Sovereign Money Brochure

Monetative

THE SOVEREIGN MONETARY REFORM

reasons, implementation, consequences

Monetative e.V. in Berlin

www.monetative.de

„The majority of people assume that we already would have Sovereign Money and that money today already is functioning like that. Our money is man-made and not a law of nature: Together we can organize it sustainable, stable, just and democratic."

Prof. Dr. Joseph Huber
Pioneer of the sovereign monetary reform and co-founder Monetative e.V.

Our money – today and tomorrow

The creation of money by commercial banks in the current monetary system is a fundamental cause of financial problems such as over-indebtedness, vulnerability to crises and injustice. This brochure describes how these problems are related to the monetary system and presents the most important basic ideas, implementation issues and consequences of a Sovereign Monetary Reform. The reform aims to transfer all money creation into the care and authority of a state authority and thus to place the monetary system at the service of society.

Monetative e.V.

About us

A German association and member of the International Movement for Monetary Reform (IMMR), Monetative was founded in 2012 in Berlin as a non-profit monetary reform movement for a stable, just and sustainable monetary system. We believe that the monetary and financial system is a fundamental component of our social order. As an association, we promote research, education and networking around the socially important topic of money.

Education

We organize national and international conferences with renowned guests and speakers from political parties, science, associations and educational institutions. We also offer workshops for schools and adults, regular web conferences and online discussion forums.

Networking

We are in permanent contact with banks, central banks, relevant associations, politicians and journalists. We are discussion partners for all questions concerning the future of our money, especially with regard to the digitization of the monetary system.

Solutions

We are committed to sovereign monetary reform. We are convinced that true democracy can only be realized when citizens also hold the power to create money in their hands. Our vision is a monetary and financial system that serves the entire society.

Table of Contents

1. Problems of the current monetary system

1.1 The existing money system is unnecessarily complicated and is not transparent

Everyone deals with money, but hardly anyone understands today's monetary system. Today it is a system with three groups of actors:

• first, the central bank, second commercial banks, thirdly non-banks, the money-using public. The public consists up of companies, private individuals and public households.

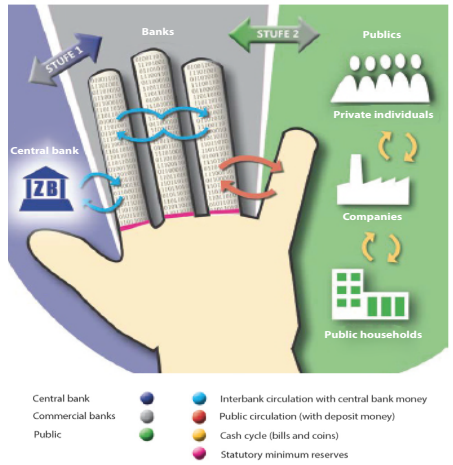
• a two-tier banking system: first level with central banks and commercial banks, second level with commercial banks and the public.

• a system with three money cycles: first, the interbank cycle with central bank money (bank account balances of the commercial banks at the central bank), second, the public cycle with fiat money (customer balances on current accounts at a bank), third, the cash cycle. The cash (banknotes, coins) is a quantity of change that can be exchanged from the other two non-cash cycles and can be exchanged back into them. The interbank cycle with reserves and the public cycle with fiat money are separate, but not independent of each other.

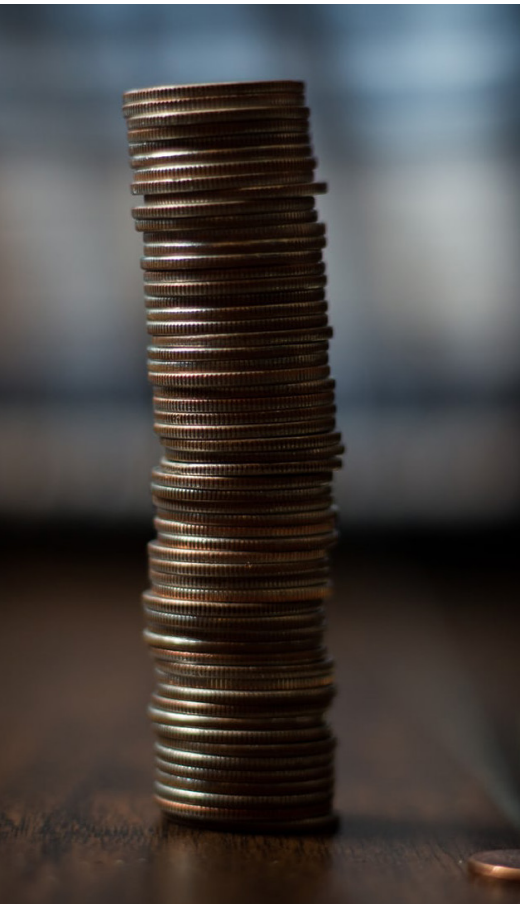
If a customer A at bank X transfers an amount to a customer B at bank Y, bank Y initially only has a claim on Bank X from Bank Y for the amount.

At the end of the day, all mutual claims between Bank X and Bank Y are offset against each other (also called clearing) and a balance is formed. If there is a negative balance, the bank with a negative balance transfers reserves to the bank with a positive balance in the amount of the deficit (also called settlement). The deficit can also be settled by an interbank loan.

• a fractional reserve system,
in which banks produce fiat money, but for which they need only a fraction of „real" money (central bank reserves or cash). How is such factionalism possible when giro transfers are accompanied by equal reserve transfers?



The most important mechanisms or conditions that enable fractional reserve banking are the following:



1. The outflow of reserves at one bank is immediately usable reserve inflows for other banks, whereby outflows and inflows largely balance each other out within a short time.

2. The customers (non-banks) use their bank deposits and cash in a distributed manner. This means: not all customers use all their money at once and also the partial amounts are distributed over time. In other words, the circulation speed (frequency of use) of the reserves in the interbank circuit is many times higher than the (in comparison, therefore, much slower) circulation of fiat money and cash in public circulation.

3. The transactions of customers and the banks‘ own transactions are all conducted through the same central bank account of a bank.

4. The banks have to increase the amount of fiat money (their lending) in about the same pace. This is the only way to ensure that the outflows and inflows of sight deposits, cash and reserves resulting from payment transactions are roughly balanced out at all banks and that no excessive payment deficits or surpluses occur.

1.2 The Bank money creation and the money supply are out of control today

85% of the money supply in circulation in the European Monetary Union is created as current account balances by the commercial banks, by doing business with the public (the non-banks) with their own fiat money - for example by paying out a loan or overdraft, as well as by purchasing securities or tangible assets such as real estate. The central bank provides 14.2% of the banknotes and the Ministry of Finance provides 0.3% of the coins. Savings and time deposits also represent bank deposits. In contrast to current account credit balances available at any time, savings and time deposits represent idle fiat money.

If savings and time deposits are included in the analysis, 91 % of the total is deemed to be bank deposits in relation to 9 % cash (as of July 2020). The pronounced dominance of bank deposits in the existing monetary system is not only shown by the existing quantitative ratios in the composition of the money supply, but it also exists functionally. In fact, the total money supply is determined by the banks in that they determine (pro-actively) how much money they generate in the course of their transactions with the public.

Money aggregates in the Eurosystem

Quelle: ECB Banknotes and coins statistics, ECB Statistical Data Warehouse

Only in subsequent steps, if at all necessary, does the central bank reactively refinance the project in reserves and cash. Central bank money has thus become a subset of bank money. Admittedly, the banks must finance the cash completely, since they cannot produce it themselves. However, this is becoming less and less important in terms of quantity. On the other hand, the banks need only a small fraction of it in reserves to refinance their dominant banknote money.

Hence the description of the existing monetary system as ‚fractional reserve banking'. In order to generate 100 € on current accounts and to operate continuously with it, the banks in the euro area need on average only about
- 2.5 - 3 % central bank money, of which ..
- 1,4 % cash for the cash dispensers
- 0.1-0.6% excess reserve for final interbank payments (depending on the size of a bank) and
- 1.0 % legally required minimum reserve.

Due to the necessity for banks to refinance fractionally, the central bank would theoretically have the possibility to indirectly control the volume of bank deposits by granting the additional reserves demanded by the banks in full, in part or not at all, or to reduce the reserve stock by allowing reserve credits to expire. In fact, however, the central banks have long since stopped trying to control the money supply via reserves. They have completely shifted to fixing short-term interest rates on central bank money (prime rates) and practically always and completely satisfy the banks' demand for additional reserves, even and all the more so in times of crisis. However, since the reserves account for only a fraction of the banknote money and the demand of the banks for reserves is relatively inelastic to interest rates, the effect of the base interest rates on the banks' production of banknote money remains weak.

> ''In fact, the central bank has largely lost control of the money supply."

The loss of control is currently being exacerbated by the emergence of new types and forms of money. If we consider the banks' money as second-tier money, which is based on the base money of the central banks, new third-tier money has now been created, which is largely based on commercial bank money. These include money market fund shares, e-money, stable coins (special crypto-currencies) and partly complementary currencies. Completely uncovered crypto currencies, which claim to be „autonomous" money in own right, for example Bitcoin, question the monetary sovereignty of the states and the monetary sovereignty of the central banks in principle.

Fractional reserve banking has practically always existed, but never before in such an extreme way as today.

This situation arose in the course of the 20th century due to the mass spread of cashless payment transactions and the associated use of current account balances as the preferred means of payment. This development was also intensified by the digitalization and globalization of money and capital movements. This in turn was accompanied by an unprecedented concentration of markets and power in the banking and financial sector.

The fact that control over the money supply has now de facto and very largely been transferred from central banks to the banking sector does not mean that the banks can proceed entirely at will. The banks' creation of credit balances is subject to certain legal and practical restrictions in the short term. These legal restrictions include, for example, regulations on equity capital and liquidity management. These regulations may have a dampening effect in the short term, but not in the medium and long term. For it is the banks themselves who, through their creation of credit balances, make possible any increases in equity capital and the procurement of higher-quality securities (securities holdings) and induce the corresponding increase in reserves at the central bank.

Practical restrictions include the need or willingness of the state, companies and households to borrow from banks. This need meets the banks' more or less existing willingness to generate commercial bank money. This willingness is largely dependent on the banks' assessment of the creditworthiness of debtors or the rating (quality assessment) of securities as well as the general assessment of financial and real economic opportunities and risks. These assessments fluctuate considerably depending on the circumstances, especially in the course of economic and financial cycles. The sometimes very risk-averse, sometimes particularly risk-averse behavior of banks is part of their pro-cyclical, excessive business conduct. The virtually non-existent control of the money increase („boom") and money reduction („bust") in the course of the banks' creation of credit money ...

> ''.. results in uncertainty, instability and sometimes serious crises for the economy and society.''

