“There is no money”

- The lie underpinning ‘austerity’

UNCTAD, 11 September, 2017

By Ann Pettifor
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www.primeeconomics.org
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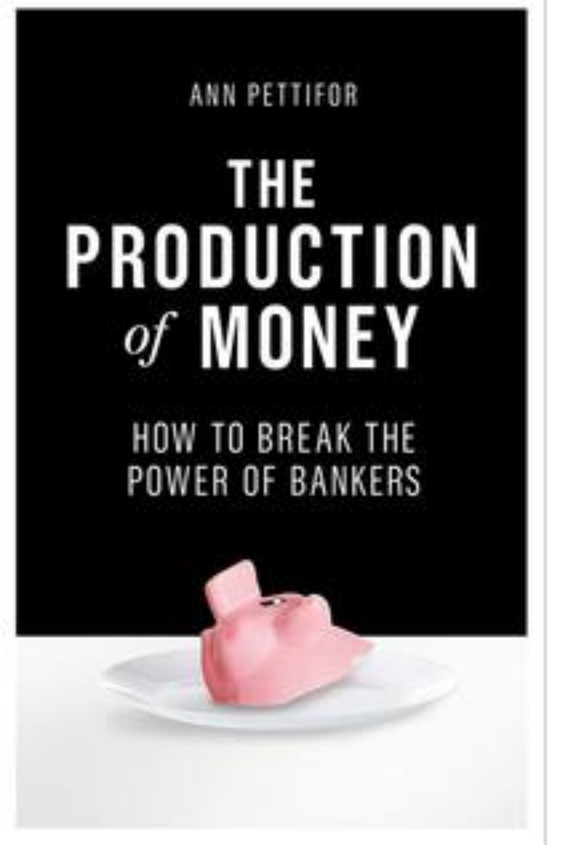

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"Modern Finance is generally incomprehensible to ordinary men and women….

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The level of comprehension of many bankers and regulators is not significantly higher……

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It was probably designed that way.

Like the wolf in the fairy tale:

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‘All the better to fleece you with’.

Satyajit Das, Traders, Guns and Money, 2010.

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What they *do* teach you about money…..

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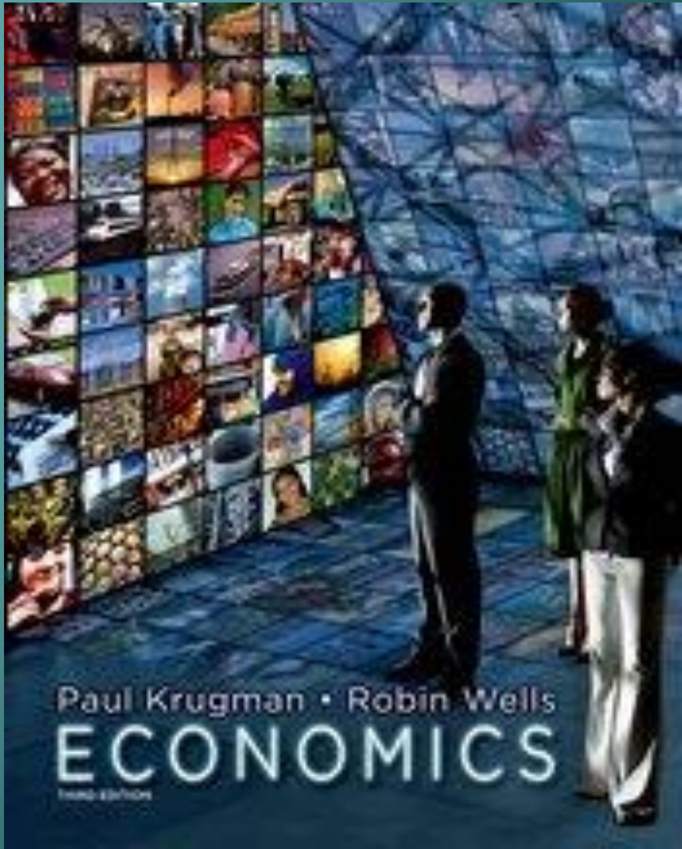
1. That its scarce.

2. That its availability depends on the accumulation of savings, or deposits in commercial banks.

3. That its availability depends on ‘money-printing’ by the central bank.

4. That a loan is: “a lending agreement between an individual lender & an individual borrower.”

(Krugman & Wells: Macroeconomics)



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Economic orthodoxy

(taught in all western universities, and in all textbooks)

has deeply flawed understanding of money.

