A Critique of

DESIGN OPTIONS OF SOVEREIGN MONEY – A FULL OVERVIEW by Lino Zeddies

https://internationalmoneyreform.org/news/2019/05/design-options-of-sovereign-money-a-full-overview/
by Paul Grignon, creator of the *Money as Debt Trilogy*

Let me begin by pointing out that, while this is a list of criticisms and refutations of the logic employed by sovereign money reformers to promote their cause, the last item in this list is one of near total agreement.

There are three reasons the last item meets with my approval: 1. It actually addresses what my analysis identifies as the real mathematical problem with the current system. 2. It drops the demand for a money monopoly by the state. 3. It is compatible with my own detailed proposal to be found at moneyasdebt.net and in my 2 1/2 hour animated movie *Money as Debt III - Evolution Beyond Money.*

The following critiques apply to the more common proposal from sovereign money reformers that the state should have a monopoly on money creation, and limit the money supply in proportion to GDP.

> *Lino Zeddies writes: Consumer price stability (There is agreement that consumer price stability should be the primary goal of the monetary authority but it is debatable if this should be supplemented by other goals.)*

According to the quantity theory of money, consumer price stability is achieved by matching the total quantity of money in use by the public with the monetary needs of the real economy. However if, for ecological survival reasons, we set a goal of creating a money system that does not require constant economic growth, it then follows that the money supply itself must not require constant growth to prevent negative outcomes. It further follows that a correct analysis of the causes of negative outcomes is necessary before attempting to design a solution.

Sovereign money reformers fail to examine what happens to money during its time in circulation, up to 30 years. Thus they fail to understand that the primary cause of negative outcomes is the multiple concurrent principal debts of the same money that accumulates over that time, an inevitable result of having one monopolistic form of money that is lent, earned and re-lent multiple times concurrently. Sovereign money reform as proposed by exclusionists can only exacerbate this problem because the fundamental principle of **a single form of money made valuable by its own scarcity is the root of the problem.**

> *Lino Zeddies writes: Financial stability, asset price stability or preventing asset bubbles (Asset price increases were generally badly neglected during the last financial crisis and there should be an institution that keeps an eye on preventing asset bubbles and ensuring financial stability. But maybe this should rather be put into the hands of the financial supervision institution to limit entanglement and moral hazard. Also, asset prices depend on multiple factors and maybe the focus should rather be on preventing bubbles than ensuring price stability in terms of the level of asset prices.)*

Asset bubbles are the result of excessive money being created as bank credit by borrowers, many of whom are seeking to profit from the resulting increased valuations. Preventing asset bubbles requires the prevention of excessive money creation. This appears to be the fundamental reasoning behind the sovereign money proposals - a vague idea that “too much debt” results in “crashes” so therefore, limiting money creation is the way to prevent crashes. It is mathematically very easy to prove this contention to be 180 degrees off the mark. All that is required is to follow a single 30-year mortgage euro from creation to extinguishment, a mental exercise money reformers and economists fail to even attempt. Here is my animated illustration: https://youtu.be/Hkk3T56-t7U?t=1013. In reality, it is only the perpetual growth of the money supply that prevents crashes.

> *Lino Zeddies writes: Economic capacity utilization and preservation, economic growth or full employment (These are many different terms for the similar and reasonable objective of providing enough money for releasing the full potential of the economy. The goal of economic growth can be criticized for not taking into account the ecological limits of our planet. Economic capacity utilization and preservation might therefore be a better goal. Full employment is usually taken as a sign or indicator for economic capacity utilization but it can also be questioned if traditional full employment is really desirable given that the 4th industrial revolution might make more and more jobs superfluous and we might soon need to shift to basic income and purposeful doing anyway.)*

As noted in the quoted passage, the “full potential of the economy” takes no heed of ecological, limits and is therefore, the road to global extinction. One need only examine the fishing industry as an example where the “full potential” has destroyed and continues to destroy the fish stocks it depends on. Whatever it is, the faster we use it up the sooner it will be gone.

Therefore, a new money system designed to enhance our chances of survival, must enable deliberate planned shrinkage of the economy without “designed-in” ill effects. Lacking this design criterion, it is just business-as-usual and the road to ecocide.