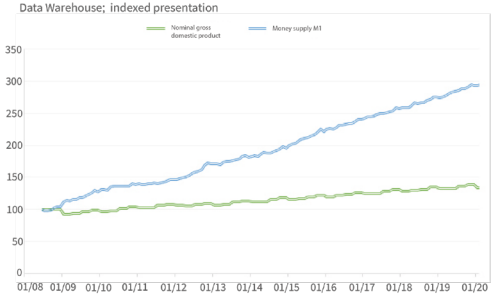
1.3 The creation of credit money by banks is excessive and inflationary

The banks act like any other individual economic operator: pro-cyclically and with a view to maximizing their own benefits. This is not an accusation per se, but a statement. Procyclical means: in line with the economic and financial cycles, i.e. expansive to euphoric in upswings and highs, cautious to stubborn in downturns and lows. The ups and downs create an oversupply of money and the resulting consumer price inflation, and since the 1980s increasingly also asset inflation, i.e. quantity and price bubbles of financial assets such as shares, real estate, raw materials, bonds, especially government bonds.

On the other hand, at times of crisis, there is a shortage of money as a result of imploding market capitalization, shrinking assets and defaults, which leads to a monetary drying-up of the economy and further aggravates the crisis. In the overall balance sheet, the banks' money creation is excessive, i.e. in the long term, many times more money is created than is needed for the real economy. Money supply and GDP development between 2008 and 2020 are shown in the following chart. The money supply in circulation grew much faster than the real growth in productivity and real incomes. In other words, only part of the money supply growth went into real growth and inflation, which has been rather low recently.

Where did the large remainder of the oversupply of money flow to? It flowed into asset inflation, i.e. into those financial market transactions that contribute nothing to GDP. Such an expansion of the money supply over the years can only be explained by the self-referential financial, not real economic use of the funds.
In the course of the spread of new financial capitalism since the 1980-90s, a growing share of money creation is no longer due to real-economic production, trade and consumption interests, but to the interest in maximally interest-bearing financial investments. Speculative financial investments are regularly leveraged through the expansion of credit by means of borrowed money („leverage").

German economic growth
Money supply growth in comparison
Quelle: ECB Banknotes and coins statistics, ECB Statistical Data Warehouse; indexed presentation



1.4 The existing monetary order is a crisis engine and debt trap

The pro-cyclical excess momentum of the supply of fiat money means that normal economic and stock market cycles are driven to extremes that they would not otherwise reach. These are not only cycles of money supply expansion, but also cycles of disproportionate expansion of financial assets and, at the same time, cycles of expanding debt. What on the asset side is a credit and securities economy, on the liability side it is to the same extent a debt economy.

Sooner or later, each cycle leads to overinvestment, understood as a decreasing or non-existent return, i.e. increasingly unfulfilled expectations of the „return on investment". Then the cycle reverses. The credit-financed, indebted investors and investors increasingly lose income and assets, but remain fully committed to their debts (liabilities): The balance sheet imbalance occurs. In many cases, the debt then turns out to be over-indebtedness and those concerned are caught in the debt trap. Losses, loss of revenue, insolvency and bankruptcy occur. The more extreme the previous exaggeration, the more devastating the subsequent collapse. The consequences of the crisis not only affect those who cause the damage, but also a wide range of other parties - the banking sector as a whole, the economy in general, and private and public budgets.

The still unresolved banking and sovereign debt crisis of 2008/12 is not an isolated event but is part of a continuing long chain of such crises. According to a study by the International Monetary Fund (IMF), 425 systemic financial crises occurred worldwide on wandering hotspots between 1970 and 2007 alone. Borrowers and thus debtors of the banks are public budgets, companies, private households, and not least the banks themselves.

„The further the bank money creation the more extensive and in part chronic the deficits and over-indebtedness of debtors have become."

This was recently reflected in the historically unprecedented indebtedness of private households in the USA and other countries, as well as in the disproportionately high increase in the indebtedness of the banking sector until 2007/08.

1.5 Commercial banks money creation promotes the exuberant national indebtedness

Since the 1970s and 1980s, the largest debtor in almost all industrialized countries has been the state, with serious long-term consequences for the economy and society. For decades, the state has always spent more than it earns, regardless of the economic situation. This is because a good economy tempts additional public spending, while a bad economy forces additional public spending to compensate for the lack of demand. Compared with other debtors, the state generally has the best credit rating, even when it is heavily indebted, because of its monopoly on taxes and its monopoly on the use of force to collect taxes and duties.

Therefore, a considerable part of the excessive money creation is caused by the expansive borrowing of the state. Since the generally prevailing doctrine of banking, apparently in ignorance of the exact historical facts, postulates that state money creation is always inflationary but bank money creation never is, parliaments and governments in most states have forbidden themselves by law to create money themselves or to borrow directly from the central bank (Art. 123(1) TFEU).

This has been left exclusively to the banks, which are thus privileged. The banks, however, normally give the state credit thoughtlessly, because of their business interests and the assumed creditworthiness of the state. The state and banks have made themselves downright dependent on each other. In the end, they formed a „tandem of money printing".

Although debt-financed government spending may initially flow into consumption in the real economy, it soon ends up where three-quarters of the excess money creation recently ended up: in financial investments that do not contribute to GDP, which, as the example of real estate speculation shows, lead to strong asset and income divergences and social distortions.

1.6 Bank money is insecure money

Since only a fraction of the banks' bank deposits is based on cash and reserves, the banks' bank deposits are fundamentally at risk. Current account balances are now handled like legal tender, but the origin, legal substance and economic status of the money is still only a money surrogate (a money substitute). The banks produce it at their own discretion, without the central bank having any decisive influence on it. Today, courts and tax offices demand cashless payment with fiat money, while they no longer allow cash payment at the cash desk.

> 'The further the commercial banks money creation developed, the more extensive and partly chronically became deficits and over-indebtedness with the debtors.''

Current accounts, savings and term deposits and securitized deposits at banks are a cash liability of the banks to their customers or a cash loan of the customers to their bank. In the event of a bankruptcy of the bank, the money is „gone". A run on a bank threatened by bankruptcy, in the vain attempt of the customers to have their giro and savings balances paid out in cash in time, inevitably leads to the collapse of the bank, a general banking run inevitably to the collapse of the entire system. Since one knows this from bad experience, today money balances are guaranteed to a limited extent by deposit protection funds of the banks and by state guarantees. These protection constructions prove by their mere existence that the money in this system is insecure money, which can disappear and therefore is not a full-value and in its existence stable money.

In the event of bankruptcy of an individual bank, deposit insurance funds and government guarantees may bear a fair share of the burden, but they are not enough in the event of the collapse of major banks or a systemic crisis of the entire banking sector. According to EU Directive 2014/49, all EU member states must Deposit Protection Fund until 2024 with funds amounting to 0.8% of covered deposits. This is no more than the famous „drop in the ocean", just 800 euros per 100,000 euros of deposits.

1.7 Socialization of losses and privatization of profits: The existing monetary order is unjust and illegitimate

The existing monetary order is unjust and illegitimate, especially with regard to the banks‘ ‚freehand‘ money creation to finance speculative financial investments that contribute nothing to GDP, but with whose revenues the actors nevertheless draw on purchasing power from GDP. The same applies to state guarantees for large banks, i.e. the socialization of losses while at the same time privately appropriating profits, and especially the private appropriation of the money-creation benefits. If large banks or too many banks go bankrupt, the government is forced to rescue these banks from bankruptcy (and thus increase the national debt all the more). The banks are indeed a key systemic factor and their collapse would lead to the collapse of the entire economy. A suspension of payments would immediately bring all transactions to a halt and cause a total circulatory collapse of the economy. The banks, therefore, have a considerable potential to force in their favor.

> ‘‘When banks mismanage, they must be able to fail, just like any other badly managed company.’’

Giving a guarantee of continued existence is a carte blanche for negligent mismanagement. Also, the banks achieve special advantages compared to all other economic players through their creation of bank deposits. These consist in reduced financing costs, as the banks only have to refinance a fraction of their loans and investments. Equally unacceptable is the fact that, as a result of the banks‘ de facto monopoly on the use of bank deposits, the public coffers are deprived of a very large amount of money creation profit (seigniorage). However, the banks‘ special advantages from money creation and the state‘s lost seigniorage are not identical. The special advantages of the banks are not as high as the seigniorage in a sovereign monetary system would be.

1.8 In terms of regulatory policy the existing monetary system is wrongly conceived

The banks‘ special profits from the creation of bank deposits are illegitimate in terms of regulatory policy and unjust to performance. Here, in fact, a special profit is appropriated privately in a way that does not otherwise exist in the economy. Insofar as a profit is made from the creation of bank deposits (seigniorage), it belongs to the public and not in private hands.

The existing monetary system is therefore wrongly structured in terms of its regulatory policy. The misconstitution, which is inherent in the fractional reserve system or multiple giral money creation, consists in the false identity of money and credit, i.e. in the linkage of the functions of money creation on the one hand and the granting of credit for real and financial economic purposes on the other. These two functions are to be separated in the sense of a separation of powers - a principle known since the Currency School of the 1830s, but repeatedly undermined by the interests of banks and financial capital.

To the extent and as long as the functions of money creation and lending remain dysfunctionally linked, money cannot provide a stable basis for a well-functioning real and financial economy. Instead, money is as unstable as economic and financial cycles, or these cycles are as unstable as the creation of credit.

The creation of money and the circulating money supply have far-reaching consequences for the economy and society. The monetary order is a question of constitutional rank. What would one say of a state that left its legislative monopoly to extra-parliamentary bodies, or the state‘s monopoly of force to obscure private militias?

The state‘s prerogative to create money and to realize the profits of money creation, however, has largely been taken over by the banks.

2. Implementation of a complete sovereign monetary reform

2.1 State monetary sovereignty: independent central bank as monetary authority

The desired reform of the monetary system is about transforming the previous bank money into sovereign money. Sovereign money is fully valid and secure money - legally speaking, unlimited legal tender. In Europe as base money of the national central banks or the ECB as the intergovernmental monetary authority of the euro states. The state currency and monetary sovereignty are reinstated in its law:

1. the determination of the currency in the territory, usually as a national currency (determination of the currency unit).
2. the issue of means of payment in this currency (money creation).
3. the collection of the money creation profit in favour of the public purse (seigniorage).

In today's system of bank money, only (1) remains, while (2) and (3) have very largely been transferred to the banks. As a result, the banks have attained a quasi „sovereign" status in terms of money creation, which is extremely problematic for reasons of constitutional law alone (apart from the various functional problems that the bank money system brings with it). In order to restore monetary sovereignty, the current coin monopoly of the Ministry of Finance (e.g. in Germany) and the note monopoly of the central bank will be extended to non-cash money. To this end, the central bank (in the European Monetary Union, the European Central Bank and the national central banks affiliated to it) will be given the exclusive right, from a certain date, to put into circulation not only cash (as long as it is still in use) but also non-cash money in the form of account money, mobile money or crypto money. This does not generally exclude private means of payment, but they must meet strict coverage requirements in sovereign money (for example, e-money or stablecoins on a 1:1 basis of central bank money).

The central banks thus become the fourth power in the state, the monetary power: the independently appointed supreme monetary authority, which alone is entitled to create all legal tender in cash and non-cash form and to control the amount of money in circulation (but not its use).

