

From Debt to Public Money System - Modeling A Transition Process Simplified -

The 10th Annual AMI Monetary Reform Conf.

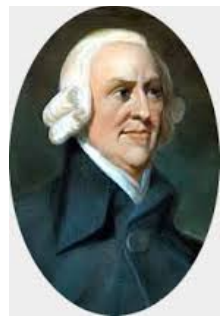
**University Center, downtown Chicago
USA**

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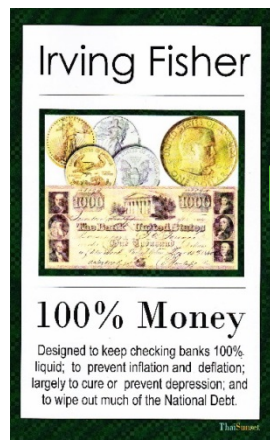
Classical Theory

Neutral Money

Market Liberals

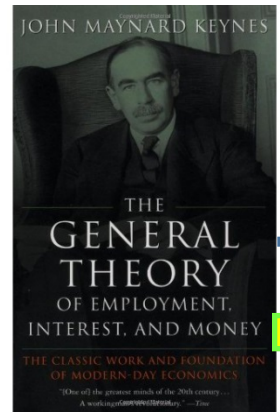
Great Depression, Oct. 29, 1929 (Black Tuesday)

1929



1935

Banking Act of 1933 (Glass-Steagall Act)



1935

American Monetary Act



Neoclassical Theory

Market & Financial Liberals

Globalization

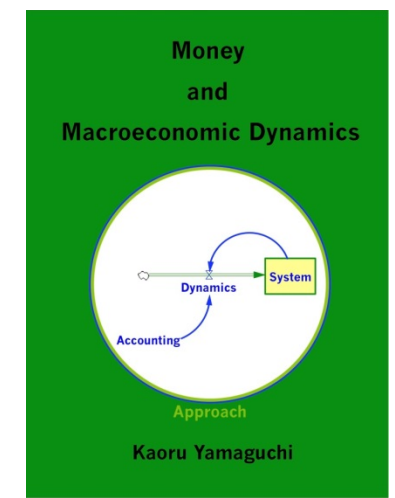
1999

Stagflation 1970s

Disequilibrium Analysis

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

2008



2013

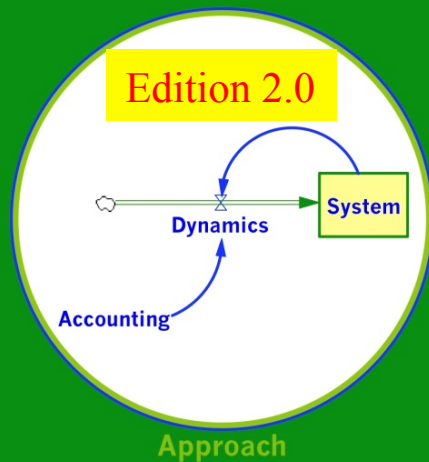


Debt

Money

System

Money and Macroeconomic Dynamics



Kaoru Yamaguchi

506 pages

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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

Chap. 16 A Transition to the Public Money System

AMI Conf. 2014

Fisher Link: Economic Accounting

This book is an attempt to put on a rational foundation, concepts and fundamental theorems of capital and income. It therefore forms a sort of philosophy of **economic accounting**, and, it is hoped, may supply a link long missing between the ideas and usages underlying **practical business transactions** and the **theories of abstract economics**.

*Irving Fisher (the author of 100% Money, 1935)
The Nature of Capital and Income, Preface,
New Haven, Conn. , June 1906*

Accounting System Dynamics provides the Link

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

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

Chapter 15: Table 15.2 (available at www.muratopia.org)

**What's wrong with the current
Debt Money System ?**



**Ask
the “Chicago Plan” Economists**

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.

