

Public vs Debt Money Systems

- the American Monetary Act in a Nutshell-

The 9th Annual AMI Monetary Reform Conf.

**University Center, downtown Chicago
USA**

Sept. 19 - 22, 2013

Kaoru Yamaguchi, Ph.D.

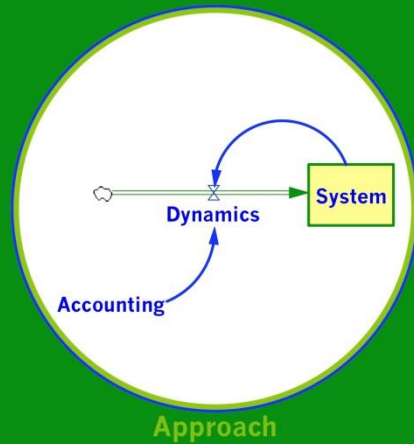
Director

Japan Futures Research Center, Japan

E-mail: kaoru3@muratopia.org

Contents

Money and Macroeconomic Dynamics



Approach
Kaoru Yamaguchi

474 pages

Published in 2013 by
The Japan Futures Research
Center, Japan
E-mail: book@muratopia.org

I. Accounting System Dynamics

II. Macroeconomic Systems of **Debt Money**

III. Open Macroeconomic Systems of **Debt Money**

IV. Macroeconomic Systems of **Public Money**

Chap. 12 Designing A Public Money System
AMI Conf. 2010

Chap. 13 Workings of A Public Money System
AMI Conf. 2011

Chap. 14 Monetary and Financial Stability
AMI Conf. 2012

Chap. 15 Public Money and Sustainability
AMI Conf. 2013

Two Lessons from the Great Depression in 1930s

(1a) Chicago Plan for Banking Reform, 1933

by Henry Simons & Paul Douglas (Chicago) and 6 professors

100% Money, 1935

by Irving Fisher (Yale)

A Program for Monetary Reform, 1939

by Irving Fisher, Paul Douglas and 4 professors

- Failed to be Implemented

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

**Federal Deposit Insurance and Separation of Depository
Banks from Wall Street Investment Banks**

- Repealed in 1999 by Gramm-Leach-Bliley Act



Debt
Money

(2) The General Theory of Employment, Interest and Money

John Maynard Keynes, 1935

- Laid Debt-End Macroeconomic Foundation

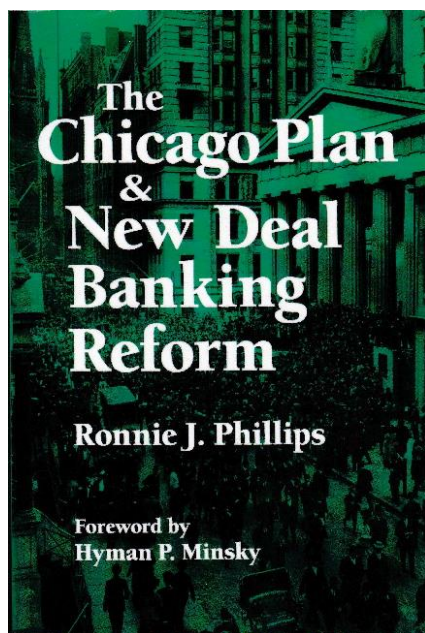


Debt
Money

Two Lessons from the Great Depression in 1930s

(1a) Chicago Plan

The Chicago Plan for Banking Reform



In 1926 Frederick Soddy, the Nobel prize winner in chemistry in 1921, made a proposal to back bank liabilities with government cash.

Banks hold dollar for dollar in government money against their checkable accounts (P.45-6)

On March 16, 1933, the six-page memorandum: The Chicago Plan for Banking Reform, was given limited and confidential distribution to about forty individuals. A copy of the memorandum was sent to the Secretary of Agriculture, Henry Wallace, by F.H. Knight, L.W. Mints, Henry Shultz, H.C. Simons G.V. Cox, Aaron Director, Paul Douglas, A.G. Hart (P.47)

A brief note sent to Simons from John Maynard Keynes that read, “Much interested by the memorandum which you kindly sent to me”(P.51)

Two Lessons from the Great Depression in 1930s



(1a) Chicago Plan

Irving Fisher



100% Money

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

ThaiSunset.

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)

Yale University, **March, 1935**

(Preface to the First Edition)

First Edition, Adelphi Company, p.9

(Second Ed. 1936, Third Ed. 1945)

Michael Schemmann,
ThaiSunset Publications 2011

Two Lessons from the Great Depression in 1930s

(1a) Chicago Plan

A PROGRAM FOR MONETARY REFORM

(A mimeograph circulated in July 1939

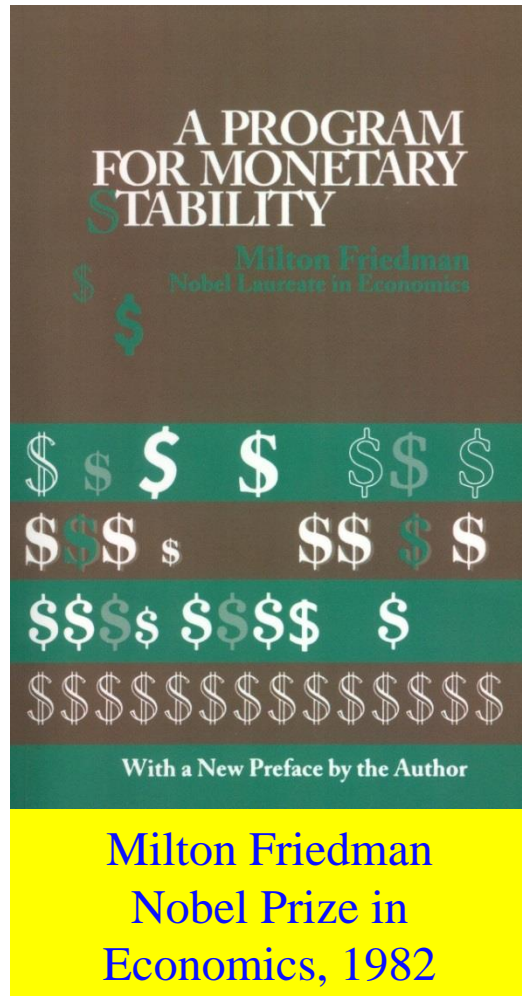
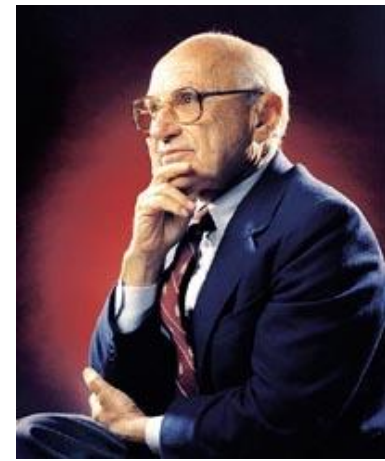
by Paul H. Douglas, Irving Fisher, Frank D. Graham

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.

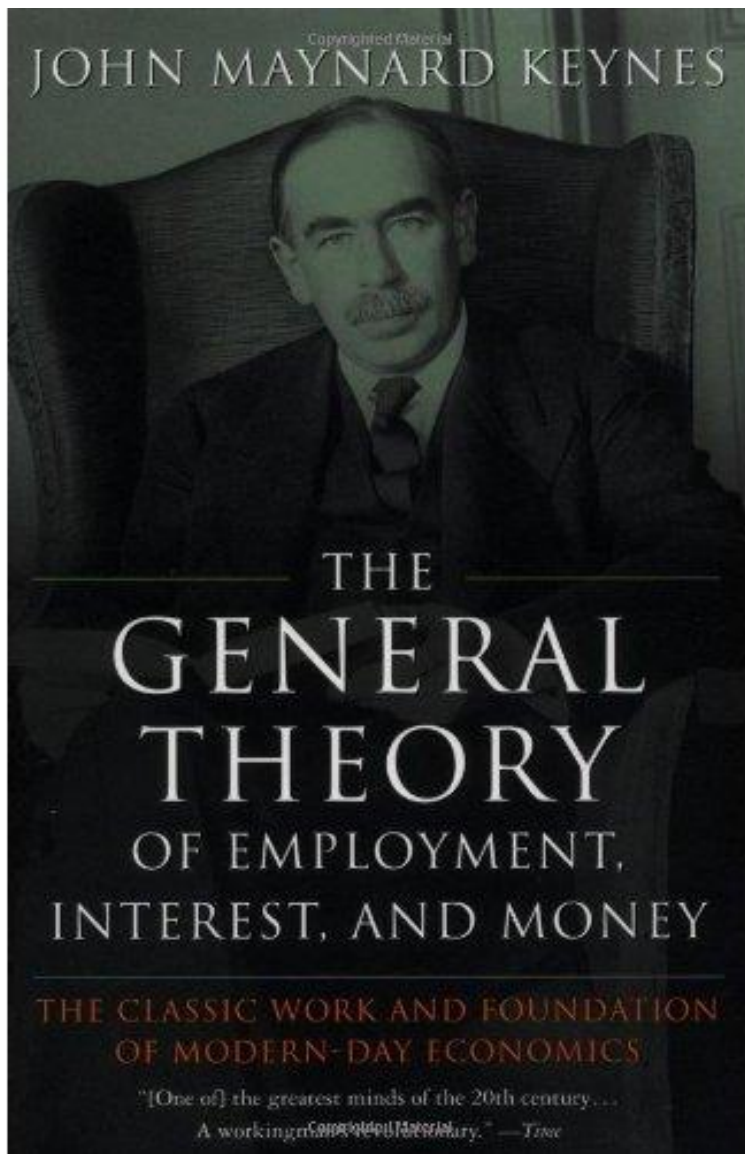
Two Lessons from the Great Depression in 1930s

(1a) Chicago Plan



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)

Two Lessons from the Great Depression in 1930s



(2) Keynesian Revolution against Classical (Neoclassical) Theory

The ideas which are here expressed so laboriously are extremely simple and should be obvious. The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds.

Preface, December 13, 1935



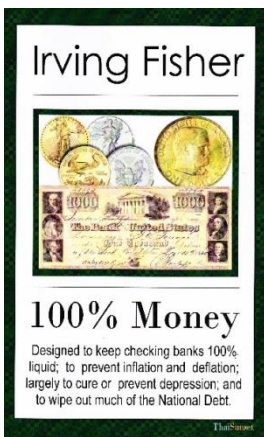
Classical Theory

Neutral Money

Market Liberals

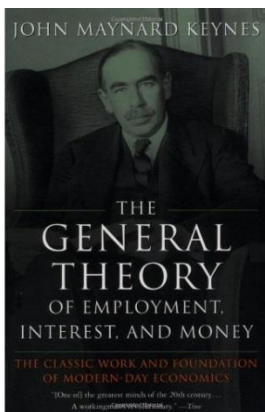
Great Depression, Oct.29, 1929 (Black Tuesday)

1929

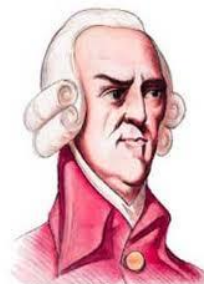


1935

Banking Act of 1933 (Glass-Steagall Act)



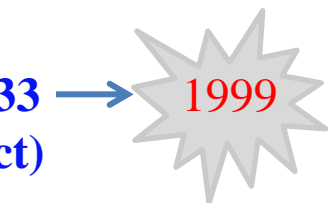
1935



Neoclassical Theory

Market & Financial Liberals

Globalization

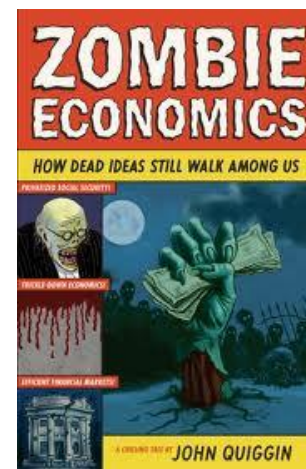


Stagflation 1970s

2nd Great Depression, Sept. 15, 2008 (Lehman Shock)

2008

It is necessary to provide an alternative to the zombie economics of market liberalism (2010, p. 240)

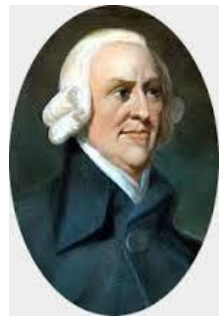


Debt

Money

System

Public Money System



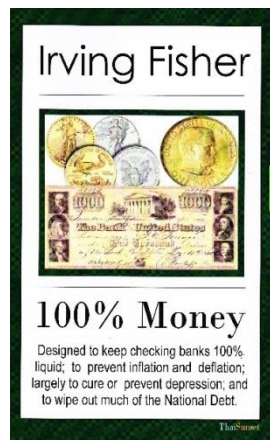
Classical Theory

Neutral Money

Market Liberals

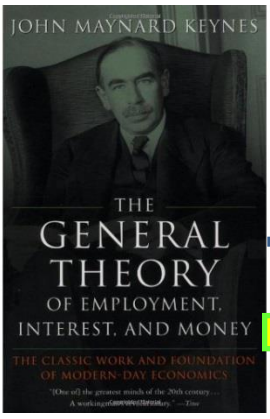
Great Depression, Oct.29, 1929 (Black Tuesday)

1929



1935

Banking Act of 1933 (Glass-Steagall Act)



1935

American Monetary Act



Neoclassical Theory

Market & Financial Liberals

1999

Globalization

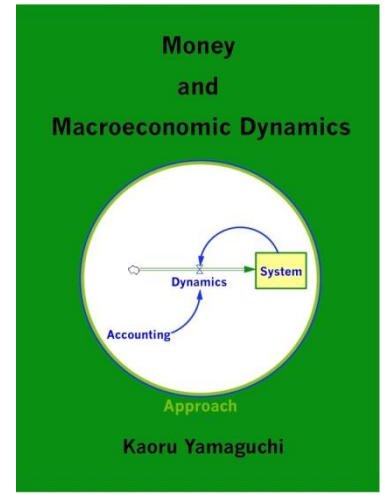
Stagflation 1970s

Disequilibrium Analysis

2nd Great Depression, Sept. 15, 2008 (Lehman Shock)

2008

It is necessary to provide an alternative to the zombie economics of market liberalism (2008, p. 240)



2013

Debt Crisis

Debt

Money

System

Public Money vs Debt Money

System Structures

	Public Money System	Debt Money System
Money Issuer Its Owner	Public Money Administration Government	Central Bank Private Banks and Financiers
Bank Reserves	100% Reserve	Fractional Reserves
Money Supply	Public Money directly put into Circulation as Economy Grows Private Banking unaffected	Base Money: by Central Bank Deposits: by Bank Loans Money in Circulation: by Public
Interest	Interest-free	Interest-bearing Debt
Economic Policies	Public Money Policy (Public Money Financing)	Monetary Policy: Central Bank Fiscal Policy: Government

What is Money?