The reform requires that the relevant paragraphs on the issue of banknotes by central banks be amended. In Germany, this concerns Section 14 of the Law on the Deutsche Bundesbank, in Austria Section 61 of the National Bank Law, in Switzerland Article 99.1 of the Federal Constitution and Article 4 of the Swiss National Bank Law. At the EU level, Article 16 of the Statute of the ESCB and ECB entitled ‚Banknotes' is relevant, which reads as follows:

„ ... the Governing Council shall have the exclusive right to authorize the issue of banknotes within the Community. The ECB and the national central banks may issue such notes. The banknotes issued by the ECB and the national central banks shall be the only such notes to have the status of legal tender within the Community."

The amended version could be entitled Legal tender and read as follows:

„The Governing Council has the exclusive right to authorise the issue of legal tender within the Community. The legal tender includes coins, banknotes and non-cash assets in the form of cash accounts, mobile and cryptographic applications. The ECB and the national central banks may issue such means of payment".

This means that for non-cash money, the long overdue step is being taken, which was already taken for banknotes more than a hundred years ago in a similar way. Banknotes that had previously been put into circulation by private commercial banks were gradually segregated in favor of the banknotes of the national central banks, which since then have been the only ones valid. The individual commercial banks have since then been prohibited from issuing banknotes.

A sovereign monetary reform replaces the banks' money in the same way. It becomes sovereign money, the full legal tender of the central bank, corresponding to the coins and banknotes and the non-cash balances of the banks in their central bank accounts.

The seigniorage (money creation profit) from the putting into circulation of new sovereign money would probably be much higher than the present central bank profit. Depending on the state ratio and current growth, this could finance 1-6 per cent of the total public budget. The central bank does not necessarily have to put these sums into circulation by lending to banks or buying securities, as it does today, but can also contribute them directly to the treasury as original seigniorage. Even if the seigniorage in question would be significantly higher than the current central bank profits, it is still an original seigniorage and as such not subject to the prohibition of direct state financing by the central bank under Article 123 (1) TFEU.

First, the monetary responsibility of the central bank and the fiscal responsibility of the government and parliament must remain separate, and the central bank's monetary policy decisions must be independent of government instructions. Second, the amount of the original seigniorage directly allocated to the state budget is determined solely by monetary policy considerations.

2.2 Bank money becomes sovereign money

The restoration of state monetary sovereignty means an end to the banks‘ creation of bank balances, just as the introduction of state central bank bills over a hundred years ago ended the issuing of private banknotes. However, it makes no sense in the context of today‘s accounting and reporting practices to prohibit the creation of banknote money. Instead, one has to find an accounting and balance sheet method that ensures that fractional reserve banking no longer takes place and banks can no longer create money.

> ‘‘In other words, banks must finance all lending, securities purchases and other purchases from banks fully with central bank money.’’

There are several ways to ensure this. The Sovereign Money approach represented here consists of separating the current accounts from the bank balance sheets and keeping them as customer cash accounts in their own right. The current accounts become separately managed Sovereign Money Accounts (more on this below). As far as the banks‘ bank money would exist in the form of new types of money (for example as mobile money in e-exchanges as is the case in many emerging markets today), such money can be converted into mobile money or crypto money of the central bank if this is offered, or these funds would have to be converted into account money. The sovereign money of the customers, be it as account money, mobile money or crypto money, then has the same status as coins in the purse or banknotes in the wallet. The customers‘ liquid assets on the one hand and the bank‘s own funds and liabilities on the other hand are thus separated from each other. Ideally, a Sovereign Monetary Reform would take the form of a complete reform on the cut-off date, when the banks‘ money is segregated and replaced by central bank money of the same amount. This can be done in such a way that the sight deposits on the relevant cut-off date are redeclared overnight as sovereign money, as central bank money in whatever form. The customers are „paid out“ as it were.

This means that the banks no longer have any uncovered monetary liabilities to their customers. In other words, the current account of a bank, the totality of all current accounts of non-banks, is removed from the bank balance sheet and replaced by an equally high transitional liability to the central bank. This liability is reduced, according to a procedure to be defined, to the extent that funds from open credits or securities are returned to the banks according to their maturity. This process would take about four to seven years.

To ensure a smooth transition and to accommodate the banks in this respect, these holdings do not have to bear interest. They are, however, primarily subject to transfer, i.e. they must be transferred back to the central bank in accordance with current repayments from old loans and thus repaid, whereby these repayments can be offset simultaneously and in line with requirements by issuing new sovereign money so that the money supply does not shrink in a deflationary manner.

In a sovereign monetary system, money is always a liquid asset. It no longer exists, even at banks, in any way as a liability, not even at the issuing central bank, where it can be managed as national monetary equity or by separating money issuance and central bank operations, also outside the central bank balance sheet. As of the conversion date, the Sovereign Money will be deleted when a loan is repaid but will be transferred from the Sovereign Money Account or the Sovereign Money Exchange of a customer to the working capital or own funds account of a bank. If these funds were not retransferred to the central bank after the changeover, the banks would receive huge conversion profits - as if they had printed the money for themselves. For this reason, the banks have to return the amounts with which customers repay their old loans to the central bank as a source claim to be repaid, whereby they are deleted and, if necessary, replaced at the same time and as needed by new sovereign money, usually by original seigniorage.

If necessary, the central bank can also immediately replace the refluxed money with a new interest-bearing loan to the bank in question and thus leave the money with the bank based on a new contract. It is important to ensure that all transactions of the bank are fully (i.e. not only fractional) financed with central bank money and are executed exclusively in such money. The outflow of the old volume of giral money and its substitution by sovereign money will continue until the old volume of giral money liabilities to customers, then as transitional liabilities to the central bank, has melted down to zero and the account „transitional liabilities to the central bank“ can be closed. This would then complete the changeover. At the same time, it is ensured that the banks have sufficient funds available to finance their loans and purchases not only fractionally, but fully.

	The current monetary system	**The sovereign monetary system**
Legal tender	Coins and banknotes	Coins, banknotes and digital sovereign money (possible as account money, mobile money and crypto money from the central bank).
Circulation of money	One cash cycle Two non-cash monetary circuits: - Interbank circulation with reserves - Circulation of the public with unaccounted money	A single circuit with all types of sovereign money among all groups of actors (central bank, banks and other financial institutions, companies private and public households)
Monetary control by the central bank	Only indirectly in the form of the absolute rate on central bank money, which represents only a fraction of the total money stock	The central bank has direct and effective control over the money supply via the sovereign money
Deposit guarantee	Required, but only limited viable	Not necessary. The sovereign money is a stable base money
Commercial banks	Banks are not financial intermediaries, but they create own fiat money with lending and investing	Banks are financial intermediaries that, on the one hand, borrow money from customers or from the market in order to lend it or invest it themselves on the other hand.

Necessary technical conversions depend on which forms of money will be in use in the future and in particular on the forms of money offered by the central bank, whether it will be account, mobile or crypto money from the central bank. If it will continue to be account money, the central bank would have to expand its existing payment or account system or provide a separate payment system for the public with an interface to the payment system for interbank transactions. However, the ‚central bank account for all' need not be an individual account. It can also be a collective account for public transactions, managed by payment services (including banks in this function) in trust and off-balance sheet, just as banks also manage securities accounts for their customers in trust and off-balance sheet. New mobile app and blockchain technologies offer further and probably simpler possibilities. In all these cases the cashless payment traffic of the public is no longer mediated by interbank reserve traffic, but the payments are made directly from the payer to the paid, in the same way as cash circulates from hand to hand, as non-cash directly from sender account to receiver account, from e-bank to exchange, from crypto wallet to crypto wallet. In addition, adaptations of individual legal regulations on accounting and balancing practices, payment systems, etc. are necessary.

The current booking and accounting procedures, as well as the technical order and payment systems, can be further used with minor modifications. As a result of the separation of their own funds and customer funds, banks will no longer be able to create bank deposits. It would not even be necessary to explicitly prohibit them from doing so. In this way, a Sovereign Monetary Reform achieves in a simple way the same goal that the earlier proposals for 100% banking tried to achieve more cumbersomely or even left unclear. In the sovereign money approach, the full-reserve approach is abolished, since „reserves" in the traditional sense and digital central bank money (= digital sovereign money) are identical.

Banks can, if they wish, continue to manage the money accounts of their customers, as a service of account management, non-cash money management and cashless payment transactions, similar to the way banks manage securities accounts for their customers. Nevertheless, the sovereign money of the customers and the own funds of a bank are separated from each other. Customer funds are no longer part of the bank's balance sheets, and thus no longer a potential component of its bankruptcy estate. As a result, all money accounts of banks and customers would directly contain sovereign money, not just claims to such money.

In transactions between banks and customers and between banks or customers among themselves, Sovereign Money would always flow.

Banks will only be able to issue or lend money that they actually have positive access to by taking it in or borrowing it from their own customers or on the open money market.

In other words, every loan and every investment is fully financed because every loan must be paid out in full in central bank money (sovereign money).

2.3 How sovereign money comes into circulation

Sovereign money comes into circulation in the following way: In the first step, the new money is created by the central bank crediting it to a designated account of the Ministry of Finance as original seigniorage. Original seigniorage corresponds to the historical strike treasure or coin profit and consists of the difference between the purchasing power of a monetary unit and its production and supply costs. In the course of readjusting monetary policy, it should continue to be possible to put new sovereign money into circulation directly and in the short term through interest-bearing credit from the central bank to banks. The central bank can also use open-market securities transactions, the latter also to temporarily withdraw money from the market. The long-term and greater part of newly created money, however, should be put into circulation through original seigniorage to the treasury, either through government spending as part of the budget or through per capita citizen dividends. In both cases, the central bank would be in control of the money supply, and the public sector would still be able to enjoy the full benefits of money creation, either as original seigniorage or as interest income.
However, lending money to banks destroys to some extent the public good benefits of a debt-free monetary base and its initial use by public spending. The question arises as to how sovereign money can be properly booked on the central bank‘s balance sheet. E.g. in Germany, coins are bought by the Ministry of Finance and booked as asset exchange (coins against reserve assets). Curiously, however, the latter exists as a liability of the central bank to the Ministry of Finance, in the same way as credits and banknotes, which are also recorded as a central bank liability. This reflects the false identity of money and credit. It also has historical reasons. The banknotes were a promise of silver and gold. They circulated as a substitute for them. Account balances at banks and the central bank were, and still seem to be, a promise of cash. The reality of the current bank money regime has long left this behind. Today, account money is the original form of modern sign money.

