

A New Monetary Policy Needed

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19 September 2018

Positive Money New Zealand is a voluntary organisation that campaigns for monetary reform. It is affiliated to other similar organisations across the globe and in particular to Positive Money in the UK. I have the honour to be its patron.

The founders and prime movers in Positive Money New Zealand have been, however, a Bay of Plenty couple – Don Richards and his wife Sue Hamill. Don confesses that it was Sue who first developed an interest in monetary reform, and then recruited him to the cause. Sadly, Sue died a few weeks ago after a battle with cancer. Her ashes were interred at Hillcrest Cemetery in Whakatane last week.

One of Sue's last projects, now carried on by Don, was a petition to be presented to Parliament. The petition, (which can be found at <http://www.positivemoney.org.nz/Site/petition/default.aspx>), calls for a review of our current monetary system to be considered by a Select Committee in the hope that the resultant publicity (and the education of Select Committee members) might then stimulate the necessary pressure for change.

The body of the petition sets out the case for change. It takes as its starting point the almost incredible fact – one still contested by many supposed experts, although confirmed by detailed studies produced by the Bank of England and other central banks – that around 97% of our money has been created, not by the government, but by the commercial banks, which create the money by simply making a bank entry in the accounts of those to whom they lend money, usually on mortgage.

The banks, of course, charge interest on the money they thereby create ex nihilo (or out of nothing) and it is the interest they charge that produces their huge profits of billions of dollars which they then send back, in most cases, to Australia.

What is really astonishing about this state of affairs is that the money supply – one of the key elements in determining our economic success or otherwise – is almost entirely controlled, not by our government or the Reserve Bank, but by foreign-owned commercial banks which operate entirely for profit and are in no way accountable to the New Zealand public.

It is, however, the New Zealand public that pays the price and bears the burden of the inexorable and bank-driven increase in the money supply. That price is paid in the form of higher interest rates (which are needed to restrain the ever-increasing level of lending), an over-valued exchange rate (a consequence of the higher interest rates that attract "hot money" from overseas), a crippling level of private debt in our economy, a huge burden on

our balance of payments, a diversion of capital away from infrastructure and productive purposes, and constantly rising housing costs – all of which we could do without.

The petition proposes that we should change this inherently unstable system of money creation to one in which new money is no longer created by private and largely foreign-owned companies whose only goal is profit, but is issued only by the Reserve Bank under the direction of our elected government which would then be accountable to the people for its monetary policy, as it should be, but currently is not. New money could then be directed to productive purposes and would no longer simply fuel asset inflation, particularly in the housing market.

This approach to monetary policy is not only endorsed by leading monetary policy experts, such as Lord Adair Turner, and applied by governments in overseas countries, such as Shinzo Abe's Japan, but has a gold-plated pedigree right here in New Zealand, where Michael Joseph Savage's Labour government in the 1930s authorised the Reserve Bank to issue interest-free credit in order to build thousand of state houses and thereby helped to bring the Great Depression to an end. Let us hope that the Select Committee will take note.