Aristotle (384 – 322 BC)

“Money exists not by nature
but by law”

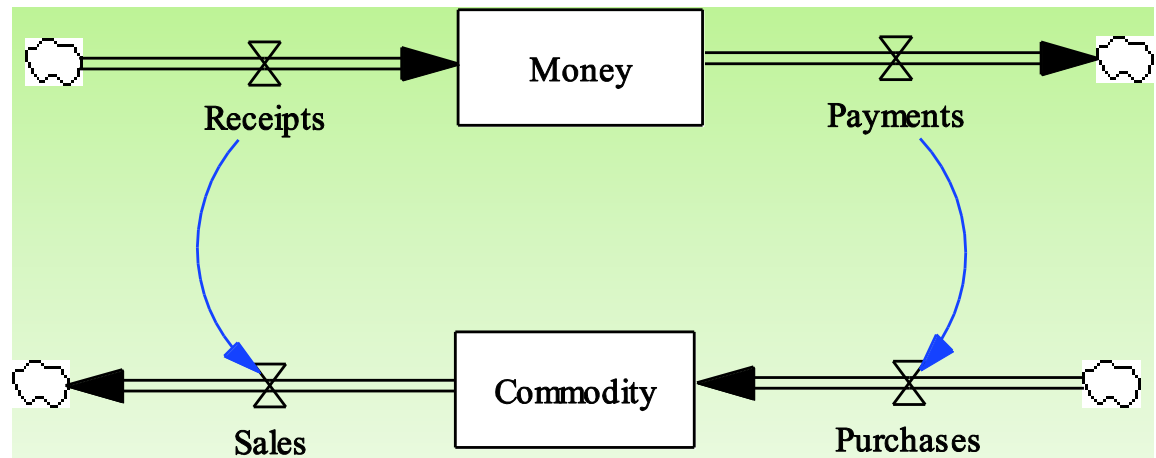
Econ. Text Def.
(by nature)

- **Medium of Exchange**
- **Unit of Account**
- **Store of Value**

MV

=

PT



Debt Money: Current System

- Money out of Nothing (Thin Air) -

What is Debt Money ?

Money Supply

1. Currency in Circulation
(Bank Notes and Coins)
- +
2. Bank Deposits (Credits)

Money Supply M1 (551.5)
(Japan, 2013/04, trillion yen)

Coins	4.5	0.8%
Bank Notes	74.7	13.5%
Deposits	472.3	85.6%

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 -**

- 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)**
- 3. Money as Public Utility for the Economic Growth and Public Welfare**

Public Money (by law)

Examples

	Public Money
Non-metal Commodities	Shell, Cloth (Silk) Woods, Stones, etc
Metal Coinage	Non-precious Metals Copper, Silver, Gold
Paper Notes	Sovereign Notes Government Notes
Intangible Numbers	
Digits	Electronic Substitutes

Money 貨幣 = 貨 (Shell) + 幣 (Silk)

Public Money Saved the Nations on the brink of their Crisis !

Public Money (by law)

Examples

- Metal Coins
- Continental Currency bills of credit (1690)
- Greenbacks (1862)
-
- Dajyokan-satsu (1868)
(Japan)

	Public Money
Non-metal Commodities	Shell, Cloth (Silk) Woods, Stones, etc
Metal Coinage	Non-precious Metals Copper, Silver, Gold
Paper Notes	Sovereign Notes Government Notes
Intangible Numbers	
Digits	Elect



Money 貨幣 =

Public Money Saved the Nations on the brink of their Crisis !

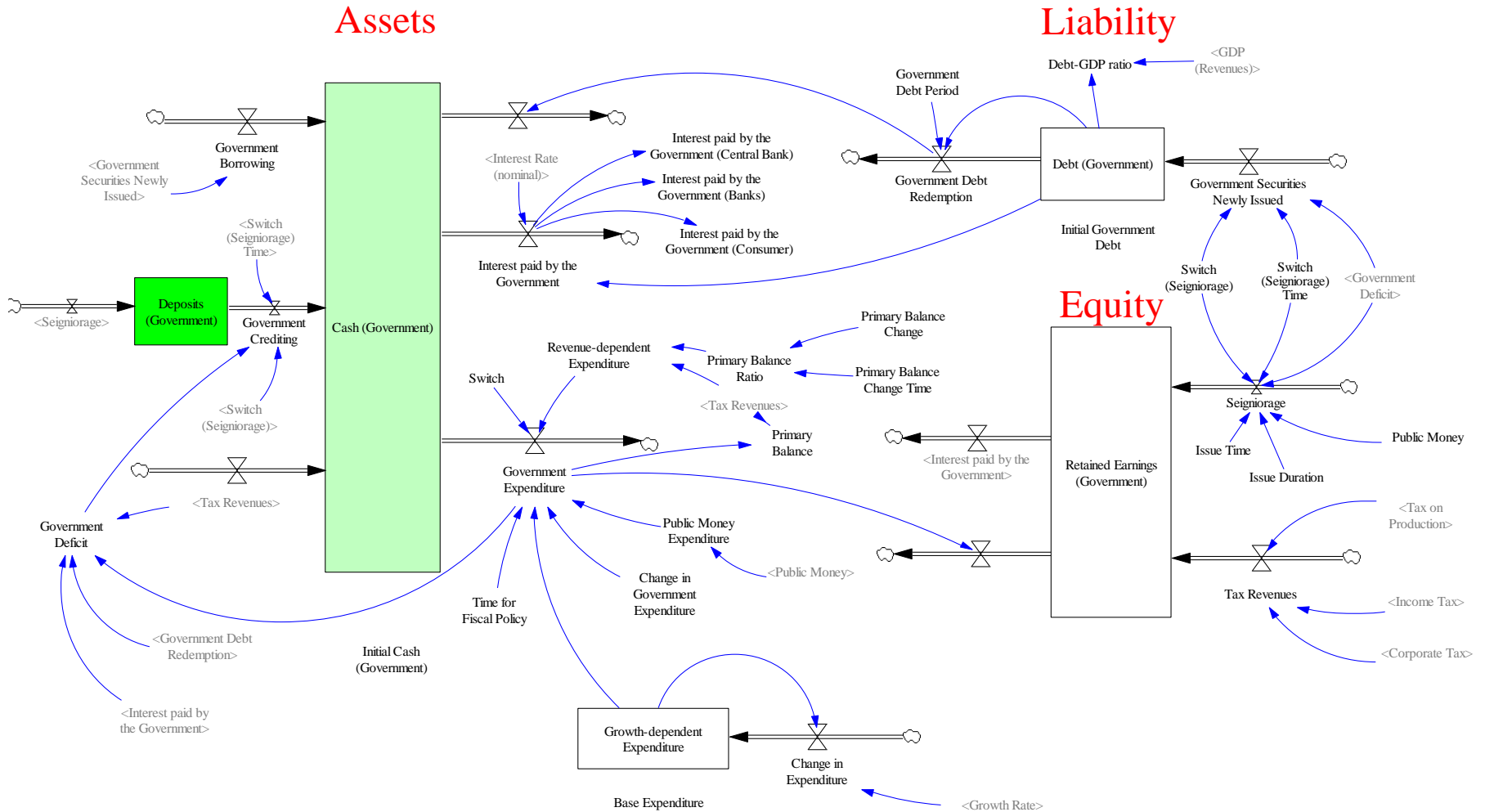
Public vs Debt Money (by law)

	Public Money	Debt Money
Non-metal Commodities	Shell, Cloth (Silk) Woods, Stones, etc	
Metal Coinage	Non-precious Metals Copper, Silver, Gold	
Paper Notes	Sovereign Notes Government Notes	Gold(smith) Certificates (Central) Bank Notes
Intangible Numbers		Deposits (Credits by Loan)
Digits	Electronic Substitutes	Electronic Substitutes

This Battle to Control the Money Power has raged for millennia over the same dividing line: will the money system be **privately** controlled by the few, to favor the few; or will it be **publicly** controlled by government, potentially for the common good.

