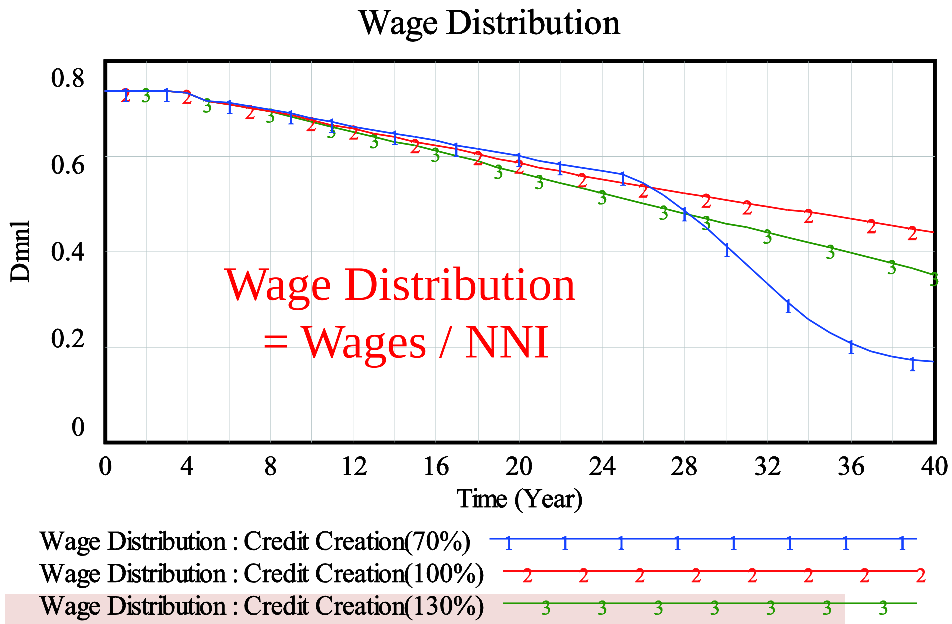


Reinforcing Feedback Loop
of Bankers' Greed



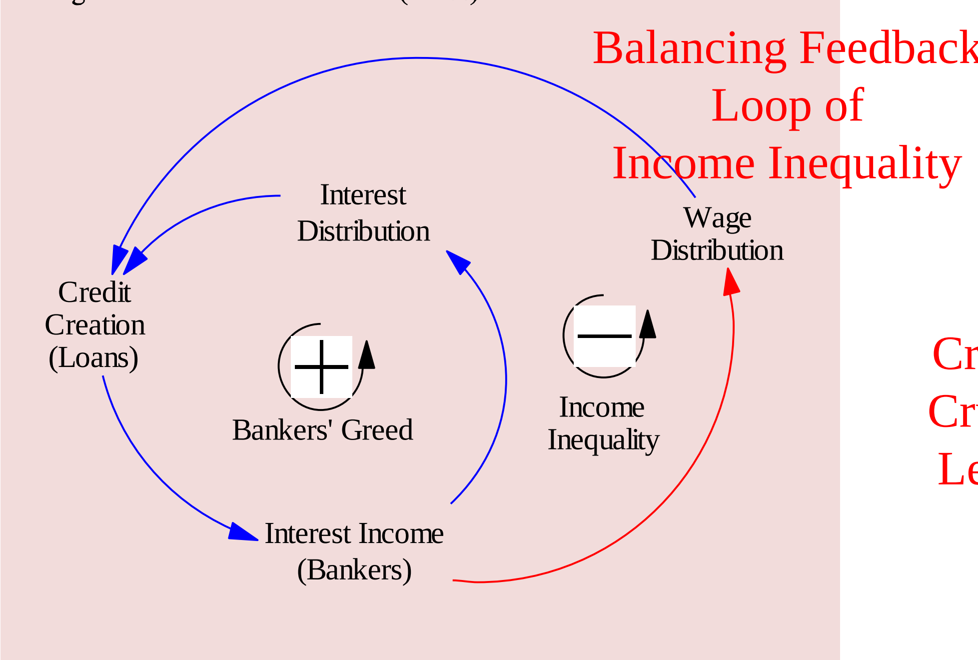


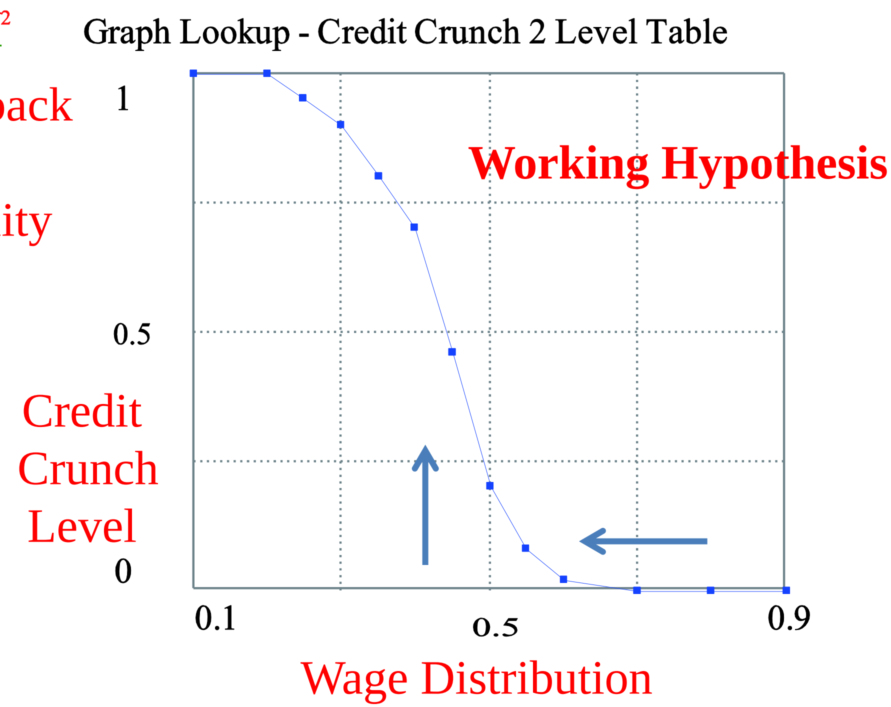
Consequences of Greed (2): Income Inequality!



