

From

Dear Sir John Vickers,

**FOR THIS GENERATION THE ICB IS MISSING A SIGNIFICANT OPPORTUNITY**

Serious proposals and practices relating to money creation are not new and they are international, deserving of a full appraisal. Interested people, who have followed the work of the Commission, see a missing dimension in the reform of money itself. In its terms of reference, in the context of *a significant detrimental impact that failure in the financial sector can have on the real economy and public finances*, the Commission committed itself to looking at *structural and non-structural measures to reform the banking system, mitigating moral hazard in the banking system, lending to UK consumers and businesses and risks to the fiscal position of the Government*. These matters all relate to the money creation process known as fractional reserve banking. Following a call for evidence the Commission received 150 submissions, a few of which addressed money creation by the commercial banks. Of those embodying significant money reform proposals there are submissions from the *Christian Council for Monetary Justice*, from the *New Economic Foundation*, from *Positive Money*, *NEF & Richard Werner*, and also a separate one from *Richard Werner*. Among some others submissions (eg *Kay*, *Kotlikoff*) there are also a few brief letters submitted concerned with aspects of money reform.

Money creation and control of the money supply is an activity right at the heart of banking, particularly when banks are operating as ‘money-making machines’ that create and allocate the bulk of the money supply. Reform proposals are not some recently discovered reform agenda. These issues have been wrestled with at many stages of history. The lack of implementation of reform is a demonstration of the formidable resistance of vested interest. There are isolated examples of nation states implementing radical reform which demonstrate that such change can be implemented by nation-states if really needed. In Britain, evolution rather than revolution is a likely path forward, as money reform initiatives have been pursued less aggressively.

The inimitable John Kenneth Galbraith (1908-2006), sets the intellectual context for any attempts towards reform: “The study of money, above all other fields in economics, is one in which complexity is used to disguise truth or to evade truth, not to reveal it... The process by which banks create money is so simple the mind is repelled. With something so important, a deeper mystery seems only decent.” p 15 & p. 29 in *‘Money: Whence it came, where it went’* (1975).

Following a submission, only the Positive Money group had direct contacts with the Commission, including a joint meeting on 3 March 2011. In the 214 page Interim Report, however, anything related to money reform - as compared with

other financial institutional reforms - is swept aside in less than 3 pages (p 97 to p 100). On p 97, summarising 'other reform proposals' there is the following paragraph:

While some of these proposals have sensible aims and could be welcome developments if banks chose to adopt them, the benefits of mandating these structures across the sector do not appear to outweigh the costs and risks. Accordingly, the Commission does not propose to pursue them further.

There then follow 13 paragraphs under the headings *Narrow banking*, *Full reserve banking* and *Limited purpose banking*. Here the Interim Report fails to detail any cost/risk/benefit analysis of these proposals, leaving a substantial matter for further debate. A very telling sentence appears much later at p 145:..A very telling sentence appears much later at p 145: "However, some did view fractional reserve banking as a problem, and called for the Bank of England to be the only creator of money in the economy." This dismissive sentence is apparently the only direct reference to money creation issues. Earlier in the Report at p 39 there is one casual mention of interest charges.

Signatories to this letter believe that the Commission can do much better than that, whatever political or other obstructions they may expect to encounter.

We are not so naïve as to expect that the Commission, or indeed the government itself, is robustly positioned to effect without real struggle a change in a system that has enriched the commercial banking sector for some three hundred years. Yet without radical reform our banking system is likely to fail again and again with various dangerous social, environmental and political consequences including, not least, ceaseless magnification of the gap between the rich and all others. A basic sense of self-preservation requires that we tackle the root of this problem, that is, the processes of money creation.

**On account of our concerns we urge the Commission to take another hard look at proposals that address the fundamental question of how and by whom and for what purposes money is created. By way of recognition, the Commission should start with another round of face to face encounters in turn with all who submitted proposals concerned with money creation..**

Yours sincerely etc

[To be signed by as many of the great and good as possible]

Rt. Rev. Peter Selby,  
Lord Andrew Phillips  
Canon Lucy Winkett  
Prof. Richard Werner  
Jasper Tomlinson  
Simon Mouatt  
Canon Peter Challen  
Prof. Ronald Stamper

Michelle Mapp  
Janos Abel

and.....