Adam Smith:

~~“Money is “a neutral medium that facilitated exchange on the ‘great wheel of circulation’.”~~

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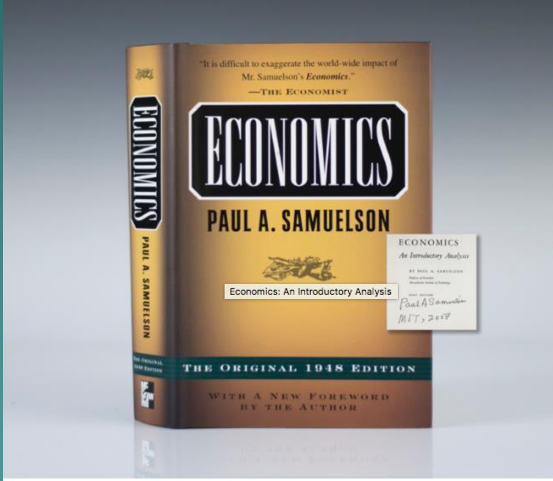
Adam Smith:

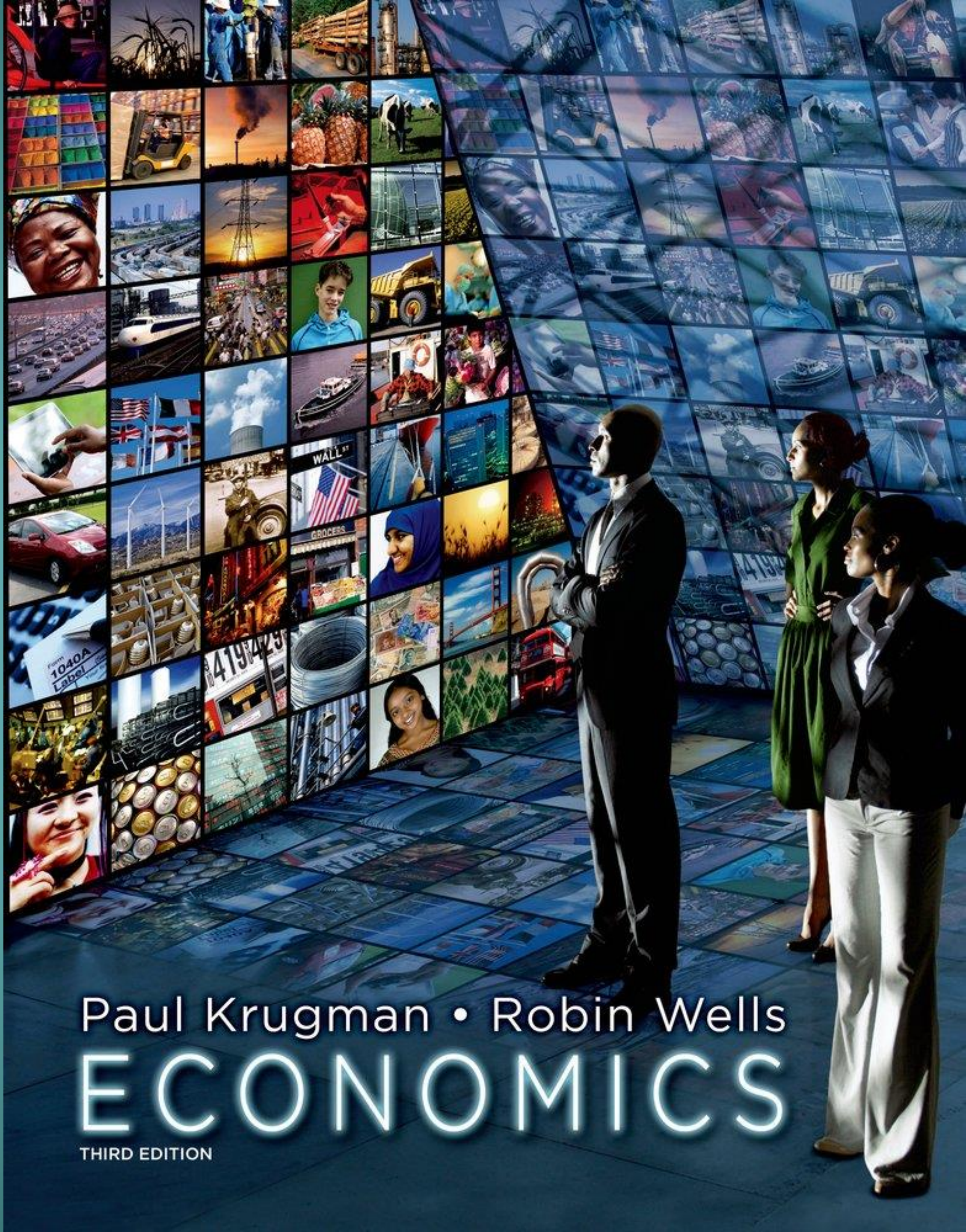
~~“Goods can serve many other purposes besides purchasing money, but money can serve no other purpose besides purchasing goods.”~~

Paul Samuelson



"Even in the most advanced industrial economies, if we strip exchange down to its barest essentials and *peel off the obscuring layer of money*, we find that trade between individuals and nations largely boils down to barter."

