Concrete design proposals for the monetary authority in a sovereign money system

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Abstract

The discussion on a sovereign money reform is gaining momentum and concrete answers to the questions on how to design a new monetary authority are increasingly demanded: What goals are being pursued? According to which principles and how should the monetary authority create money? How can the right balance between independence, transparency and accountability be found and abuse of power effectively be prevented?

The article discusses these questions and presents some suggestions for the concrete objectives and design of a monetary authority. The result is a radically rethought and drastically simplified monetary institution that has little in common with a traditional central bank. The recommended money creation instruments are grants to the government or a variable citizen dividend, which would ensure simplicity, transparency and independence from both the government and the banking sector. Within this framework, with clear objectives and effective, lean monetary policy instruments, transparency would be logical and a clear liability framework for private commercial banks could be implemented.

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Introduction

The current European Central Bank (ECB) concentrates enormous power, is highly complex, lacks transparency, is legally unaccountable to anyone and seems to represent primarily the interests of the banking and financial sector rather than the citizens. Public criticism of the ECB and central banks is therefore at a high level and the public debate on the reform of the monetary system is picking up noticeably and gaining depth. Thanks to the recent Swiss referendum on the sovereign money initiative, there is an increasing demand for concrete answers to the details of a sovereign money reform[1] and, in particular, to the precise structure of the state monetary authority as a fourth state power: What goals are being pursued? According to which principles and how does the monetary authority create money? How can the right balance between independence, transparency and accountability be found and abuse of power effectively be prevented?

This article attempts to make a constructive contribution to this debate by presenting a variety of considerations and concrete proposals for the design of the monetary authority. Based on a discussion of the problems of today's ECB, desirable criteria for a new monetary authority are established and its optimal design in terms of objectives, instruments and institutional setup with regard to transparency and independence are derived from this. The following proposals imply a radically rethought and drastically simplified monetary institution that can be seen as an advancement of the central bank but has little in common with it. Finally, some potential objections and questions of understanding are addressed.

Problems with today's central banks

Before beginning the discussion on the concrete design of a reformed monetary authority begins, this section explains what is wrong in the current system with a two-stage money cycle with central bank money on the one hand and bank money on the other hand and therefore what urgently needs to be reformed. The article typically refers to the euro system with the ECB, but it is equally applicable to most other central banks.

Firstly, the ECB's close ties with the private banks are to be criticized. Although the independence of the central bank is usually demanded from the short-term daily policy of the government, there is often ignorance of the equally necessary independence of the central bank from private banks and the financial markets. Furthermore, a distinction should be made between formal-legal independence and functional independence. The formal-legal dependence refers to legal and institutional dependencies that enable certain actors to exert influence or impact decisions. Functional dependencies, on the other hand, refer to informal, system-logical dependencies. It seems that in this respect the public debate on central bank independence is far too little differentiated and therefore often does not properly identify the root of the problem.

At present, the ECB is institutionally and functionally largely independent of governments. In addition, it is formally and legally independent of the banks, since there is no law that explicitly requires central banks to support banks, secure their profits or maintain close ties. The key point, however, is the functional dependence of central banks on commercial banks, which stems from the current monetary system. Historically, many central banks have even emerged as the bankers' banks and as "the lenders of last resort" and are therefore closely interwoven with the banks both through

[1] The basic book on sovereign money reform: Huber, Joseph. "Monetary modernization. Zur Zukunft der Geldordnung", Metropolis-Verlag, 6th edition (2018).

various lending transactions and in terms of personnel. The core problem is in particular that the central bank currently only has the monopoly to create central bank book money ("reserves") and cash, but the money supply of the public is largely based on banks' money generated by lending. In order to expand the money supply to the public and achieve their goal of price stability, the central banks are therefore dependent on the creation of bank money by private banks. Thus, there is a close systemic entanglement between central banks and the financial sector. Payments and overall financial stability also depend primarily on the banks, creating a strong interdependence between the central bank and private commercial banks.

Functional dependence on commercial banks, however, can hardly be addressed by new laws such as increasing transparency or introducing waiting periods (although such laws can be very useful), but requires a new monetary policy framework.