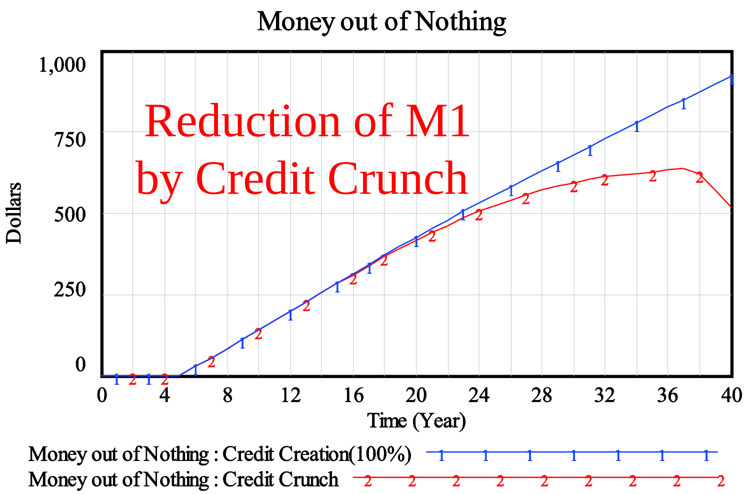
(1) Income Inequality gets worsened overall

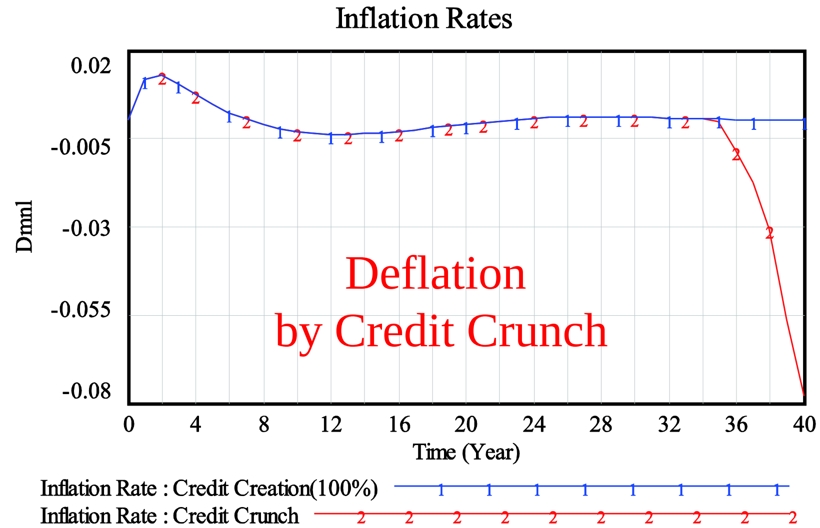
(2) Income Inequality gets worsened under Disequilibria

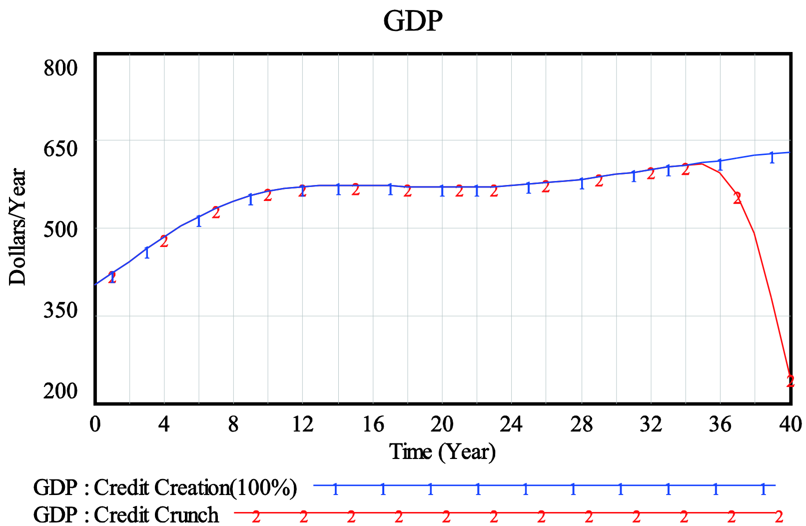


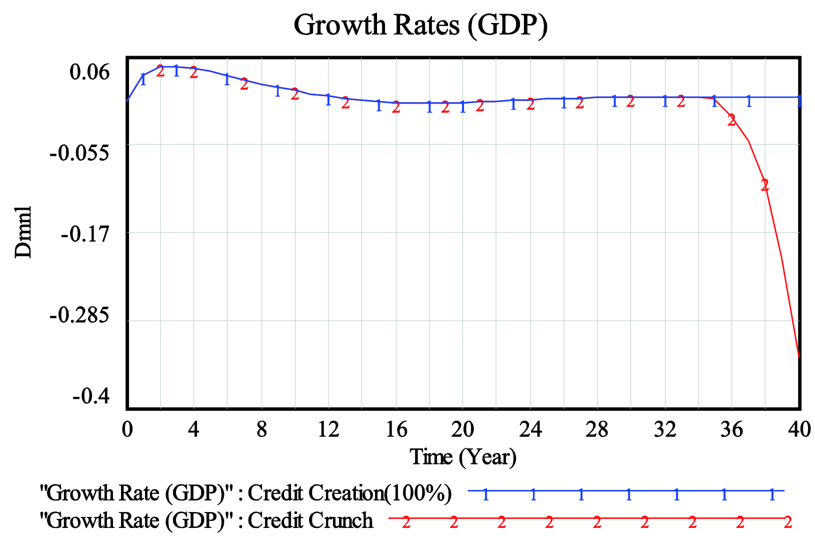


Consequences of Greed (3): Credit Crunch and Recession!