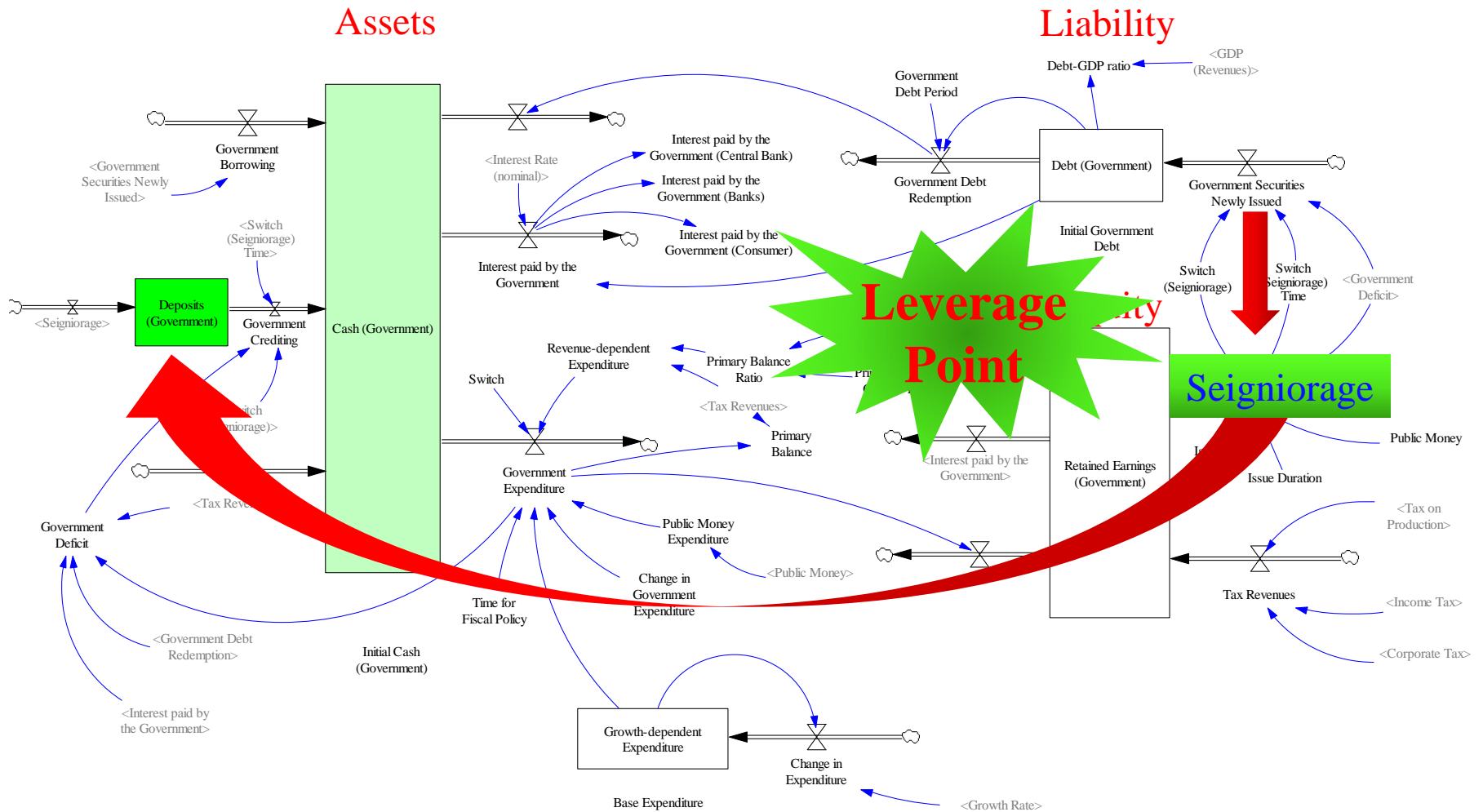
A Public Money System

Government Issues Money



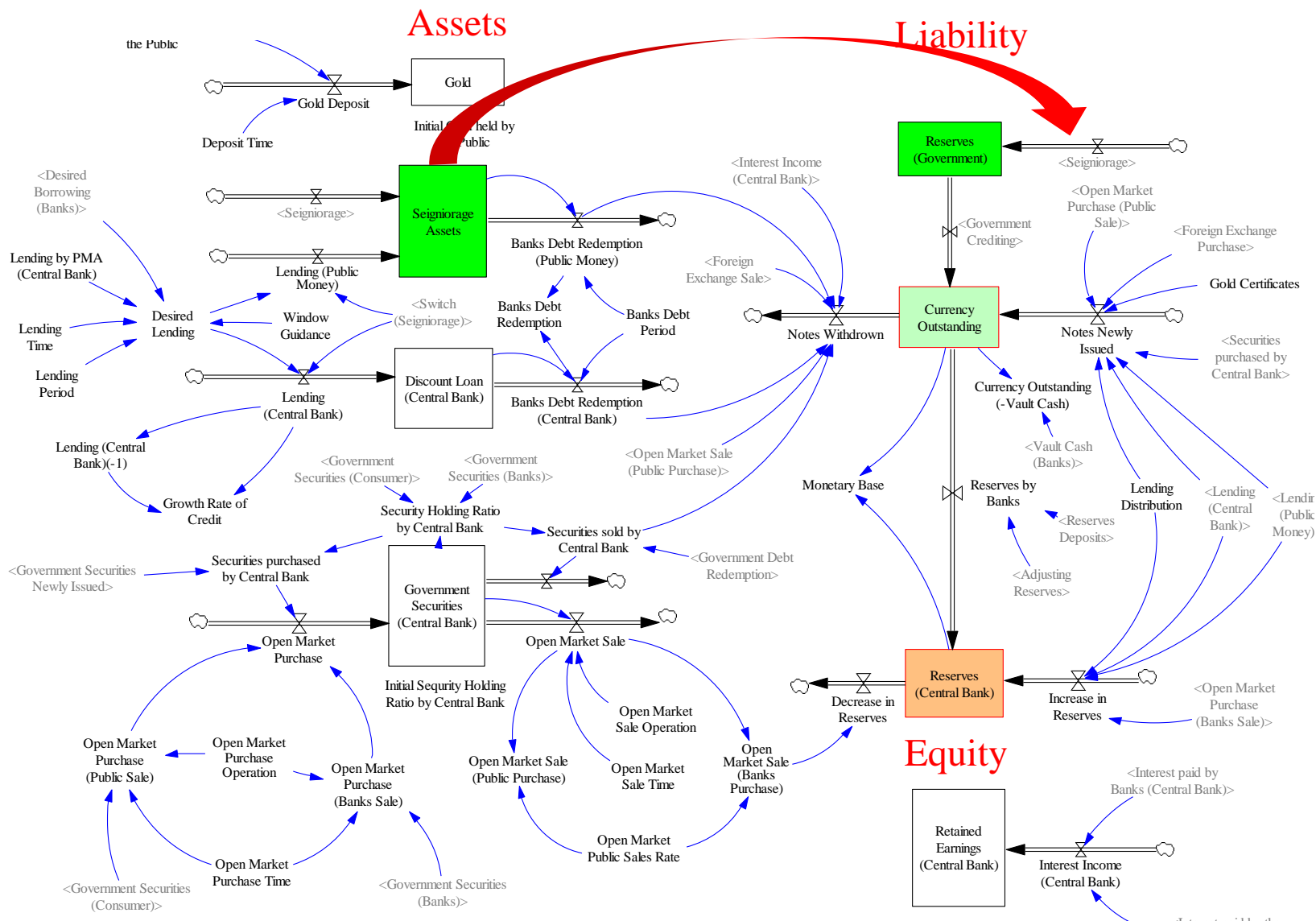
A Public Money System

Government Issues Money



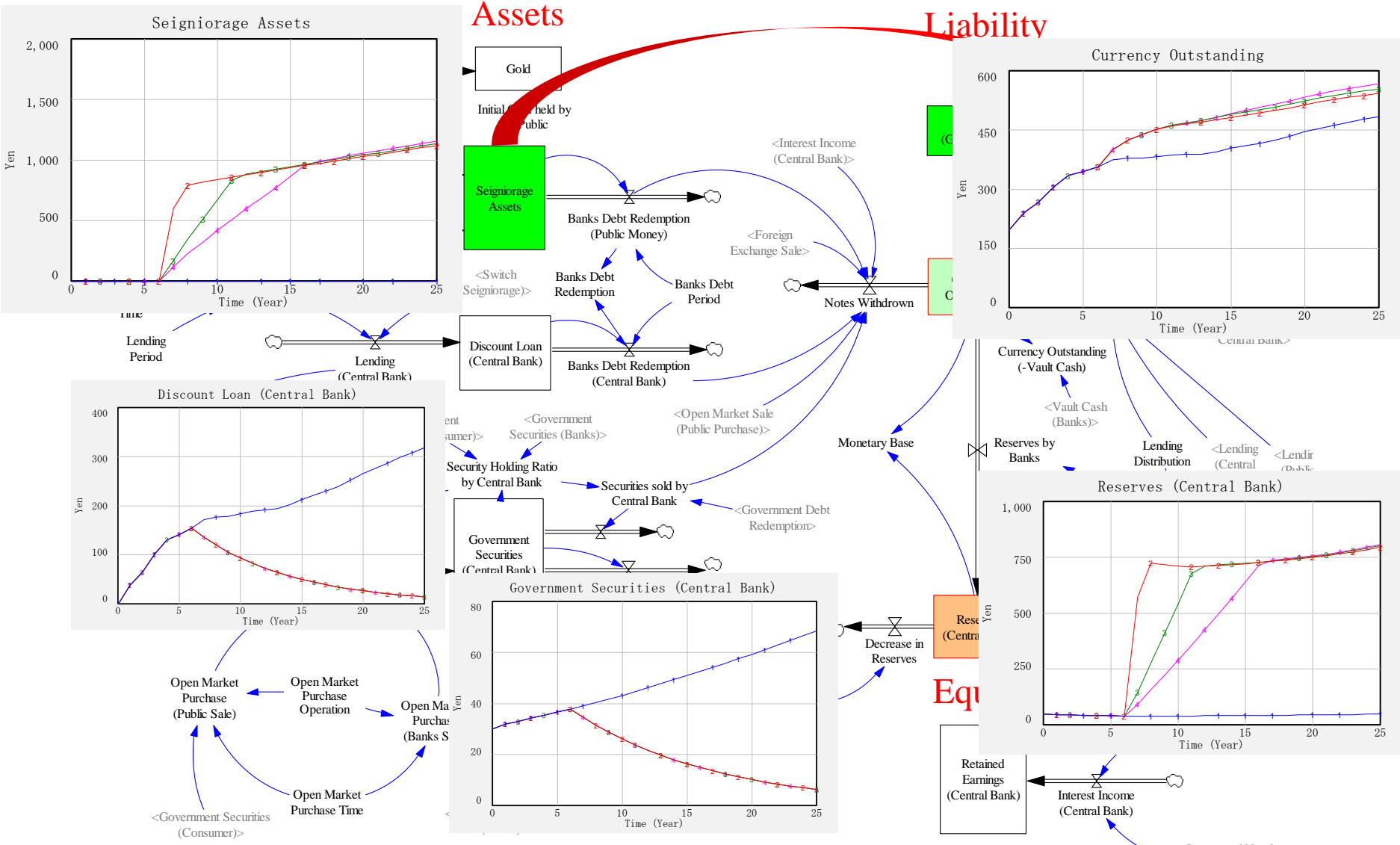
A Public Money System

- Transactions of the Public Money Administration -



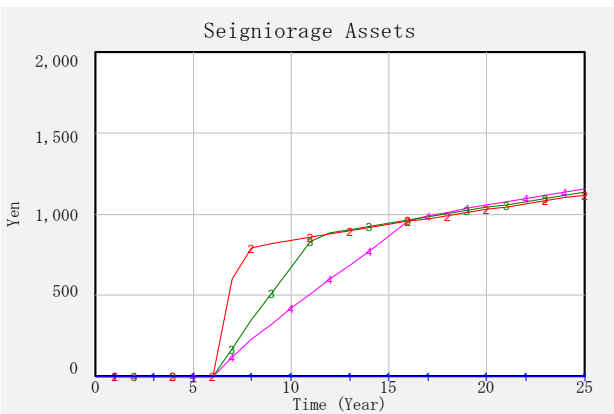
A Public Money System

- Transactions of the Public Money Administration -

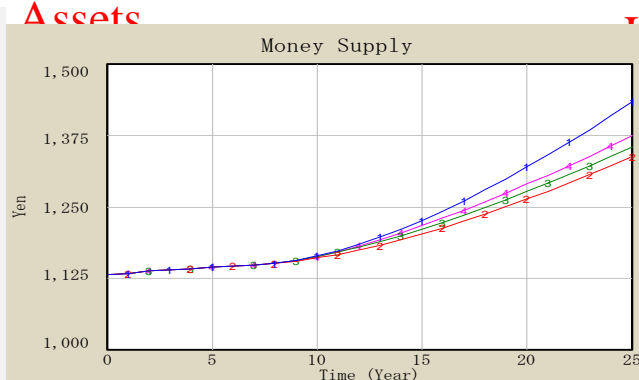


A Public Money System

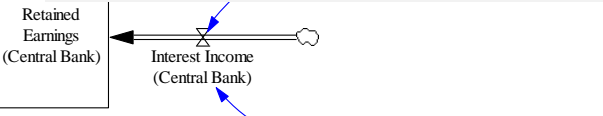
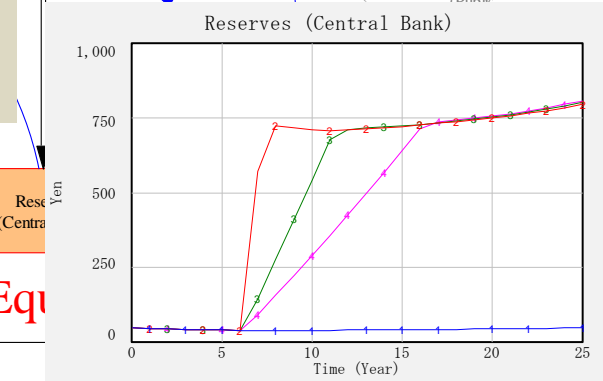
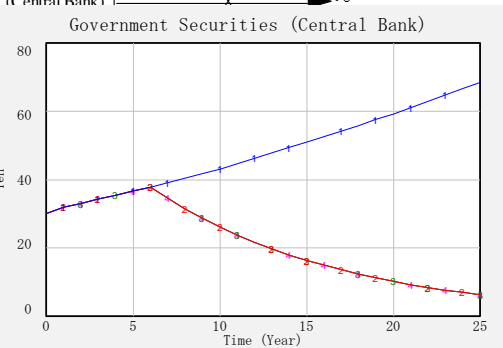
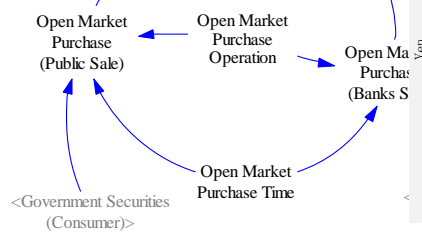
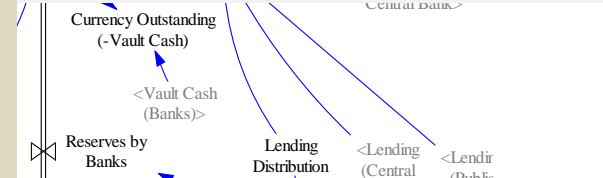
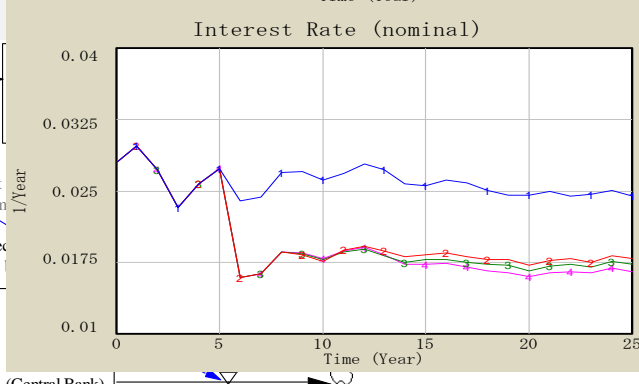
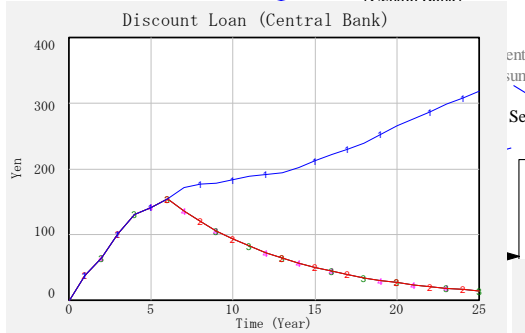
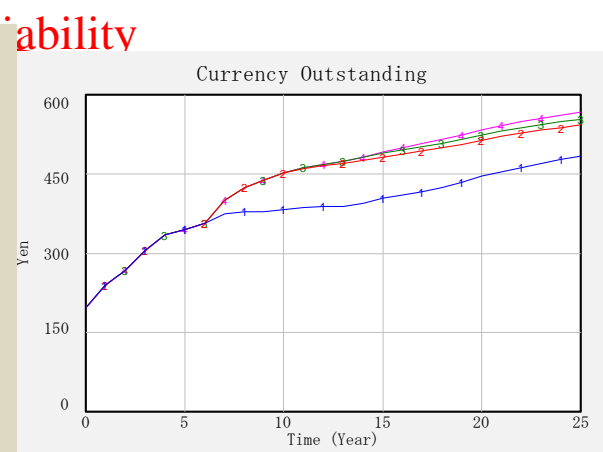
- Transactions of the Public Money Administration -



Assets



Liability



Equity

Reserve (Central Bank)

Decrease in Reserves

Currency Outstanding (-Vault Cash)
 <Vault Cash (Banks)>
 Reserves by Banks
 Lending Distribution
 <Lending (Central Bank)>
 <Lending (Banks)>