Within the current framework, the central bank also has only ineffective and indirect monetary policy instruments at its disposal to influence money creation and achieve its objective of price stability:

- The setting of various interest rates for lending transactions with commercial banks in order to influence the interbank market and indirectly the market interest rate and lending (main refinancing operations, marginal lending facility, deposit facility).
- Definition of acceptable collateral for lending transactions with commercial banks
- Determination of the level of the minimum reserve
- Bond purchases, which have been massively expanded in recent years in particular with the "quantitative easing” program

The problem with these instruments, however, is that they are indirect and therefore relatively ineffective. Also, they influence many other variables, potentially leading to market distortions. In particular, the ECB's quantitative easing program with bond purchases of €60 billion per month over a period of several years is a massive intervention in markets, bond prices and asset allocation. The high volume in itself is an admission that the creation of money and the granting of credit cannot be effectively stimulated in this way. In addition, the massive bond purchases favor asset price bubbles, which are potential triggers for the next financial crisis. Furthermore, the purchase of corporate bonds gives the selected companies (exclusively large corporations) financing advantages and thus unfair distortions of competition are created. This is particularly to the detriment of small and medium-sized enterprises, which as a rule cannot finance themselves by issuing bonds but are dependent on bank loans. With these instruments, the central bank therefore has a massive influence on prices, employment, competition and asset distribution, which must be assessed critically - especially as an independent institution with a high degree of immunity. With so much power and influence, the sole overriding goal of consumer price stability pursued by the ECB is not without problems. Other goals that require a sufficient supply of money, such as economic potential utilization, should therefore also be taken into account.

It is also extremely problematic that there is a high lack of transparency with regard to the actions and calculations of the central bank is system-logical in the current monetary framework. Due to the inherent instability of the two-tier money cycle, the central bank cannot discuss in public its reflections on the state of banks and financial markets and its action plans regarding the setting of its various interest rates, as this alone would give rise to fierce market speculation. For example, negative information about the condition of individual credit institutions can generate negative market reactions for them and in extreme cases even cause a bank run in the sense of self-fulfilling prophecies. It is therefore rational for the central bank to constantly make public statements about the state of financial market stability and not to publicly assess banks negatively, as this could jeopardize financial market stability. For this reason, it makes little sense to entrust the ECB with banking supervision and thereby intensify its involvement with the financial markets.

The lack of transparency is compounded by a lack of accountability and liability. However, it should be borne in mind that liability for non-achievement of objectives is problematic as long as the central banks only have indirect-ineffective instruments at their disposal to achieve their objectives. For example, if commercial banks are extremely cautious about lending due to an acute economic depression, central banks can do little. As the saying goes, "You can lead a horse to water, but you can't make it drink". But if the central banks do not always have the power to achieve their monetary policy goal of price stability, then they can hardly be held liable for failing that.

Finally, it should be noted that the massive power of private banks in the current monetary system was not curtailed even after the great financial crisis in 2008. Rather, the reforms that have been undertaken appear to be bureaucratic micro-regulation, which puts small banks out of business but does little to restrict large corporate banks. This result appears to be somewhat system-logical, because on the one hand there is a public demand for stronger regulation of the financial sector and politicians are therefore under pressure to introduce new regulations, but on the other hand they are dependent on the commercial banks and their money creation. The result is therefore ultimately a multitude of regulations with little substance overall, which do not solve the fundamental problems of the monetary system.

Requirements for a better system

A reformed monetary policy framework ideally meets the following requirements:

- Primary representation of citizens' interests and independence of the monetary authority from the government as well as from banks
- Effective, direct and clearly defined monetary policy instruments with minimum distortions to prices, competition and distribution
- Low complexity of the system, high transparency and accountability
- Simple, clear and effective regulation of the financial sector instead of extensive but ineffective micro-regulation

Handling of payment transactions

The central element of a sovereign money reform is handing the sole and complete monopoly to create legal tender money in the form of coins, paper money and electronic credit ("digital cash") to the monetary authority. This involves the provision of a secure, fast and free payment transaction system. Either every citizen could have a direct account with the monetary authority, e.g. automatically via the tax or social security number, or private institutions could take over the account management and payment services as money collection points and be quasi intermediaries between the sovereign money account holder and the central bank (but without the managed sovereign money balances being included in their balance sheet). In principle, the second way seems to be better, since more decentralization is possible and the public monetary authority would be relieved of the burden of managing millions of money accounts.

