Interview : Monetary Transition : The Case for Money serving the Common Good

1. **Why is there a need to create a new mode of money issuance today? Briefly introduce the notion of a "voluntary" mode of central bank money creation and define the transition to this new mode of issuance; the "monetary transition".**

Every monetary project is a project of society.

The current monetary system is that of a banking money created in a hierarchical system with the banks at the first level, the central bank at the top. This system is inherited from the 19th century, a time when the project of society was that of a merchant society that wanted to produce more and more without any concern for planetary limits and human dignity.

Banking money took time to settle down, to free itself from the feudal mode of monetary creation where money had a physical counterpart in precious metal. When it finally took hold in the 19th century, it enabled the tremendous expansion of commodity production, the industrial revolution.

Banking Money was at the service of that project, that of merchant capitalism, then industrial and then financial. But it has served this project of society so well that it also bears a great deal of responsibility for the depletion of natural resources and climate change.

If the society, collectively, decides today that its project must change, that human needs must be met by producing differently, by consuming differently, by respecting both the limits of the planet and humanity, then to accomplish this project it is necessary to change the money, to transform the monetary system.

Voluntary money would not replace the current system but complement it. It would be the money for non-profit, non-market collective achievements, such as major programs for repairing nature, restoring biodiversity, cleaning up pollution, major social programs, education and health. Voluntary money would be first and foremost an expression of democratic political will.

Voluntary money would be issued free of charge, without expected refund, by an issuing institution equivalent to a central bank but within a much more open governance framework (with a permanent dialog between the issuing institution, the State, parliamentarians, and other citizens' representatives); so very different from the one that characterizes central banks today.

2. **How would this from of money issuance be different from current ones in two key aspects:**

The first important aspect of our design is that voluntary money creation creates debt-free central-bank money - it is not bank money issued according to credits provided to the banking sector or issued by the purchase of financial securities. This is quite different from what central banks are doing now.

This implies that this money is given to the beneficiaries by the central bank or the issuing institution at the time of the issue of this money. It is a final monetary donation and therefore without repayment, a free currency, therefore, without financial consideration.

This does not mean without conditions. Certain conditions of use may be set, such as the allocation to public good objectives (e.g. the creation of a protected forest area) or to public objectives (e.g. the construction of a public hospital or a public school or a large thermal renovation program).

The second important aspect stems from the precedent. As the voluntary money does not have to be repaid, it is not destroyed. The currency thus put into circulation would therefore be permanent. In some respects, we come back to a monetary conception that predates bank money, as in the Middle Ages, but with two major differences. First, it is a public currency, and second, it would be issued for the common good.

At the time of its issuance, this currency enters the normal monetary circuit in the form of euros or US$. This currency is fungible. Voluntary money provides the monetary system with a permanent monetary base that enhances its stability because the money supply no longer varies with the issuance and redemption of credits.

3. When did this transformation begin?

The current monetary system is indeed undergoing a transformation.

First, we can notice that it is shaken, even disturbed, by a proliferation of very diverse monetary innovations, such as cryptocurrencies, or also local currencies. They are monetary projects, each in its own way, with very different underlying values; rather individualistic for cryptos and collective for local currencies; they propose a monetary alternative.

Each of these projects proposes a form of citizen reappropriation of money. One may disagree with these plans, but they do exist, and they point to the flaw in the current monetary system, which is taken over by banks and finance and no longer serves the common good. These transformations come from outside the system.

Second, another transformative force comes from inside the system, and it is the consequence of the unconventional measures that central banks around the world had to take to deal with the financial crisis and then the health crisis. With quantitative easing, central banks have changed the way they create money :

- First, they decided on the amounts to be issued. They decreed, wanted this issue of money and allocated it to the rescue of financial capitalism. It is a form of voluntary money, not the one we want, because it is at the service of finance and not of the common good, but, nonetheless, it is a form of voluntary money!