However, under the traditional accounting rules, it is not possible to book something that is not based on a business transaction, such as the purchase of coins and thus book them for what they are: a monetary asset. A central bank cannot simply credit itself with banknotes, much less non-cash central bank money, for which there is no account at the central bank.
A central bank can only record its own money as a ‚liability‘ on the liabilities side of the balance sheet, which in turn is matched on the assets side by a loan claim or security. But the liability itself is already considered as the payment of the loan (at the central bank as well as in the case of bank customers‘ money) - quite a nonsense, because assets and liabilities are part of the loan agreement, while money is a monetary sign, a token, a monetary instrument, which is free of assets and liablilities, but which serves as a monetary asset of a holder to meet claims and liabilities. It is therefore not possible for a central bank to record sovereign money created by it as a monetary asset and to credit it as an original seigniorage to a central bank account of the Ministry of Finance or to accounts of citizens. The only form left is to write an interest-free and unlimited, i.e. ‚eternal‘ loan to the state into the books. Keynes called this „zero-coupon perpetual consol“, an unsatisfactory solution. This is a disfiguring over-extension of the concept of credit; it is literally a state borrowing, which is not to be understood as such. In reaction to this, money reformers have developed the idea of booking sovereign money creation as equity capital, so to speak as the mono-net monetary capital of a nation. Although this too is on the liabilities side, it does not represent a debt, but a paid-in capital. Only, nobody pays anything into it. In this case, it is a disfiguring over-expansion of the concept of equity. If newly created money - from a bank or any other company - should rightly not be able to be conjured out of the hat, then it must indeed come ‚from outside‘ into their balance sheets. The solution to the problem therefore lies in an institutional arrangement that D. Ricardo developed for the Bank of England 200 years ago. Based on the need to separate money and credit, he divided the central bank into an issue department and a banking department, the former responsible for money creation (at that time the banknote injection), the latter responsible for the operational banking business of a central bank.

For a sovereign monetary system, this is exactly the right approach. It enables the state to exercise its monetary sovereignty by force, to put newly created money into circulation through original seigniorage free of debt and repayment, and also, in terms of banking technology, to smuggle in sovereign money exclusively as a monetary asset that circulates as such throughout the economy. To the extent that a sovereign monetary system exists, the money will not appear as a liability and circulate as a ‚liability', neither at the central bank nor at banks or on anyone else's balance sheet.

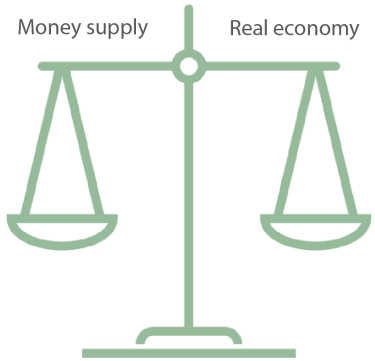
The creation of money as fiat money and legal tender will be reserved only for the central bank as „a fourth consitutional authority,", or more precisely for its monetary department.

The Central Bank Council (if this would remain the appropriate name) would decide on the current money creation and the channels for the first use of money on a regular basis, presumably every two weeks, as in the past. In this context, the amounts would be discretionary, depending on the current situation and longer-term perspectives. If necessary, money creation and thus seigniorage will also be absent. Discretionary means a monetary policy that adapts decisions to the changing situation of the real and financial economy and leaves them to the independent judgment of the central bank management. The opposite would be a mechanically rule-based monetary policy that leaves no situational degrees of freedom.

The value of money, its purchasing power, grows out of the continuously generated economic product. The main measure for an expansion, maintenance or even a reduction of the money supply, therefore, consists in the continuously created economic product (goods and services), nominally and in real terms, more precisely in the output potential at full capacity. The main indicator is likely to continue to be GDP (formerly referred to as potential-oriented monetary policy). This measure must also include those needs of the financial sector that contribute to financing real output through investment and consumption.

In a transition from commercial bank money to sovereign money, the current account balances in the current M1 money supply would be replaced by sovereign money. That would be around 7,700 billion euros in the monetary union today and 2,300 billion in Germany (based on 2019). These sums would be incurred as original seigniorage over the course of the transition years. (More on this below). Savings and time deposits would not be replaced as they represent inactive cash balances. Where savings and time deposits are liquidated on balance, they form part of M1.

The money supply must be based on the real economic situation. As long as the economy grows, the monetary base must grow in advance. If the economy stops growing, the money supply must also stop growing. Without wanting to establish a mechanical connection, it can be said for orientation that a GDP growth potential of 1 per cent would roughly go hand in hand with a money supply growth of 1 per cent.



This results in seigniorage from the current money creation. When newly created money is issued as a payment of credit to banks, the central bank would make an interest gain, an interest seigniorage. (More on this below).

Under the European System of Central Banks, the member states would receive their seigniorage in proportion to their population and gross domestic product. Such a combination also underlies the allocation of the ECB's capital to the individual national central banks. Deciding on the use of the seigniorage is not a monetary matter for the central bank, but a fiscal matter for governments and parliaments. They decide whether the seigniorage is paid into the public budget or, for example, as a national per capita dividend (citizen dividend) to private households. In this case, newly created money would be paid out by the tax office to individual citizens. In Germany, the most recent figures would have been in the region of 500 euros per capita and year.

If the seigniorage were used for public spending, the new money would be spent on those tasks that are paid for publicly - for example, education, scientific research and development, infrastructure, environmental and nature conservation, basic social security, defence, but also and not least for interest and repayment of the national debt and tax cuts. Wherever the money spent in this way is collected, it is immediately reused for current expenditures as well as for reserves, provisions and investments, i.e. for savings and equity capital formation. Sooner or later, the new money will necessarily also reach the banks and other capital accumulation points that manage with it, and this without creating their own money.

3. Implications of a Sovereign Monetary Reform

3.1 What is money?

In modern societies, money has ceased to be commodity money, as it has historically been in the form of everything from grain and salt to coins and bars of gold. Today money is a pure sign of money without any intrinsic value of its own. Another expression is fiat money, in reference to the Latin „fiat lux“ of the Bible („Let there be light“, Genesis 1,3). Fiat money is freely created money that is declared and issued as general currency by an authorized agency. Whether the authorized body is to be a private or state institution is left open in the concept of fiat money. It is therefore all the more important to clearly regulate who is entitled and accountable to create fiat money and what general purposes this money creation is to serve.

In the 21st century, it is pointless to try to „back“ money with gold or other tangible assets. Gold and silver currencies are historically obsolete. Anyone who wants to back money with gold today is in fact out to secure credit with monetary claims. However, in the banking business, the best way to secure claims is to pledge assets, for example in the form of real estate, securities, deposits or by assigning salaries. But what is „backed“ by this? It does not bsck the value of the money, but the claims of the banks.

The combination of the credit business with the creation of money is dysfunctional. Therefore, in a sovereign monetary system, these two tasks are placed under the responsibility of different institutions: The independently established state central bank (a new fourth state authority) creates the money, the banks and other financial institutions grant loans and make investments.

Nevertheless, freely created money is not „unbacked“. It derives its counterpart from the productivity of the economy, i.e. from the continuous labor output of nature, people and machines, statistically aggregated in the form of the gross domestic product (GDP). Therein, and only therein, is the coverage of money - all money, including money supposedly secured by gold, material assets and land. For even this is only worth something as long as something is done and goods and services are produced. If productive work is no longer done, all money, including its supposed „cover,“ becomes worthless. Money experiences its acceptance as „social technology“ through the use of the public. Modern money is created by a legal act.

3.2 Use of money: deposit accounts and investment accounts

Sovereign Monetary Reform has practically no effect on the everyday use of account balances by private households, companies and public authorities. If one were not informed about the changeover, and if one were to keep the old account numbers at the banks- then as payment service providers- customers would not notice anything. Because the reform means neither a currency reform nor a „capital cut“. Credits and debts, assets and liabilities remain unchanged. Current account balances will not be „devalued“, but simply reused - with the difference that the old current accounts of the banks will now continue to exist in the form of sovereign money accounts of customers outside the bank balance sheets. From the time of the changeover, these money accounts no longer contain bank clearing balances but non-cash central bank money balances.

If the sovereign money of the central bank for public use is not circulating as account money, but as mobile money or crypto money, this makes a technical, but not a monetary difference. In whatever technical form, in a banking and financial crisis, the cashless Sovereign Money balances of the money owners are no longer endangered and therefore do not require any deposit insurance or state guarantee. In return, the owners of non-cash Sovereign Money can expect interest on their Sovereign Money balances, just as little as they did previously on cash. They earn as little interest as coins and banknotes that you carry around with you.

A claim to interest only arises when money is used in the course of a financial transaction between a creditor and a debtor, for example, when owners of Sovereign Money deposit it at a bank or other financial institution, for example in the form of a conventional savings or term deposit. Such deposits will actually be investments in a Sovereign Monetary System, in fact, a short-term investment in the form of a Sovereign Money Loan from customers to a financial institution. This institution can use the Sovereign Money invested in this way for its own financial transactions, i.e. make it available to third parties at interest by means of a loan or investment.

Today's monetary system	Sovereign monetary system
Commercial bank money is not money in its own right, but a largely unsecured promise of payment by the bank or a claim by customers on cash	Sovereign money is base money in its own right in the full possession of the respective holder
Bank money is not legal tender	Sovereign money is legal tender
Bank deposits as liquid demand deposits as well as savings and time deposits are a liability in the bank balance sheet and therefore endangered in banking crises.	Sovereign money in any form is merely managed by payment services and banks, but is not on their balance sheets. It is therefore safe from bank failures and also otherwise stable money.

One might find this confusing since most people think that banks ‚work' with their money. But this is not the case. In reality, we ‚work' with the banks' promise of money. A bank produces its money for the public, but cannot use it for its own business. For this purpose, it needs central bank balances (reserves) and residual cash. If a bank customer transforms a current demand deposit into a savings deposit, the bank does not receive any additional financing, but the credit balance is simply shut down. For the bank, this has the advantage that as long as this demand deposit is defined as a savings or time deposit, it cannot be withdrawn, which reduces the potential liquidity and refinancing needs of a bank.

3.3 Commercial banks

A reform that converts bank money into sovereign money represents a significant change for the banks. Nonetheless, less will change for the banks than one would expect at first glance. First of all, a sovereign money reform means that the banks' private bank money will become legal tender, one could also say state money. However, this in no way means nationalization of the banks and the credit industry. In a sovereign money regime, the banks are to remain free enterprises.

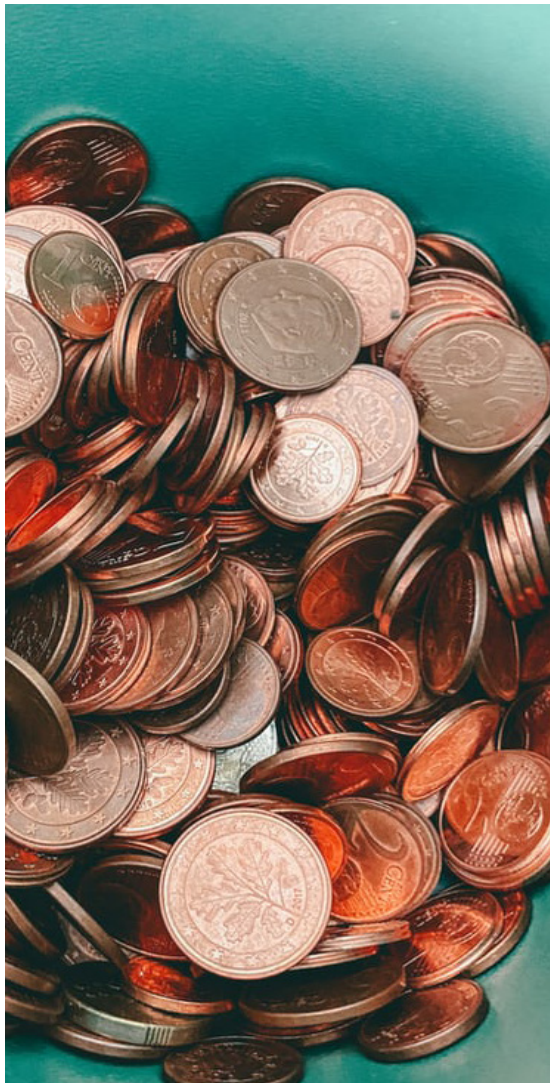
However, banks in a sovereign money regime can no longer create their own money in the form of fiat money.