Handling the Money Creation Monopoly

It is often criticized that it is impossible in a sovereign money system to be able to maintain a public monopoly on the creation of money and to effectively prevent money creation by private institutions. Furthermore, the benefits of local currencies and monetary experiments are emphasized and a strict state monopoly on the creation of money is therefore criticized.

However, these points can be well integrated into the following proposal: Alternative forms of money or stores of value such as local currencies or crypto currencies need not in principle be banned if some basic conditions are met. For example, it would be necessary for alternative forms of money not to be guaranteed by the state in any way (e.g., by depositors' insurance or taxpayer bailouts), that they would be clearly distinguished from the official legal tender money and they would have their own exchange rate and not be accepted for tax payments. Since the legal tender money would offer clear advantages in this context and money is in principle a natural monopoly, it is not to be expected that other forms of money could play a major role as long as the state currency is sufficiently available and stable in value. For example, the payment of the value tax (to be paid in state money) alone would be highly impractical when using alternative forms of money. Thus, local experiments, private innovation and freedom could be allowed and made possible, but at the same time a functioning and crisis-proof state payment system would be guaranteed.

Monetary policy objectives

In the current monetary policy framework, the sole focus on consumer price stability (by which monetary stability is probably meant) is highly problematic and should be complemented by other objectives. A sovereign money system, however, sets a completely new framework, so it should be carefully considered which objectives make sense in this new framework as well. In the following, the suitability of some potential additional objectives for a sovereign money system are discussed.

1) Economic potential utilization and wealth preservation, economic growth or full employment

These different formulations have the similar aim of providing sufficient money to unleash the full potential of the economy. However, the goal of sustainable economic growth is highly problematic because it is incompatible with the ecological limits of our planet. Furthermore, it should be questioned whether full employment is really generally desirable as an indicator of economic utilization, since the advancing digitalization and automation will probably make more and more jobs superfluous and the current concept of work may have to be fundamentally rethought. Economic potential utilization and maintenance is therefore a better overall objective and should complement the objective of consumer price stability. It could also be stated that the general economic policies of the government should be supported, provided that the primary objectives are met.

2) Financial market stability, relative stability of asset prices or prevention of speculative bubbles

In principle, absolute price stability of asset prices as a goal is problematic, as there are natural price adjustment processes due to increases in demand etc., and prices depend on many factors that monetary policy alone cannot cope with. The goal cannot therefore be absolute asset price stability, but rather the prevention of excesses and speculative bubbles and the maintenance of financial market stability.

These objectives should, in principle, be given attention to, but it is questionable whether the monetary authority should be entrusted with this task. Although the current central banks have a large influence on asset prices, bubble formation and financial stability as a whole, the monetary policy instruments in a sovereign money system would probably be much more limited (see next section) and, in particular, the entanglements of monetary policy with financial markets would be resolved. In this respect, one could say that in the current monetary policy framework an expansion of the objectives to include asset price stability and financial market stability would be very useful, but that it makes little sense in a sovereign money system. Rather, a separate state authority should be entrusted with financial supervision and the prevention of speculative bubbles, precisely in order to prevent any involvement of the monetary authority with the financial sector.

3) Provision of the payment system

The provision and safeguarding of payment transactions should be explicitly included as an important objective and a separate department of the monetary authority which should be charged with its implementation.

4) Stable external value of the currency

If price stability and economic potential utilization are the overriding objectives of monetary policy, there will be only limited scope for exchange rate policy and a flexible exchange rates will probably have to be accepted. Nevertheless, the monetary authority could be entrusted with smoothing exchange rate developments and absorbing peaks. So far, this objective has not been explicitly included in the law and it remains questionable to what extent this would be necessary in a sovereign money system.

The definition of price stability

Instead of defining consumer price stability as 1.8% inflation as before, absolute consumer price stability as 0% inflation would principally be conceivable in a sovereign money system, but there are several reasons why this might be undesirable:

1) Deflation is socially more problematic than inflation, so a positive inflation target continues to make sense so that unexpected downward deviations from the target stay in the “safe” area thanks to the "buffer".

2) Inflation acts as a "circulation safeguard" and increases incentives not to hoard monetary wealth and thus withdraw it from the money cycle, but to spend it or reallocate it to interest-bearing savings accounts so that they are available for bank lending. In addition, a higher inflation target would systematically allow more money to be created and thus generate more revenue for the public, which corresponds to redistribution and counteracts a potentially problematic accumulation of financial wealth.