Bank: ~~“a financial intermediary.”~~



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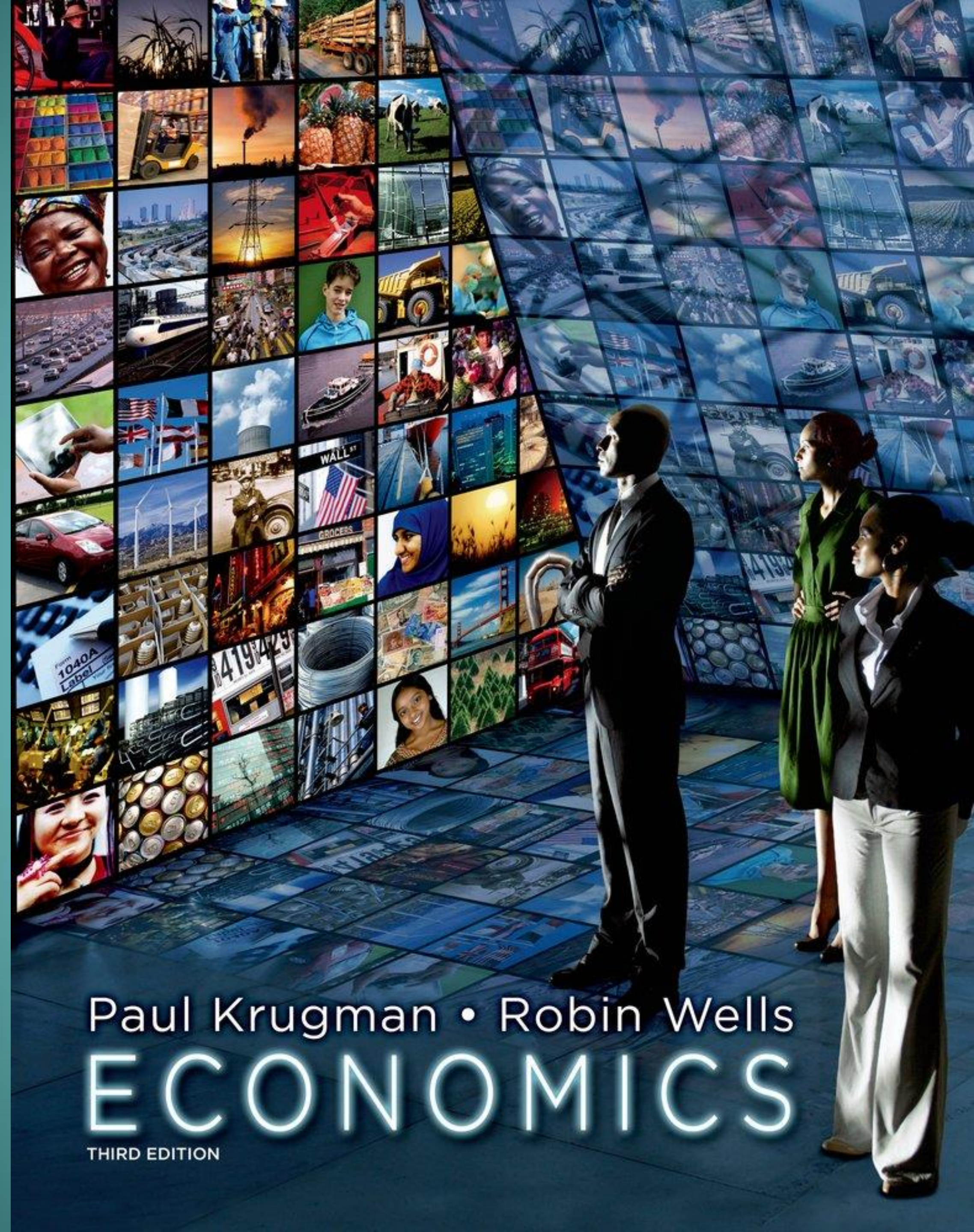
~~Loan: "a lending agreement between an individual lender & an individual borrower."~~



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Reality quite different:

Borrowers (individual, household, firms and governments) determine, expand or contract the money supply, each time they apply for a loan, issue a bond or a gilt.

Reality quite different:

In other words, creation of the money-supply process

is a bottom-up process.

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Reality quite different:

And while private, commercial banks can ‘create money out of thin air’ –

they can only do so at the request of borrowers.