- Second, let's note that when the central bank creates money through securities purchases, this money creation is no longer attached to a debt for its beneficiary. Let me explain: When the central bank buys securities from a bank, once the security is sold by the bank, the bank no longer owes anything to the central bank. That money is free of debt. It is not a permanent money, because there is still a native financial asset linked to this monetary creation (i.e. the security that the central bank records on its assets), but it is a less temporary money if, for example, the central bank keeps the security on its balance sheet for a long time, anyway much less temporary in particular than the traditional short-term loans that the central bank makes to banks.

This transformation from inside has paved the way, perhaps unbeknownst, unconsciously, to central banks, for a debt-free and permanent money, but, contrary to what we want, it is decided in a technocratic manner and serves only to deepen financialized capitalism and not to serve the common good. Voluntary money, by contrast, would serve the common good and would be issued within a framework of democratic governance.

4. **Discuss why this proposed reform would also involve adapting some central bank accounting rules to allow for the accurate recording and control of "permanent central bank contributions to public objectives?**

Current methods of creating money, via the credit banking mechanism or via the acquisition of financial securities, mean that, in exchange for the issuance of money, the central bank receives either a loan repayment commitment guaranteed by financial securities, or directly financial securities, including public debt securities. The issue of money is recorded on the liabilities side of the balance sheet, while the loan to be repaid or securities are recorded on the assets side of the balance sheet. The balance sheet remains balanced.

With the voluntary issuance of money and the donation of this money, the central bank receives neither loan repayment nor securities. As a result, the balance sheet is unbalanced, and the asset no longer offsets the liability side of the balance sheet.

NORMALLY, the bank should record a loss in its profit and loss account and report it to its balance sheet. The capital of the central bank may even turn negative.

People unaccustomed to reading central-bank balance sheets could worry about these losses, misinterpret them, and lose confidence in the central bank. This situation must be avoided, of course.

In fact, there is nothing to worry about that. The BIS (Bank of International settlements) , the central bank of the central banks, itself recognizes in its paper No. 71 "Central Bank Finances" that " *The problem is that not everyone appreciates that a central bank's accounting equity can be negative without any reason for alarm bells to ring. Markets may instead react badly in the false belief that losses imply a loss of policy effectiveness".*

It adds "*Central bank gains and losses belong to society. Beyond this, financial results may be important for a central bank even though it can always create money to pay its bills, cannot be declared bankrupt by a court, and does not exist to make profits*".

So central-bank losses are only of relative importance. But if it is better to balance assets and liabilities, we propose to create an asset account to record monetary donations. We call it "*permanent central bank contributions to public objectives*". It will enable the amount of voluntary money issued to be known at any time. This accounting item will be subject to special democratic scrutiny.

Such recording would be important to keep the memory of the stock of permanent money and thus be able to regulate it if it became excessive. It would be controllable.

5. What are the major conclusions and implications of the study

Let's sum up if you don't mind.

Voluntary money would be what bank money cannot be: a free currency, with no debt or financial asset attached and therefore permanent, which would used for not individual but collective purposes.

Voluntary money would therefore enable us to do what bank money does not allow us to do: it would allow for non-market, non-profitable developments because this money does not require the permanent creation of a surplus. It is with this voluntary money that we could achieve the ecological and social transformation of our societies.

Its development could follow on from current monetary innovations:

- It could be a public cryptocurrency (as a Central Bank Digital Currency). According to the plans to issue, individuals, companies and states would be the beneficiaries of this voluntary money and would do with it what it was decided to issue.

- One could also very well imagine that households receive voluntary money with the condition of liquidating it in local currency of their region, with the aim of boosting the economy of their territory, to acquire local products and services.

Finally, and this is our main objective, our analysis invites every citizen to ask themselves about money and to understand the power it can be. Our goal is for everyone to understand that currency transformation is a fundamental for any societal transformation. Ideally, for the common good !

Link to our note : **https://www.veblen-institute.org/Monetary-Transition-The-Case-for-Money-serving-the-Common-Good.html**