Bryan Gould: Banking should be under closer Government control

Thursday Apr 13, 2017

Banks lend money they themselves create and should be under closer control, says Bryan Gould. Photo / NZME

It's not every day that monetary policy dominates the news.

It is normally seen as a technical issue, very much within the realm of the Governor of the Reserve Bank and, apart from the odd unexpected move in interest rates and, therefore affecting mortgage rates, of not much significance to anyone else.

But, in the past week, no fewer than three people have made the headlines by virtue of their views on monetary policy.

First, Steven Joyce, the Minister of Finance, has recommended the formal establishment of a committee to help the Governor decide on where to take interest rates, thereby following the example of other central banks around the world.

Secondly, Grant Robertson, Labour's shadow Finance Minister, has made a similar recommendation concerning a Monetary Policy Committee to help the Governor, but has also followed another overseas example by supporting an extension of the Governor's remit, so that he would, in addition to restraining inflation, be required to take account of the desirability of full employment.

So far so good.

The proposed changes are small steps in a sensible direction but are not going to set the world alight. Rather less expected, however, was the issue highlighted by Sonny Bill Williams' decision to tape over the Bank of New Zealand logo on his Blues jersey.

We are led to believe that this decision was taken as an expression of the Islamist opposition to anything to do with usury, that is, the lending of money and the charging of interest on the loan.

Sonny Bill, as a Muslim, did not wish to be seen as supporting a bank whose business it is to do precisely that.

Surprisingly, you may think, it is Sonny Bill who has made by far the most far-reaching statement.

The two politicians proposed quite minor technical changes which might achieve some small improvements. Sonny Bill, however, has succeeded, if we are thoughtful enough to recognise it, in throwing a spotlight on the entire role of the banks in our economy and our society.

Most people believe, and it is a belief assiduously promoted by the banks themselves, that the banks act as intermediaries between those wishing to save and those wishing to borrow, usually on mortgage.

On this view, the banks are benefactors, bringing together those with money to spare and to deposit with them, and those who wish to borrow, often for house purchase.

The banks make their money, so it is said, by charging a higher rate of interest to the borrowers than they pay to the depositors, the equivalent of a small fee for the administrative costs of bringing the parties together.

But this benign view of their operations is inaccurate and misleading. The banks do not lend you on mortgage money deposited with them by someone else.

They lend you money that they themselves create out of nothing, through the stroke of a pen or, today, a computer entry.

The banks make their money, in other words, by charging interest on money that they themselves create. Not surprisingly, they are keen to lend as much as possible.

But the consequences of this bizarre scenario go much further. It is the willingness, not to say keenness, of the banks to lend on mortgage that provides the virtually limitless purchasing power that is constantly bidding up the prices of homes in Auckland and, now, elsewhere.

It is the banks that are fuelling the housing unaffordability crisis, a crisis that is leaving families homeless and widening the gap between rich and poor.

So far, the government has washed its hands of this aspect of the crisis.

It is content to leave the crucial decisions on monetary policy to the Reserve Bank. That way, it can disclaim responsibility and leave the Governor, himself a banker, to carry the can.

Leaving monetary policy (which is usually just a matter of setting interest rates) to the Reserve Bank is usually applauded as ensuring that it does not become a political football. But monetary policy should have a much greater role than simply restraining inflation and has a huge influence on so many aspects of our national life.

Why should the Government be able to hide behind the Governor of the Reserve Bank and duck responsibility for a policy of the greatest importance to so many Kiwis? Why should ministers not be held to account in Parliament and to the country for failing to deliver outcomes they were elected to deliver?

Steven Joyce and Grant Robertson seem content to tinker. It may be that it is Sonny Bill Williams who raises, in economic rather than purely religious terms, the really important questions.