Public Money vs Debt Money

System Behaviors

	Public Money System	Debt Money System
Monetary Stability	Stable Money Supply Stable Price Level	Bubbles and Credit Crunches Inflation & Deflation
Financial Stability	No Bank-runs	Business Cycles (Booms and Busts)
Employment	Full Employment is Possible	Involuntary Unemployment
Government Debt	No Government Debt	Built-in Debt Accumulation → Recession & Unemployment
Inequality	Income Inequality between Workers and Capitalists	Income Inequality between Financiers and Non-financiers
Sustainability	Sustainability is Possible	Accumulated Debt → Forced Growth → Environmental Destruction

A PROGRAM FOR MONETARY REFORM

(A mimeograph circulated in July 1939

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

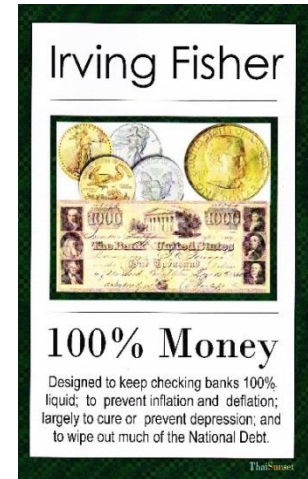
Earl J. Hamilton, Willford I. King, and Charles R. Whittlesey)

(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.**

Monetary and Financial Stability

- Systemic Failures of Controlling Money Supply -

(billion dollars)	1926	1929	1933
Total Circulating Medium	26	27	20
Check-book money	22	23	15
Pocket-book money	4	4	5
Currency ratio = Pocket-book money / Check-book money	4/22 = 18.2%	4/23 = 17.4%	5/15 = 33.3%

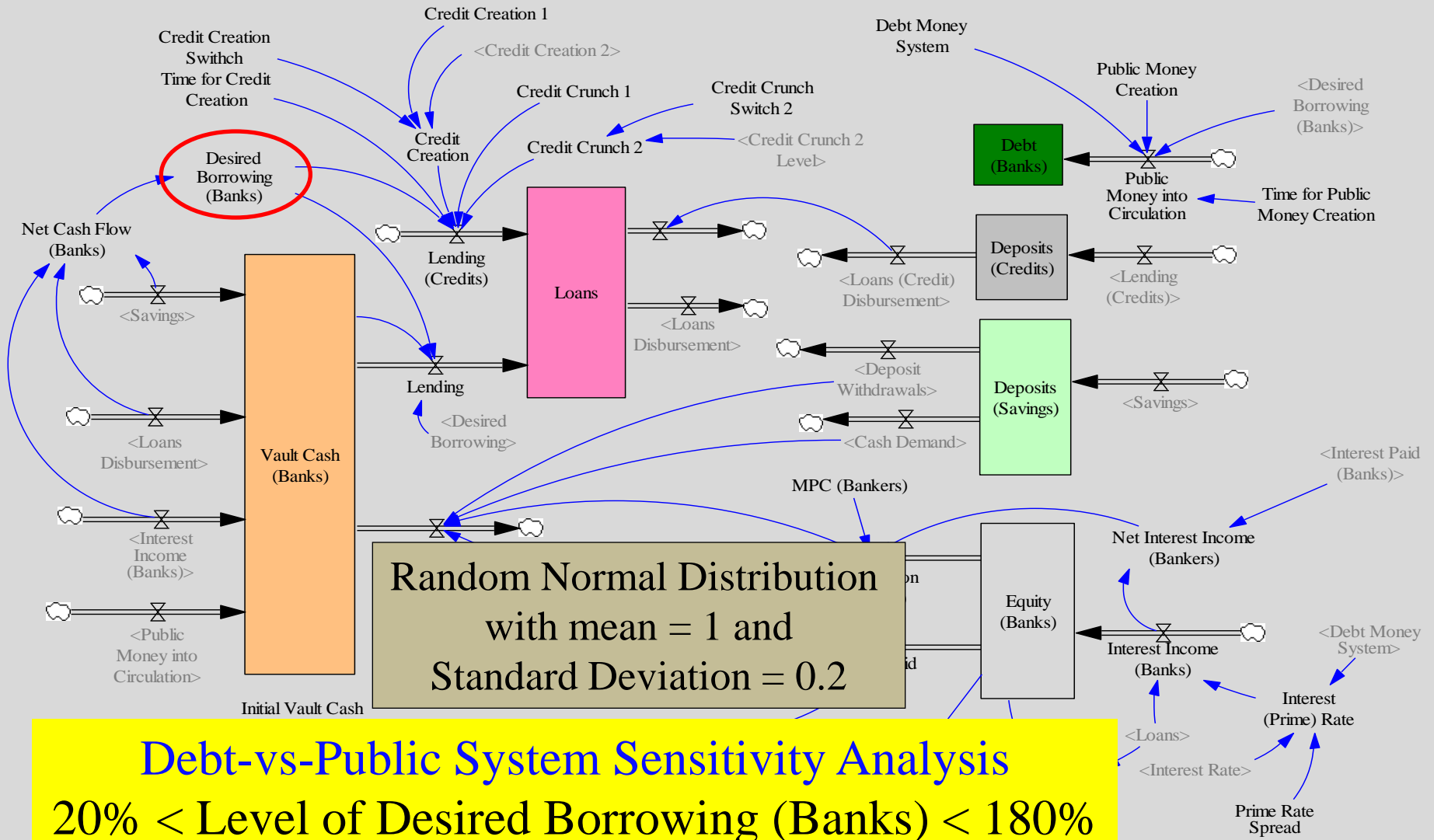


The boom and depression since 1926 are largely epitomized by these three figures -- 26, 27, 20 – for the three years 1926, 1929, 1933. ...

The changes in quantity were chiefly in the deposits. ... An essential part of this depression has been the shrinkage from the 23 to the 15 billions in check-book money, that is, the wiping out of 8 billions of dollars of the nation's chief circulating medium which we all need as a common highway for business. (pages 14, 15)

Monetary and Financial Stability

Banks

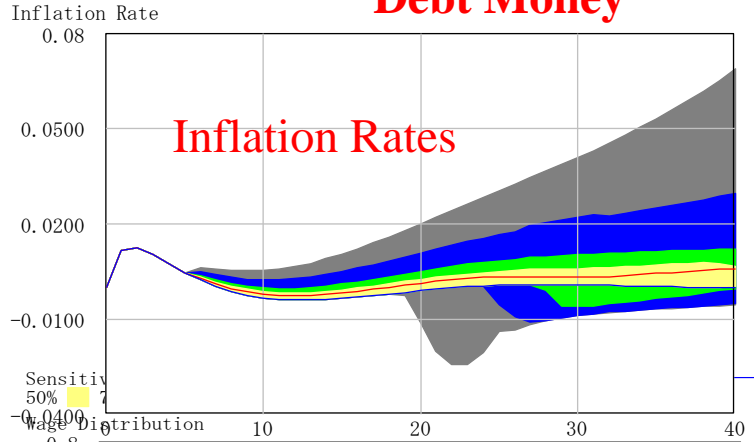


BIS RULES OF
Equity Ratio

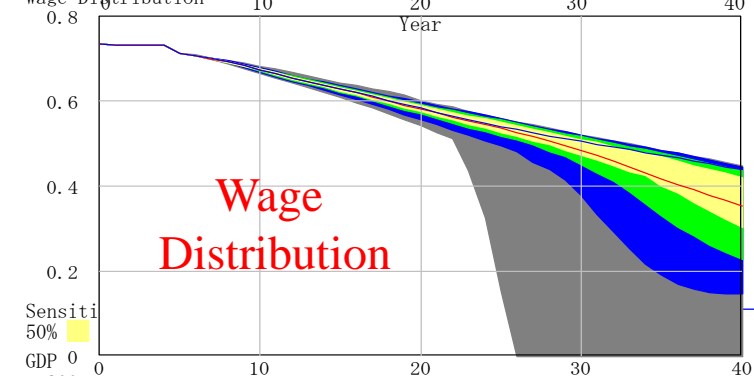
Debt-vs-Public System Sensitivity Analysis

Sensitivity (Debt)
 50% 75% 95% 100%

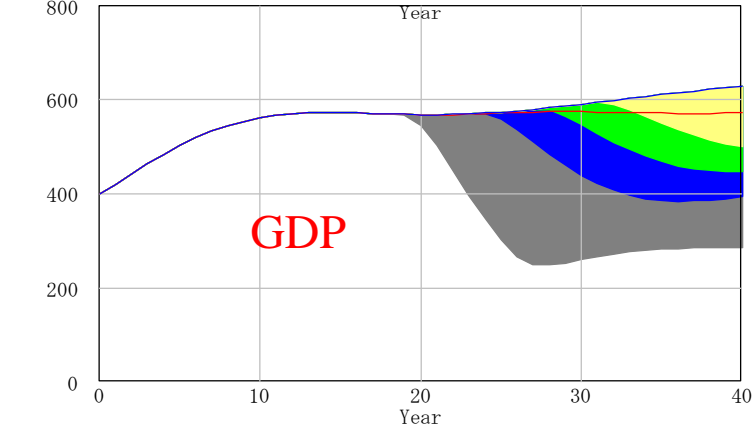
Debt Money



Sensitivity
 50% 75% 95% 100%

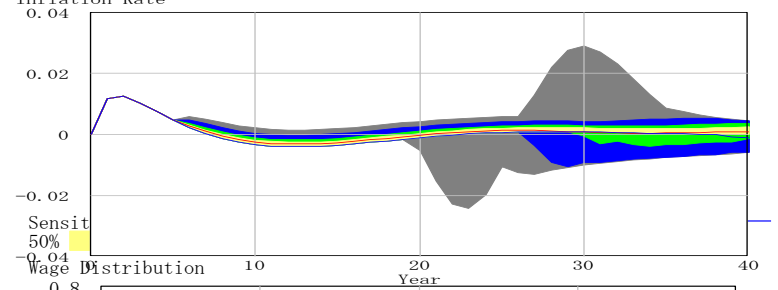


Sensitivity
 50% 75% 95% 100%

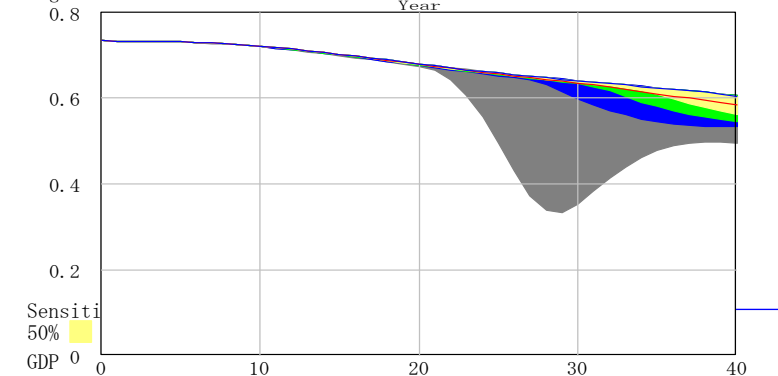


Public Money

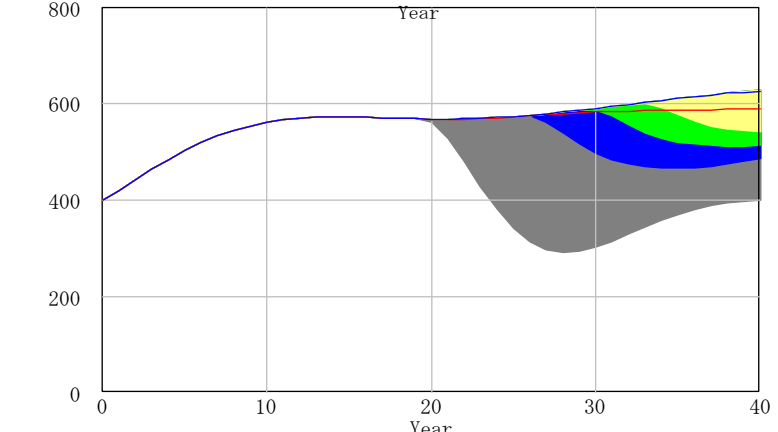
Sensitivity (Public)
 50% 75% 95% 100%



Sensitivity
 50% 75% 95% 100%



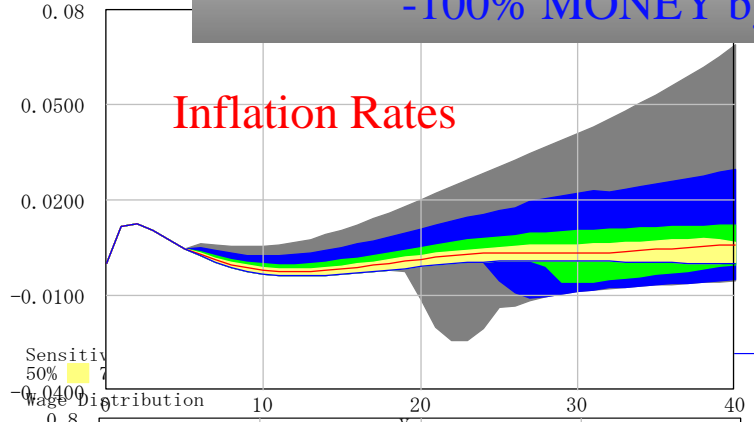
Sensitivity
 50% 75% 95% 100%



The 100% system would be no cure-all for business fluctuations, though it would help reduce them.