> *Lino Zeddies writes:*
> *Sovereign money proposal: Banks lose their special privilege of money creation and become real credit intermediaries. However, anyone could provide this function including public and private credit institutions, funds, P2P lenders. (It is not the task of the monetary authority to do credit intermediation, this is a common misunderstanding.)*

Credit intermediation results in multiple concurrent principal debts of the same money just as in the current system. As these debts are impossible in the aggregate and the lenders don't inform the borrowers that their collective ability to repay is mathematically dependent on perpetual growth of the money supply, all debts are invalid because contracts that are both impossible and misrepresented are fraudulent and invalid. This applies equally to any form of money, regardless of origin, that is lent several times concurrently

Read my challenge to the authors of *Money Creation in the Modern Economy* (Bank of England, 2014): http://paulgrignon.netfirms.com/MoneyasDebt/MAD2016/DiggingDeeper_Grignon2017.pdf

> *Lino Zeddies writes:*
> *WHAT GIVES VALUE TO THE CURRENCY? IS IT BACKED BY ANYTHING?*
> *Now: Currencies are not backed by gold or any commodity, rather their value is derived from the productive capacity of the economy as measured in GDP (the value of produced goods and services) in combination with their legal status as official currency.*

The only thing that gives the national currency value is DEMAND, demand that is created by legally enforced TAXES.

> *Lino Zeddies writes:*
> *HOW IS THE TARGET OF CONSUMER PRICE STABILITY DEFINED?*
> *Now: The ECB defines consumer price stability as 1,8% inflation of consumer prices.*
>
> *Sovereign money design options:*
> *1 No changes (This could firstly counteract as a security buffer against deflation and could secondly come to function like a "money tax" as a positive inflation target allows more money creation/seigniorage for the public and would therefore redistribute money from top to bottom.)*
> *2 Consumer price stability = 0% inflation (Arguably total price stability would be a worthwhile goal and can be reached more easily within a sovereign money system but an accidental drop below zero would be harmful which is why a small positive rate might be better.)*

Whatever the percentage of inflation, the result is an exponential curve that eventually approaches vertical. Therefore it is a mathematically unstable design. Consumer prices would not be stable in the debt-collapse that would result from the latter option.

> *Lino Zeddies writes:*
> *Sovereign money design options:*
> *1 Same as now, as a debt/liability in the balance sheet of the monetary authority. (This would require less legal changes.)*
> *2 Separate from balance sheet in a ledger of the monetary authority. (This is certainly the preferred and more coherent option by sovereign money reformers. Money is then clearly not a debt but an asset that is not at the same time a debt of anyone.*

The latter is hardly "coherent". Sovereign money is clearly a tax credit that is required in payment of taxes, and is thus a debt on a schedule of repayment. That it is a debt of the taxpayers collectively, and not of any specific party, gives rise to the fallacy that it isn't a debt "of anyone".

If I dig up from the ground a new piece of gold in a gold money system, that piece of gold is real debt-free money - but ONLY until someone lends it. Then it becomes money as debt on a repayment schedule just like bank credit or tax-credit money. If it gets lent again while still being owed to the first lender there will be 2 concurrent principal debts of the same gold coin. If all of the gold coins in circulation have been lent concurrently multiple times, the aggregate debt is impossible to pay and a default bomb will go off any time gold coins (stock) are removed from circulation, or the velocity of money (flow) slows down for any reason. There is no escape from this mathematically impossible debt without default ... unless *payment is allowed in another form.*

> *Lino Zeddies writes:*
> *Sovereign money design options:*
> *New money is handed as seigniorage income to the government for spending, i.e. for infrastructure investments, welfare allowances, tax cuts. The monetary authority would decide about the amount of money creation but not about where it is spent, whereas the government can't decide about the money creation. (Most sovereign money reformers propose this as the primary instrument to inject new money into the economy as it is fair and should be quite effective to stimulate the economy.)*

An equal income from money creation is handed to all citizens directly from the monetary authority, i.e. every month there is a variable amount wired to all citizens. (This instrument would have the advantage of probably having a quicker effect on the economy and there is barely any possibility of power abuse.)

Credit to banks (This could supplement other instruments to make sure there is sufficient credit supply in the economy. However, it would again create entanglement with banks and moral hazard / risk of abuse of power etc.)

Open market operations (This could supplement a) for quick "fine-tuning" of the money supply.)