3) In the event of an economic contraction or an increasing velocity of money, both of which would require a reduction in the money supply in order to maintain price stability, just not increasing the money supply would potentially suffice to ensure price stability in the sense thus defined.

These arguments suggest that price stability should continue to be defined as slightly positive consumer price inflation. However, a lower value than the current 1.8% may be sufficient, as the new monetary framework should bring more stability and the monetary authority would have more effective means to influence prices and demand. A value between 0.5% and 1% inflation seems reasonable. In principle, however, this decision does not have to be made in advance in the case of a sovereign money reform, but could be entrusted to the monetary authority.

Which instruments should be used to create money?

Relevant criteria for the optimal selection of monetary policy instruments and the best money creation channels are:

1) A quick effect on demand or consumer prices
2) Predictability and consistency of the effect
3) Effectiveness in terms of the smallest possible needed interventions and the smallest possible distortions on other factors such as income and wealth distribution, prices, financial stability, etc.
4) Justice and fairness
5) No or lowest possible risk of power abuse
6) Retrievability in the sense of the possibility to reduce the money supply if needed
7) Low complexity

So far, the following instruments to bring new money into circulation have been put forward:

a) Direct grants to the state (federal government, states, municipalities): Newly created money is transferred to the state budget as debt-free income and can thus be used for public expenditure, e.g. infrastructure, social services or tax reductions. The monetary authority would decide on the amount of money created, but not on what the state spends the money on, while the government cannot decide on the amount of money created, but only on its use. It would be questionable, however, whether the money would flow only to the federal budget or would also be distributed to the federal states and municipalities.

b) Lending to the state (federal, state and local government)

c) Direct grants to citizens as a "citizen dividend": All citizens receive a variable monthly amount of money directly from the monetary authority.

d) Loans to public banks

e) Loans to private commercial banks

f) Open market operations: purchases of assets and bonds from governments or corporations

In the following overview table, the possible channels and their respective classifications in relation to the above criteria are depicted and are then discussed in more detail.

Table 1: Assessment of different money creation channels regarding relevant criteria
(Evaluation: "-" = weak, "0" = neutral, "+" = strong)

	(a) Direct grants to the state	b) Loans to the state	(c) Direct grants to citizens	d) Loans to private commercial banks	e) Loans to public banks	f) Open market operations
Quick effect	0	0	+	0	0	+
Predictability / constancy of effect	0	0	+	-	0	0
Effectiveness	+	+	+	-	0	-
Retrievability	-	+	-	+	+	+
Justice	+	+	+	-	0	-
No risk of power abuse	0	0	+	-	0	-
Low complexity	+	+	-	-	-	-

(a) direct grants or (b) loans to the state

So far, most sovereign money reformers have spoken out in favor of distributing newly created money as a grant (original seigniorage) to the state, as this could very effectively and directly stimulate the real economy and it seems logical that all money creation gains (and not just those from coinage) flow to the state budget. However, there are often concerns about the risk of potential self-enrichment by the government, e.g. to fulfill election campaign promises. But first, the monetary authority would be institutionally independent of short-term political interests and second, it is questionable whether it is in the interest of a government at all to print inflationary money to finance government expenditure, since inflation would devalue all government revenues in real terms at the same time and the population would probably be unenthusiastic about it. Even historically times of kings and emperors who had the full state money sovereignty are not necessarily marked by great inflation.

However, the government's decision on the first use of the money would have non-negligible effects on the strength of the effect. For example, an increase in unemployment benefits would expectedly have a much stronger demand/inflationary effect than a reduction in the top tax rate or a subsidy for luxury goods imports and thus some coordination between the government and the monetary authority would be required. However, a distribution of the revenues among the federal states and municipalities would counteract this.

Furthermore, governments already typically calculate the expected seigniorage revenues from the mint and this practice could continue in a sovereign money system. However, adjusting the government budget to unexpected additional seigniorage revenues would take some time and potentially entail a problematic delay between monetary measures and their impact on the economy. Such unplanned seigniorage income could, however, be invested in the money market in the short term or used to repurchase privately held government bonds, thereby already increasing the amount of money in circulation in the short term.