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**

Debt Money System

Simulations 1 ~8

(booms and depressions, and debt)

Debt Money System: We are unhappy 99%

(0) Circulation of Initial Base Money

(1) Fractional Reserve Banking System (t=5)

(2) Making Bubbles (t=10)

(3) Bubbles burst and Bank-runs (t=14)

(4) Credit Crunch -> GDP Plummet (Depressions) (t=17)

(5) Issuing Securities -> Money Supply Restored (t=20)

(6) Bailout -> Accumulated Government Debt (New type Depression) (t=22)

(7) Collapse of Securities -> Bank Insolvency -> Defaults

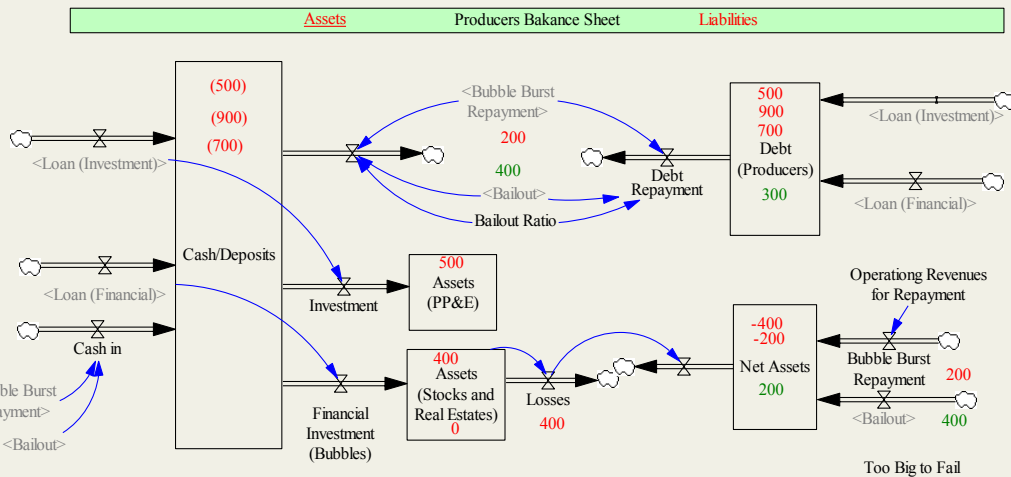
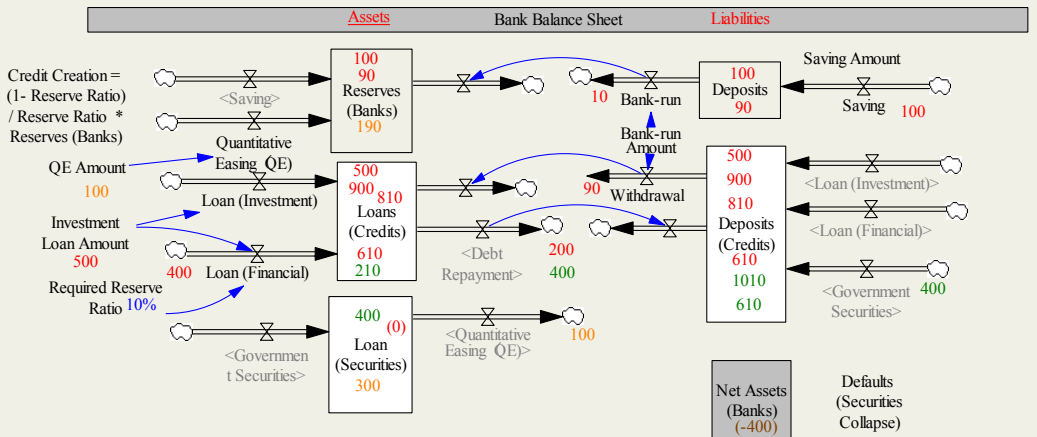
(8) Financial Quantitative Easing (QE) -> Balance Sheet Recession
M Constant)(t=25)

A Transition Process Model (using Accounting System Dynamics)