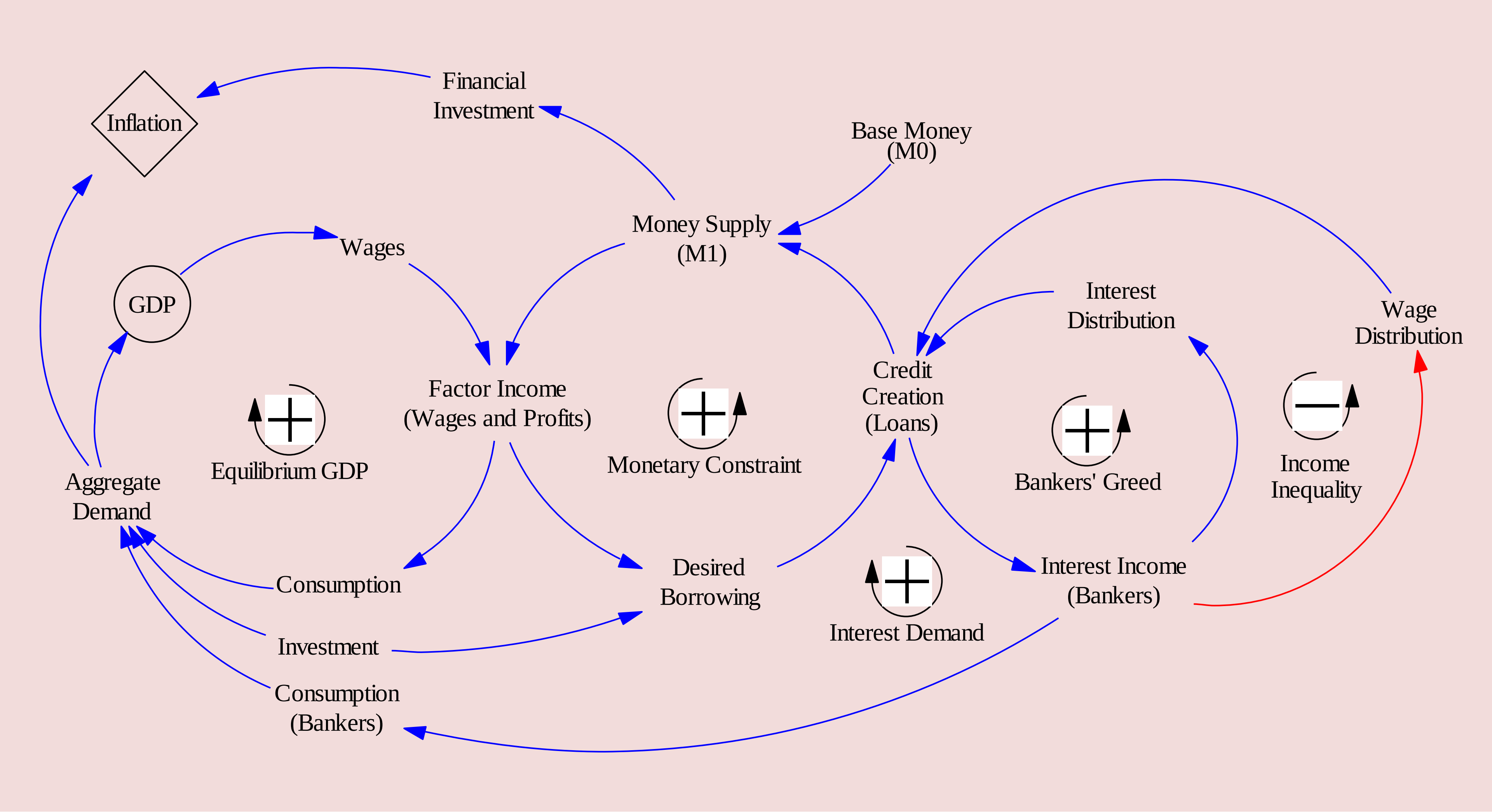






Recession (GDP and Growth Rate) triggered by Credit Crunch

Causal Loop Diagram of Debt Money System

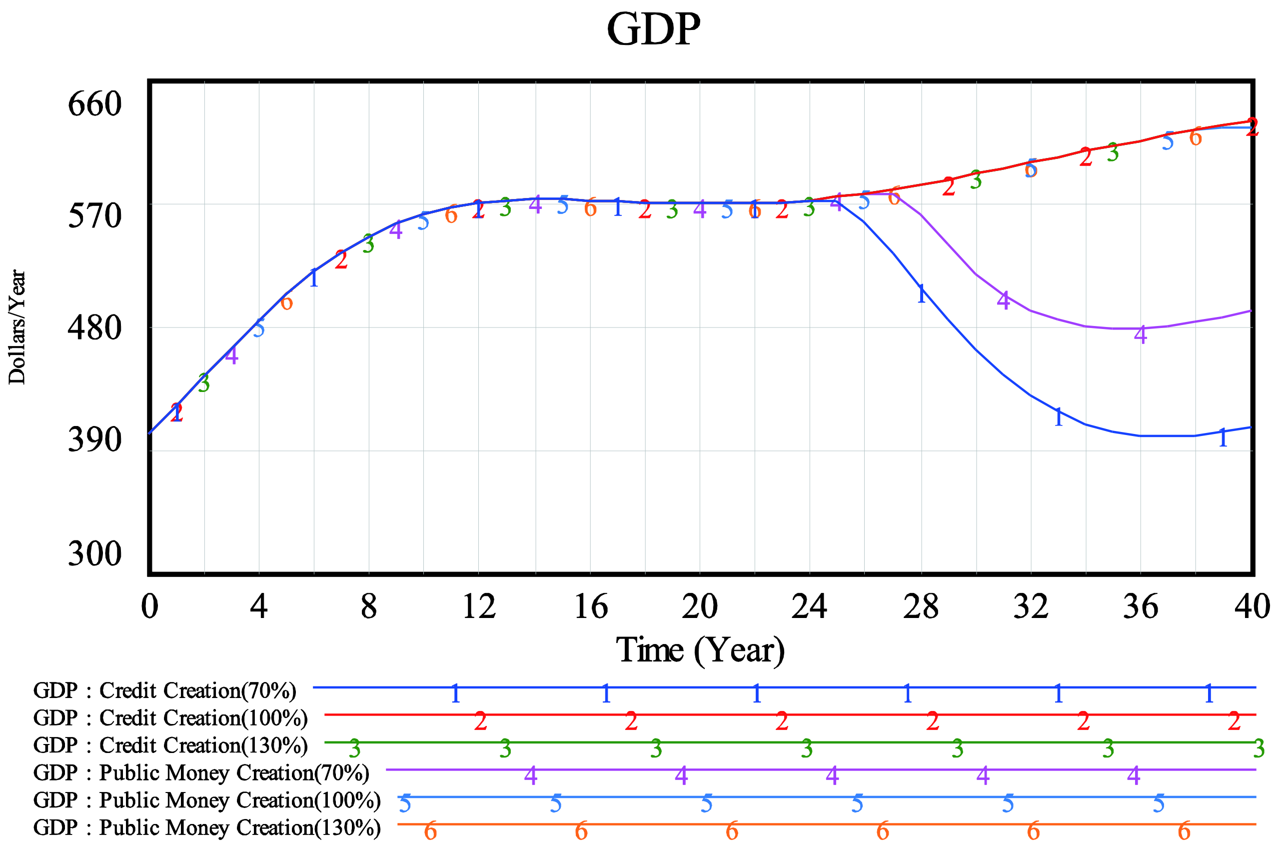


4.