-100% MONEY by Irving Fisher, p. 216 -

Sensitivity (Debt)
50% 75% 95%



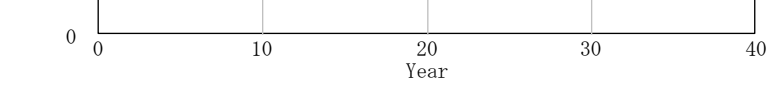
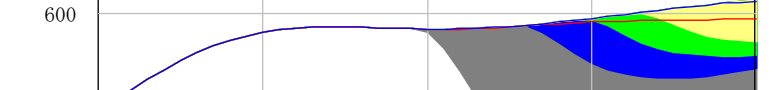
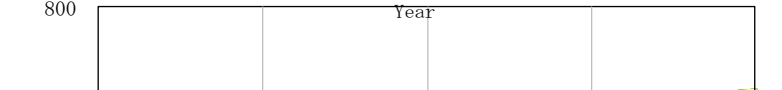
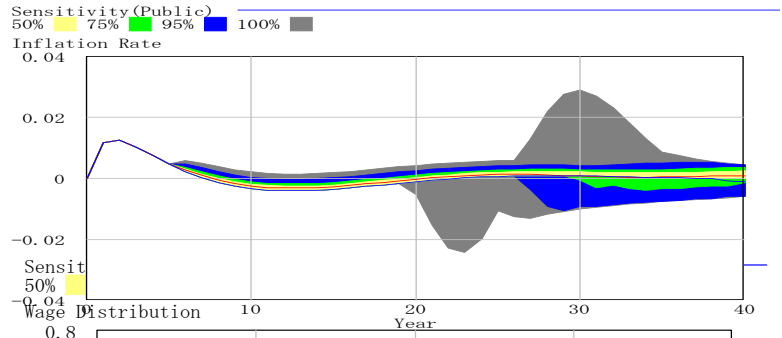
Inflation Rates



Wage Distribution



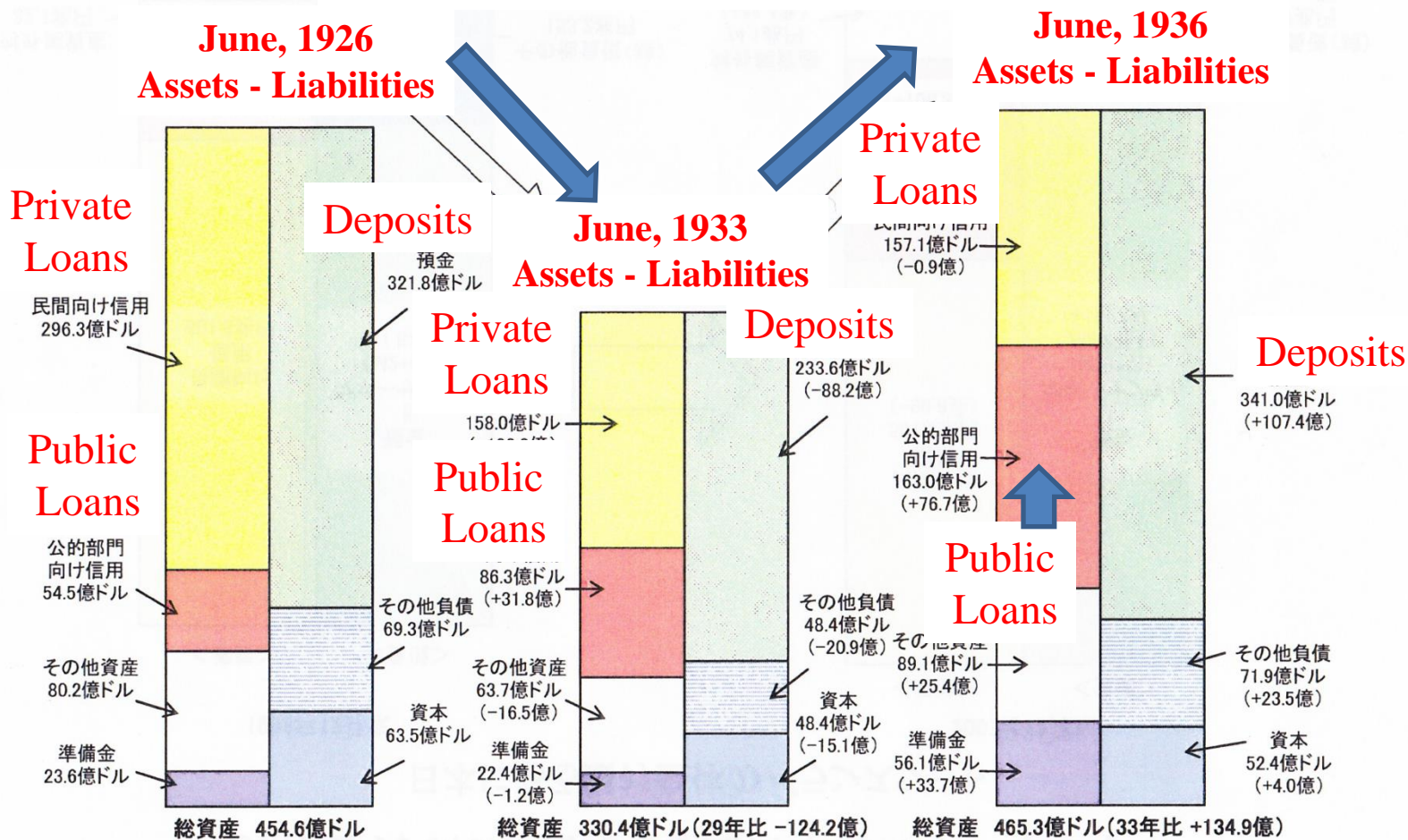
GDP



Monetary and Financial Stability

- Did New Deal Policies Succeed? -

Money Supply of the US in 1930s Balance Sheets of All Member Banks

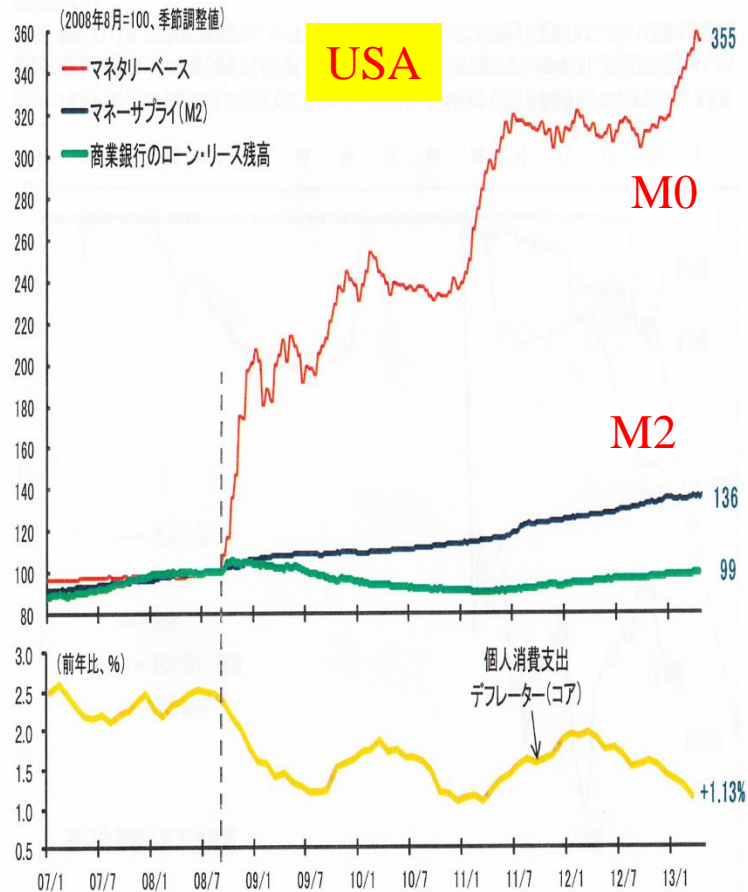


(出所) Board of Governors of the Federal Reserve System [1976] pp.72-79より、野村総合研究所作成