Debt Money System: We Are Unhappy 99%

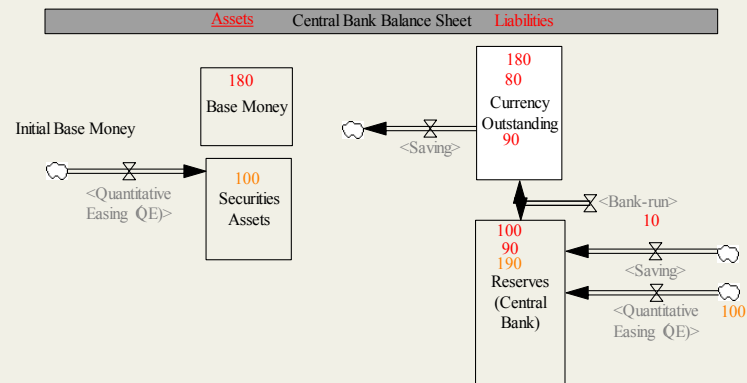
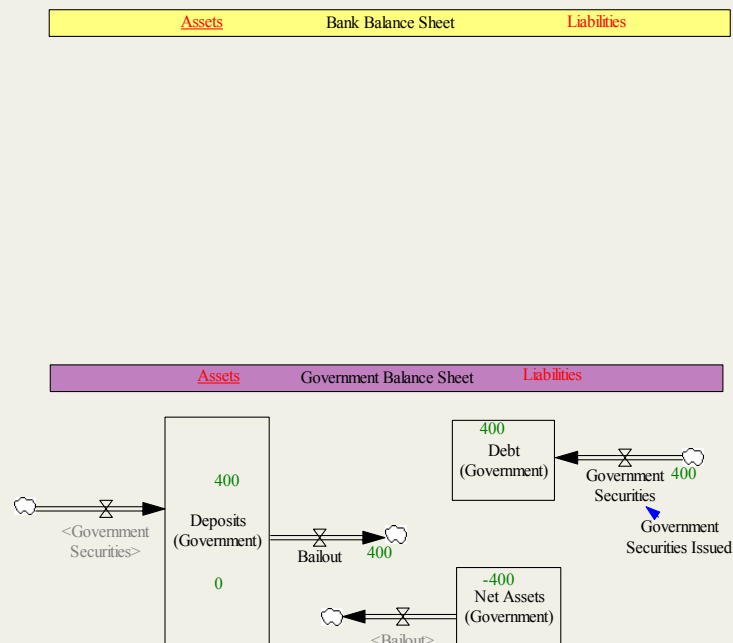
$$MV = PT \rightarrow M = kY(=GDP)$$

(M = Currency Outstanding + Deposits)



Too Big to Fail

Public Money System: We Are All Happy 120%



Simulations (1 ~8)

booms and depressions, and debt

The graph illustrates the relationship between four financial metrics over a 30-year period. The Y-axis represents Trillion Yen (0 to 1600), and the X-axis represents Time in Years (0 to 30). The Monetary Base (blue line) remains relatively stable around 200 Trillion Yen until year 25, where it rises to 300 Trillion Yen. The Money Supply (red line) starts at 200 Trillion Yen, rises to 700 Trillion Yen by year 6, and then fluctuates between 700 and 1200 Trillion Yen. The Currency Outstanding (green line) remains stable around 200 Trillion Yen. The Government Debt (magenta line) remains at 0 Trillion Yen until year 20, then rises to 400 Trillion Yen by year 22 and remains stable. Annotations include 'Bubbles' (years 8-12), 'Bubbles Burst Bank-runs' (years 14-18), 'Credit Crunch (Balance Sheet Recessions)' (years 16-20), 'Bailouts' (years 22-24), 'QE' (years 25-28), and 'Debt' (years 20-22). A yellow box labeled 'Money Supply for Real Economy' is positioned above the Money Supply line from year 0 to 6. A green box labeled 'Monetary Base' is positioned below the Monetary Base line from year 0 to 6. A blue box labeled 'Reserves' is positioned above the Monetary Base line from year 0 to 6.