Behaviors of

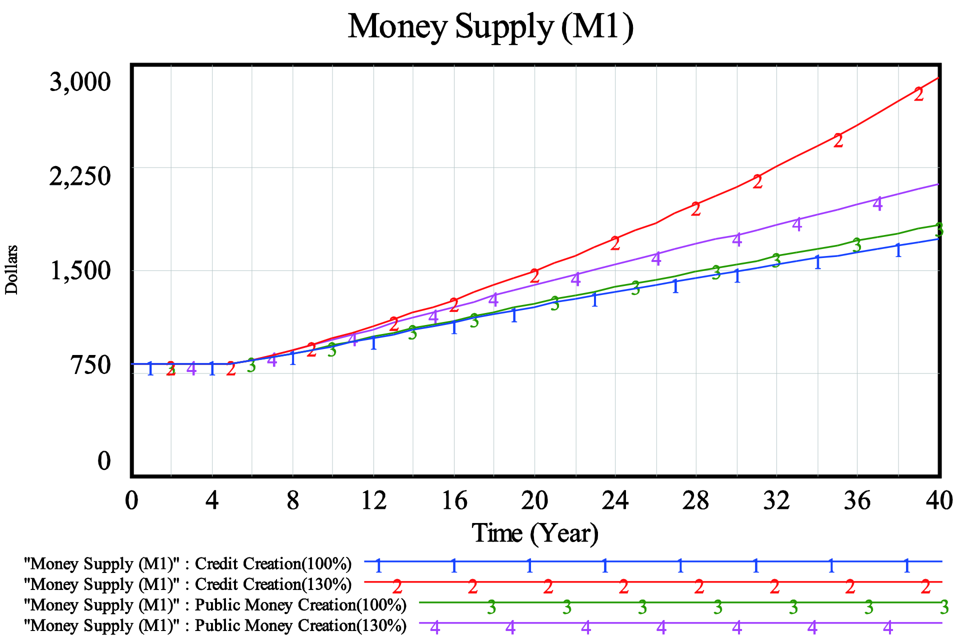
A Public Money System

GDP under Debt vs Public Money System

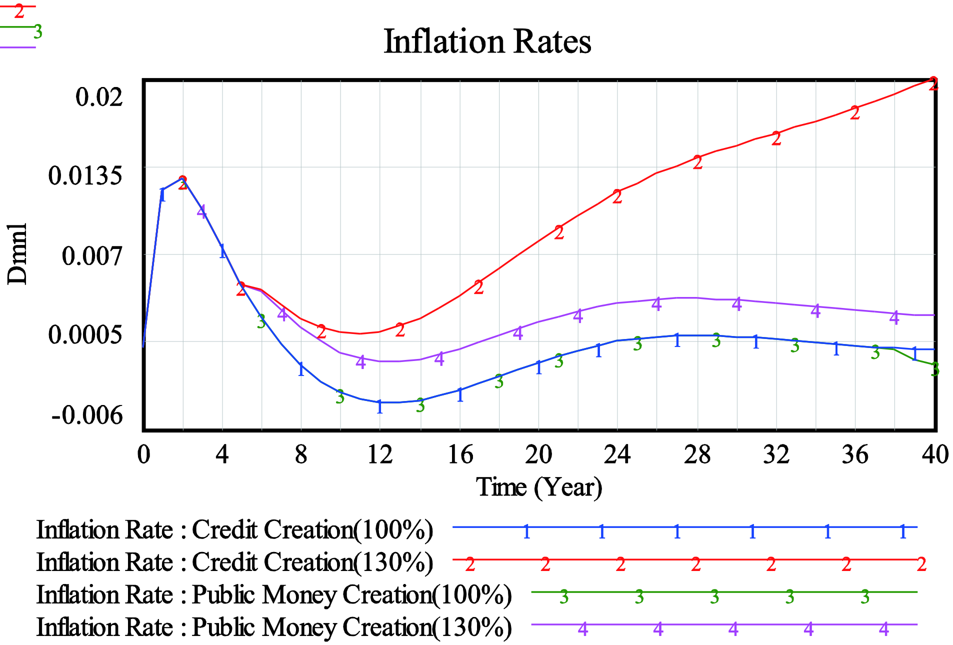


1. Credit Creation (70%)
2. Credit Creation (100%)
3. Credit Creation (130%)
4. Public Money (70%)
5. Public Money (100%)
6. Public Money (130%)

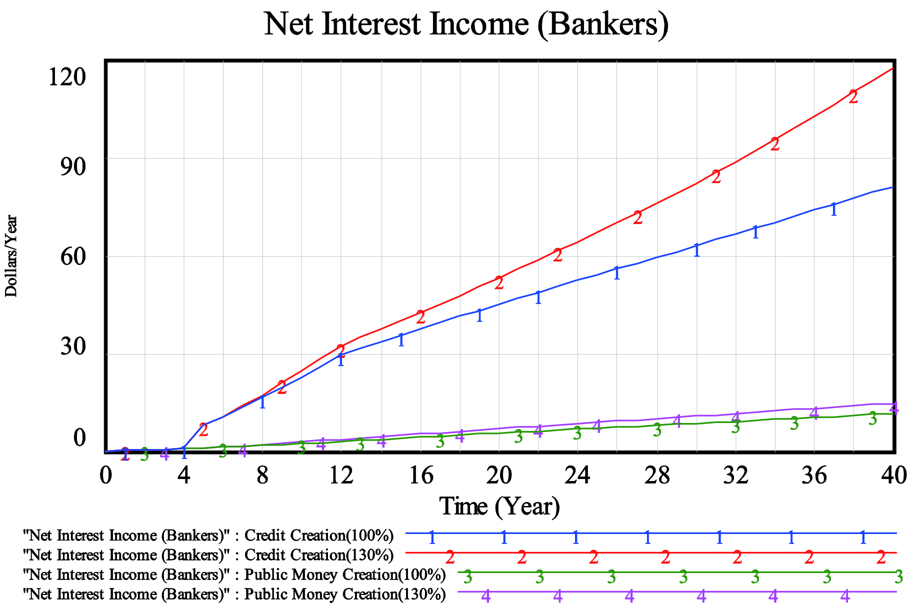
Money Supply and Inflation under Debt vs Public Money



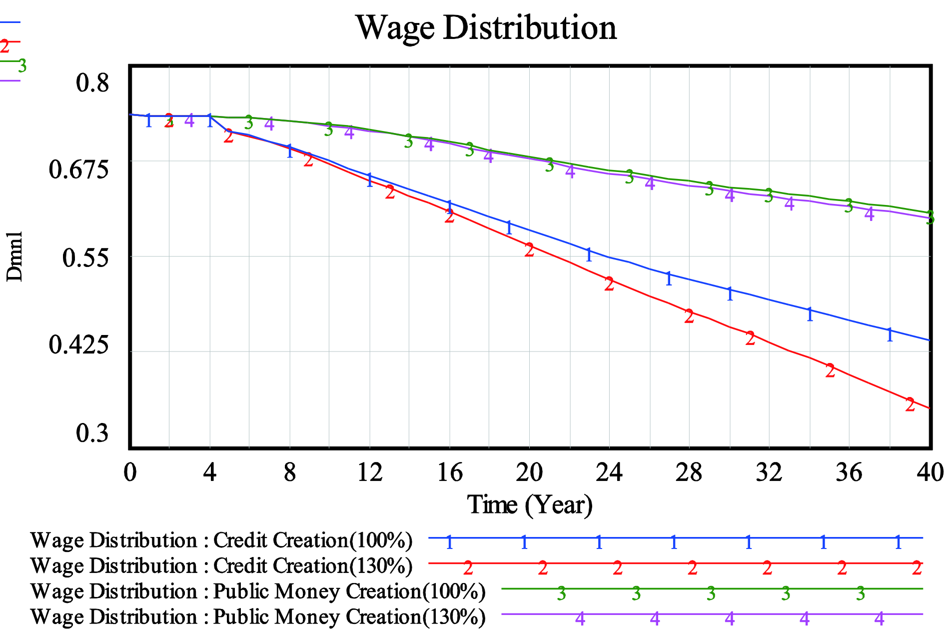
1. Credit Creation (100%)
2. Credit Creation (130%)
3. Public Money (100%)
4. Public Money (130%)