Monetary and Financial Stability

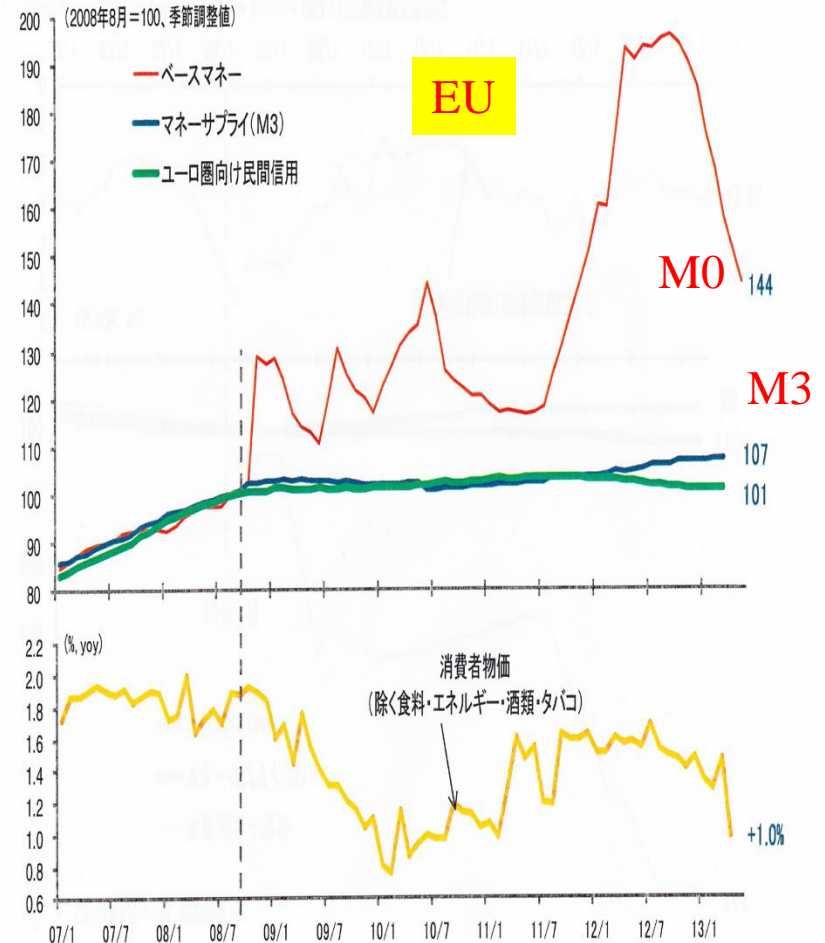
- Systemic Failures of QE -

バブル崩壊で崩れたマネー関連指標の関係(1):米国



(出所)FRB, 米商務省のデータより野村総合研究所作成
 (注)商業銀行のローン・リース残高統計の不連続は野村総合研究所で調整している。

バブル崩壊で崩れたマネー関連指標の関係(2):EU

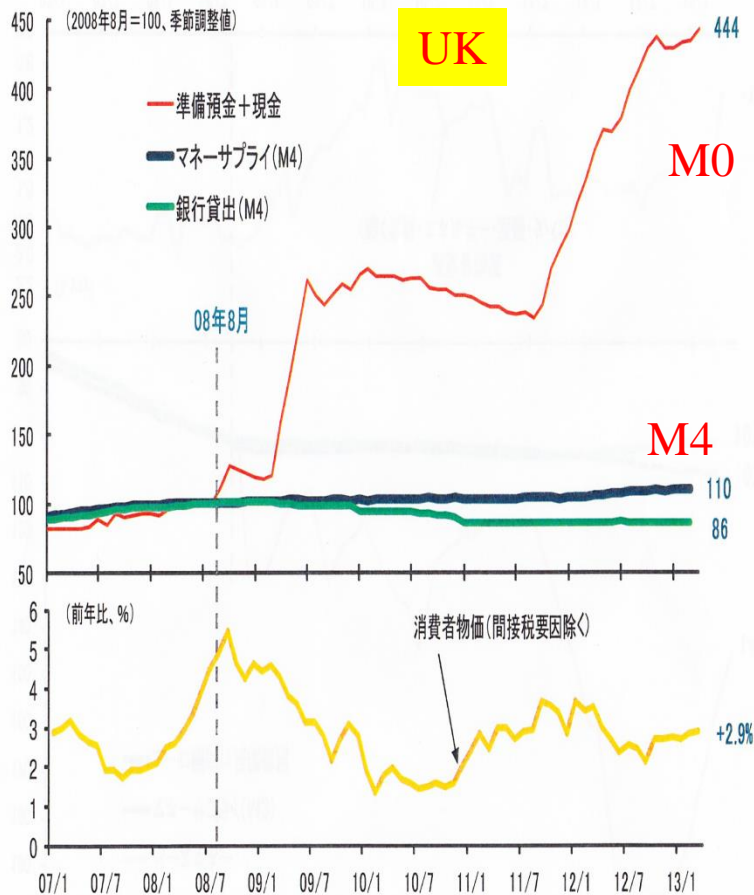


(出所)ECB, Eurostat
 (注)ベースマネーの値は野村総合研究所が季節調整を行った。

Monetary and Financial Stability

- Systemic Failures of QE -

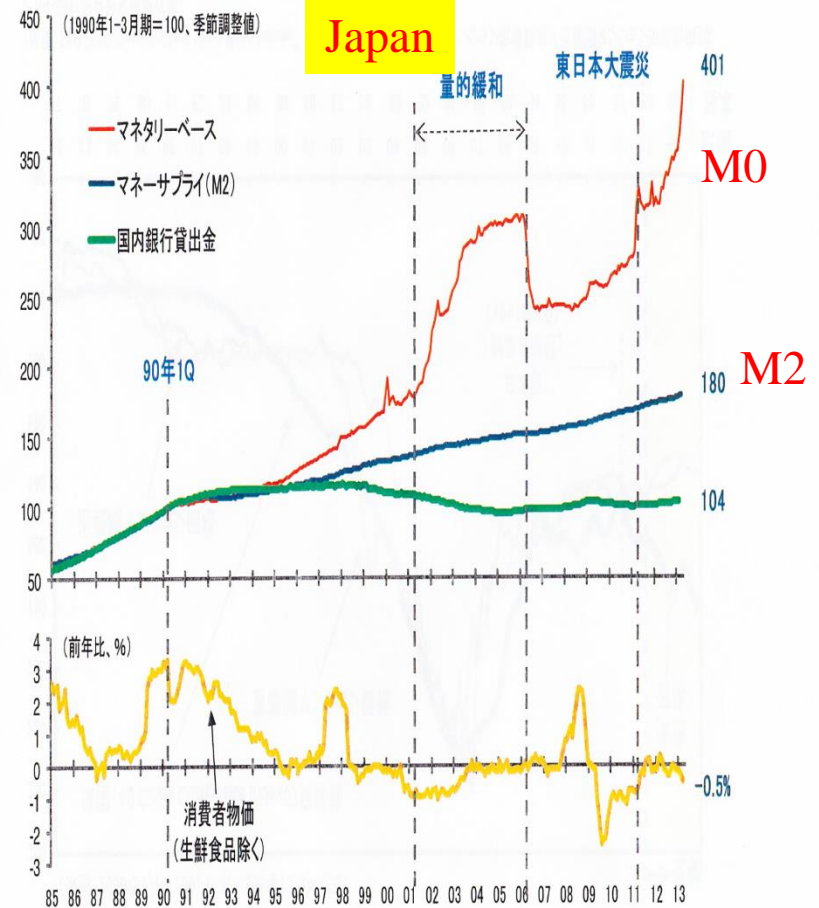
バブル崩壊で崩れたマネー関連指標の関係(3):イギリス



(出所) Bank of England, Office for National Statistics, UKより野村総合研究所作成

(注) 準備預金のみ原数値。また、マネーサプライ・銀行貸出の値は銀行間取引分を除いている。

バブル崩壊で崩れたマネー関連指標の関係(4):日本



(注) 国内銀行貸出の季節調整と、2003年以前のマネーサプライ統計との接続は野村総合研究所が行った。

(出所) 日本銀行「マネーストック」「マネタリーベース」「国内銀行の資産・負債等(銀行勘定)」

Public Money vs Debt Money

System Behaviors

	Public Money System	Debt Money System
Monetary Stability	Stable Money Supply Stable Price Level	Bubbles and Credit Crunches Inflation & Deflation
Financial Stability	No Bank-runs	Business Cycles (Booms and Busts)
Employment	Full Employment is Possible	Involuntary Unemployment
Government Debt	No Government Debt	Built-in Debt Accumulation → Recession & Unemployment
Inequality	Income Inequality between Workers and Capitalists	Income Inequality between Financiers and Non-financiers
Sustainability	Sustainability is Possible	Accumulated Debt → Forced Growth → Environmental Destruction

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)

(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.

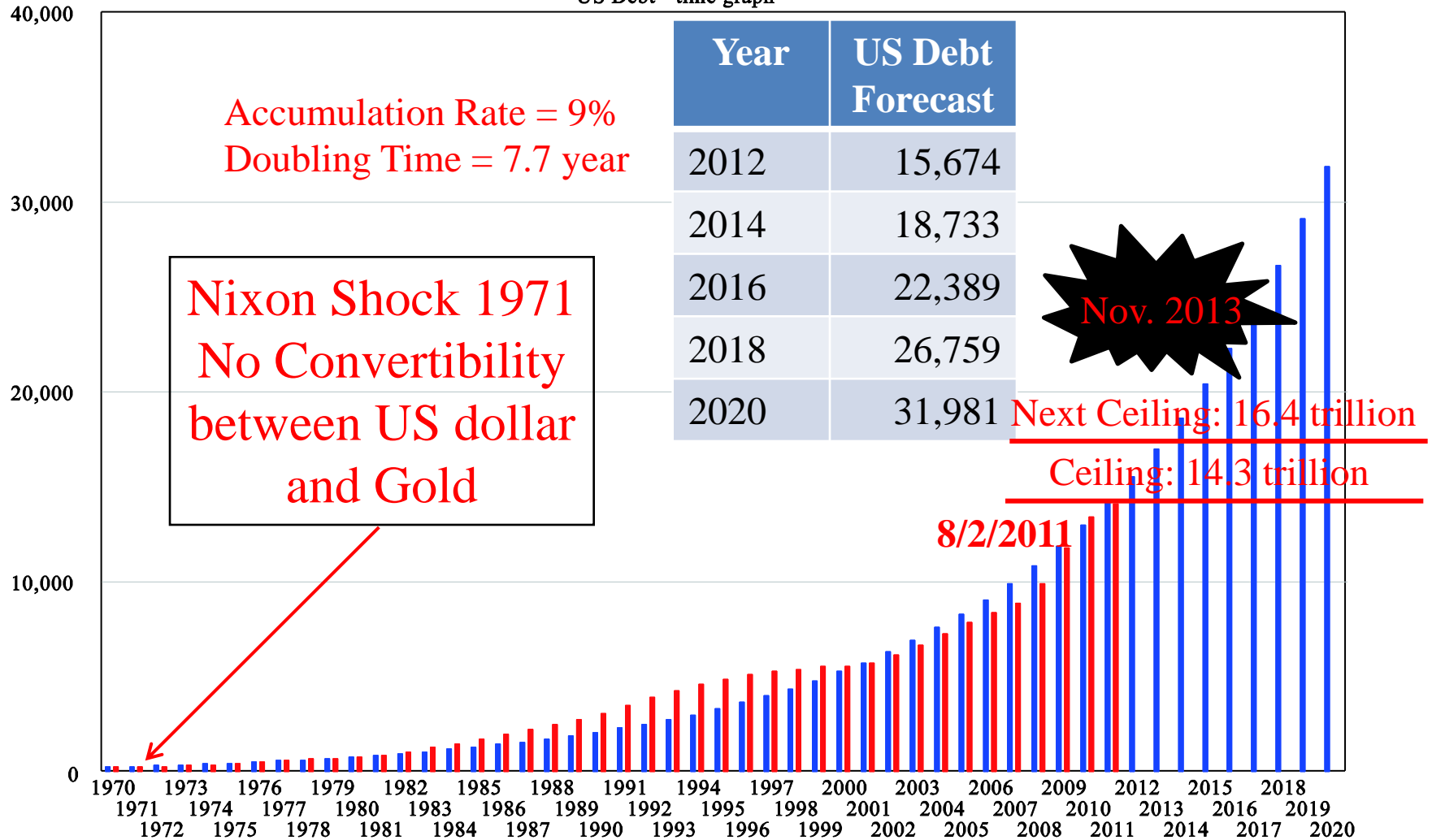
Government Debt is Build in the Debt Money System

National Debt Crisis

- US Forecast 1970 – 2020 –

Forecasted Debt
US National Debt

US Debt - time graph



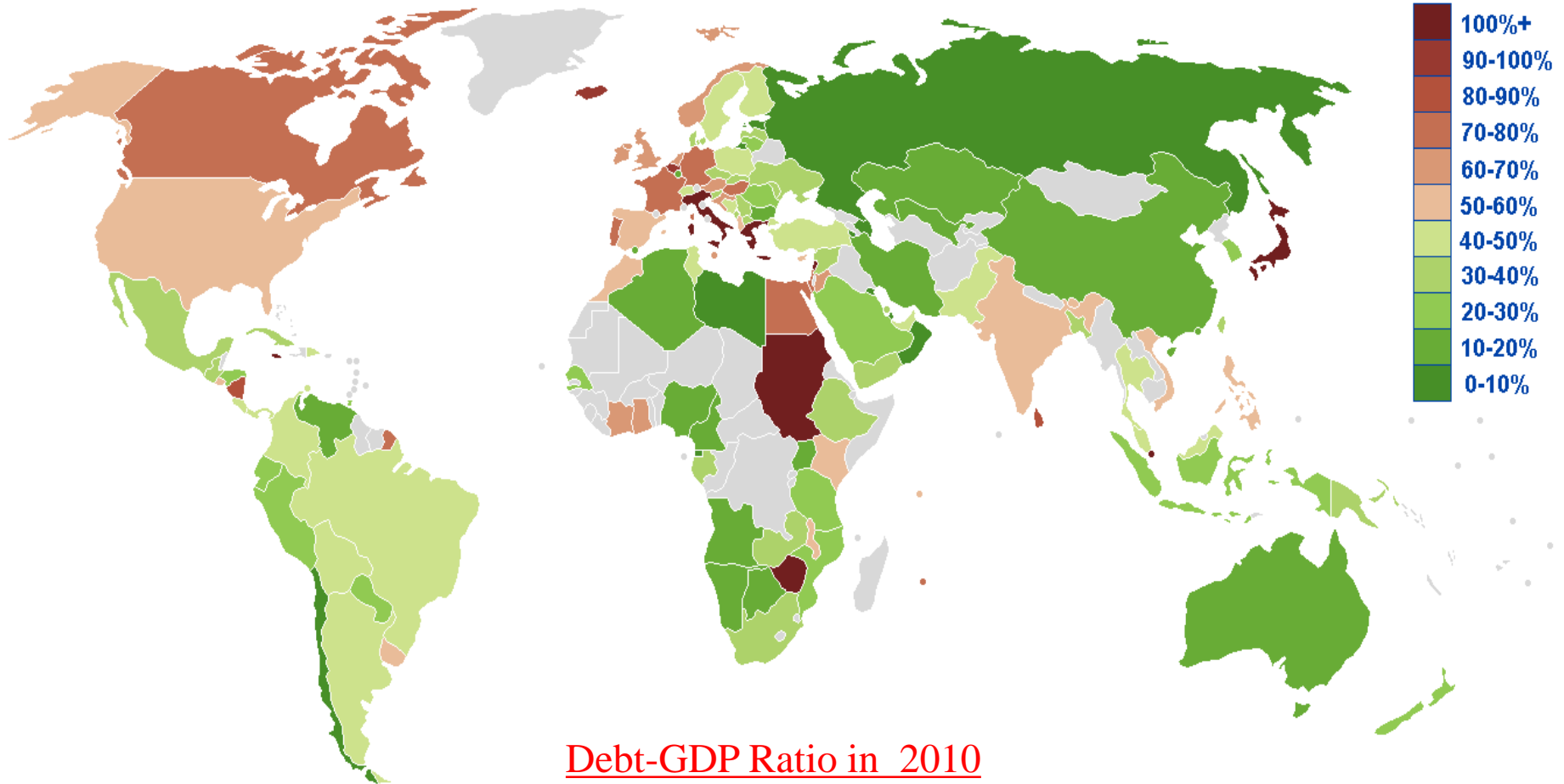
Public Debt-GDP Ratio(%) of OECD Countries in 2010

Country	Ratio(%)	Country	Ratio(%)
Japan	196.4	Israel	77.3
Greece	144.0	Germany	74.8
Iceland	123.8	Hungary	72.1
Italy	118.1	Austria	68.6
Belgium	102.5	United Kingdom	68.1
Ireland	98.5	Netherlands	64.6
United States	96.4	Spain	63.4
France	83.5	Poland	50.5
Portugal	83.2	OECD	66.7
Canada	82.9	World	58.3

18 Countries out of 33 OECD countries > 50% !

File:Public debt percent GDP world map.PNG

From Wikipedia, the free encyclopedia



Debt-GDP Ratio in 2010

33 OECD Countries 66.7%

World Average 58.3%

Liquidation Policies of Government Debt under A Debt Money System



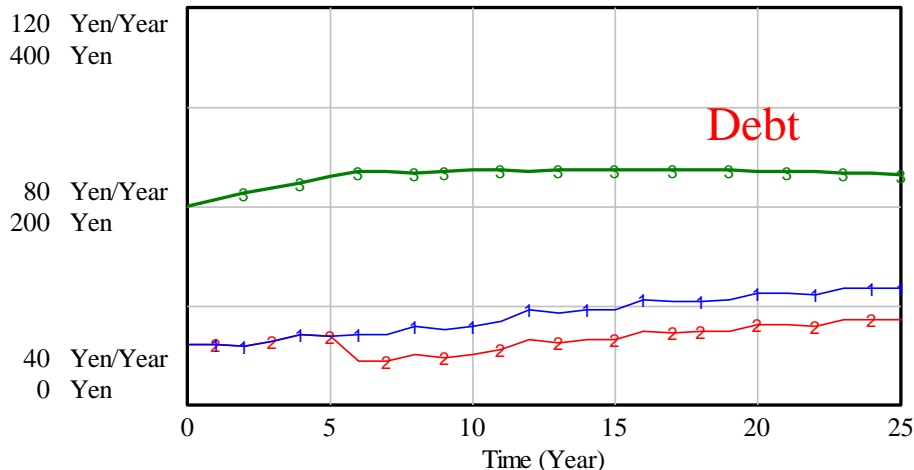
Policy A: Spend Less

10% Spending Less at t=6 (line 2)
(Primary Balance Ratio of 90%)

Policy B: Tax More

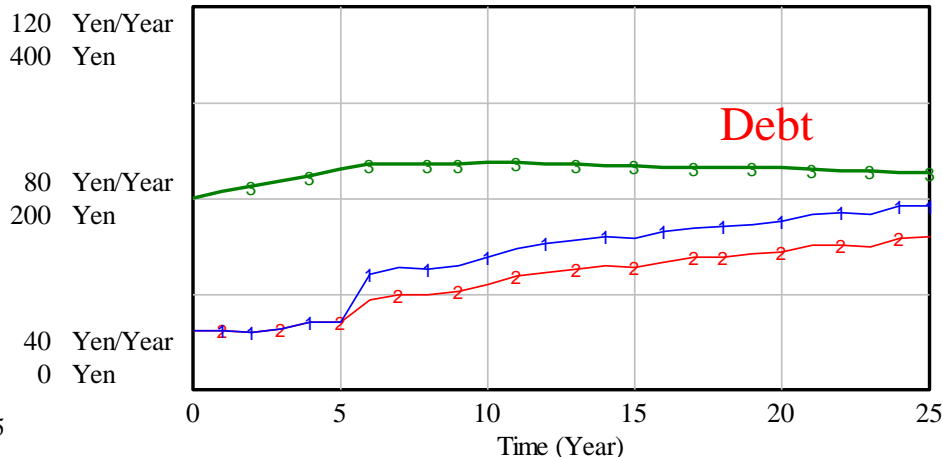
Excise Tax More (5%+5%) (line 1)
and 8.5% Spending Less at t=6 (line 2)