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Reality quite different:

The Central Bank creates at most,

5% of money in circulation –

through the private banking system.

Without borrowers, there can be no expansion of the money supply.

Without trust, people won’t borrow.

Without borrowers, and institutions to uphold trust, there is no money.

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So much confusion around money!

Iceland's grand monetary experiment?

Matthew C Klein | Apr 08 16:07 | 27 comments | Share

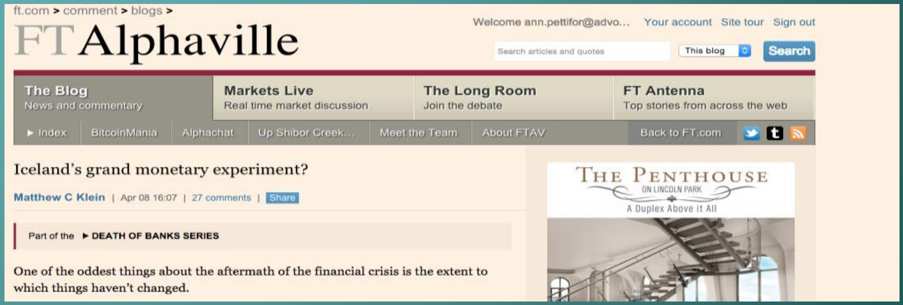
Part of the ▶ **DEATH OF BANKS SERIES**

One of the oddest things about the aftermath of the financial crisis is the extent to which things haven't changed.

WHAT DO WE DO?

1. **Remove** the power of banks to create money
2. Return that power to a **transparent** and **accountable** process
3. Create money **free of debt**
4. Create money only when **inflation is low** and stable
5. Make sure that new money goes into the real economy instead of financial markets
6. Give us control and transparency over how our money is

1185 × 668 - positivemoney.org



The Neglected Genius:

John Law (1671-1729)


JOHN LAW. — Page 62.

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Joseph Schumpeter on Law:

"I have always felt he's in a class by himself. He worked out the economics of his projects with a brilliance and, yes, profundity, which places him in the front ranks of monetary theorists of all time."

Schumpeter in *A History of Economic Analysis*, 1954, p 294-5.

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John Law on the tragedy of Scotland in 1705

Edinburgh Tolbooth

"This country (Scotland) is more capable of an extended trade than any other country of Europe, yet it is reduced to a very low state.…

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Scotland in 1705 ,
Greece today?

"But numbers of people, the greatest riches of other nations, are a burden to us; the land is not improved, the product is not manufactured; the fishing and other advantages for foreign trade are neglected and the reason generally given is, that laziness and want of honest are natural to us"… Instead it was 'the consequence of poverty, and poverty the consequence of a faulty administration'.