Thus they no longer have any direct influence on the available money supply. The banking industry thus loses the undeserved monetary privileges from the creation of giral money. Otherwise, the profitability of the banking business remains ceteris paribus unchanged. Smaller banks may also benefit since it are mainly the large banks, which attain advantages by the bank money system. The potential for using the bank money (with large turnovers in many branches in many places) is considerably greater at large banks than at smaller banks, which require higher, relative amounts of central bank reserves compared to the large banks. This is a significant competitive disadvantage of smaller banks compared to the big banks. A sovereign monetary reform would eliminate this distortion of competition.

In a Sovereign Monetary System, banks must fully refinance all their operations. This means that the banks, just like non-banks today, must have the money for their business completely available, be it from the capital in reflux (the largest share), from their own revenues, or by borrowing money on the money market, from their customers, or, if necessary, in the last resort, from the central bank. Since banks can only spend what they have received back, redeemed or borrowed in the same amount, they will plan their liquidity even more precisely than before. In doing so, the banks can also rely on liquid money markets in a sovereign monetary system. A central bank will always ensure a sufficient supply of money, even in the short term. There is no reason to assume that a transition to sovereign money could lead to a shortage of money and capital, nor a dysfunctional increase in interest rates. The financing costs of sovereign money for the banks would result from the market interest rate, which depends on supply and demand on the money market. However, this will not result in a massive increase in costs, because under normal conditions, even in the current monetary system, the banks pay credit interest on all liabilities (demand deposits,

savings deposits, interbank and central bank loans). Unlike today, however, in a sovereign monetary system, this serves the actual financing of banking transactions.

The task of the banks is not to supply the economy with the required amount of money or to withdraw money from it. This is the sole task of the central bank as „monetary authority“. Rather, it is the task of the banks to finance real and financial economic activities - be it through loans, by placing securities issues or by investing money on behalf of customers. The banks are supposed to perform these financial functions as intermediaries between money suppliers and money demanders, but they should not be able to determine the money supply themselves. This is the case today, with the consequence of recurring dynamics of excessive money creation and the associated susceptibility to crises.



3.4 Central banks and monetary policy

A complete Sovereign Monetary Reform will replace the banks‘ previous bank deposits with digital Sovereign Money as legal tender. The entire money supply will then largely consist of central bank money in every cash and non-cash form (beyond account money, or in its place, possibly also as mobile money or crypto money). Also, privately issued money market fund shares, e-money, stablecoins and complementary currencies may not be excluded as means of payment, but will be made a condition that such money surrogates are 100% covered by sovereign money and that no new uncovered units may be created by lending. Private money can continue to exist as an independent asset, for which an exchange rate to the Euro-denominated Sovereign Money is then established (e.g. crypto currencies).

Both the sovereign money and, if applicable, the new money surrogates circulate in a uniform money cycle with direct transfer of the money (payer-to-payee). The unified money cycles are interoperable through money exchange at any time. However, there will no longer be a two-part money circulation with fiat money (public circulation with demand deposits mediated by interbank circulation with reserves).
There will no longer be a fractional reserve system or the creation of fiat money. The creation and ongoing readjustment of the money supply is determined exclusively by the independently provided central bank, directly as well as indirectly by the 1:1 sovereign money coverage of the possibly remaining money surrogates. However, the central bank does not determine the use of money. The sovereign money approach confirms two divisions of functions that have historically emerged today: first, the fiscal-budgetary responsibility of the government and parliament on the one hand and the monetary responsibility of the central bank on the other; second, the division of labor between the monetary responsibility of the central bank as monetary authority and the credit functions of banks and other financial institutions. However, this does not exclude certain fiscal policy preferences of the central bank in its money market or open market policy and its collateralization conditions. The central bank thus becomes even more explicitly what it has already become: the supreme monetary and financial institution that exercises the monetary and financial sovereignty of the state.

A monetary authority - in the European Monetary Union, the system of central banks at European, national and regional level under the leadership of the European Central Bank - must, like the courts, be independent and bound only by the laws, statutes and legal mandate that apply to it alone. (However, this mandate is currently insufficiently defined and needs further elaboration). Executive positions are probably best filled by the government or the Ministry of Finance, just as judges are appointed by the Ministry of Justice. But once in office, the central bankers must not be bound by instructions. The regulatory independence of the central bank is a functional requirement. Neither the power and influence of banks, companies, business associations and unions, nor the covetousness of the government, parliament and political parties should determine monetary policy. The central banks began their development at the end of the 17th century as the bank of the state. With the unfolding of the system of bank money, the central banks became the bank of banks, especially in the course of the 20th century.

In a sovereign monetary system, they should not specifically finance the state or specifically banks and financial institutions but should ensure that the entire economy and society, including the state and financial institutions, are provided with the best possible supply of money.

The central banks should not repeat the mistake made by the monetarism of the 1970s and 1980s of trying to pre-determine the money supply and thus to determine the course of the economy. Nor will they repeat the actually sensible approach of a potential-oriented money supply policy of the 1950/70s, which was too one-sidedly oriented to the growth potential of the economy. In addition, both approaches were based on a conventional, oversimplified quantity and circulation theory of money, according to which a greater or lesser supply of money leads to higher or lower inflation. Admittedly, one should not go from one extreme to the other: the money supply and its circulation play a fundamental role, otherwise, one could do without a monetary and money order including dynamic central bank control of the money supply altogether and leave these things to a cheerful free-hand money production of the finance ministers and private financial institutions. **An effective monetary policy at the height of time, thanks to sovereign money, will do the following: Three areas of circulation are to be recorded and continuously analyzed:**
money in the real economic circulation, money in the financial economy that affects GDP, and money in the financial economy that does not contribute to GDP. Record and continuously analyze a wider range of sensitive indicators than today. These include, in particular, the development of interest rates and their composition, the external value of the currency, the inflation of raw materials, producer and consumer prices, the development of the economy and employment, but also asset inflation both as asset price inflation and the inflation of the volume of financial assets (which today also includes real estate and raw materials), the development of financial cycles and the formation of financial bubbles, i.e. in fact the determination of the limits of the financial carrying capacity of an economy. The ongoing determination and announcement of the range of critical limits of the above indicators. To the extent that these ‚guard rails' are touched or torn, the central bank will announce monetary policy decisions in a timely manner. As an instrument of its conventional monetary policy, the central bank can pursue an interest rate or quantity policy, i.e. it can control quantities by means of the prime rate and/or influence the interest rate level by means of quantities. In contrast to today's fractional reserve base only, quantity policy, like interest rate policy, will be directly and highly effective with a money supply dominated by sovereign money.
As explained in section 2.3., the central bank can put sovereign money into circulation partly through original seigniorage to the state budget, partly through loans to banks or through open market transactions in securities, whereby money can also be temporarily withdrawn from circulation. Finally, as far as monetary transactions with foreign countries are concerned, these are technically unproblematic in a sovereign monetary system. Already today, the majority of international payment transactions are conducted via central bank payment systems, i.e. in central bank money. The importance of the formerly predominant interbank settlement between correspondent banks in different countries is declining. As long as it is not a weak currency, central bank money (= base money = sovereign money) has an almost natural acceptance. The sovereign money of a reasonably stable currency will always be welcome abroad.

3.5 Public budgets and seigniorage: Repayment of public debt through onetime conversion seigniorage

For public budgets, sovereign monetary reform and the establishment of the central banks as monetary mean that the treasury will be able to enjoy the full benefits of money creation, not so much in the form of an interest seigniorage (the interest gain on an amount of money), but primarily in the form of original seigniorage (the amount of money itself that can be spent). Both types of seigniorage arise from the ongoing Sovereign Money Creation. In contrast, the conversion of bank money into Sovereign Money will also result in a onetime conversion seigniorage.

It is comparatively easy to imagine the one-time conversion seigniorage: it will be as high as the stock of commercial bank money before the conversion. Based on the current level, this is around 7,700 billion euros in the eurozone and 2,300 billion euros in Germany. These amounts will not accrue in one fell swoop but will be spread over a number of years, the majority of them within about 4-7 years, depending on the maturity of outstanding bank loans. The funds in question, then as sovereign money in reflux, are passed on to the central bank as conversion liabilities of the banks. They would be deleted from the banks‘ balance sheets. The central bank will probably not delete the funds but will put them back into circulation, either 1:1 or in a different ratio, depending on the economic situation.

The funds in question will not be taken away from anyone, but have been newly created as central bank money by the changeover. They represent the deficit of coverage of the commercial bank money existing in the fractional reserve system: the ‚real‘ money that was, so to speak, not available, the base money or sovereign money that is now available in the form of sovereign money.

Period and area	A public bank money	B national debt	A/B
2015 EU19 D	5576,676 1766,053	9342,889 2092,609	60 % 84 %
2016 EU19 D	6082,706 1912,553	9513,324 2070,878	64 % 92 %
2017 EU19 D	6638,097 2045,51	9629,016 2027,232	69 % 101 %
2018 EU19 D	7114,728 2195,025	9762,433 1987,864	73 % 110 %
2019 EU19 D	7724,186 2340,071	9867,837 1980,195	78 % 118 %

Quelle: ECB Statistical Data Warehouse (Government debt EU + DE and demand deposits non-banks EU), Central Bank BBK01.TXI301 (deposits non-banks Germany)

The above-mentioned total sums of 7,700 billion (eurozone) and 2,300 billion euros (Germany) correspond to a large part of the total national debt of the euro countries or more than the German national debt. In this regard and in purely mathematical terms, the onetime transitional seigniorage would nearly allow the national debt of the euro countries to be repaid. In principle, this literally unique opportunity should also be used in this way, at least to a considerable extent. However, a radical debt reduction within a few years would not necessarily be desirable from the point of view of financial stability. Freedom from debt is not necessarily an economic virtue. Rather, sustainable borrowing/debiting by firms, the state budget and possibly also private households is in many cases a necessary requirement for the pre-financing of current and future developments.

In contrast to the one-time transitional seigniorage, it is not easy to obtain an approximate idea of the magnitude of the expected original seigniorage and interest seigniorage from current money creation. In a first, very simplified approximation, one could assume the annual growth of the current money supply M1, i.e. cash plus current account balances at banks. In Germany, the annual growth of M1 in the years before the crisis from 2008 onwards was mostly between 45-50 billion euros, since then it has been many times that amount.

