On the Monetary and Financial Stability under A Public Money System - Modeling the American Monetary Act Simplified -

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1. The Chicago Plan Revisited

Current Debt Money System is Neither Working Nor 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- Repealed in 1999 by Gramm-Leach-Bliley Act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

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)
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
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.
(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.
(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.
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)

Who create Debt Money?

1. Bank Notes by Privately-Owned Central Bank
2. Credits Created by Commercial Banks (A Fractional Reserve System)

Money Supply M1 (Japan, 2009, trillion yen)

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coins</td>
<td>4.5</td>
<td>0.9%</td>
</tr>
<tr>
<td>Bank Notes</td>
<td>82.3</td>
<td>16.6%</td>
</tr>
<tr>
<td>Deposits</td>
<td>410.2</td>
<td>82.5%</td>
</tr>
</tbody>
</table>
A Monetary Reform:
Chicago Plan ➔ American Monetary Act

**A Debt Money System**
- Money out of Nothing -

1. Privately-Owned Central Bank issues Money (Notes)
2. Credit Creation by Commercial Banks (A Fractional Reserve System)
3. Monetary Control by (and for) the Elite Bankers

**A Public Money System**
- the American Monetary Act -

1. Government Issues Money (Nationalization of the Central Bank)
2. 100% Fractional Reserve (Abolishment of the Credit Creation)

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

Removal of the chief cause of Booms and Depressions
- Monetary Instability
- Financial Instability
- Income Inequality

By-Product

Liquidation of Government Debt without causing
- Recession
- Unemployment
- Inflation
- Contagious Recession
2.

Debt vs Public Money
System Simplified
Transactions of Consumers

Consumers (Workers & Shareholders)

- Transactions of Consumers
- Consumers (Workers & Shareholders)

Diagram:

- Cash/Deposits (Consumers)
- Deposits
- Net Assets

- MPC (Wages)
- MPC (Profits)
- <Profits (Dividends)>
- <Interest Income (Consumers)>

- Consumption
- Savings
- Deposit Withdrawal Time
- Deposit Withdrawals
- Cash Demand

- Cashing Adjustment Time
- Currency Ratio
- Initial Currency Ratio

- Change in Currency Ratio
- Time for Change in Currency Ratio

- Interest Income (Consumers)
- Interest Rate
- <Wages>
- <Profits (Dividends)>

- Income (Consumers)
3. Behaviors of A Debt Money System
Keynesian GDP Determination

- GDP
- Debt-GDP Ratio
- Debt (Credits)-GDP Ratio
- Growth Rate
- Initial GDP
- Change in GDP
- GDP-Demand Ratio
- Demand Adjustment Time
- Inventory Adjustment Time
- Price Sensitivity of Financial Investment
- Ratio Elasticity of Price
- Desired Price
- Change in Price
- Price Adjustment Time
- Initial Price Level
- Inflation Rate
- GDP-Demand Ratio
- Growth Rate
- Initial GDP
- GDP
- Debt-GDP Ratio
- Debt (Credits)-GDP Ratio
- Growth Rate
- Initial GDP
- Change in GDP
- GDP-Demand Ratio
- Demand Adjustment Time
- Inventory Adjustment Time
- Price Sensitivity of Financial Investment
- Ratio Elasticity of Price
- Desired Price
- Change in Price
- Price Adjustment Time
- Initial Price Level
- Inflation Rate
- GDP-Demand Ratio
- Growth Rate
- Initial GDP
- GDP
- Debt-GDP Ratio
- Debt (Credits)-GDP Ratio
- Growth Rate
- Initial GDP
- Change in GDP
- GDP-Demand Ratio
- Demand Adjustment Time
- Inventory Adjustment Time
- Price Sensitivity of Financial Investment
- Ratio Elasticity of Price
- Desired Price
- Change in Price
- Price Adjustment Time
- Initial Price Level
- Inflation Rate
Keynesian GDP Determination

GDP (No Monetary Constraints)

Time (Year)

Dollars/Year

GDP : Investment=80
GDP : Investment=100
GDP : Investment=120
GDP : Investment=80(+Dep)
GDP : Investment=100(+Dep)
GDP : Investment=120(+Dep)
From now on let us assume $I = $80 + 4\%$ Depreciation

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

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

Money Supply

Initial Base Money : Credit Creation(100%)
"Base Money (M0)" : Credit Creation(100%)
"Money Supply (M1)" : Credit Creation(100%)
"Money Supply (M2)" : Credit Creation(100%)
Money out of Nothing : Credit Creation(100%)
What Drives Bankers To Create Credits?

As More Credits are Created, Bankers' Interest Incomes Increase!

'GREED'

Bankers' Rent Seeking !!!
Consequences of Greed (1): Credit Overshooting!

Reinforcing Feedback Loop of Bankers’ Greed

Price Levels with Credit Overshooting

Inflation Rates with Credit Overshooting
Consequences of Greed (2): Income Inequality!

(1) Income Inequality gets worsened overall

(2) Income Inequality gets worsened under Disequilibria

Wage Distribution = Wages / NNI
Consequences of Greed (3): Credit Crunch and Recession!

Reduction of M1 by Credit Crunch

Deflation by Credit Crunch

Recession (GDP and Growth Rate) triggered by Credit Crunch
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

- Public Money (Loans)
- Interest Income (Bankers)
- Inflation
- Aggregate Demand
- Money Supply (M1)
- Monetary Constraint
- GDP
- Wages
- Equilibrium GDP
- Factor Income (Wages and Profits)
- Financial Investment
- Base Money (M0)
- Public Money (Loans)
- Desired Borrowing
- Investment
- Consumption
- Consumption (Bankers)
- Interest Income (Bankers)
Debt-vs-Public System Sensitivity Analysis

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

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

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- Chicago Plan -
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-

GDP Gap Ratio and Unemployment Rate

13 times up (2)

9 times up (2)
Wage Reduction and Inflation Rate

Results from the 2nd Paper (2011)

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

Wage Rate

Inflation Rate

6 times down(2)
Foreign Recessions Contagiously Triggered

Results from the 2\textsuperscript{nd} Paper (2011)

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

Thank you for your Attention!

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

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

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