It is still debated though, whether the monetary authority should give original seigniorage grants or rather interest-free loans to the state. Loans would have the advantage that they could be retrieved and thus the money supply could be controlled more dynamically. On the other hand, it also gives the monetary authority more power/pressure over the state and the whole construct would imply a kind of national debt that is generally considered in a very negative light by the public. In the worst-case scenario, the finance minister could refuse to accept such loans from the monetary authority with reference to the need for a balanced budget, thereby undermining the instrument. In this respect, a combination of both seems to make sense: The original seigniorage grants are used for structural increases of the money supply while a certain volume of interest-free loans functions as a "buffer" for potentially necessary money supply reductions.

c) Citizen dividend

The sole distribution of newly created money as a variable citizen dividend e.g. to all adult citizens (with the right to vote) within the currency area also seems like quite an interesting instrument. The distribution could, for example, take place monthly, fluctuating from month to month and thus be adjusted dynamically and quickly. However, it should be borne in mind that this would by no means be enough to finance a basic income, but that the distributions per citizen would rather remain in the range of 10-20€/month in the Euro-area.

The advantages are as follows: Firstly, high predictability as the expenditure structure would expectedly be relatively stable due to the broad distribution of money, so that a relatively constant effect on prices and demand could be calculated with. Secondly, a rapid effect and high effectiveness since many citizens would probably spend the money relatively quickly on consumer spending and only a small proportion would flow into the financial markets and affect asset prices. Third, effective prevention of abuse of power, since the money is distributed directly to so many people and there would be very low incentives for the state or private actors to manipulate this instrument (who does not want price stability and potential utilization?). Fourthly, justice, since the seigniorage income would benefit all citizens equally. Fifthly, transparency and democratic control, since the citizens would regularly experience the decisions of the monetary authority directly through the distributions to their accounts and would thereby receive a direct, personal reference to monetary policy, which would arouse public interest and thus also have a strong implicit social control function over the monetary authority. If the monetary authority were to suddenly pay out a remarkably high or low amount of money as a result of external influence, this would immediately attract the attention of all citizens - especially if this is accompanied by deflation or high inflation - and would generate strong public discontent. However, the disadvantage would be that such a citizen dividend would entail a much higher administrative burden than the simple transfer to the government and thus involves high administrative costs.

However, it should be ensured that the citizen's dividend is not taxed or credited against other social benefits, as otherwise its effect would be reduced and altered, the effectiveness of the monetary authority would be reduced, and government interference would again be possible. It should be noted that the state budget would also benefit from a citizen dividend due to rising tax revenues, e.g. through VAT on additional consumption. In this respect, additional tax revenues of an estimated 15%-30% of the distributed citizen dividend could probably be expected due to various multipliers.

d) Loans to private commercial banks

Loans to private commercial banks could take effect relatively quickly and, in particular, would have the advantage that the money supply could be reduced again, if necessary, by not extending the loans. But here too, firstly, the ultimate use of borrowers' money would be relevant for the strength of the effect and difficult to predict; secondly, it would be likely that a substantial part of the loans would flow into assets and only fuel asset prices, with little effect on consumer prices. Thus, this channel appears much more ineffective than direct transfers to the state or citizens. Furthermore, in the case of loans to private commercial banks, the monetary authority would be subject to credit default risk, which would make complicated regulations necessary (Who gets loans at what interest rate? What is accepted as securities? How to deal with credit default?). In addition, loans to commercial banks would again create a potentially problematic close relationship between banks and the monetary authority, therefore creating a risk of power abuse and at the very least, reducing seigniorage for the public. All in all, this channel should therefore be rejected.

e) Loans to public banks

Loans to public banks would also have a potentially rapid effect, would be redeemable and would likely benefit socially beneficial projects more than loans to private commercial banks and thus making it fairer. On the other hand, this would imply a subsidy to public banks and thus distortion of competition, would link money creation with debt and would also fuel asset prices. It therefore seems more logical to create the money directly for the citizens or for the state.

(f) Open market operations: purchases of assets and bonds from governments or corporations

In the sovereign money discussion to date, open market operations have often been considered as a supplementary instrument next to direct grants to the state for "fine-tuning" of the money supply. However, it must be questioned to what extent this is really necessary and useful. Although it may take time for a state budget to be adjusted, a state can also use additional revenue directly to repurchase government bonds or other assets and pursue its own quasi open market policy. Since open market operations have potentially strong effects on distribution and asset prices, it seems more sensible to leave these activities to the much better democratically legitimized state or finance ministry than to an independent monetary authority, which would be much leaner and simpler to set up without this instrument.