However, these increases also include the disproportionately high GDP growth of that part of the financial sector that does not contribute to GDP but nevertheless accounts for part of the economic output.

Nevertheless, assuming M1, GDP growth of 1 per cent in the eurozone would correspond to a proportional increase in the money supply of 86 billion euros in the eurozone and 27 billion euros in Germany. Depending on the eurozone and in purely arithmetical terms, this would cover (or reduce taxes) 1-1.5 per cent of the total public budget; with the growth of 2 or 3 per cent, this would be twice or three times as much.

The following becomes clear from these figures. The current seigniorage from the sovereign money creation would be substantial in absolute terms, significantly higher than the current central bank profits, but in relation to the total economic output (GDP) and the total, historically extremely inflated public budget, it cannot be overestimated. It would therefore be an illusion to think that the seigniorage of money creation could be used to finance the public budgets and abolish taxes, or to finance all public investments, or public spending on education, or a guaranteed basic income, or a Green Deal, or whatever else comes to the fore as political spending preference.

Even in a sovereign monetary system, the state must finance itself regularly through taxes. It will also continue to issue bonds and thus to borrow to a certain extent, especially to finance large investments, which are thereby stretched in time, or to finance special tasks that arise in specific situations.

4. Partial Sovereign Monetary Reform: Digital Central Bank Money (CBDC)

4.1 Reasons and advantages

Since 2014/15, the monetary reform movement has also been discussing the prospects of a gradual or partial sovereign monetary reform. For example, the possibility of setting up ‚secure accounts' within the existing system, i.e. as a reserve trust at a bank, or in the form of a voluntary 100% reserve on certain customer deposits. Since 2016, a strategy has been developed by central banks and international financial institutions (BIS, IMF) to introduce digital central bank money for public circulation in coexistence with the banks' existing fiat money, and in fact in competition with it.

In international linguistic usage, the digital central bank money is called central bank digital currency, usually abbreviated as CBDC, and occasionally also called digital cash (DC).

Since this central bank money is base money or legal tender within the framework of a central bank monopoly, digital central bank money can just as well be called digital sovereign money, abbreviated as DC in the following. Today, citizens in so-called public circulation primarily have a choice between two types of money: physical cash and digital fiat money. Cash is issued by the central bank, secures anonymous payments, is the only legal tender and is safe in banking crises. Bank money, i.e. digital money on citizens' current accounts, is in turn generated by commercial banks, is not legal tender and is not safe in banking crises. Digital Central Bank Money (CBDC) would thus be digital money from the central bank for the first time, which can also be used by non-banks. The digitization of our society and thus of our money, as well as the development of private crypto-currencies, therefore mark a monetary tide change that must be shaped. In the context of these developments, however, it is primarily central bank and commercial bank players who have so far been involved in the discussions surrounding central bank digital currency (CBDC). From our point of view, however, a CBDC must primarily benefit the future users of the new money.

As far as the technical form of the DC is concerned, various options are being considered. These include not only the long since digitized and electronically processed conventional account balances (account money) but also mobile phone applications (mobile money) and block-chain-based crypto money. It is currently not foreseeable which digital forms of money will spread in which countries - certainly not all forms to the same extent and everywhere. In any case, an exchange of money (analogous to what is happening today between account balances and cash) and thus interoperability in the money and payment system will be technically guaranteed. Conceptual work and pilot projects with DC are currently progressing rapidly, so that its official introduction can be expected in some countries, including China in particular, in the course of the 2020s.

The introduction of DC in public circulation parallel to the banks‘ banknote money does not a priori lead to a comprehensive sovereign monetary system. In the long term, this may be the case, but it is not inevitable.

Nevertheless, expanding the sovereign monetary base in the composition of the total money supply is most welcome.The motives of the central banks and those of the civil money reform movement are certainly not the same, but there are some overlaps regarding of DC. In the view of the central banks, these include the realization that the cash that is gradually coming out of use must urgently be replaced by non-cash, digital central bank money in a comparable general function.
Otherwise, the banks‘ bank deposits threaten to completely dominate the existing monetary system and further weaken the remaining options available to the central banks, possibly even more so with the spread of private e-money and third-tier stablecoins. Hence, as international surveys show many central bankers expect advantages from the introduction of DC, such as increased effectiveness of monetary policy as a result of the expanded volume leverage of central bank money, improved financial stability, more efficient payment transactions and increased payment security.

“When this phase of introducing public money into our system ends, when all citizens can use a digital euro, the benefits of moving from the current system to a different, safer and more liberalized system will be seen more clearly. And the debate, which is now focused on the introduction of public money, will focus on the design of the best transition formulas.”

Miguel F. Ordóñez
Former Governor of the Bank of Spain.

4.2 Problems of a coexistence of Bank Money and Digital Sovereign Money

In connection with the spread of digital money, the dystopia of the surveillance state is often painted on the wall. There is no doubt that such dangers go hand in hand with the ongoing digitalization of our world. However, this is not a specific problem of digital money but has long existed in all areas of life and work that are affected by technology. Already the current account money of banks and central banks has long since become a digitalized IT-based money and is exposed to possible surveillance of the ‚Big Brother'.

This applies to a considerable extent even to cash, as it is exchanged from the bank money. The problem must be taken seriously, also and especially as a problem of digital money. Not as no a ‚money problem', but as a problem of data protection and privacy of individuals, companies and other organizations. The other most discussed problems of DC are disintermediation and a bank run. The term disintermediation refers to the misconception that banks are financial intermediaries who accept customers' bank deposits in exchange for credit interest, and then lend them to other customers in exchange for capital market interest or invest them. If the use of money were to shift from commercial bank money to DC, the banks could possibly suffer from a shortage of money or capital. However, banks are not financial intermediaries but creators and redeemers of their own bank deposits.

Banks in a narrower sense, are not financial intermediaries, but creators and redeemers of their own bank money. Concerning banks, disintermediation is a fictitious problem. Intermediation, however, takes place through non-monetary financial institutions that operate based on bank money, e.g. investment funds and insurance companies. For them, however, a shift from bank money to DC means only a different composition, not a change in the quantity of funding accessible to them.

Bank run, on the other hand - a run on commercial bank money to change it into DC - may be an actual problem under certain circumstances, but not a problem of DC. But always a problem of bank money with the liquidity problem of banks always lurking in the background since fractional reserve banking has existed. Restricting access or quantity and use of DC will not solve this problem, it will make it worse.

After all, it is the knowledge of the lack of central bank money that triggers a run on bank money in a critical situation.

Consequently, the solution to the problem lies in a conversion guarantee, i.e., a guarantee from the central bank to provide sufficient DC in case of need (which is not possible today with paper money). In the current system, the banking crisis problem is routinely talked down, but in the discussion about DC, it is improperly exaggerated. As long as there is no crisis, there will be no bank run. In normal operation, however, it is not clear from the outset which money the public will give priority to. If there is no particular uncertainty, if bank balances earn interest, but DC balances do not, and if the central bank and the state continue to guarantee the existence of the banks and of the bank money, then most customers will have no urgent reason to switch from the usual giral money to DC.

4.3 Design principles for DC in the perspective of a Sovereign Monetary System

The question, where a coexistence of DC and bank money finally leads to, is essentially defined by the rules - the design principles - according to which DC is introduced. In the perspective of a sovereign monetary system, it is important to enforce the following design principles: DC must be generally accessible and there must be a legal right to its use. **As a digital form of cash, DC must be a universally usable and unrestricted legal tender that can be used by all economic operators for all types of transactions.**
To the extent that DC takes the form of account money, today's interbank reserves should be integrated into a cycle with DC. Reserves and DC are the same types of central bank money. Monetary policy is thus not ‚diluted' but becomes more effective. Bank money and DC should be fully exchangeable in both directions, including a conversion guarantee from the central bank, especially if a bank run is imminent. This effectively rules out rationing of the supply of DC. The government's failed regulatory policy of guaranteeing the banks' demand deposits must be reduced over time and eventually abolished altogether. Offices and public institutions should gradually expand their use of DC. DC should also offer anonymity similar to cash. Upper limits for anonymous payments should be determined by social discourse.

As far as putting DC into circulation is concerned, central bank loans to banks should be the first choice to ensure a dynamic quantity of DC and to keep the total money supply constant. However, DC could also be put into circulation through other channels. As discussed above, modified accounting at central banks allows DC to circulate, for example, as original seigniorage to the government budget, to be used for government spending, or to be paid out as a citizen's dividend. Issuance through these channels, however, would permanently increase the total money supply and should be undertaken only after careful assessment of the impact on the real economy.

In a sovereign monetary money system, however, these channels should be used primarily. Moreover, DC should not be interest-bearing. Loans are generally interest-bearing, not money. Furthermore, it needs to be clarified on how citizens should access their DC balances. The debate here is whether citizens should deal directly with the central bank or access their credit balances via third parties. Here, access via third parties such as payment service providers seems to make sense to relieve the central bank of operational tasks and to enable competition between third parties. In account-based DC, the central bank could maintain accounts, which end-users access through payment service providers via an interface, which is in line with the approach of the Second Payment Service Providers Directive (PSD2). In blockchain-based DC, payment service providers could maintain accounts in a distributed database in a decentralized manner, which users can access directly.

Finally, there remains the question of what is to happen with the various new types of money. There is probably no need to worry much about unbacked private cryptocurrencies in terms of monetary policy. As purely private and completely unbacked money, they will not find wider acceptance as a means of payment. The situation is different for new third-tier money surrogates such as money market fund shares, complementary currencies, e-money and stable coins as far as all of them are backed 1:1 by with official money (which is usually the case today). The following rules should apply to them:
Issuers must maintain 100% coverage in the underlying paid-in money at all times, or, at a lower coverage ratio, highly rated securities purchased with the deposited money. Deposited money and assets purchased with it must be denominated in domestic currency. Issuers must follow a passive currency regime. Active policies, such as buying securities with their own money surrogate, must not be permitted. All private money or private currency must be denominated in its own currency unit, not the official government currency unit, even if the money surrogate in question is pegged to that currency. These rules are already applied in the euro area, but this is not guaranteed for global third-tier money surrogates domiciled in a third country.

Despite predictable problems in the coexistence of DC, bank money and new monetary surrogates, the introduction of DC is a long-overdue step. By comparison, the problems inherent in the dominant bank money regime, as well as the additional governability problems posed by a variety of new types and forms of money, remain many times greater.

It is time to recall the state's sovereignty over currency and money and to progressively establish the perspective of a sovereign monetary order in scientific, political and monetary policy terms.

“Whoever works in this business is so involved in everyday business, that the conceptual aspects are not even considered.“
Prof. Dr. Thomas Mayer
Former chief economist Deutsche Bank

5. FAQ – Criticism and Misunderstanding

1. „A sovereign monetary reform is redundant, all that is needed are higher equity capital regulations / a financial market transaction tax / a bank splitting /...“

Although some other banking and financial market reforms would also make sense, Sovereign Monetary Reform is the most direct and simple solution to many problems. The Sovereign Monetary Reform attacks the basic problem of money creation by private banks instead of tinkering with symptoms.