Government Budget and Debt



Tax Revenues : Primary Balance(=90%) ———— Yen/Year
 Government Expenditure : Primary Balance(=90%) ———— Yen/Year
 "Debt (Government)" : Primary Balance(=90%) ———— Yen

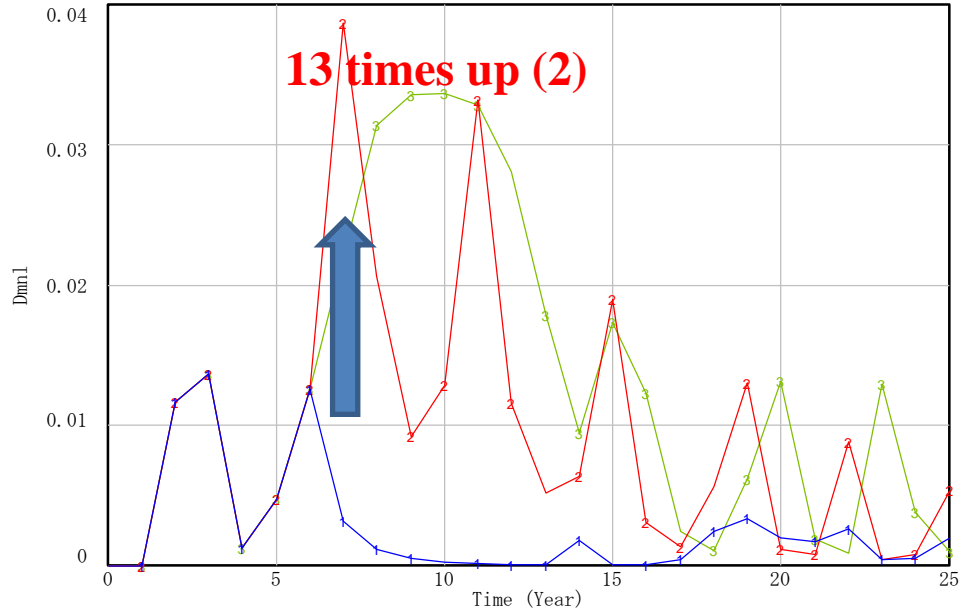
Government Budget and Debt



Tax Revenues : Excise Tax (5+5%) ———— Yen/Year
 Government Expenditure : Excise Tax (5+5%) ———— Yen/Year
 "Debt (Government)" : Excise Tax (5+5%) ———— Yen

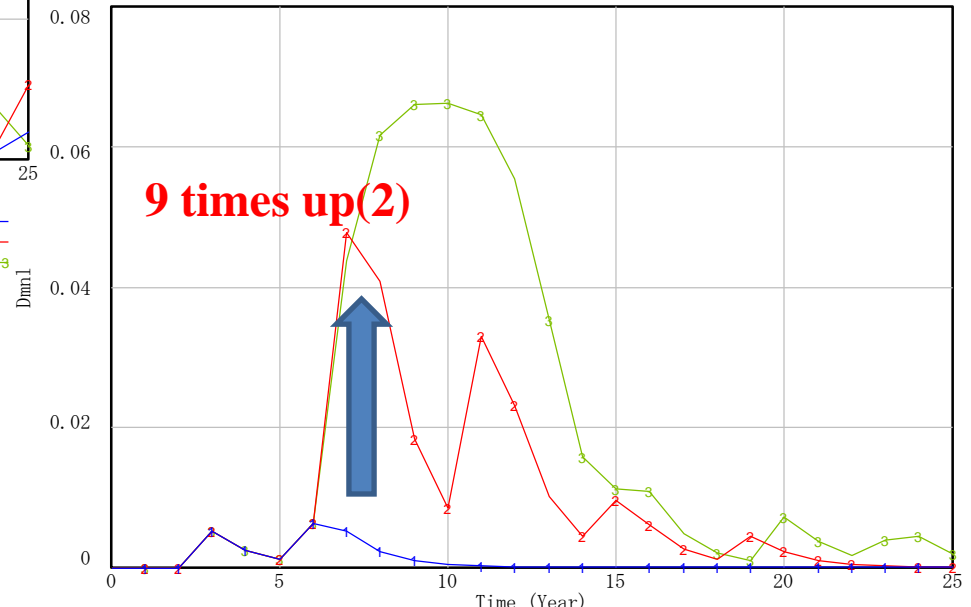
GDP Gap Ratio and Unemployment Rate

GDP Gap Ratio



$$\text{GDP Gap Ratio} = \frac{\text{Potential GDP} - \text{GDP}(\text{real})}{\text{Potential GDP}}$$

Unemployment rate

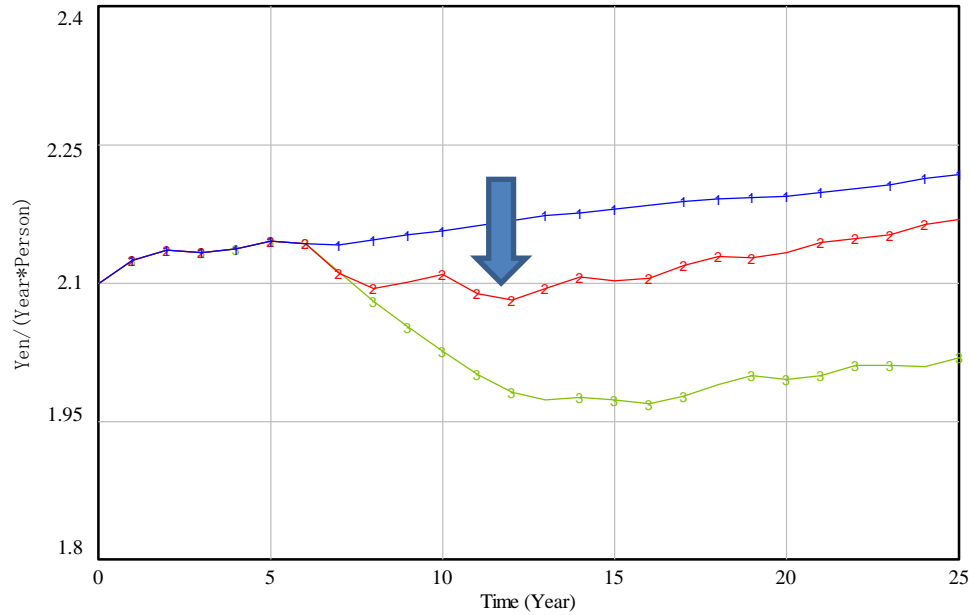


GDP Gap Ratio : Equilibrium (Debt) ————
 GDP Gap Ratio : Primary Balance (=90%) ————
 GDP Gap Ratio : Excise Tax (5+5%) ————

Unemployment rate : Equilibrium (Debt) ————
 Unemployment rate : Primary Balance (=90%) ————
 Unemployment rate : Excise Tax (5+5%) ————

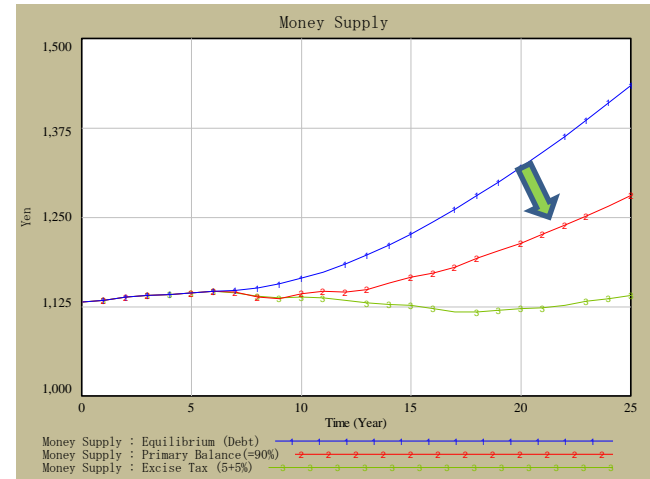
Wage Reduction and Inflation Rate

Wage Rate



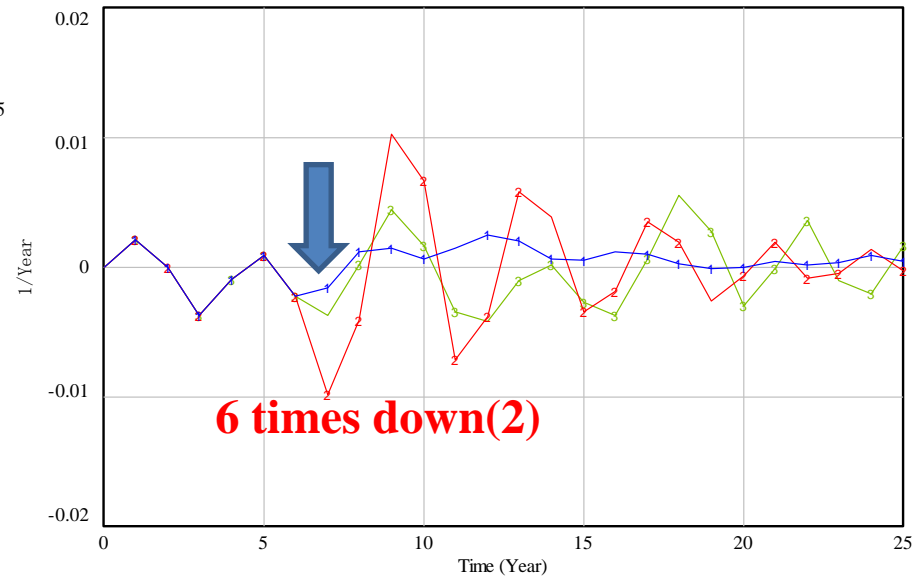
Wage Rate : Equilibrium (Debt) ———+———
 Wage Rate : Primary Balance (=90%) ———2———
 Wage Rate : Excise Tax (5+5%) ———3———

Money Supply



Money Supply : Equilibrium (Debt) ———+———
 Money Supply : Primary Balance (=90%) ———2———
 Money Supply : Excise Tax (5+5%) ———3———

Inflation Rate



6 times down(2)

Inflation Rate : Equilibrium (Debt) ———+———
 Inflation Rate : Primary Balance (=90%) ———2———
 Inflation Rate : Excise Tax (5+5%) ———3———

A PROGRAM FOR MONETARY REFORM

(A mimeograph circulated in July 1939

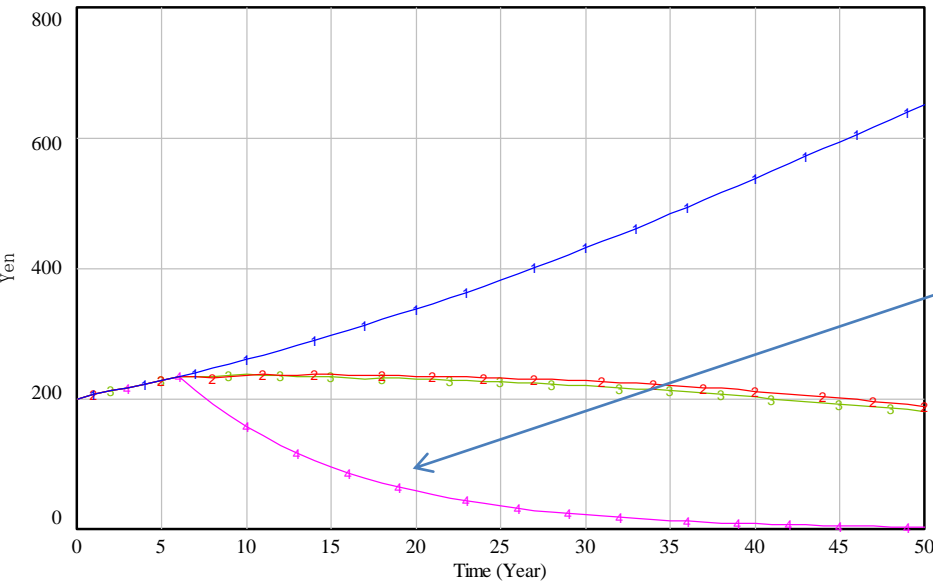
by Paul H. Douglas, Irving Fisher, Frank D. Graham

Earl J. Hamilton, Willford I. King, and Charles R. Whittlesey)

(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.