Possibilities of reducing the money supply

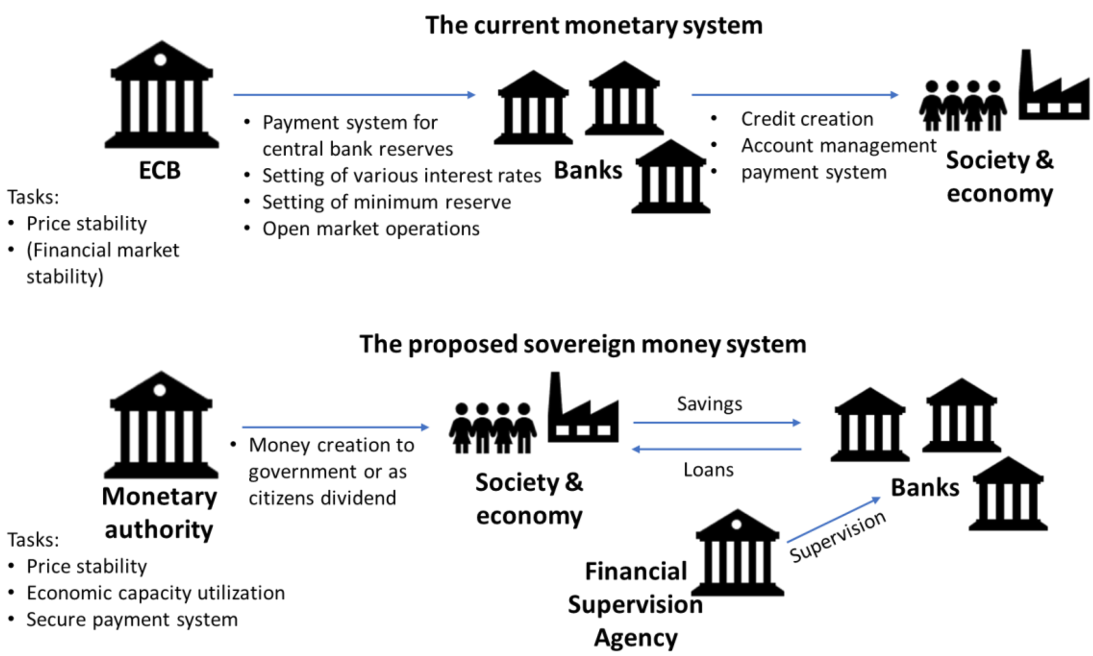
In the unlikely event that the money economy shrinks (e.g. in the event of population shrinkage or an increase in the velocity of money circulation) the money supply needs to be reduced to maintain price stability in order to prevent excessive inflation. In this case, credit-based money creation instruments would in principle be more practical, since the money supply could be reduced by simply not extending the loans. At the same time though, breaking the link between money creation and debt seems principally advantageous, so the question arises of how to deal with the need to reduce the money supply within this framework. One possibility would be for the monetary authority to issue its own bonds and, for example, to auction them on the open market against payment of legal tender money. This would effectively reduce the amount of money in circulation on the money market, raise interest rates and thus have a dampening effect on the economy and prices. On the other hand, the government could also intervene in an emergency, for example by raising taxes or reducing government spending. Since the government has a stake in preventing excessive inflation, this seems quite possible. However, relying on this again creates a link between monetary and fiscal policy. In general, however, the need for a reduction in the money supply would be mitigated if, as in the past, slight inflation was targeted, since a failure to increase the money supply would then potentially be sufficient to absorb inflationary trends.

Independence, transparency and accountability

The fact that the monetary authority is given even more power - namely the monopoly of the entire money creation - by means of a sovereign money reform is often a reason for criticism and therefore deserves special attention. The usual response by money reformers is that the previous central bank should be fundamentally reformed institutionally and set up as an independent and accountable monetary authority. But independent of whom?

As stated earlier in the discussion of the problem, it is essential to distinguish between the independence of banks vs. of government on the one hand and formal-legal vs. functional independence on the other hand. In the proposed fundamentally reformed monetary policy framework, the current independence from the government can be largely maintained and many institutional arrangements can be adopted. However, the current core problem of functional dependence on commercial banks would be largely resolved, as the new monetary policy instruments would drastically minimize points of contact between the monetary authority with commercial banks and financial markets.