In the current monetary system, the dominant money - the commercial banks‘ bank money - is held hostage on the banks‘ balance sheets. Therefore, in a crisis, in order to keep the money, the circulation of money and the economy running, the banks must be rescued at the expense of taxpayers and bank customers. Even with high capital and liquidity requirements (which make sense to some extent), banking always remains a risky business. Bankruptcy does not come by chance from ‚banca rotta‘ (english, broken bank). Instead of controlling the banks further more operationally by more and more bureaucratic and by far-reaching regulation, Sovereign Money creates a stable, ‚resistand‘ money independent of the banks, and lets them be the failing or successful financial enterprises they want to be - only not as arbitrary creators of the money they operate with. Only through a sovereign monetary system can private liability and genuine competition in the financial system be established and fair competition between „non-banks“ and banks operating in the financial sector be strengthened

2. „Sovereign monetary reform is redundant, but banks should not have been saved.“

This criticism refers to the state bank bailouts in the course of the great financial crisis from 2008 onwards and postulates that banks were only rescued because of lobbying pressure from the financial industry, but that there was basically no political necessity for it. However, it must be remembered that the insolvency of a major bank with a balance sheet total equal to, for example, the balance sheet total of Deutsche Bank would have meant that its entire payment transactions would have had to be frozen. This would have caused considerable problems for many economic players and potentially paralyzed the economy. Moreover, if bank bankruptcies had been accepted, all creditors of the banks would have had to bear the losses. This includes the citizens who have an account at the bank, and if the deposit insurance is overstretched, the state would ultimately have to bear the losses.

This would also have meant the liquidation of considerable parts of the national wealth, which would have reduced the money supply and demand and plunged the economy into a deep depression. Moreover, the interbank market, on which banks lend each other money in the short term, would have collapsed completely. This would have led to further distortions. Even small fluctuations could then lead to further bank failures, which, given the interconnectedness of the banking system, carries the danger of a domino effect.

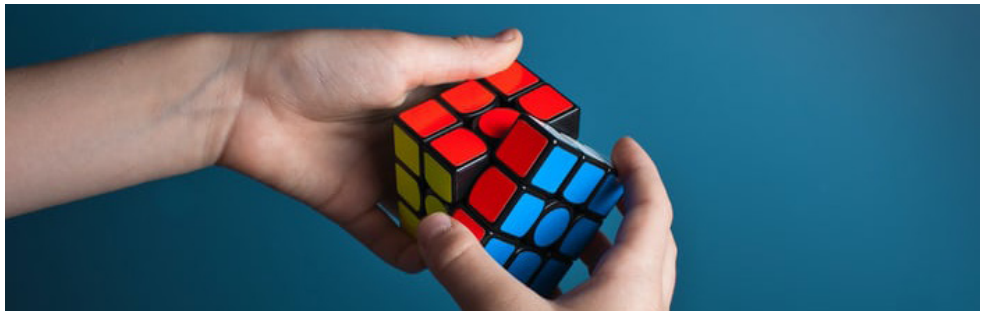
In addition, there is an imminent danger of bank runs in the current monetary system, since banks promise immediate payment in cash for demand deposits, which they do not have in sufficient quantity. Therefore, if citizens no longer trust the security of their deposits, self-fulfilling prophecies of bank-runs can be the result: If citizens expect their bank to go bankrupt and not be saved by the state, they will try to withdraw their money in time. If this happens on a large scale, the bank will have to sell assets below value in the short term in order to get cash, which increases the probability of insolvency.

With a sovereign monetary reform, on the other hand, sovereign money assets and payment transactions would be safe even in the event of a bank failure, so that insolvent banks would not have to be rescued.

3. „A sovereign monetary reform is a gigantic system change with unforeseeable consequences".

No at all. Sovereign money is basically nothing new, but extends the state monopoly on banknotes, which was decided about 100 years ago, to electronic, or as it is now called, digital commercial bank money and adapts the monetary system to the current development. Technically speaking, „private" bank money is being replaced by „public" money. The existing banknote monopoly is generally accepted. Therefore, there are no real arguments against extending the money monopoly to the electronic money sphere that has become common today. Moreover, very little will change for the individual bank customer. Due to a transition phase, many effects will only gradually materialize, thus allowing a course correction or countermeasures to be taken if necessary.

The Sovereign Monetary Reform is harmless compared to some other measures taken by central banks in recent years: Quantitative easing, bank bailouts, negative interest rates or an excessive regulatory framework. With Sovereign Money, bank regulation can be fundamentally simplified. Instead of fighting the symptoms with more and more laws and regulations, the problem is finally being tackled at its root: High-risk businesses can no longer be financed with money they have created themselves. Sovereign money thus also makes it possible to reduce bureaucracy in the banking system, dramatically cut back on regulation and thus strengthen competition in the credit business and payment transactions, and establish the private liability of banks.



4. „The deposits are already safe due to the deposit insurance - therefore there is no need for sovereign monetary reform."

Behind this objection, the consideration stands that the national deposit safety device in the European Union guarantees already now all customer deposits up to 100.000€ and therefore current assets are safe also with bankruptcy.

However, the deposit guarantee system has insufficient coverage due to a design flaw. Those, which are to pay for the protection of the deposits, are the banks themselves. In addition, it is to be noted that the deposit protection fund of the banks covers at present only approx. 5.6 billion euro for Germany and can secure thus only one loss of approx. 0.4% of the deposits.

If this sum is not sufficient, the other banks must provide further funds. The bankruptcy of an individual bank can be cushioned by this, but in a financial crisis the other banks, which then suffer from the crisis themselves, cannot also pay out the depositors of other banks so that the state must quickly step in again.

In addition, it must be considered that the liability limit of 100,000 € is sufficient for most citizens, but can quickly become a problem, especially for companies. Without sovereign money, companies have no alternative to bank deposits to keep money liquid in order to pay suppliers and employees. So that it does not come with a bank bankruptcy thus to the infection of the real economy, then either directly the whole bank must be saved or the liability limit must be extended. The liability principle of the unity of risk and profit is then completely suspended. Profits are privatized and losses are socialized.

If banks pocket the profits, but in the event of a crisis can then trust that the state will take over losses, this creates the incentive to enter into particularly risky transactions. Similarly, bank customers have hardly any incentives to check whether their bank is engaged in risky speculation or not. If the deposits are guaranteed by the state in any case, one simply chooses the bank that offers the highest interest rate. With a Sovereign Monetary Reform, current account deposits would be removed from the bank balance sheet and become the full property of the customer. You would thus be safe from bank bankruptcies. This would completely eliminate the problems and false incentives mentioned above and restore the principle of liability.

5. „A sovereign monetary reform would lead to a shortage of money and credit and therefore harm the economy"

This criticism is based on the consideration that the current system does not rely on savers' deposits and is therefore theoretically able to meet the demand for credit at any time. A sovereign monetary system, on the other hand, presupposes sufficient savings and the central bank is not flexible enough to react quickly enough to changes in demand. This would lead to credit shortages, which in turn would harm the economy. First of all, this unrealistically idealizes the flexibility of today's credit money creation. On the one hand, the excessive lending during the boom with the consequence of asset bubbles and the credit crunch in the following crisis are misappropriated.

In a sovereign monetary system, both would no longer exist in this form, but it would be expected that lending would become more stable and that countermeasures could be taken much earlier in the event of economic mistakes. Moreover, in the current monetary system, a large part of the credit flows not into the real economy but into speculation. However, the economy can confidently work without this. In the transition to sovereign money, only the existing commercial bank money of the banks is converted into digital money of the central bank. The same amount of money remains in circulation. Therefore the banks have many possibilities to finance future credits to customers: The money from the redemption of existing loans can be newly allocated. The banks can raise new savings money or issue bank bonds. They can borrow money from other banks or from the money and capital market. To the extent that the state pays off its debts through the conversion gains of the sovereign monetary reform, the previous holders of government bonds can offer their money to the banks. If necessary, the central bank can also provide additional loans to the banks in a Sovereign Monetary System to encourage lending. Technological progress and digitization have already produced many new forms of lending among private individuals and crowdfunding. It is to be expected that such forms of financing will continue to gain in importance in the future and that an increasing portion of the economy's financing needs can be met without the involvement of banks.

6. „A sovereign monetary reform would raise the interest rate too much / lower it too much and that is bad."

In a sovereign monetary system, the interest rate largely becomes a market instrument that balances the supply and demand for credit. One argument for a low interest rate would be that the Sovereign Monetary System as a whole would provide more stability and security.

Criticism of the rising interest rate, in turn, implies a shortage of available deposits for lending, for example, because savers are only prepared to entrust their money to a bank if the interest rate is high because deposit insurance is no longer available. One may assume, however, that banks will offer secured forms of investment with particularly low risk for risk-averse investors, which then naturally yield a lower return.

How the equilibrium interest rate really develops after a sovereign money reform depends on the expectations and decisions of savers and investors and therefore cannot be determined in advance. However, the central bank would have the possibility to counteract undesirable large fluctuations by providing the banks with additional money in the form of loans, reducing money creation or adjusting its open market activities accordingly.

7. „A sovereign monetary reform would lead to (hyper)inflation, since the state would abuse the creation of money."

The problem of misuse of money creation by the state can be prevented by embedding the central bank in a democratically legitimized set of rules as an independent fourth power / state authority. The monetary authority is bound by clear monetary policy goals via law and will therefore only create new money as a result of its independent monetary policy.

The monetary policy of the central bank must serve the overall interests of the country. It controls the money supply, guarantees price stability and ensures that neither a shortage of money nor a glut of money is created. It is therefore impossible for the monetary authorities to create excessive amounts of money to meet the wishes of parliament or the government if this does not currently serve to fulfil their objectives (e.g. price stability, full employment).

In general, the accusation of abuse also seems to be of little concern in developed and democratically organized economies. Historical hyperinflation has generally not been primarily the problem of state abuse, but rather the symptom of a collapsing economy, for example as a result of war, financial crises, etc. Historically, there are also functioning examples of state money creation that was carried out responsibly, e.g. the American Greenback or the state financing of the Canadian economy until the 1970s under the Bank of Canada Act.

8. „A sovereign monetary reform would lead to deflation (general reduction of the price level)."

Deflation occurs when too little demand-effective money flows in the economic cycle about the supply of goods and services, thereby lowering the general price level. However, this is by no means to be expected in a sovereign monetary system, since the central bank/monetary authority could directly and immediately create additional money to counteract such developments. New money could flow into the system both through government spending and through a citizens' dividend („helicopter money") - depending on how the mandate of the fourth power is formulated and what the fourth power deems appropriate from case to case. Deflation would therefore only be possible in the event of a serious failure of the central bank, i.e. if it fails to fulfil its legal mandate. In the current monetary system, on the other hand, the central bank is not directly able to influence the money supply. For this reason, the inflation target has not been achieved in the EU in recent years, so that deflation is imminent and has already occurred in some countries.