John Law, Money and Trade, 1705

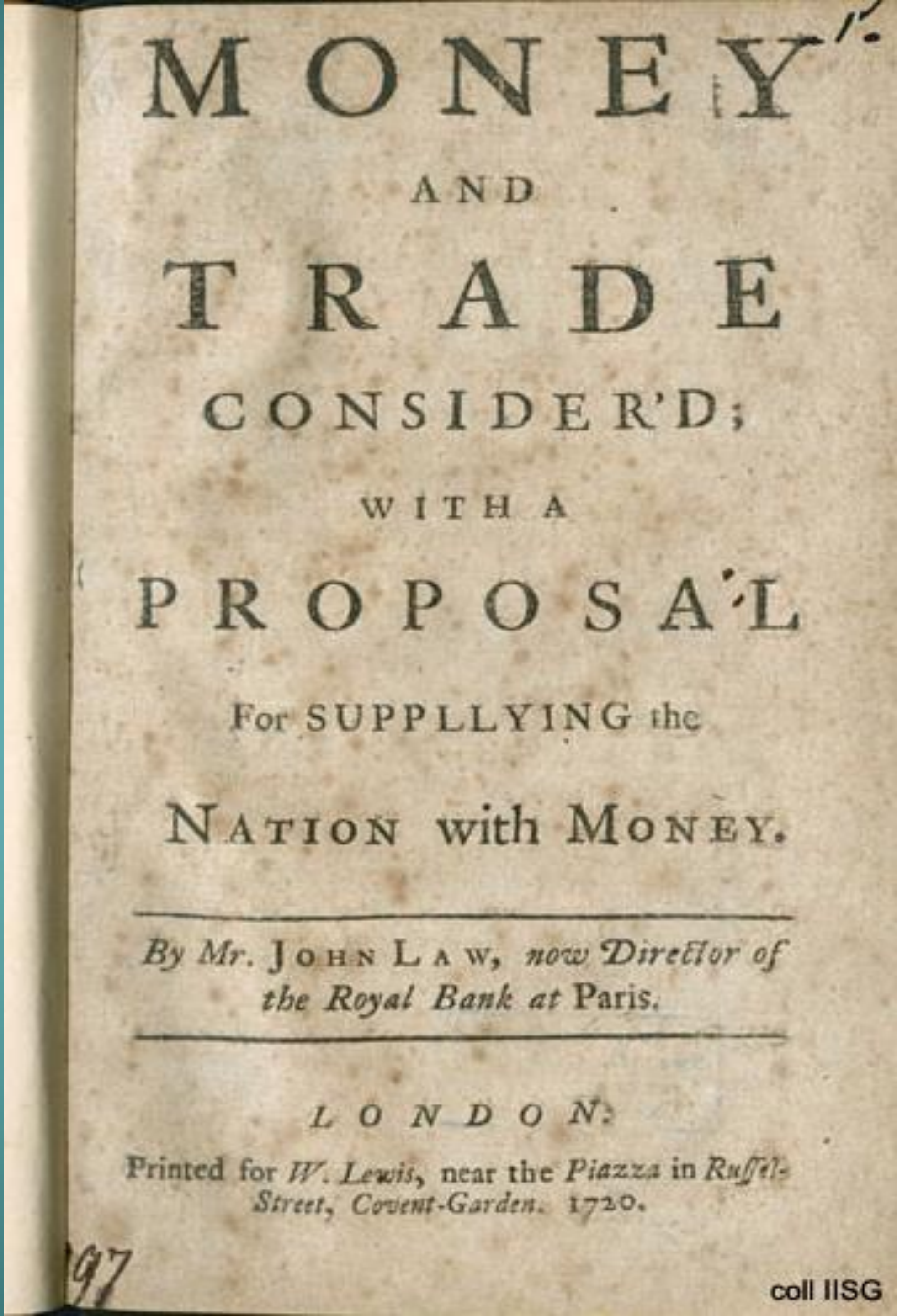
Bad government, and in particular *weak monetary administration* by the government, were to become primary targets for Law's criticism from this point onwards…

John Law understood money – and explained the nature and economics of a monetary system back in 1705 in two publications:

Essay on a Land Bank, 1704

and

Money and Trade, first published in 1705.


MONEY

AND

TRADE

CONSIDER'D;

WITH A

PROPOSAL

For SUPPLLYING the

NATION with MONEY.

By Mr. JOHN LAW, *now Director of the Royal Bank at* Paris.

LONDON:

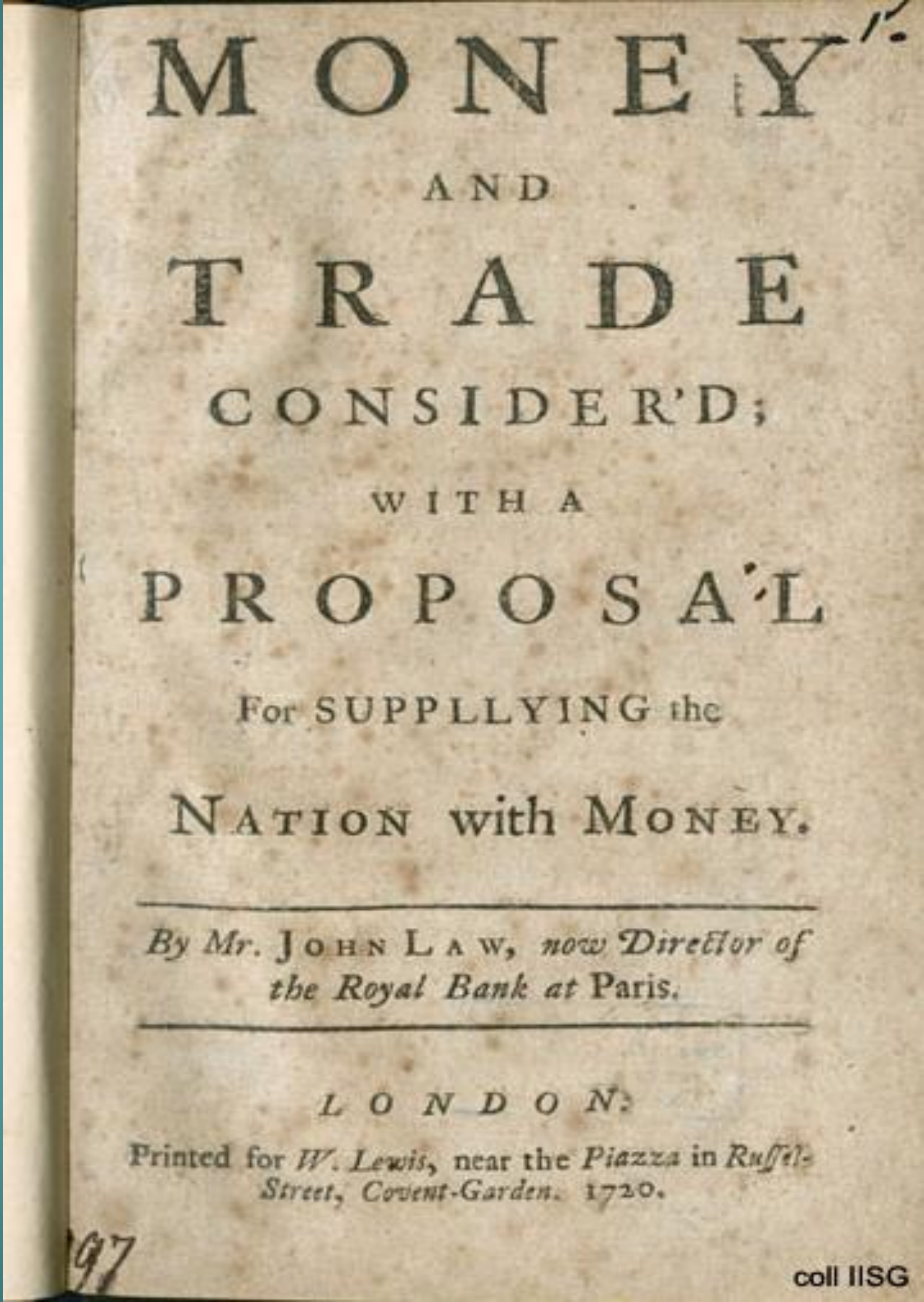
Printed for *W. Lewis*, near the *Piazza* in *Russel-Street, Covent-Garden*. 1720.