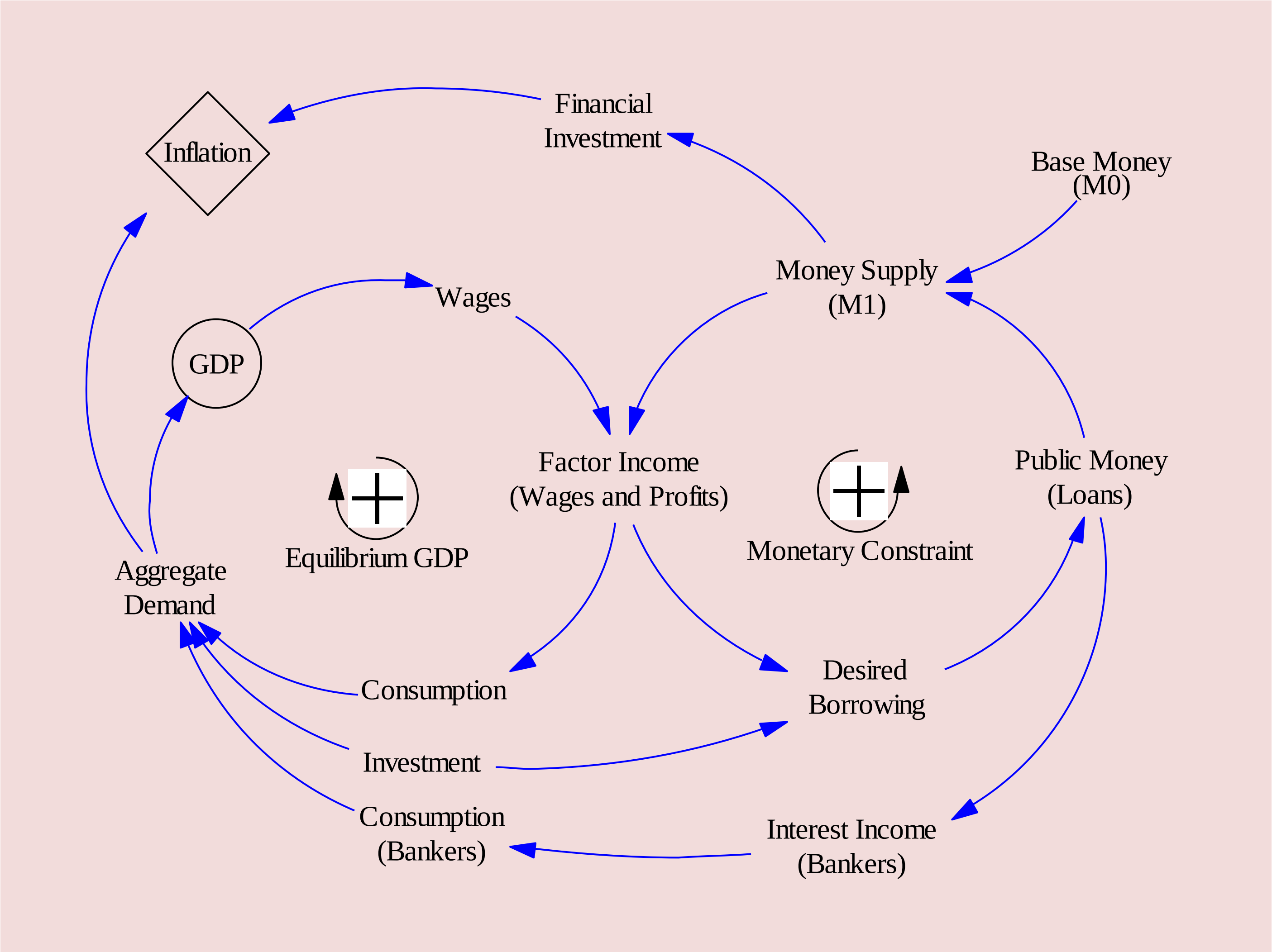
Interest Income and Wage Distribution under Debt vs Public Money