Figure 1: Comparison of the current monetary system with the proposed sovereign money system



In addition, in the new sovereign money framework, the creation of a high degree of transparency with regard to the monetary authority would be system-logical and very easy to implement thanks to its clear mandate and its effective, lean instruments. In theory, sessions of the monetary authority could even be recorded and made freely available online. Of course, a balance would still need to be struck between independence from short-term particular interests on the one hand and accountability and democratic control on the other. The publications of Transparency International[2] and Positive Money Europe[3] put forward a number of very interesting suggestions as to how the institutional framework of the ECB could be improved in this respect. Most of these proposals also

[2] Braun, B., & Hoffmann-Axthelm, L. (2017). Two sides of the same coin? Independence and accountability of the European Central Bank.

[3] Stanislas Jourdan, Sebastian Diessner (2019): „From Dialogue to Scrutiny: Strengthening the Parliamentary oversight of the ECB“

make sense in a sovereign money system and should be taken into account in the design of the monetary authority. The following graph summarizes the differences between the current monetary system and the proposed reformed sovereign money system with a new monetary authority.

Summary and conclusion

In the present article, problems of the current monetary system, requirements for a better system and different design possibilities of a sovereign money system with a monetary authority were discussed. The as best identified proposals imply a radically rethought and drastically simplified monetary institution as a fundamental advancement of the traditional central bank. The following table summarizes the proposal for a monetary authority in comparison with the current ECB system.

The results are that although the money creation monopoly should be strictly applied to the legal tender money, alternative forms of money such as local currencies or crypto currencies with their own exchange rate and without state backing can be tolerated. Consumer price stability or monetary stability should remain the primary monetary policy objective of the new monetary authority, but it should be complemented by the objective of economic potential utilization and securing the payment system. However, a separate government institution should be entrusted with financial market supervision and the prevention of speculative bubbles.

Various instruments to bring new money into circulation were analyzed and checked for their strengths and weaknesses. The debt-free creation of new money for the state budget or, alternatively, a variable citizen dividend were identified as the best instruments. In such a framework, the monetary authority would have clearly defined objectives and at the same time a lean and highly effective instrument to achieve its objectives. The current functional dependence of the ECB on commercial banks' money creation, which has been identified as particularly problematic, would no longer exist. Instead, the new monetary authority would be completely independent of commercial banks and therefore very difficult to influence. However, some improvements in

Table 2 - Comparison of ECB and monetary authority

ECB	**"Monetary authority"**
Monopoly on the creation of paper money and central bank reserves	Monopoly on all money creation (coins, paper money and electronic money)
State bank of banks	State monetary authority of the society
Objectives explicit: 1) Price stability (1.8% consumer price inflation) Objectives implicit: 2) Lender of last resort 3) Financial stability 4) Secure payment system	Objectives: 1) Consumer price stability 2) Economic capacity utilization 3) Secure payment system
Integrated banking supervision	Banking supervision lies with a separate institution
Numerous indirect monetary policy instruments -Manipulation and setting of various interest rates -Decision on collateral -Minimum reserve -Open market operations (quantitative easing)	Clearly defined, direct and highly effective monetary policy instrument: (a) grants to the state *or* b) citizen dividend
Independence from government	Independence from government
Functional dependence on private commercial banks	Independence from private commercial banks
High lack of transparency is system logical	High transparency reasonable and possible
Huge bureaucratic apparatus	Small institution with relatively few staff possible

transparency and accountability are recommended, for which other authors have already made very good suggestions.

Under the proposed new monetary policy framework, the financial and banking sector would lose its great privileges, the risk of bank runs would be eliminated and the liability principle would apply again: Those who take risks bear both the potential profit and the risk of loss. Within this framework, the financial system and banks could be deregulated and many elaborate and highly bureaucratic micro-regulations and deposit insurance could be abolished. This should significantly relieve the burden on small and ethical banks in particular. While the mix of complicated, non-transparent and ineffective instruments of today's central banks opens the door to abuse of power, the full monopoly power of the creation of money would be effectively embedded into the democratic system and the separation of powers in the new system. The economy would be effectively supplied with sufficient money and financial stability and justice would be made possible.

FAQ and further considerations

What about the credit supply? Would the monetary authority have to intervene in a credit crunch?

