

Questions and answers following the WRR report "Money and debt"

As a response to the WRR report "[Money and debt](#)" a magazine for economics teachers ([TEO](#)) presented some questions to Ons Geld. Both these questions and the answers are presented below.

In "Money and debt: the public task of banks", the WRR makes various recommendations (especially to politicians) about our monetary system. For example, the council argues for more diversity in the financial sector. Although the council is not in favour of a separation between public and private, it does plead for the establishment of a public anchored alternative to payment and saving accounts, say a deposit bank. What do you think of this recommendation?

We like the WRR recommendation to create a safe-haven for book money. Such a safe-haven can take many forms, including the form of electronic money, a public or private full-reserve bank and an account with the central bank. The common denominator is that the public gets the opportunity to deposit money - directly or indirectly - with the central bank.

Central bad bank

If this safe-haven becomes popular, though, it will prove less safe than expected. That is because of the following reason. As funds from banks are transferred to the safe-haven, banks lose part of their funding. Insofar as the banks are unable to supplement this via the market, they will be dependent on extra credits from the central bank. The central bank, which is regarded as a safe-haven, can then develop into a bad bank which is the lender to, in particular, banks that are insufficiently creditworthy to borrow on the market. Thus, on closer inspection, this safe-haven could turn out to be rather unsafe.

Digital cash

However, that does not have to be a problem, provided the following conditions are met. The deposits with the central bank that are held by the public (so not the "reserves") must be converted into digital cash. This means that they are disconnected from underlying value. That value, consisting of assets of the central bank, then becomes available to be used to reduce public and private debts. This can happen in a monetarily neutral way, and without favouring debtors over creditors. A sketch of this is presented in "[Deleverage without a crunch](#)".

Conversion into digital cash requires legislation that defines this new form of money and gives it a place in the monetary system. Subsequent use of the assets that become available reduces the "debt mountain" and normalises balance sheet relationships in the financial system. With this targeted debt reduction, the public finances of the Member States in the euro zone can

be put in order, and banks can be made healthier by shortening their balance sheets. From then on, banks must operate without further central bank credits and other state support. Both banks and member states are then subjected to full market discipline. Their situation is then no longer of importance for the euro. Both get to bear the consequences of undisciplined policy themselves. The bankruptcy of a major bank, and even of a member state, then no longer has to be avoided at all costs.

Demonetisation of deposits

Monetary policy is then conducted on the basis of cash. It is no longer focused on the liquidity of banks (MFIs) but on the liquidity of society as a whole. Remaining deposits and money market instruments are thereby demonetised. That means that they can no longer be exchanged 1 in 1 with the euro. They get a variable value and are regulated as securities. The banking license can then be abolished. The same rule will apply to banks and non-banks, namely that it is prohibited to commercially raise funds under the promise that the provided funds can be reclaimed on demand.

Disentanglement of banks and government

In this way, the introduction of a "safe-haven" will ultimately result in the disentanglement of banks and government, because money (the embodiment of the general unit of value) and financial assets are separated. This is possible when digital cash is technically and socially established. The WRR report guides in this direction but does not anticipate on the outcome presented above. It does recognise however, that scenarios such as the foregoing have to be worked out to improve the money system, and to become better equipped to handle the next crises.

This was the best outcome we could presently get in The Hague we were told off the record, following the presentation of the WRR-report. The politicians must now row the boat (the safe-haven) that has been provided. In fact, the WRR pushed the ball back to the House of Representatives, which already [voted unanimously](#) in favour of a safe-haven for book money, in response to citizens' initiative "Ons Geld". The WRR confirms that this is the right way to go. It is now up to the politicians to decide how this safe-haven will take shape.

Central bank digital currency

The council also recommends an experiment with central bank digital currency. What is your opinion about that?

This recommendation fits in with our vision that the safe-haven eventually transforms into digital cash, reducing the entanglement of banks and government.

We do believe however that the central bank should not develop central bank digital currency on its own accord. It must be developed in [interaction with society](#) and market participants. Fintech companies in particular can contribute to rapid development and adoption of digital cash. That could start tomorrow by allowing payment service providers and electronic money institutions to open an account with the central bank and giving them access to "TARGET2", the interbank payment system, provided by the ECB. The safe-haven would then be quickly realized, improving competition and exposing banks to market discipline.

Social advisory board

The council also argues for a stronger anchoring of the public dimension of banks, for example through the establishment of a social advisory council. What do you think of that?

It seems to us that banks must consider themselves whether they want to be advised by a social council, and whether this fits with their marketing and brand policy. We see no merit in a legally enforceable social advisory council for every bank. However, it would be good if banks of their own accord anchored more socially responsible behavior in their structure. Demonetisation of deposits can contribute to this, as it will force banks to compete more actively for their customer's favour.

Debt and crises

What is your opinion on the recommendations regarding the slowdown in debt growth and the better preparedness for the next crisis?

In the current system, monetary expansion is necessarily accompanied by debt growth. Prosperity is thereby unduly limited due to the debt burdens that this system generates. This system has a motor that suffocates itself, causing it to stall. The design of this system, as far as you can speak of it in such a way, because it has never been designed, is objectively inadequate. This is now recognised by the WRR.

Fundamental reconsiderations

The flanking legal system has largely been developed in response to crisis situations. A coherent design is lacking, let alone fundamental political decision making about it. The foundations of the system were never questioned. The WRR now calls to look at these foundations and to systematically map the policy options. In this way, guidance can be given to make the money system develop in a socially desirable direction. It will then also be possible to make decisions in crisis situations that are consistent with that direction.

The call to think in terms of alternatives and scenarios is the greatest benefit of this WRR report. Education must take this call to heart. It will help to make education more fun, and to sharpen the insight into monetary reality.

Debt-free money

The advice of the WRR to slow down debt growth implies - within the current system - inhibition of prosperity and thus waste of wealth potentials. In this respect we do not consider the attitude of the WRR to be beneficial. We wished the WRR had shown more courage and vision by not regarding the entanglement of money and debt as a given, but as a systemic issue that needs to be resolved. The WRR could have shed light on the potential of "debt-free" money (cash) to disentangle money and debt. Then there would have been no substantial difference between the visions of the WRR and Ons Geld.

Edgar Wortmann – Stichting Ons Geld – March 9, 2019

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