9. „The central bank/monetary authority would become too powerful and that is a danger to democracy."

In a sovereign monetary system, the power of the emerging central bank would be limited by a democratically legitimized set of rules and controlled by the other three state organs. The central bank would have a direct influence on the money supply, and in the event of abuse of power or misconduct, deflation or inflation would be the direct result, and appropriate personnel consequences could be drawn.

Moreover, it must be remembered that the current central bank is in a dilemma due to the system-inherent bank run problem of covering up bank failures and crises. In particular, otherwise, there is a threat of systemic collapse. For this reason, today's central banks usually act covertly and intransparently. In the sovereign monetary system, this systemic instability would no longer exist and central banks could act much more transparently. We see the current system with decentralized, very powerful banking institutions as highly damaging to democracy. On the one hand, banks that have the powerful privilege of creating money are not committed to the common good, but in the majority of cases act only according to profit-maximizing principles. On the other hand, the banks determine where the money flows. In this way they decide on a considerable part of our social development. In a sovereign monetary system, in which newly created money is primarily brought into circulation through government spending, the conditions for channelling this money into socially desirable areas are much better.

10. „Sovereign Monetary Reform is too bureaucratic and leads to a planned economy."

It is true that the creation of money is nationalized, which for the reasons mentioned above can be seen as added value for democracy. However, the central bank/monetary authority should only decide on the optimal amount of money, i.e. it should prevent both money glut and money shortage and ensure that payment transactions function smoothly even in times of crisis.

The decision on the use of money remains with the state and the lending decision remains with the banks. Sovereign money therefore has nothing to do with a planned economy or socialism. Sovereign money reform is a regulatory policy that creates a sensible framework within which economic actors can then operate largely unhindered. Sovereign Money could therefore be used to simplify or reduce many other highly bureaucratic financial market reforms and regulations (e.g. Basel III, deposit insurance). The current system tends in the opposite direction: no meaningful framework rules and heaps of bureaucratic regulations to improve and act on symptoms.

Sovereign money thus promotes a fair market economy and free competition. Since banks have so far been able to produce electronic money themselves, enjoy the benefits and profits of this money creation, but are rescued by the state in times of crisis, banks today have an advantage over other entrepreneurs in the market. Such distortion of competition does not fit in with a free market economy. The Sovereign Monetary Reform again creates a level playing field for all companies - including those in the financial sector.

11. „The money supply cannot be effectively controlled by a central, state authority. Banks are much more likely to know what the optimal money supply is."

This criticism assumes that the free market can automatically produce the optimal amount of money for the economy. But even if it were true that banks collectively have better information than a state institution, the fundamental problem is that banks, as profit-maximizing enterprises, have no interest in creating the economically optimal money supply. Rather, they draw the amount that maximizes their profits - too much in the boom and too little in the crisis. Only an institution that is committed to the common good and the law can be entrusted with the provision of a socially optimal money supply. Therefore: Better roughly right than precisely wrong.
Moreover, in a society based on the division of labor, money is a condition of existence and a necessary economic infrastructure. Money should therefore be issued by the state on behalf of citizens because without money there is no market access and without market access, there is no possibility of existence, both on the side of consumers and on the side of producers. That is why we need a state-regulated monetary system that guarantees all participants secure and fair access to money and payment transactions. Money becomes a public good.

12. „A competition of currencies (‚free banking') would be better than sovereign money."

Free banking means that all money is produced by private companies and the central banks are abolished. We might then have Apple money, Google money, Deutsche Bank money, etc. Exchange rates would form between these different currencies and, according to the advocates of free banking, the best and most stable currencies would prevail in competition.

Free banking, however, thinks too briefly, because currencies are a natural monopoly - like social networks, e.g. Facebook, one currency would emerge after a short time and quickly drive others from the market. Most citizens would be at the mercy of this currency and the door would be opened to abuse by the „manufacturer". The most assertive companies would benefit from the creation of money. If these companies were in trouble, the state would be forced to bail them out to ensure payment transactions.

In the 19th century, free banking existed in the USA with over 1,000 currencies. It was an El Dorado for counterfeiters and bankrupts. That is why paper money was nationalized in almost every country in the world. The same thing must now happen with digital money. For advocates of local currencies, it should be added that a sovereign money reform allows other currencies - the main thing is that there is a superior legal tender issued by the state.

13. „After a sovereign monetary reform new money substitutes would arise, therefore a reform would be ineffective."

First, it is questionable why economic actors should switch to money substitutes when there is no shortage of money. But even if alternative means of payment were to emerge after a sovereign monetary reform, sovereign money would still be a state means of payment as a safe alternative. Whoever nevertheless uses other forms of money would then also bear the risk of loss/misuse and will not be saved by the state - the principle of liability would be realized. If, for example, a credit bubble is created by new money substitutes, the „players" bear the losses when the bubble bursts.

Moreover, it would be very impractical for most citizens to hold different currencies. They would therefore limit themselves to government money, in which they would also have to pay their taxes and other charges. All in all, it is therefore very unlikely that money substitutes would prevail to any significant extent after a sovereign money reform.

14. „A sovereign monetary reform would lead to capital flight/capital glut."

If sovereign money is expected to increase financial stability and general security, it is likely that more capital would flow in. If sovereign money is expected to be bad for the economy, the capital flight could be the consequence.

However, the impact on international capital movements is not expected to be too great. In extreme cases, capital controls would have to be introduced. However, this applies equally to the current monetary system. Since extreme capital flows are generally of a speculative nature and are leveraged by credit money creation, it is more likely that sovereign monetary reform will stabilize capital flows and link them more closely to real economic needs.

15. „Sovereign money is monetarism and therefore does not work".

Monetarism refers to the doctrine that the money supply is the most important target variable for controlling price stability, but has not been able to prove itself historically. Monetarism was postulated by Milton Friedman as an alternative to demand-oriented Keynesianism. Especially „Keynesian" economists therefore have great reservations about anything that sounds in any way like monetarism or money supply control.

Monetary control in a sovereign monetary system, however, is only superficially comparable with the monetarist monetary policy of the 1980s. At that time, attempts were made to control the growth of the total money supply by controlling the monetary base (cash + central bank money), based on the incorrect theory of the money multiplier. Since the money multiplier assumes that banks lend out deposits and multiply them, it confuses cause and effect. By controlling the monetary base, however, the central bank can neither effectively restrict nor effectively stimulate banks' credit money creation. Therefore the approach could not work.

In a sovereign monetary reform, the central bank/monetary authority would not adhere to a rigid money supply target in their monetary policy, but would merely use money supply adjustment as the main instrument. In doing so, it would also have a direct influence on the money supply: if, for example, the money supply is increased by a transfer to the treasury, additional money created flows directly into the economy via government spending and can thus immediately provide an effective stimulus to demand. What is also decisive here is what the additional money is used for. At present, the central banks are creating large amounts of money by means of „quantitative easing", but this money is almost exclusively invested in assets and thus only serves to break up a new financial market bubble, but does not reach the real economy. However, to conclude from this that the money supply in general has no effect on the demand and prices of consumer goods is too short-sighted.

16. „Sovereign monetary reform is a return to a gold standard."

The gold standard is historically outdated. Gold and silver were the developed form of commodity money in traditional societies. In modern society, money is now only of an informational nature, i.e. pure sign or token money. It is literally written into the books out of nowhere by the central and commercial banks authorized to do so. This is precisely why it is of such great legal and economic importance with regard to the money supply that there is someone under whose complete control and responsibility the creation of money takes place.

Money cannot, in principle, be covered by other money. The real coverage of money is expressed in the purchasing power of money and arises from the productivity of the economy. It consists of the equivalent value of the continuously created economic product. Money represents a value only to the extent that it is counterbalanced by the continuously produced GDP in the form of goods and services. Anchoring of the money supply of gold therefore also represents a senseless restriction.

17. „Sovereign monetary reform is a nationalization of banks."

In a sovereign monetary system, banks offer the same services as today: payment transactions, lending and asset management. The only difference is that now they can no longer generate their own electronic money, but must operate with sovereign money that they collect themselves on the financial market or borrow from customers. The Sovereign Monetary Reform aims only at „nationalizing" the creation/production of money and not at nationalizing the granting of credit, i.e. the lending or brokering of money. It is about providing the total amount of money necessary for the real economy. Even in a sovereign monetary system, the central bank/state authority does not grant loans to companies or private individuals. This does not rule out the possibility that there are „state" banks that act on behalf of the state but have no access to money creation.

18. „Banks would become unprofitable and could no longer exist."

Sovereign money promotes the traditional and solid banking business with the real economy. With Sovereign Money, banks can operate profitably and sustainably in the long term, because they continue to fulfil the important functions of payment transactions, lending and various financial services for society. However, sovereign money reform forces banks to compete with non-banks and thus also promotes innovation.

19. „Sovereign money would not be possible for EU member states on its own, but only if all euro countries were in agreement. This is hardly to be expected."

It is true that e.g. Germany, as a member of the Eurozone, cannot implement a sovereign monetary reform on its own. This can only be done together with the entire Eurozone or by Germany leaving the Eurozone. Therefore it is certainly much more likely that a Sovereign Monetary Reform will first be implemented by a country with a sovereign currency, such as Switzerland, Canada or Iceland. However, this is no reason not to advocate sovereign monetary reform in Germany already now, because political reforms take time. If another major crisis suddenly creates the political will for major financial market reforms, the reform proposal must be well prepared and „ready to implement".

20 „Sovereign monetary reform cannot be implemented politically against the resistance of the banks. One should therefore not even try it."

Once banks, savings banks and cooperative banks have dealt with Sovereign Monetary Reform in detail, they will recognize the obvious advantages of reforming the monetary system towards Sovereign Money. Especially the smaller banks, savings banks and cooperative banks, which are strongly oriented towards the real economy, as well as their customers and members, will benefit from the Sovereign Monetary Reform. This is because they are particularly affected by the even stricter regulatory requirements resulting from the financial crisis.

If all the additional bureaucratic tasks and requirements that were imposed in the course of the financial crisis in recent years were to be eliminated, banks, savings banks and cooperative banks could once again devote themselves to their actual mission: The promotion of the region and the promotion of its members. It is worthwhile to commit oneself to this.

The majority of people assume that we already have „sovereign money" and that money already works like this today. Our money is man-made and not a law of nature: together we can shape it so that it is once again sustainable, stable, just and democratic.

More information

- to our money today
- on sovereign monetary reform
- to our associations work
- to current events
- to a membership

„In fact, additional book money is always created when a bank grants a loan. The widespread idea that a bank 'can also pass on old, previously created bank money, e.g. savings deposits,' which does not increase the money supply, is not true.“

Deutsche Bundesbank website - In depth: FAQ on money creation

“Money creation in practice differs from some popular misconceptions:
- Banks do not act simply as intermediaries, lending out deposits that savers place with them
- nor do they multiply up central bank money to create new loans and deposits.
- Whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money.”

McLeay, M., Radia, A.,and Thomas, R. (2014) Money creation in the modern economy,
Bank of England Quarterly Bulletin 2014 Q1

Sovereign Money Brochure

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