Time (Year)	Monetary Base (Trillion Yen)	Money Supply (Trillion Yen)	Currency Outstanding (Trillion Yen)	Debt (Government) (Trillion Yen)
0	200	200	200	0
2	200	200	200	0
4	200	200	200	0
6	200	700	200	0
8	200	700	200	0
10	200	700	200	0
12	200	1100	200	0
14	200	1100	200	0
16	200	1000	200	0
18	200	800	200	0
20	200	800	200	0
22	200	1200	200	400
24	200	800	200	400
26	300	800	200	400
28	300	800	200	400
30	300	800	200	400

Monetary Base : Current

Money Supply : Current

Currency Outstanding : Current

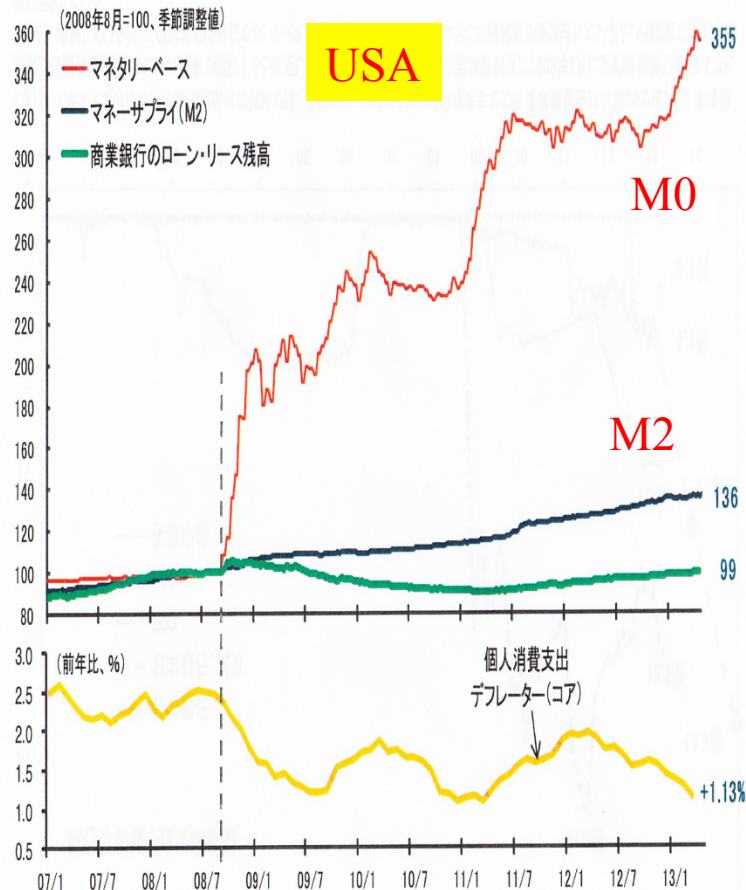