Liquidation of Government Debt and Debt-GDP Ratios (lines 4)

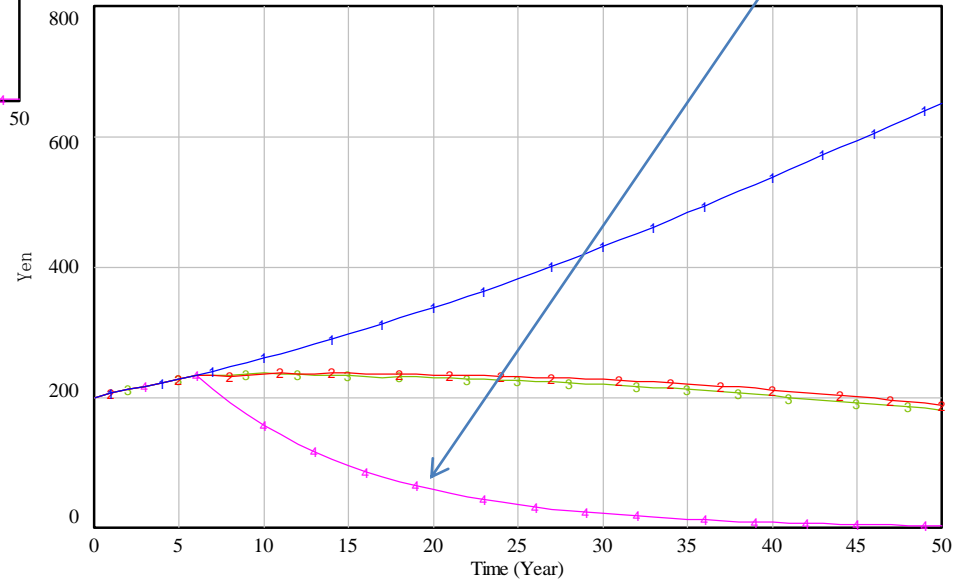
Debt (Government)



"Debt (Government)" : Equilibrium (Debt) ————
 "Debt (Government)" : Primary Balance (=90%) ————
 "Debt (Government)" : Excise Tax (5+5%) ————
 "Debt (Government)" : Public Money (100% 5 Yr) ————

Liquidation of Government Debt Under A Public Money System

Debt (Government)

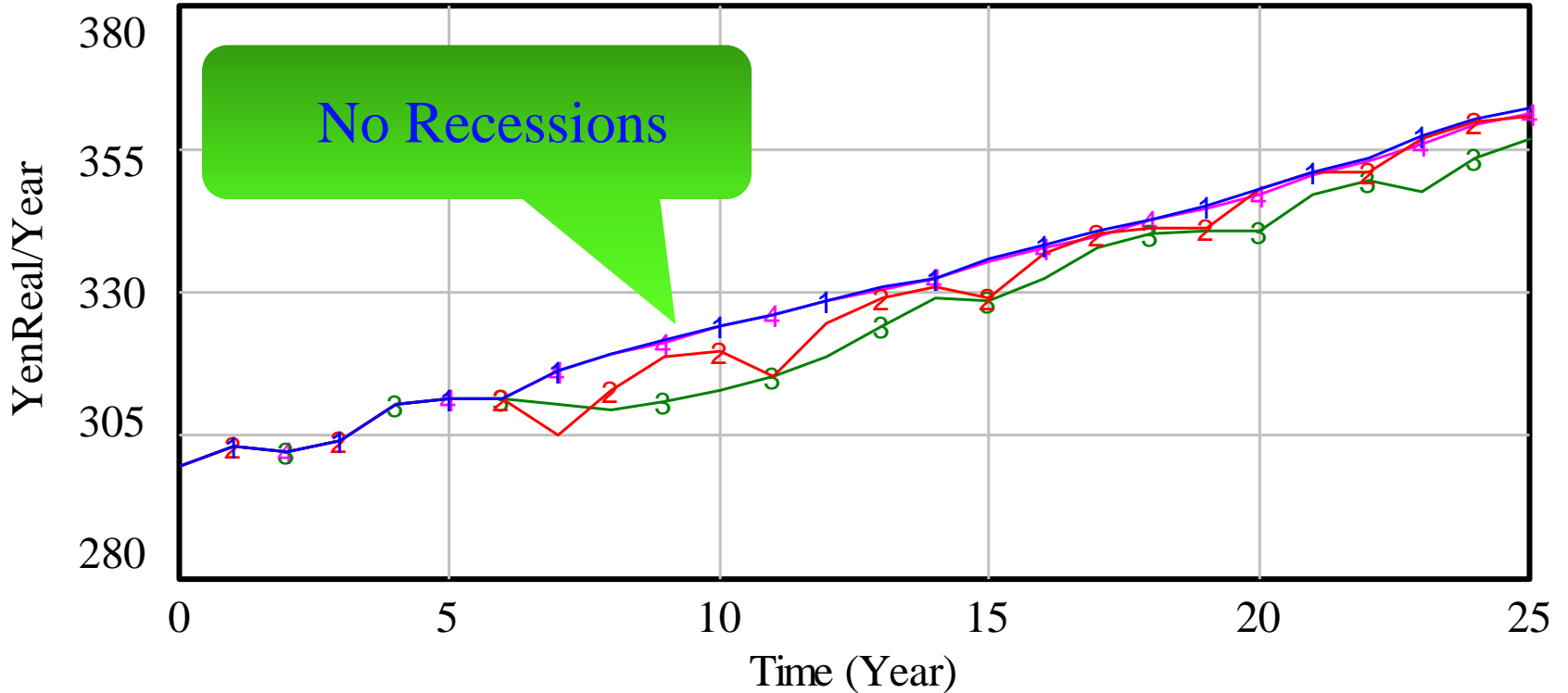


"Debt (Government)" : Equilibrium (Debt) ————
 "Debt (Government)" : Primary Balance (=90%) ————
 "Debt (Government)" : Excise Tax (5+5%) ————
 "Debt (Government)" : Public Money (100% 5 Yr) ————

100% Required Reserve Ratio in 5 years as a representative

No Recessions Triggered (line 4)

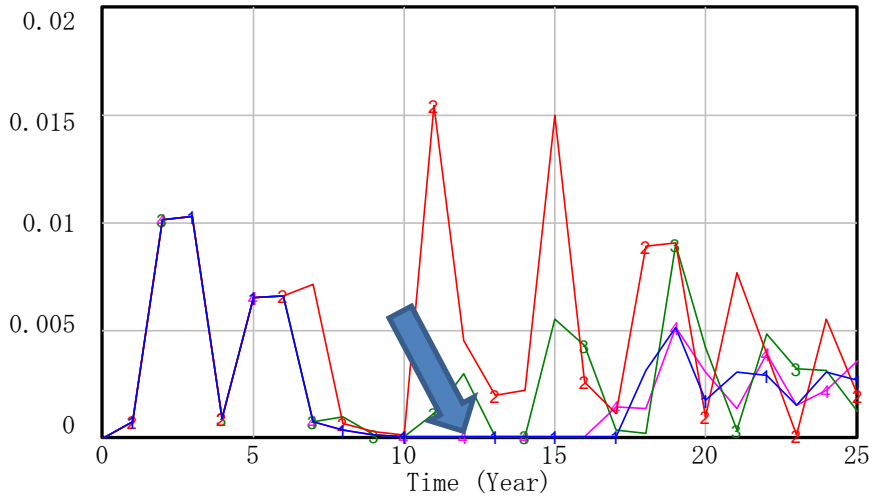
GDP (real)



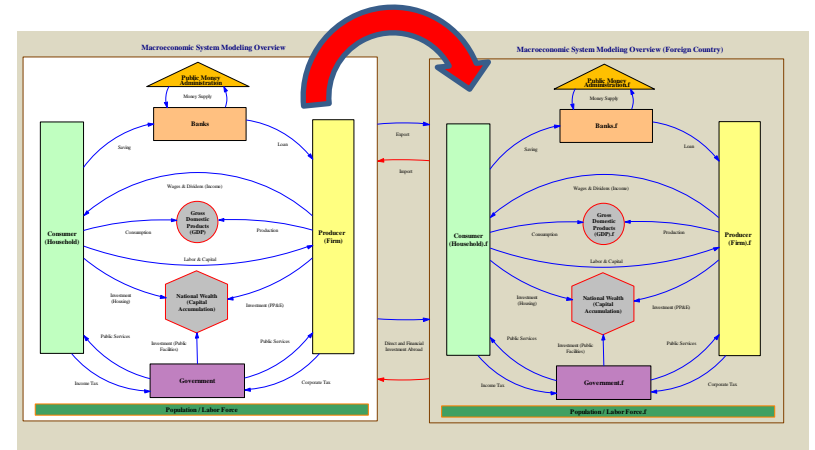
- "GDP (real)" : Equilibrium (Debt) — 1 — 1 — 1 — 1 — 1 — 1 — 1 — 1
- "GDP (real)" : Primary Balance(=90%) — 2 — 2 — 2 — 2 — 2 — 2 — 2 — 2
- "GDP (real)" : Excise Tax (5+5%) — 3 — 3 — 3 — 3 — 3 — 3 — 3 — 3
- "GDP (real)" : Public Money (100% 5 Yr) — 4 — 4 — 4 — 4 — 4 — 4 — 4 — 4

Foreign Recessions are Not Triggered (lines 4)

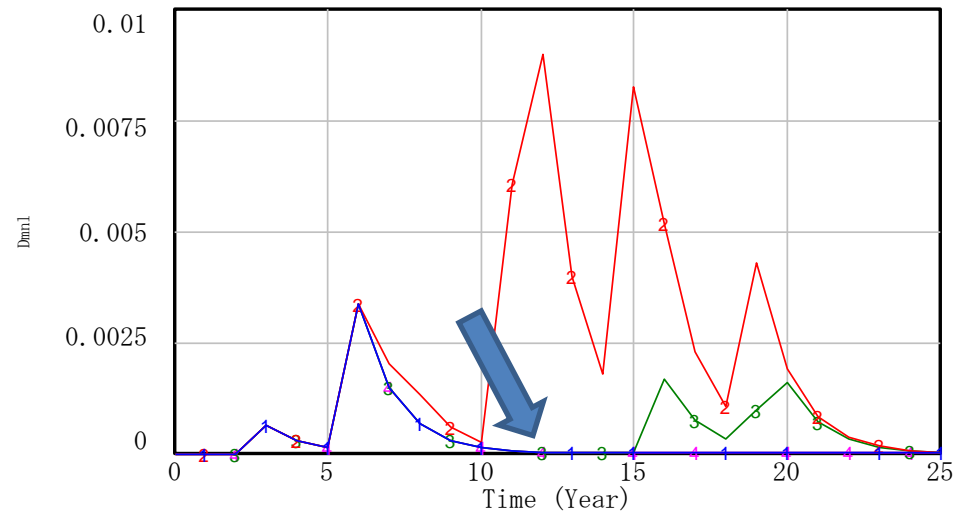
GDP Gap Ratio.f



"GDP Gap Ratio.f" : Equilibrium (Debt) 1
 "GDP Gap Ratio.f" : Primary Balance (=90%) 2
 "GDP Gap Ratio.f" : Excise Tax (5+5%) 3
 "GDP Gap Ratio.f" : Public Money (100% 5 Yr) 4



Unemployment rate.f



"Unemployment rate.f" : Equilibrium (Debt) 1
 "Unemployment rate.f" : Primary Balance (=90%) 2
 "Unemployment rate.f" : Excise Tax (5+5%) 3
 "Unemployment rate.f" : Public Money (100% 5 Yr) 4

Public Money vs Debt Money

System Behaviors

	Public Money System	Debt Money System
Monetary Stability	Stable Money Supply Stable Price Level	Bubbles and Credit Crunches Inflation & Deflation
Financial Stability	No Bank-runs	Business Cycles (Booms and Busts)
Employment	Full Employment	Involuntary Unemployment
Government Debt	No Government Debt	Built-in Debt Accumulation → Recession & Unemployment
Inequality	Income Inequality between Workers and Capitalists	Income Inequality between Financiers and Non-financiers
Sustainability	Sustainability is Possible	Accumulated Debt → Forced Growth → Environmental Destruction



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

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

(Debt Ceiling due 8/2/2011)

**A Monetary Reform:
Chicago Plan → American Monetary Act**



**H.R. 6550 (Dec. 17, 2010)
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,**

**Next Ceiling: 16.4 trillion
Nov. 2013!!!**



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

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

A M...
Chicago Plan → A...

Next Ceiling!! (Debt Ceiling due 8/2/2011)

H.R. 6550 (Dec. ...)
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,

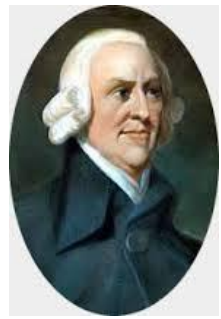
**Next Ceiling: 16.4 trillion
Nov. 2013!!!**

Next Ceiling!

Conclusion

Public Money System is Our Sustainable Futures!

American Monetary Act



Classical Theory

Neutral Money

Market Liberals

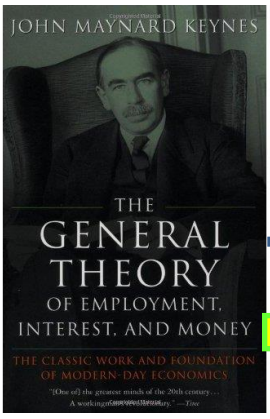
Great Depression, Oct.29, 1929 (Black Tuesday)

1929



1935

Banking Act of 1933 (Glass-Steagall Act)



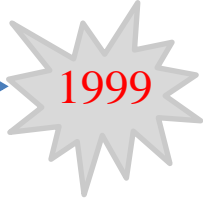
1936



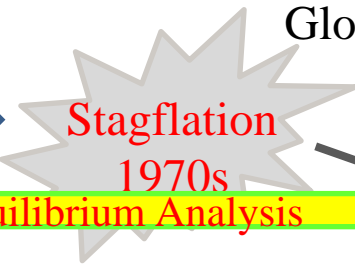
Neoclassical Theory

Market & Financial Liberals

Globalization



1999



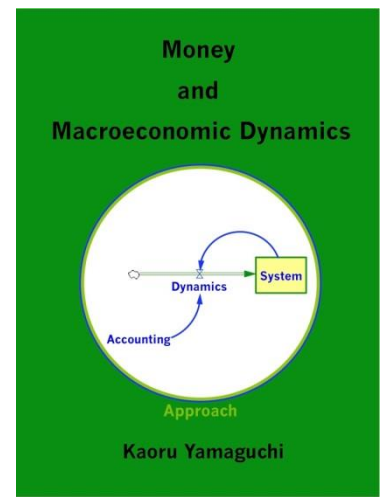
Stagflation 1970s

Disequilibrium Analysis

Thank You for Your Attention!

2008

2nd Great Depression, Sept. 15, 2008 (Lehman)



2013



Debt Crisis

Debt

Money

System