The only proposal mentioned in the above options is increase. Growth-dependent thinking is a persistent habit. Nowhere in this sovereign money proposal is a shrinking GDP and money supply ever considered. As well, the obvious fact that this money has to be taxed back to preserve its value is glossed over as much as possible. The math is simple. If money supply is to be proportional to GDP and preserve its value, in the case of a shrinking GDP, taxes would have to exceed government spending in order to shrink the money supply.

The fundamental problem is that sovereign money is artificial and disconnected. It is not spontaneously generated by economic activity. Therefore, in the following sovereign money design options, the first should be rejected outright and the second one is entirely compatible with the solution that I propose.

The only monetary sovereignty anyone has, including the national government, is created by demand. Any tax-collecting level of government has the legal right to extract taxes from us on penalty of fines, asset forfeiture and/or imprisonment for non-payment. Therefore, demand for tax credit money is assured by law at all levels of government.

So what sense does a national monopoly on money creation make when the same dollar spent and taxed back by the national government will also have to serve to be taxed and spent by local and provincial governments as well as being lent out and paid back as one or more mortgages, all at the same time?

The liberation of money will come with the realization that demand creates credit creates money. This principle also applies to any private producer of goods and/or services. A level of assured demand justifies the spending of an equivalent amount of private credit. The value of the credits is maintained by the matchup with the prices of the goods and/or services for which the credits are redeemed, as well as by defining the credits' value unit in terms of the current market price in conventional national currencies of a fixed basket of globally significant commodities.

Lino Zeddies writes:
Sovereign money design options:
No, issuance of the official currency and all forms of money (physical and digital cash) is a state monopoly. Anything that functions like money and substitutes the state currency is forbidden. (This is the rather rigid version to prevent private actors to regain any privilege of money creation. Critics wonder in how far this could be implemented and really forbidden and where to draw the line/how to define money)

For reasons explained above, this option would lead directly to a massive default crisis if it failed to maintain continuous exponential growth of the money supply as the current system does to prevent mass default. The reform does not address the core issue of the growth imperative and resultant ongoing global ecocide. It is also probably impossible to enforce.

Lino Zeddies writes: Yes and no, issuance of the official state currency and general unit of value (physical and digital cash) is a state monopoly. But everybody is allowed to create alternative forms of money or liquid stores of value like local currencies or cryptocurrencies. These though are exempt from state support, have an exchange rate to the official currency and the government would only accept the official currency for tax payments and for handling its expenditures. (This might be a well balanced middle-way allowing for private innovation and freedom but ensuring a well-functioning and crisis-prone payment system.)

Apart from the apparently self-contradictory phrase *"well-functioning and crisis-prone"* this is the answer, that according to my analysis, actually addresses the root problem. I develop the concept in great detail at my website moneyasdebt.net. The "state support" required would be a couple of simple common sense regulations and the normal enforcement of debts in the courts.

My proposal for an independent value unit defines the new value unit as the current dollar value of a fixed basket of globally significant goods. Thus, it is protected from inflation and deflation. There is also no need to eliminate credit creation by banks because the new system is compatible and would be best developed as an expansion of the current system rather than a replacement. The illustration on the following page shows an integrated "new bank" that deals in 3 distinct types of money as well as a "gifting" service by which gifts may be requested and offered by members.

Money creation in this system can come from 3 distinct sources: bank credit, producer and tax credits, and mutual credit time money. In the first, money is created by promising to pay it back to a bank. In the second, money is created as a promise redeemable only in the Issuer's goods and/or services. In the third, money is created any time someone does something for someone else that the recipient is willing to reciprocate to a third party. Hours are the value unit but rates are negotiable not fixed. The recipient has a debt to any member of the mutual credit system that chooses to collect and the agent that performed the service has a credit it can redeem for the products and/or services of any member of the system.

If bank savings are invested in Producer Credits, bank credit is returned to circulation. The fundamental problem of multiple concurrent principal debts of the same money (and Keyne's paradox of thrift) being created by the design of the system itself is remedied. With both Producer Credits and Time Money, money is created endogenously by economic activity itself and is always in correct proportion to that activity without any need for outside supervision or reference to national GDP.

http://paulgrignon.netfirms.com/MoneyasDebt/MAD2014/solution12.htm