"Debt (Government)" : Current

"Debt (Government)" : Current

Monetary and Financial Stability

- Systemic Failures of QE -

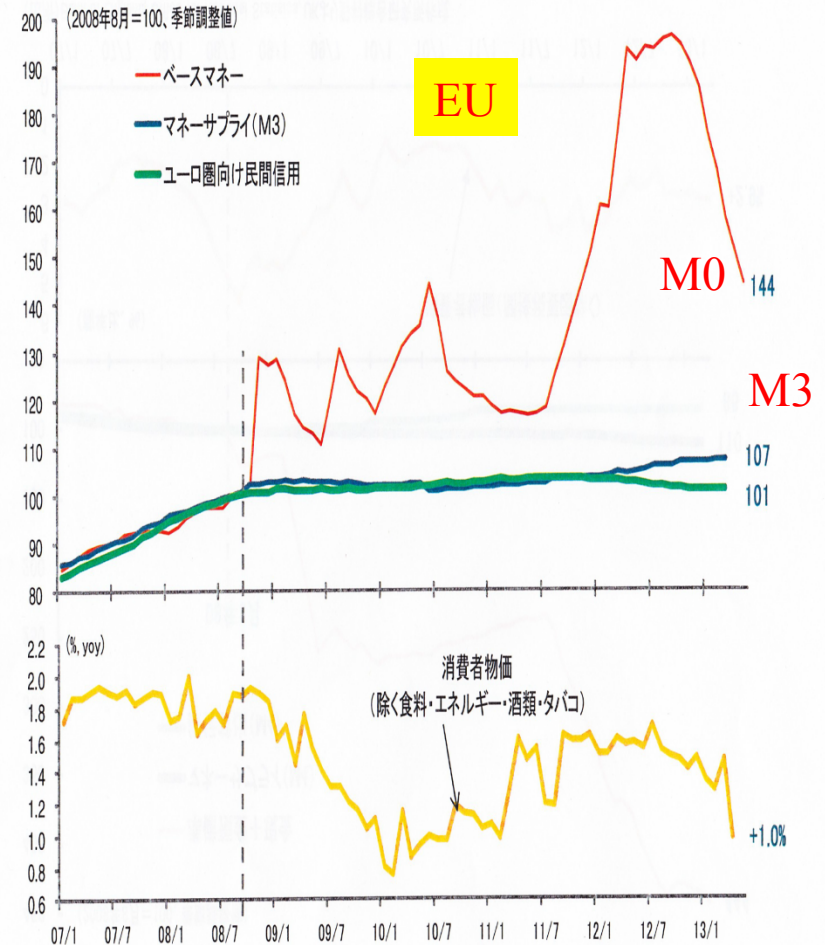
バブル崩壊で崩れたマネー関連指標の関係(1):米国



(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



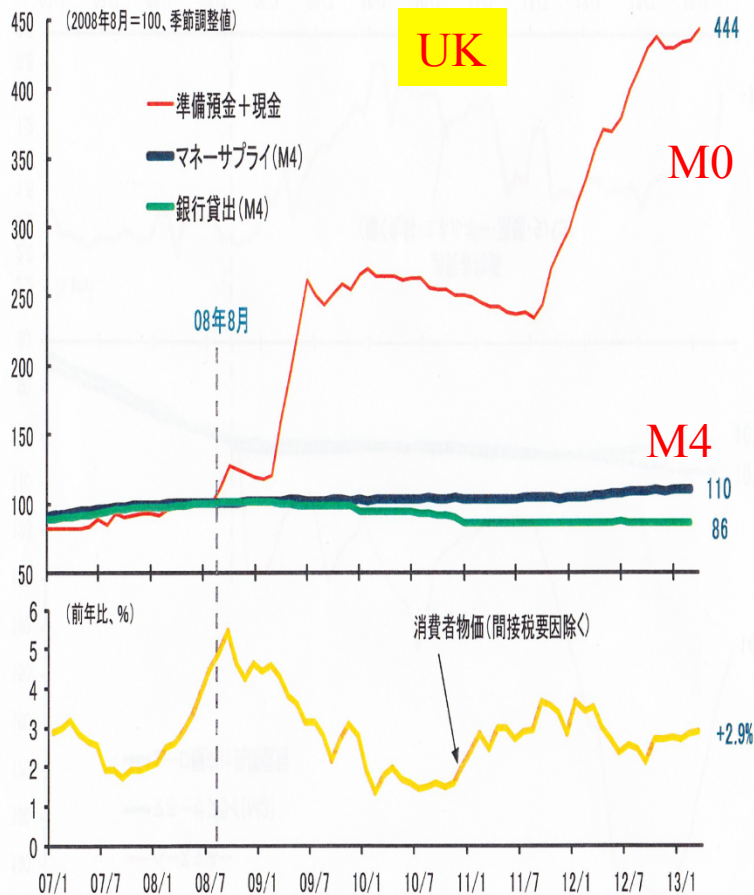
(出所)ECB, Eurostat

(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 -

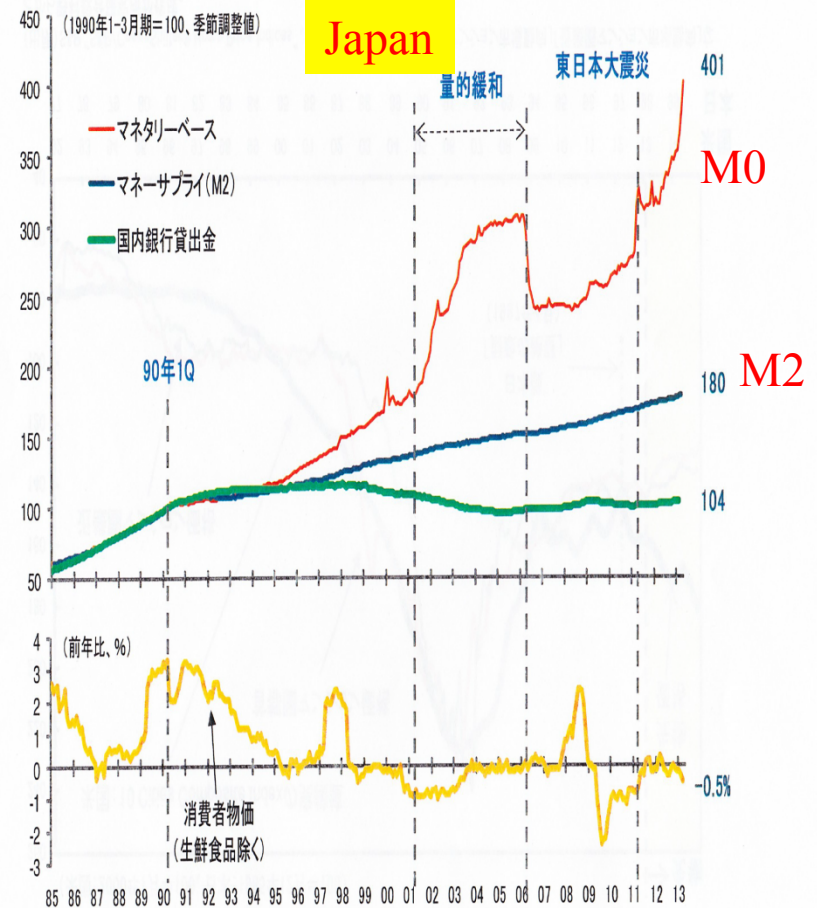
バブル崩壊で崩れたマネー関連指標の関係(3):イギリス



(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) 国内銀行貸出金の季節調整と、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)」

A Transition Process to the Public Money System



- 1. Governmental Control over the Issue of Money**
- 2. Accomplishment of Full (100%) Reserve Ratio**
- 3. Constant Flow of Money into Circulation
(to sustain economic growth and welfare)**

Simulations T1 ~T6

(monetary stability and no debt)

Public Money System: We are all happy 120%

(T1) Public Money Conversion (t=31)

(T2) Government Securities as Reserves Collateral (t=31)

(T3) Temporal Increase in Base Money Issued (t=33)