1. Credit Creation (100%)
2. Credit Creation (130%)
3. Public Money (100%)
4. Public Money (130%)



Causal Loop Diagram of Public Money System



Debt-vs-Public System Sensitivity Analysis

20% < Level of Desired Borrowing (Banks) < 180%

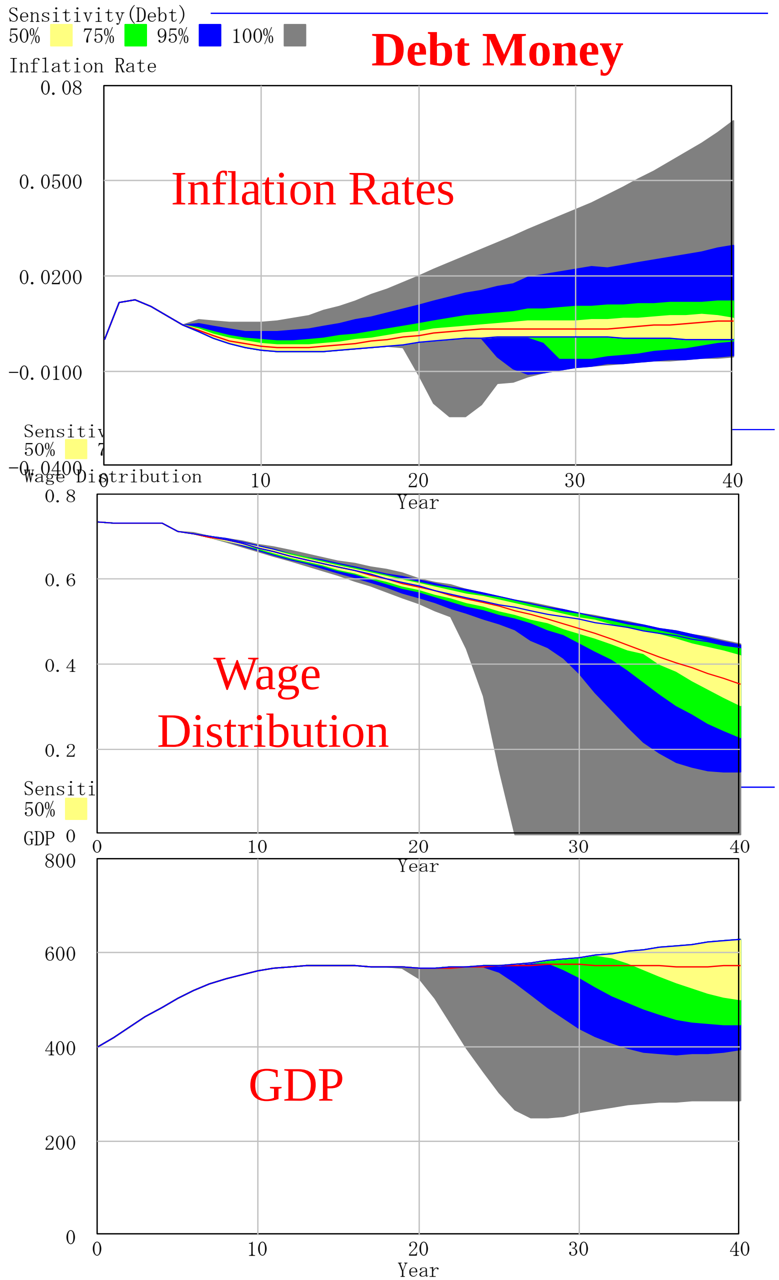
Random Normal Distribution
with mean = 1 and
Standard Deviation = 0.2

(9) Fractional reserves give our thousands of commercial banks the power to increase or decrease the volume of our circulating medium by increasing or decreasing bank loans and investments. The banks thus exercise what has always, and justly, been considered a prerogative of sovereign power. As each bank exercises this power independently without any centralized control, the resulting changes in the volume of the circulating medium are largely haphazard. This situation is a most important factor in booms and depressions.

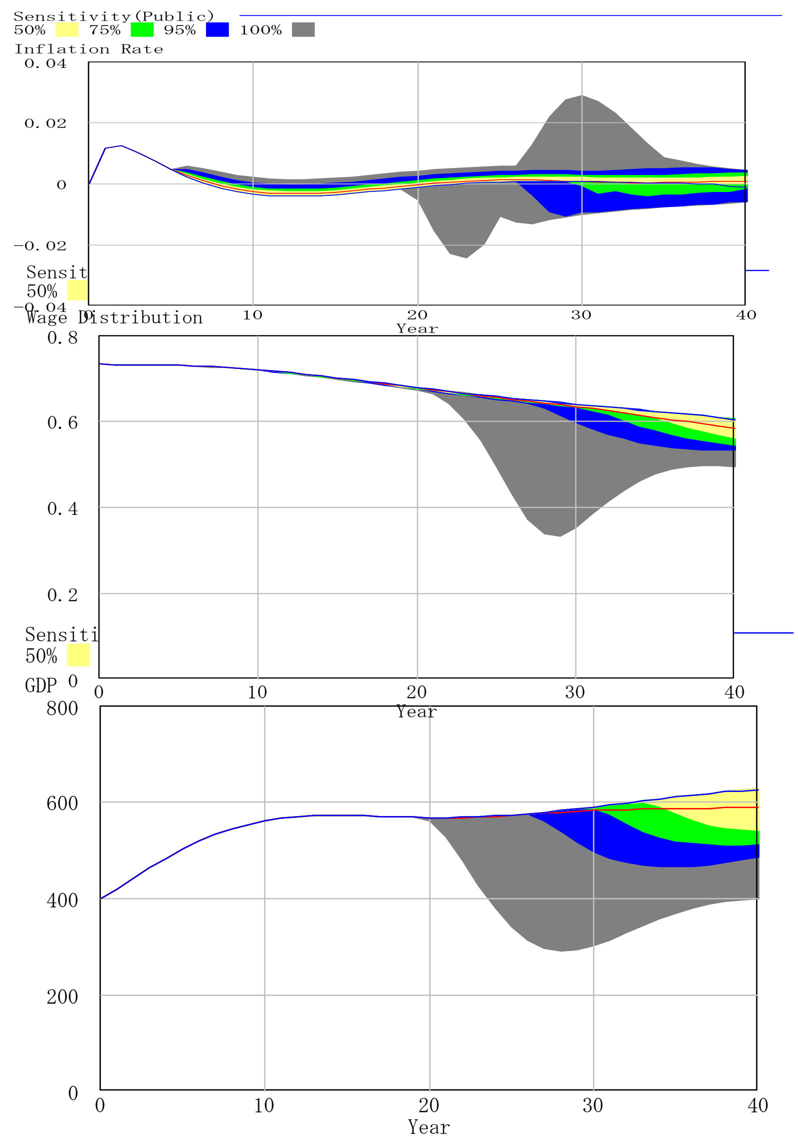
- Chicago Plan -

Debt-vs-Public System Sensitivity Analysis

Debt Money



Public Money



5. Conclusion

- In the debt money system,
  - Bankers' Greed (reinforcing loop)
  - Income Inequality (balancing loop)

  ➔ Unstable behaviors of economic growth,
  inflation, and income inequality.

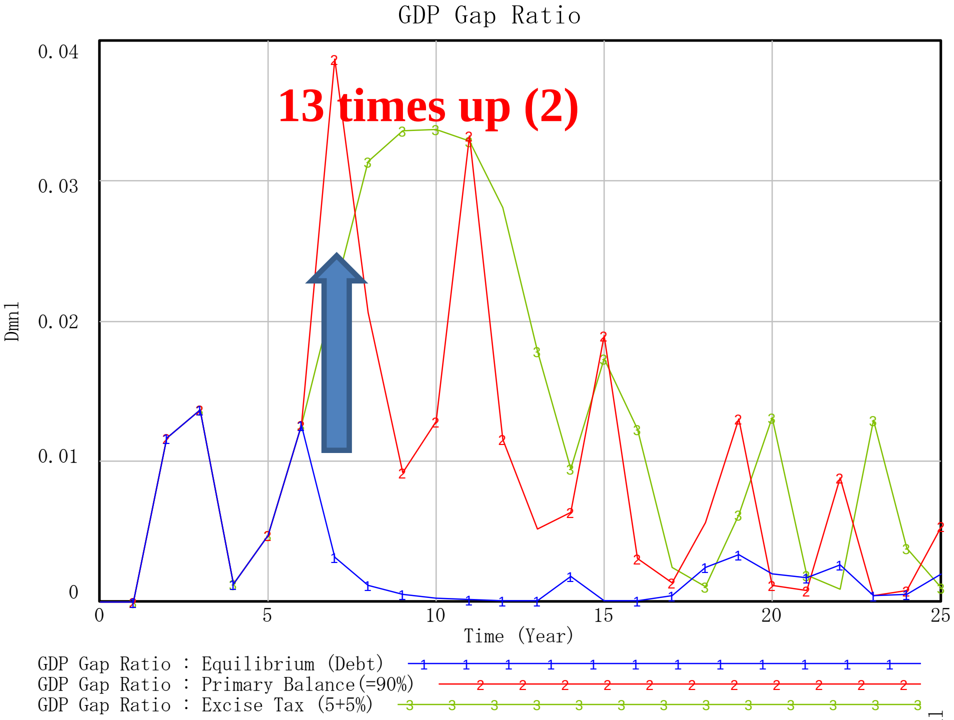
  ➔ Monetary and financial instability is built in the system