97

coll IISG

“Money is the measure BY which goods are valued, the value BY which goods are exchanged and in which contracts are made payable.” (my emphasis)

John Law, *Money and Trade Considered with a proposal for supplying the nation with money* . Yale Law School: http://avalon.law.yale.edu/18th_century/mon.asp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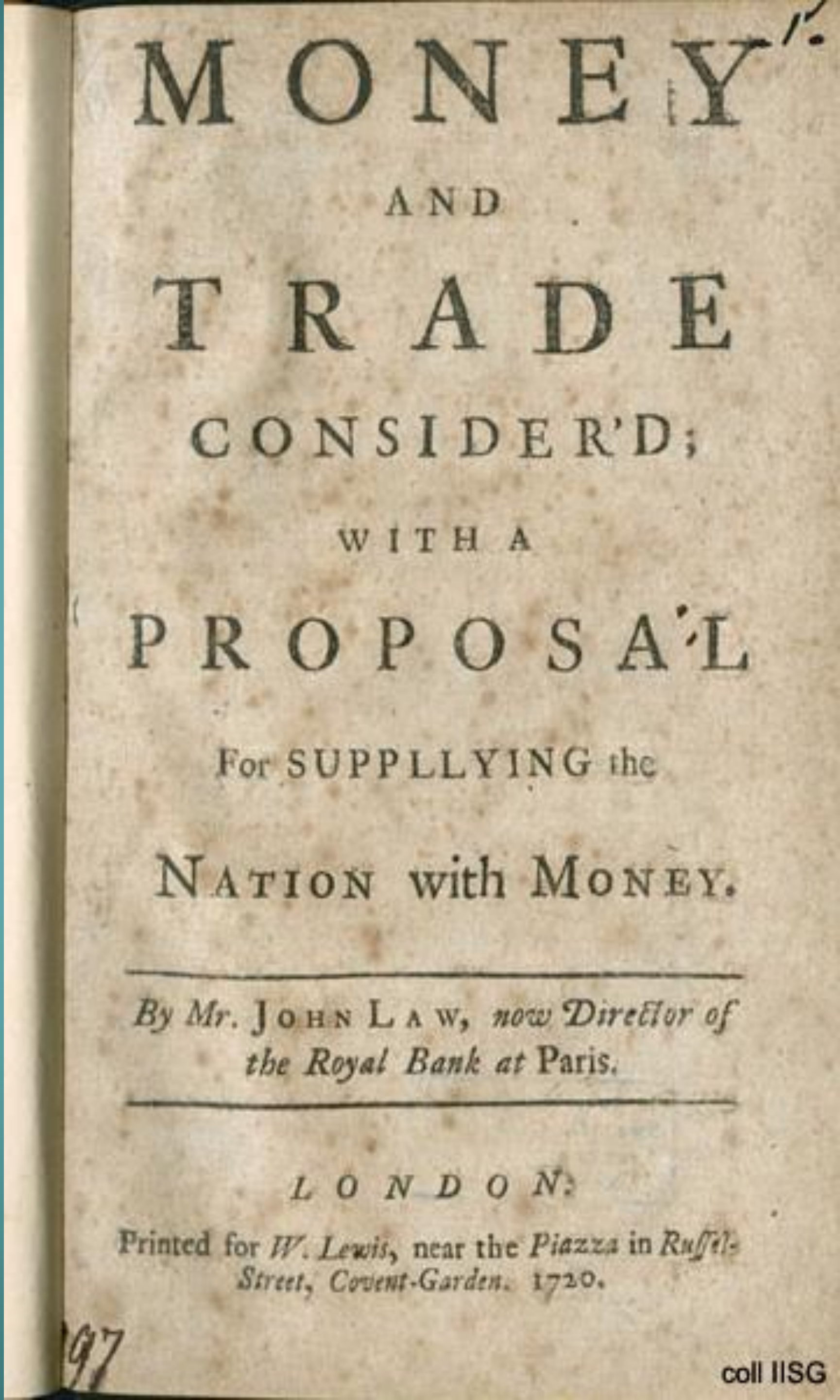
Law advocated a fully employed economy where people and land were fully utilized:

"It cannot well be known what sum will serve the occasions of the nation……..but the many poor we have always had, is a great presumption we have never had money enough".



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Law understood money as *a system*

A man-made or socially constructed system

Based on a social relationship:

- "I promise to pay" - a promise underpinned, upheld by *public authority.*

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ABSA
platinum
VISA
4787
MasterCard

"A promise to pay"- (Joseph Schumpeter)

Represented by gold, silver, coins, notes, cheques, cigarettes, credit and debit cards

Promises upheld by *public authority*

Banking system of commercial banks , inc central bank - manages currency

Criminal Justice/Judicial system (for upholding contracts)

Accounting system – double entry bookkeeping for assessing assets & liabilities

Taxation and tax collection system

Prime

US Federal Reserve

Bank of England

UROPEAN CENTRAL BANK

EUROSYSTEM

European Central Bank

A well-developed monetary system consists of:

- Claims and Obligations
- Assets and Liabilities
- Credit and Debt

A banknote is a central bank's *liability*;

but a bank's *asset*

A bank deposit is a bank's *liability*, but a depositor's *asset*

(Andrea Terzi INET, 2015).

A government security is a government *liability*; but an investor's *asset*

A corporate bond is a private company *liability*; and so on."

(Andrea Terzi INET, 2015).

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In a non-monetary economy

“When people save in the form of a real commodity, like corn, the decision to save is a fully personal matter:. . . .

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In a non-monetary economy

"….If you have acquired a given amount of corn, you have the privilege of consuming it, storing it, wasting it, as you please, without this directly affecting other people's consumption of corn.

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In a non-monetary economy

….Only if you decide to lend it will you establish a relationship with others.”

Andrea Terzi, INET, 2015

https://www.dropbox.com/sh/cyy9mpgq76gidr5/AABV395A-do-gZL9Q_0tj26va/3_Saturday%204.11.2015/The%20Eurozone%20Crisis/INET%202015%20TERZI%20f.pdf?dl=0

Prime

"In a monetary economy, saving is an act that reflects on others in the form of a financial claim…"

Terzi. Inet, 2015.

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The flawed orthodox economic narrative about *savings* being a source of funds for investment applies only to a non-monetary economy where saving is a real resource.

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In a monetary economy

Savings are not needed for investment

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20
BANK OF ENGLAND
20
20

Bank money does not exist *as a result* of economic activity.

Instead, bank money *creates* economic activity.

Credit creates deposits

Credit creates

- purchasing power
- economic activity
- output
- employment

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Employment creates income –

Wages, salaries, profits and tax revenues

- for the repayment of debts.

BANK OF ENGLAND

"The reality of how money is created today differs from the description found in some economics textbooks. Rather than banks receiving deposits when households save and then lending them out, *bank lending creates deposits.*"

January, 2014 Quarterly Bulletin, *Money in the Modern Economy: an introduction*

BANK OF ENGLAND

"In normal times, the central bank does not fix the amount of money in circulation, nor is central bank money 'multiplied up' into more loans and deposits."

January, 2014 Quarterly Bulletin, *Money in the Modern Economy: an introduction*

BANK OF ENGLAND

"Another common *misconception* is that the central bank determines the quantity of loans and deposits in the economy by controlling the quantity of central bank money — the so-called 'money multiplier' approach."

BANK OF ENGLAND

"Banks do not act simply as intermediaries, lending out deposits that savers place with them,

and nor do they 'multiply up' central bank money to create new loans and deposits."

