

IT'S TIME FOR A MONEY COMMISSION

There are growing calls for a Money Commission to investigate why our money and banking system is failing to serve the public interest.

- Our current banking system has left us with dangerously high levels of household debt, unaffordable housing, worsening inequality and banks that are subsidised and underwritten with taxpayers' money. In assessing the root causes of these problems, leading economists are increasingly recognising the vital implications of the way in which money is created, circulated and accumulated¹.
- Despite the central role of our money and credit system in precipitating the last financial crisis, efforts to fix the banking system have largely ignored the role of money creation by commercial banks. The Parliamentary Commission on Banking ignored the question of how money is created, and the UK has not examined how its money and credit system operates since the Macmillan Commission in the 1930s.

Backers of a public debate on money creation:

Lord Adair Turner: "The financial crisis of 2007-08 occurred because we failed to constrain the private financial system's creation of private credit and money."

IPPR: "A Commission should be established to examine how effectively our credit and money systems serve the public interest."

Zac Goldsmith MP: "I want to put on the record my support for the establishment of a meaningful monetary commission"

Jesse Norman MP: "Commercial banks have an even greater power than that: they have the power to create credit—that is, money—by expanding their balance sheets... This financial alchemy is an extraordinary privilege, which we as citizens and taxpayers underwrite."

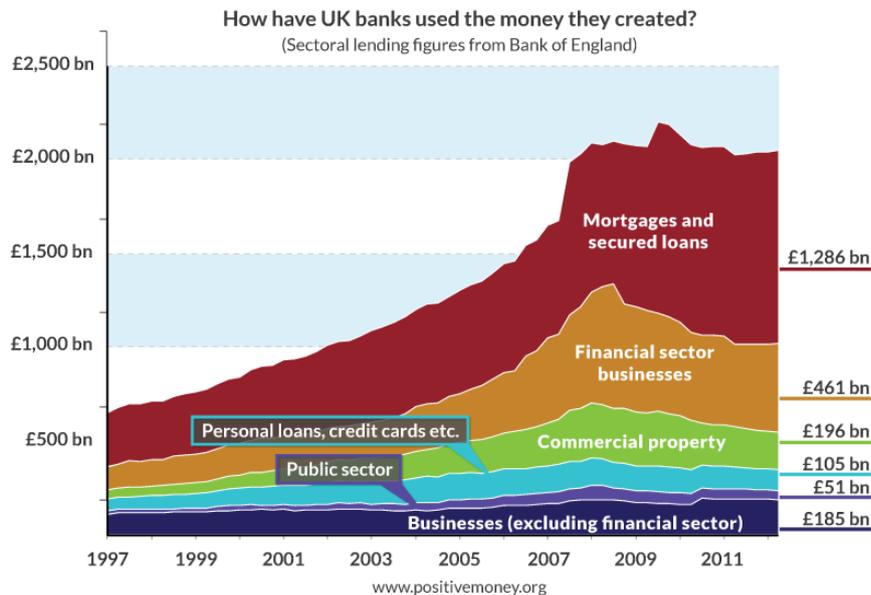
The public is poorly served by our current banking system

- Banks have an important role to play in managing payments and making loans. But in the heavily financialised UK economy, their activities have extended far beyond these core, socially useful functions.
- Less than 15% of new lending is directed to non-financial business, and lending to businesses was declining at the start of 2015.² The majority of new lending today goes into financial and property markets, creating unsustainable asset price inflation, which increases the risk of a future financial crisis. By directing so much credit towards activities that don't contribute to GDP, the modern banking system is failing to promote growth in the real economy.

¹ Wolf M (2014), Shifts and the Shocks

² Bank of England (2014) 'Trends in lending, April 2015'

<http://www.bankofengland.co.uk/publications/Documents/other/monetary/trendsapril15.pdf>



- Underlying weaknesses in the UK economy have remained unresolved since the crisis. We have one of the lowest investment-to-GDP ratios in the world and our productivity rates are at a 20-year low. House prices have jumped nearly 10% in the past year alone, and Bank of England Governor Mark Carney has warned that our overheated housing market risks returning the economy to recession³.
- The UK cannot achieve stable, sustainable, productivity-driven growth until these figures are reversed. This requires us to address structural failures in our money and banking system.

Money holds the key

- According to the Bank of England, around 97% of money in the economy is in the form of bank deposits, which are created when banks create loans⁴. Our major banks occupy an extraordinarily privileged position as the primary creators and allocators of money; a position which is underwritten by taxpayers.
- Their role as custodians of the money supply is subject to very little accountability and political scrutiny, despite the fact that banks' creation of money has a greater influence on the economy than government spending.
- In a 2014 Dods Monitoring poll⁵, only one in ten MPs was able to correctly identify the process by which money is created. A poor understanding of the monetary system leaves MPs ill-equipped to provide effective scrutiny of legislation related to financial and banking reform.
- The lack of public oversight over the control of our money supply is a major obstacle to our ability to build a strong economy that can tackle the social and environmental challenges of the future. We therefore need a much better understanding of the nature and role of money and credit if we are to shape the money and banking system to best support the economy.

³ White, A (2014) 'Overheating housing market could tilt economy back into a recession', *Daily Telegraph*
<http://www.telegraph.co.uk/finance/economics/10968219/Overheating-housing-market-could-tilt-economy-back-into-a-recession-says-Mark-Carney.html>

⁴ Bank of England (2014) 'Money Creation in the Modern Economy'
<http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q1prereleasemoneycreation.pdf>

⁵ Positive Money (2014) 'Only one in ten MPs understands how money is created'
<http://www.positivemoney.org/2014/08/7-10-mps-dont-know-creates-money-uk/>

What a Money Commission should examine

The Commission could investigate whether our current money and banking system serves the public interest, and look at options for reform. Particular topics that are worthy of investigation include:

- Does our system of money creation effectively support the real economy, given that currently so little bank lending is directed towards businesses outside the financial sector and property markets?
- How could the Bank of England and other authorities support innovation, competition, diversity and greater democratic influence over the financial system?
- Given our ultra-low interest rates, what monetary policy tools does the Bank of England have in the event of another crisis?

Specific proposals for reforming the banking system have arisen in the past few years, which might also be considered:

- What would be the impact of transitioning the UK's monetary system to a Sovereign Money system as proposed in the IMF paper 'The Chicago Plan revisited'?
- What future role can new forms of currency such as crypto-currencies and 'local currencies' play in broadening out the financial system?

Bank of England Bill

We plan to support amendments providing for the establishment of a Money Commission during the passage of the Bank of England bill, which was announced in the 2015 Queen's Speech.

Please contact Positive Money's Policy and Advocacy Adviser for more details.

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