

THE ECOLOGY OF MONEY

by Richard Douthwaite

Chapter 5: Moving On

Many of the ideas in this Briefing are not new. As I pointed out in an endnote in Chapter One, in the 1930s Henry Simons and Irving Fisher both urged that US banks should lose the right to create money and that a government-controlled Currency Commission be set up to do so instead. Similarly, in 1994, two economists F.X. Browne and J.P.C. Fell, who then worked for the Central Bank of Ireland but are now employed by the European Central Bank predicted that at some time in the future the standard of value in which prices would be set, and contracts denominated, would be divorced from the means of payment.³² They also thought that values would be measured in terms of a unit of account defined in terms of a basket of goods. This is not the same as basing a currency on the right to emit greenhouse gases, of course, but it does involve tying the unit-of-account currency to something real. Their proposal also looks forward to a time in which countries would use two or three currencies for different purposes.

Browne and Fell also suggested that central banks were losing their power to control the money supply because of the ways in which the financial system was changing. Professor Kevin Dowd of the University of Sheffield agrees.³³ He points out that banks are already providing a smaller proportion of all loans as a result of "securitisation" - the sale of a bank's loans to non-bank investors who are not subject to reserve requirements. This, and the development of electronic cash, means that more and more money can be placed in circulation on a smaller and smaller reserve base. Dowd writes, "As base money becomes less significant, it will gradually lose its effectiveness as a channel through which the central bank can influence the broader money supply".

In other words, our current monetary system is coming to the end of its useful life. Its radical reform has become necessary as well as desirable. Only a widespread debate on the issues, by a well-informed public, will ensure that when changes are made they are along the right lines.