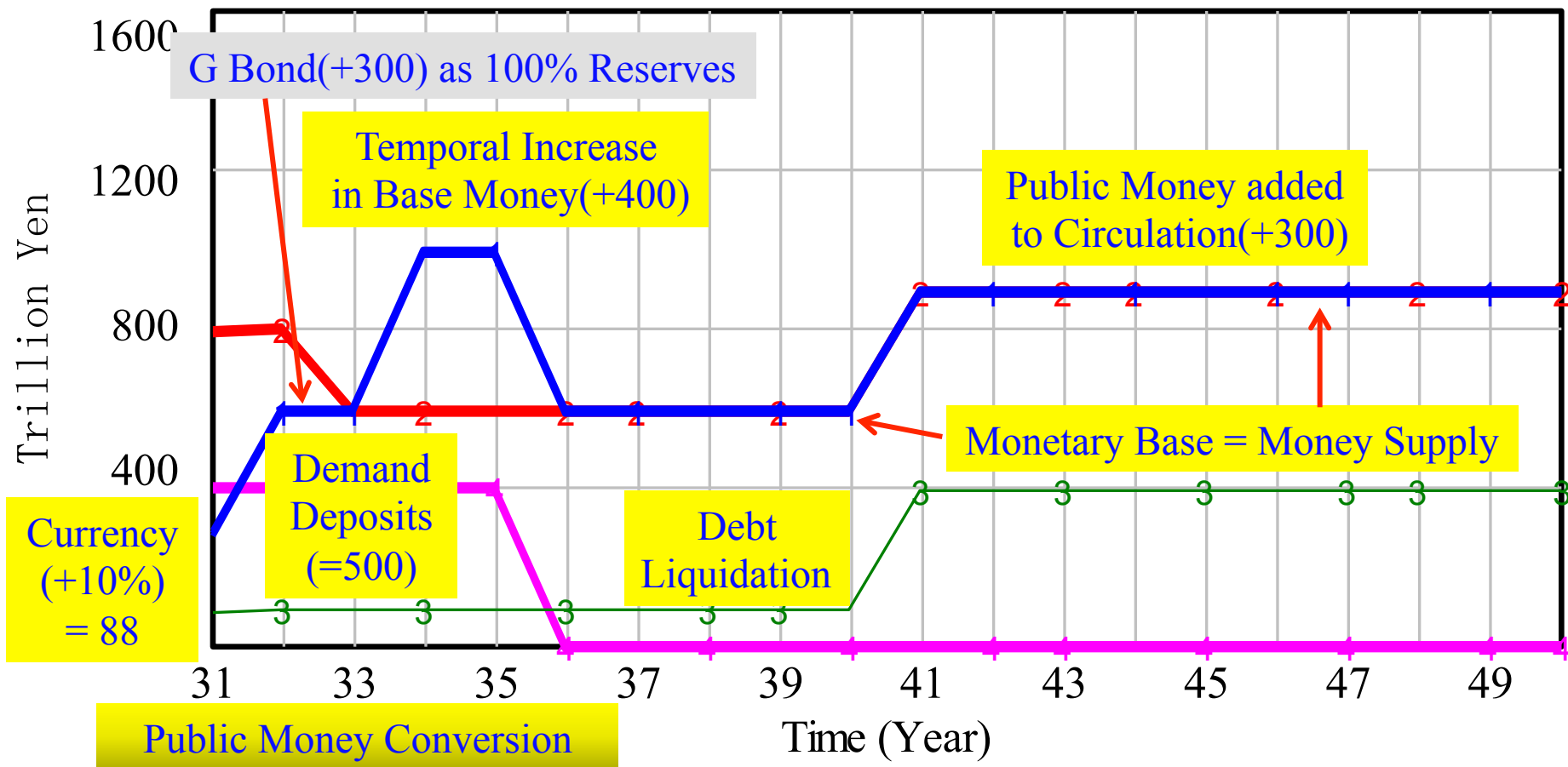
(T4) Debt Liquidation, Money Supply Unchanged (No Inflation)(t=35)

(T5) Public Money Converted to Time Deposits (t=37)

(T6) Public Money Added to Circulation for Welfare and Growth (t=40)

Simulations (T1 ~T6)