- In the public money system,
  - No Bankers' Greed Loop
  - Relatively Small Income Inequality

  ➔ No Credit Crunch, subduing "Boom and Depression"

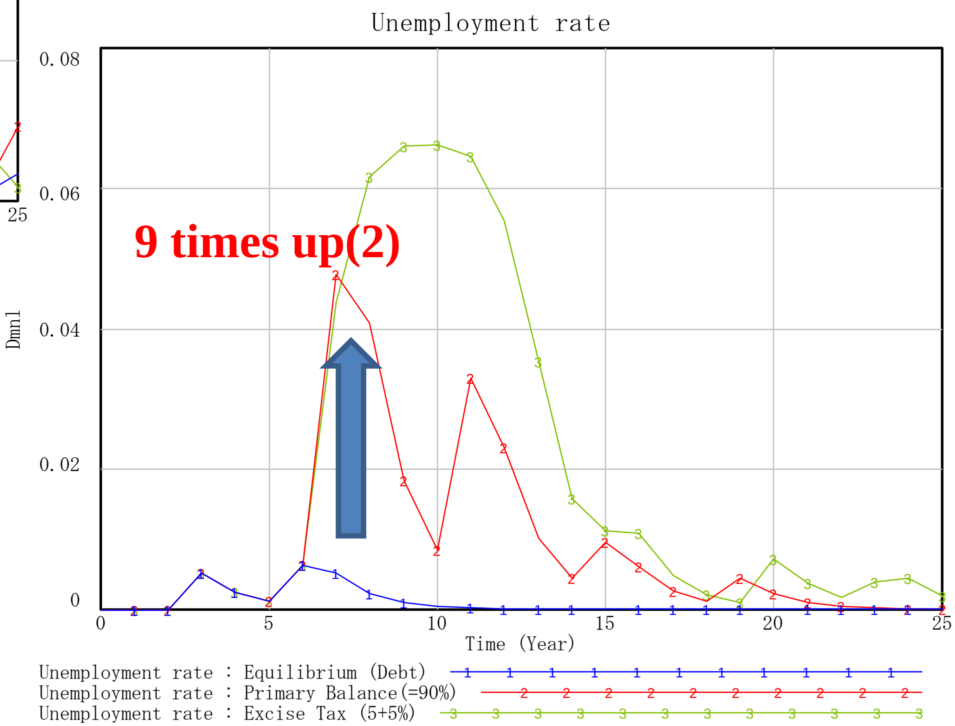
  ➔ True monetary and financial stability

GDP Gap Ratio and Unemployment Rate

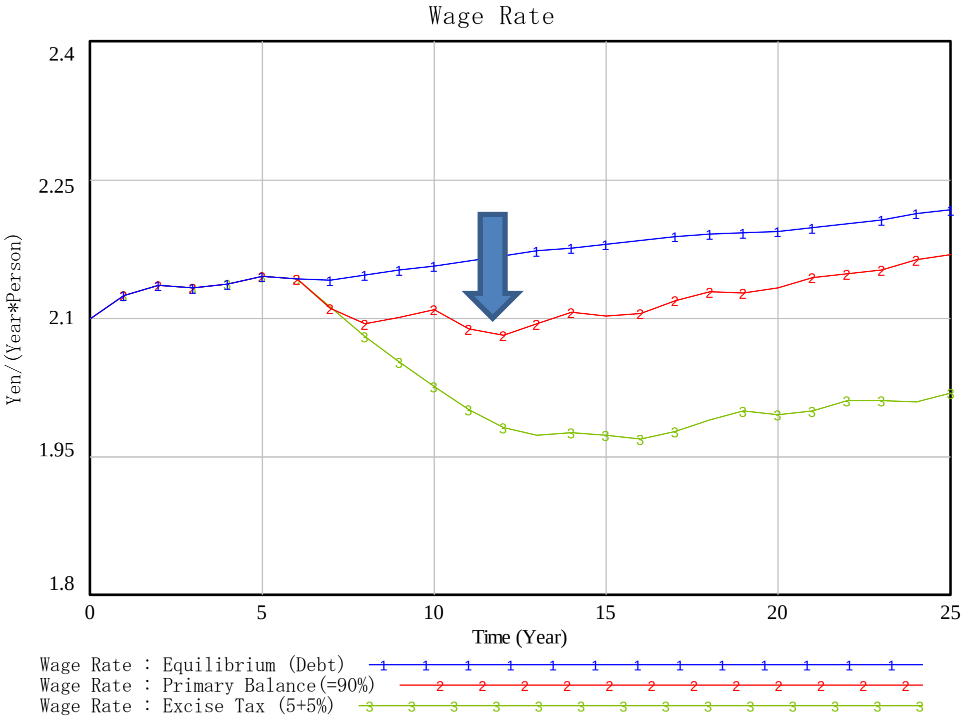


Results from the 2nd Paper (2011)

Workings of A Public Money System of Open Macroeconomies
- Modeling the American Monetary Act Completed-



