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Solution to the Financial Crisis: Full Reserve Banking

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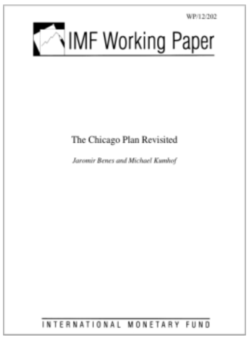
http://www.positivemoney.org.uk/2012/08/full-reserve-banking-solution-to-the-financial-crisis/

'Full-reserve banking' is a proposal that can end the recession, reduce personal and national debt, reduce inequality, and ensure that toxic banks can be allowed to fail with no cost to the taxpayer.

The proposal arose out of the Great Depression and has been endorsed, in one form or another, by experts such as Irving Fisher, Milton Friedman, James Tobin, John Kay, Martin Wolf and Sir Mervyn King. It has numerous benefits, while the main arguments against it are based on misconceptions.


WP/12/202
IMF Working Paper
The Chicago Plan Revisited
Jaromir Benes and Michael Kumhof
INTERNATIONAL MONETARY FUND

http://www.imf.org/external/pubs/ft/wp/2012/wp12202.pdf

Now recently the International Monetary Fund (IMF) has released a working paper in which the authors found **strong support for the benefits of the full reserve banking** as advocated by the economist Irving Fisher in the Chicago Plan, using state of the art economic modelling:

(1) Much better control of a major source of **business cycle fluctuations**, sudden increases and contractions of bank credit and of the supply of bank-created money.

(2) Complete elimination of **bank runs**.

(3) Dramatic reduction of the (net) **public debt**.

(4) Dramatic reduction of **private debt**, as money creation no longer requires simultaneous debt creation.

In the economic situation we are in today it would be a massive improvement if we could achieve even only one of these 4 benefits… Imagine all of them! And on top of these huge benefits the researchers in IMF were able to establish that the **advantages go even beyond**…

One additional advantage is **large steady state output gains** *due to the removal or reduction of multiple distortions, including interest rate risk spreads, distortionary taxes, and costly monitoring of macroeconomically unnecessary credit risks.*

Another advantage is the ability to **drive steady state inflation to zero** *in an environment where liquidity traps do not exist…*

There is a solution to the debt crisis, there is an alternative to the austerity! This is what the newspapers should be full of today!

Benefits of Full Reserve Banking

Here is a very brief outline of the benefits of switching to full-reserve banking as outlined in the Submission to the Independent Commission on Banking by nef, Positive Money and Prof. R. Werner:

- The banking system and wider economy would become ***inherently stable***, rather than inherently unstable. It would be ***counter-cyclical and self-limiting***, unlike the existing pro-cyclical system.
- The likelihood of severe ***recessions or crises would be significantly reduced***, reducing the risk to the government's fiscal position.
- ***Competition in the banking sector would be significantly enhanced*** by reducing barriers to entry to retail banking, promoting a more diverse and resilient sector overall
- ***Deposit insurance could be removed***, simultaneously removing a huge source of moral hazard that distorts many financial markets and ***removing the risks*** to taxpayers and the government.
- ***Poorly managed institutions could be allowed to fail*** without threat to the wider economic system or the payments system.
- ***The payments system and money supply would be technically separate and insulated from the lending business***, meaning that 'component failure' in the lending business would not affect the users of the payments system.
- There would be ***no need for future bailouts***.
- Despite the withdrawal of deposit insurance, members of the public would have access to a means of ***storing money that is 100% risk free,*** whatever quantity of money is stored in the account.
- ***The money supply and the wider economy would cease to be dependent on the lending activities of the banking sector.*** A credit squeeze would not cause a severe recession or rise in government debt.
- ***Interest rates could be set by the market,*** via the supply and demand for funds, rather than by the Monetary Policy Committee. This would reduce the impact of rapid interest rate changes on vulnerable groups.
- ***Bank lending would be less likely to cause asset-price bubbles and resulting instability and inequality.*** In the current economic system, rising money supply goes hand in hand with rising debt, creating greater vulnerability to shocks and in many cases a crisis. In contrast, full-reserve banking, with the state creating, or withdrawing, debt-free money, could gradually ***reduce debt over time***, creating a more resilient economy and stronger fiscal position.

Weitere Erläuterungen und Stellungnahmen finden sich online im Original-Beitrag unter:
http://www.positivemoney.org.uk/2012/08/full-reserve-banking-solution-to-the-financial-crisis/

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