

The Steady State Economy Conference

Working Towards an Alternative to Economic Growth

Policy Proposal

Workshop 4: Money and the Financial System

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Question: What sort of money system would a steady state economy require?

Background

In the UK most of the money in circulation is created by private banks in the form of interest-bearing loans. This debt-based money system is one of the main drivers of economic growth, inflation, and economic instability. Even in the era of the fractional reserve, the money multiplier enabled deposits to be inflated nine times over. Now the link between deposits (liabilities) and money lent (assets) is tenuous, as deposits can be redeemed on demand, and there is effectively no fractional reserve. This ability to provide the national money supply accrues extraordinary power to the banking sector. Money created as debt must be repaid from earnings, which must therefore increase rapidly, using ever more resources and energy in the process.

In a steady state economy, it would not be possible to earn money simply by holding money. Instead money would regain its original role as a medium of exchange. Money borrowed at interest requires borrowers to repay that interest over time. Borrowers can make interest payments only if their incomes are growing (i.e., more goods and services are being produced and consumed).

In order to curb the incentive for growth and transform the financial system into one that promotes sustainability and equity, the UK will need to:

- Revamp the system of issuing money as debt – a system which requires growth and precipitates crises;
- Prevent financial speculators from having the power to issue money;
- Build a wall between people's savings and commercial companies; and
- Reclaim the right to produce money from the private sector and return it to the people

Proposal

The proposal for transforming the financial system of the UK has four components:

1. *Transferring the role of money creation from private banks to the public sector:* The private issue of money as debt should be made illegal (as is counterfeiting). As the public reclaims

the power of money creation, priorities for investment should be determined democratically, and the benefits of seigniorage (the difference between the face value of money and the costs of producing that money) should accrue to the commonwealth.

2. *Upgrading the role of social and ecological considerations in fiscal and monetary policy:* The UK can link fiscal and monetary policy to maintain a balance between money issue and investment and production, providing a strategy to prevent inflation. Socially necessary expenditure can be prioritised to prevent unnecessary growth. Incentives for the private sector to respond to socially driven demand and ecological sustainability, along with tighter linkages between savings and social priorities, can drive more sustainable use of money.
3. *Providing a diversity of moneys and supporting complementary currencies:* In order to build a more resilient monetary system, the UK should create different currencies for different purposes. Local currencies can be established and nurtured to support relocalisation of the economy.
4. *Participating in an effort to change the international currency system:* At the global level, the system of free trade funded by reserve currencies is another driver of growth. The UK should promote and participate in a global negotiation to ensure that the currency system is not controlled by any single economy or group of economies and is linked to carbon dioxide emissions (to address climate destabilisation).

Information Resources

How Money Works

- Mary Mellor (2010): *The Future of Money: From Financial Crisis to Public Resource* (Pluto)
- Michael Rowbotham (1998): *The Grip of Death* (John Carpenter)
- Ann Pettifor (2006): *The Coming First World Debt Crisis* (Macmillan)
- *Money as Debt* website and DVD: <http://www.moneyasdebt.net/>

Global Dimensions

- Michael Rowbotham (1998): *Goodbye America* (John Carpenter)
- *Ecopolitics online journal*, special issue on interlinked ecological and financial crises: <http://www.ecopoliticsonline.com/>
- Richard Peet (2009): *Unholy Trinity: The IMF, World Bank and WTO* (Zed)

Local Currencies

- Pete North (2010): *Local Money: How to Make it Happen in Your Community* (Green Books)
- Pete North (2008): *Money as Liberation: The Micropolitics of Alternative Currency Movements* (University of Minnesota Press).
- *International Journal of Community Currency Research*: <http://www.uea.ac.uk/env/ijccr/>

Wider Perspective

- Frances Hutchinson (1998): *What Everybody Really Wants to Know About Money* (Jon Carpenter)
- Hutchinson, Mellor and Olsen (2002): *The Politics of Money* (Pluto)
- Molly Scott Cato (2009): *Green Economics* (Earthscan)