monetary stability and no debt



Monetary Base : Current

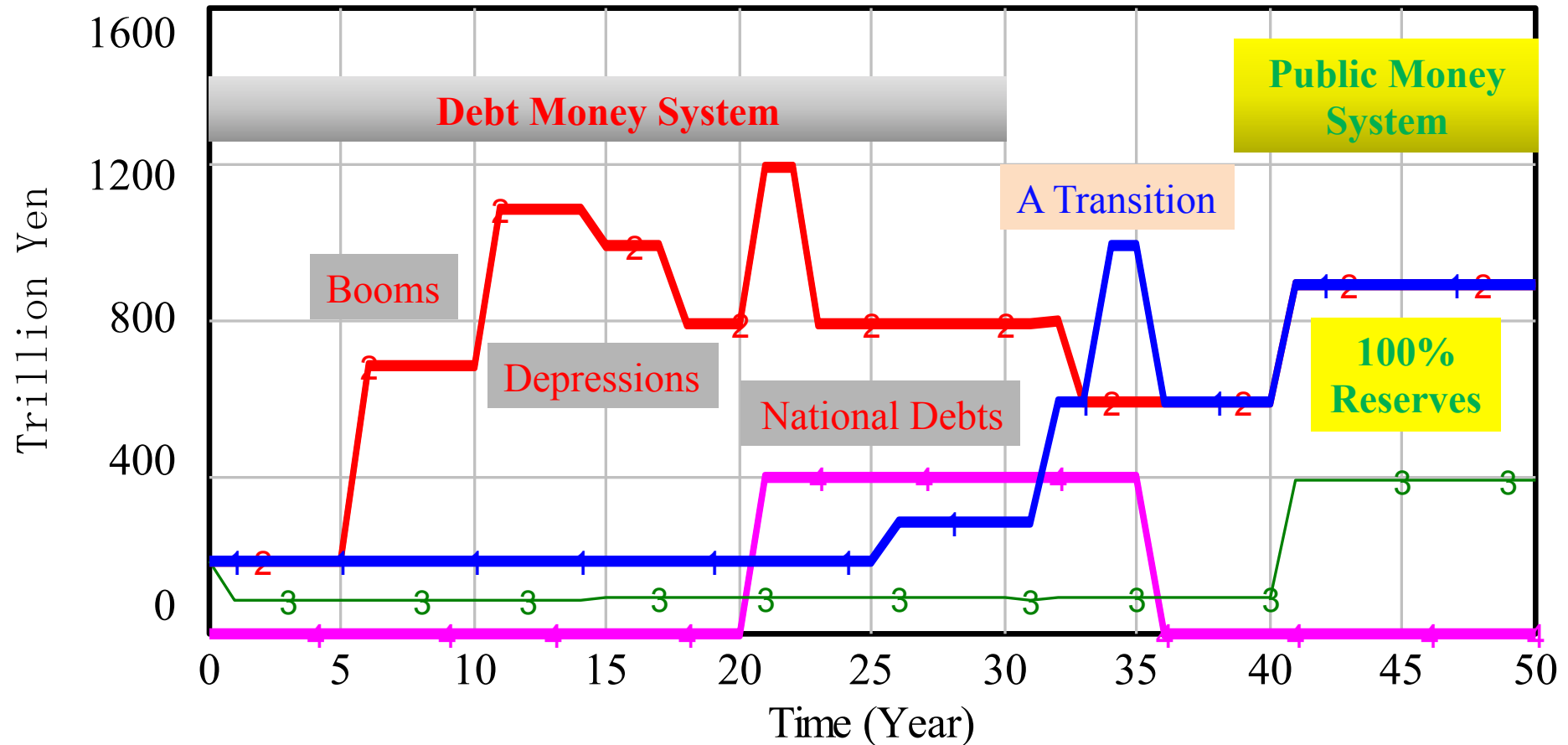
Money Supply : Current

Currency Outstanding : Current

"Debt (Government)" : Current

Transitional Simulations 1 ~8 and T1~T6

Monetary Base and Money Supply



Monetary Base : Current

Money Supply : Current

Currency Outstanding : Current

"Debt (Government)" : Current

Conclusion

Public Money System

Transition process can be carried out peacefully
without causing inflation and systemic chaos!



Classical
Theory

Neutral
Money

Market
Liberals

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

1929



1935

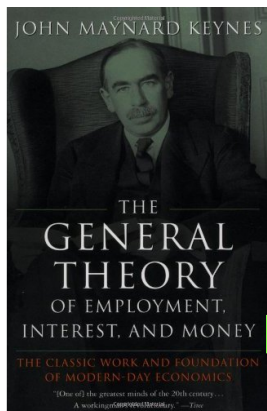
Banking Act of 1933
(Glass-Steagall Act)



1999

Neoclassical
Theory

Market &
Financial
Liberals



1936

Disequilibrium Analysis

Stagflation
1970s

Thank You for Your Attention!

Debt

Money

System

Edition 2.0 is Coming Soon!

2008

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