It makes no sense that the monetary authority should also be responsible for supplying credit to the economy. That is the task of the banks and the monetary authority should not interfere here. If, however, no loans are provided by the banks for socially desirable investments, the state could take countermeasures and, for example, provide public banks with appropriate funds or otherwise provide special loans. However, it is up to the government, not the monetary authority, to cushion such market failures.

It should also be questioned what exactly is meant by the credit crunch and if a small volume of credit or investments is problematic in principle. It is true that in the current monetary system constantly increasing loans and debts are necessary for the creation of money, thus enabling demand and thus the maintenance of economic utilization and the creation of jobs. In a sovereign money system, however, government spending or citizen dividends can be used to create sufficient money and stimulate the economy even without loans. If there is a lack of demand and structural underemployment due to a lack of money, this can be countered directly. Therefore, bank lending plays only a subordinate role for economic capacity utilization and full employment in the sovereign money system.

Doesn't the government then lose its power to set economic impulses?

No. Economic slumps would no longer have to be compensated by increased deficit spending by the state, but would be the task of the monetary authority, which would also have an effective and direct instrument to counter this. The government, on the other hand, continues to provide important impulses through decisions on the use of tax revenues. If large expenditures are required, e.g. for an energy system transformation, this would have to be financed with corresponding tax revenues. The financing of such potentially socially desirable investments is not the task of the monetary authority, but of the government, and must not be financed by the creation of money, but by taxes.

It should be borne in mind here that the state is significantly relieved of financial burdens under the new system framework. First, thanks to the transitional seigniorage, government debts and its interest costs can be significantly reduced. Second, there would be regular direct seigniorage income from money creation or indirectly through tax revenues on consumed citizen dividends. In addition, one can expect that the demand-oriented monetary policy of the monetary authority would have a positive effect on the utilization of the economy and that, as a result, lower expenses will be incurred for social transfer payments such as unemployment benefits. In this respect, economic scope of the government would be considerably increased.

Could the state still be in debt?

Yes, in principle the state could continue to issue government bonds. However, this would not create new money, but would divert savings and possibly displace other investments.

Could a negative interest rate be implemented within this framework to ensure money circulation?

In principle, a negative interest rate would be possible for all sovereign money balances, similar to a Gesellian free money circulation guarantee. To what extent this makes sense, however, is a different discussion.

Who is the "lender of last resort"? Is that still needed?

The new monetary authority would no longer be the "lender of last resort" for banks. But it is also questionable whether such an entity would be necessary in a sovereign money system in the same way as it is in the current monetary system. Short-term support for banks to maintain payment transactions is not necessary in the sovereign money system due to the separation of sovereign money/payment accounts and savings accounts. This would already unbundle the banks to a certain extent and make a bank run impossible. The failure of a bank would therefore no longer so easily bring down other banks so easily, as in the current system.

How could the current system transition to the proposed sovereign money system and who gets the transitional seigniorage?

There are already several proposals in this respect. Either a gradual transition would be conceivable through the previous introduction of digital central bank money and later expansion to sovereign money with the conversion of the central bank into a monetary authority.

Alternatively, all bank money balances at commercial banks could be converted into sovereign money balances at the monetary authority on a given date. From now on, all citizens and corporations would have access to secure, electronic sovereign money. The corresponding liabilities of the banks to the previous current account holders are simultaneously converted into liabilities to the monetary authority, which must be redeemed over a certain period, e.g. within 10 years. To the extent that corresponding payments flow from the banks to the monetary authority (in the form of sovereign money, because the commercial banks now also use sovereign money accounts), the monetary authority transfers the money to the state. The money could be distributed by a fixed formula to the federal, state and local governments, which could use this additional income, for example, to reduce debts or cover additional expenses. The transitional seigniorage in the amount of the previous bank deposit balances thus flows to the state, in particular to reduce the massive national debt.

Could the reform proposal described above be implemented within the current legal framework?

No. The above proposal is not based on legal feasibility in the current system, but on the ideal outcome. Rather, the proposal would require a great overhaul of the current legal framework. However, a possible collapse of the eurozone or the withdrawal of individual states from the eurozone could create a window of opportunity for the proposed reforms in the euro area. If, however, the above proposal or corresponding modifications based on it meet with a consensus in the sovereign money movement, the next question would be to discuss the concrete legal framework required.