Wage Reduction and Inflation Rate



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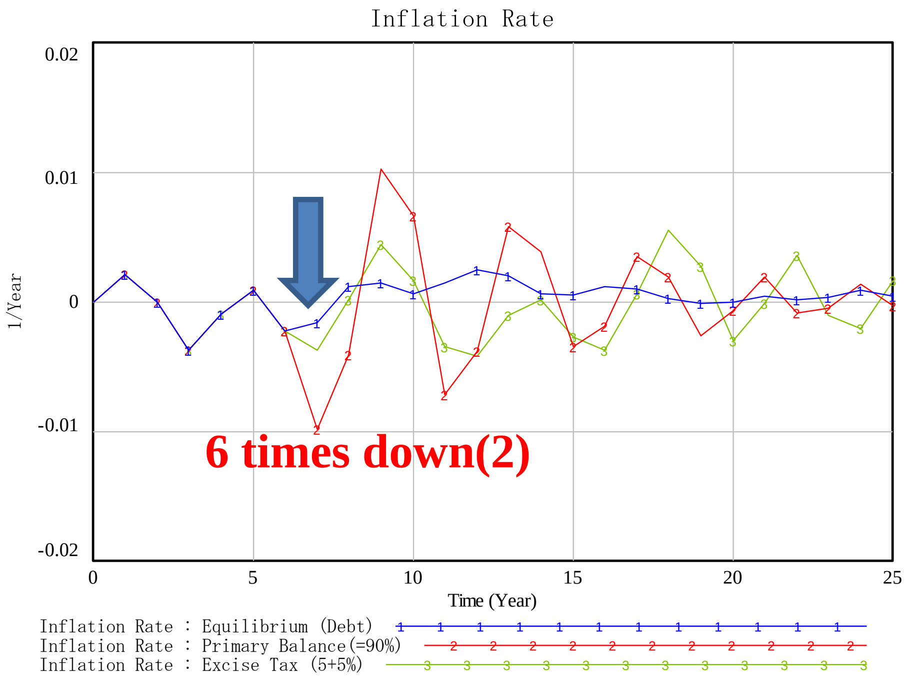
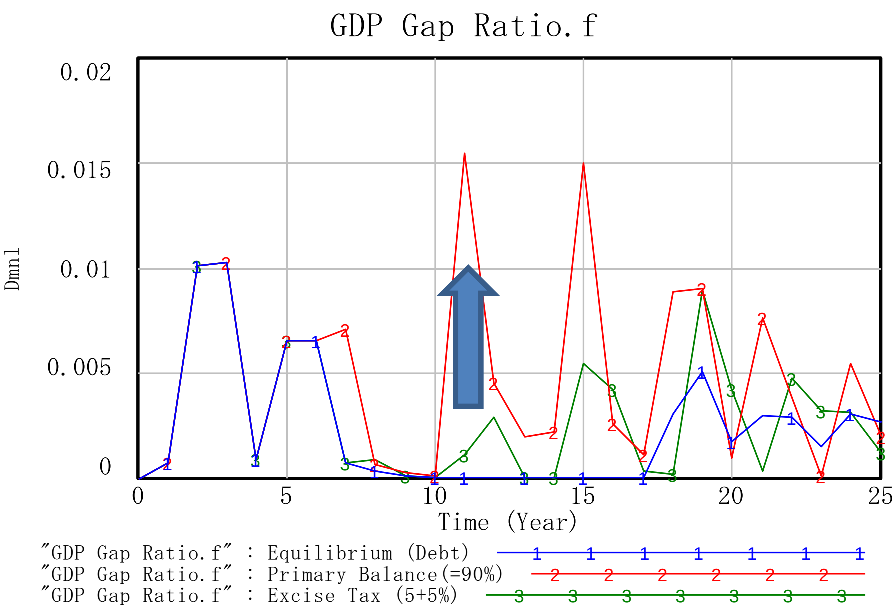
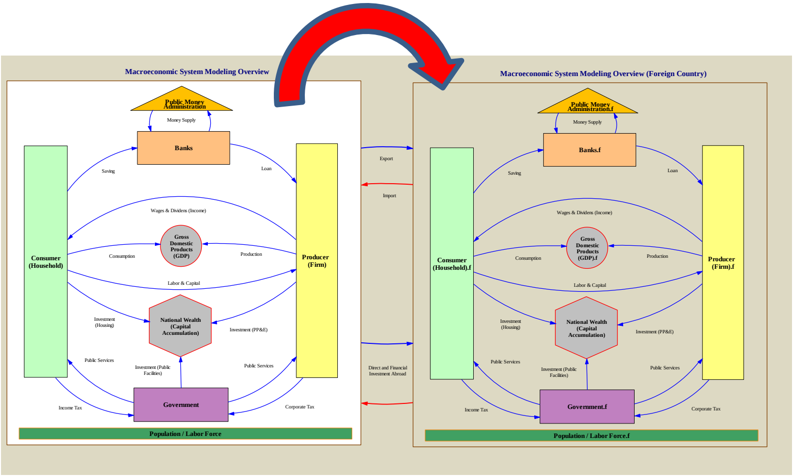
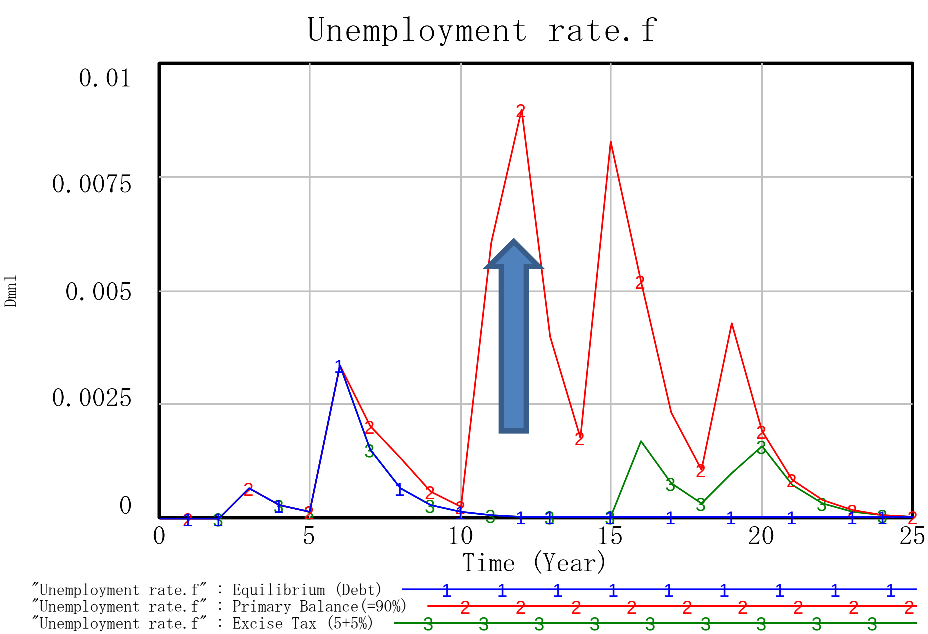


Foreign Recessions Contagiously Triggered







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3. On the Monetary and Financial Stability under A Public Money System:
   Modeling the American Monetary Act Simplified, St. Gallen, Switzerland, 2012.

Thank you for your Attention !

We can liquidate Debt without triggering Recession, Unemployment & Inflation !

We can "remove the chief cause of both booms and depressions (I. Fisher)" and income inequality !

H.R. 2990 (Sept. 21, 2011)
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A Bill to the US House Committee on Financial Services by US Congressman Dennis Kucinich,