Quarterly Bulletin 2014 Q1

BANK OF ENGLAND

“The majority of money in the modern economy is created by commercial banks making loans.”

Quarterly Bulletin 2014 Q1

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BANK OF ENGLAND

Working Paper No. 529

Banks are not intermediaries of loanable funds — and why this matters

Zoltan Jakab and Michael Kumhof

May 2015

Today, our monetary system is governed by

Private Authority - 'the invisible hand'

- International capital markets – beyond the reach of regulatory democracy.

Today we live in a world in which the public Infrastructure – the great public good - that is the monetary system and money production has been privatised – captured and subordinated to the interests of a wealthy elite.

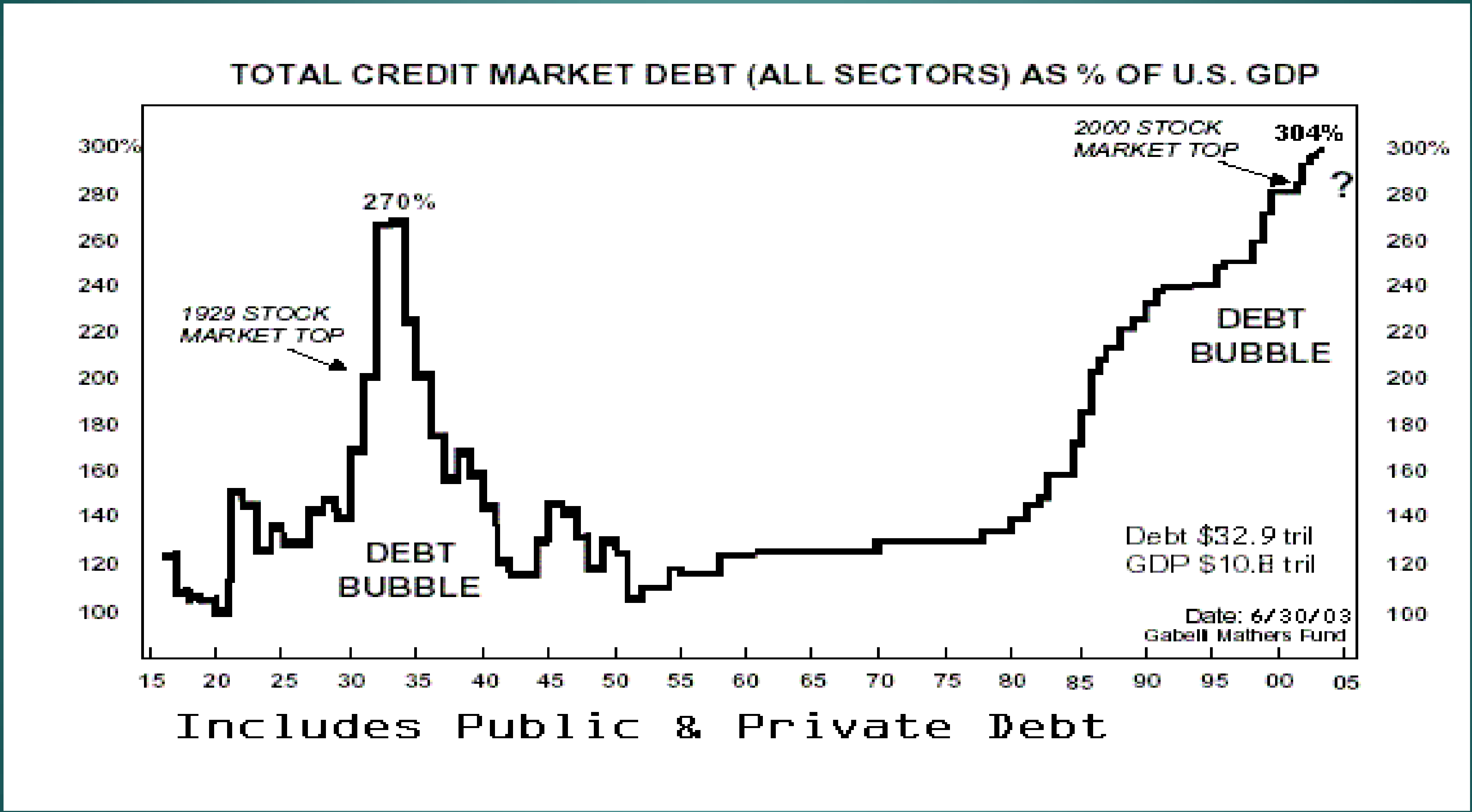
Finance Capital - Private Equity firms, asset management funds, hedge funds, global banks – now use their capture of the system to gouge rent from a wide range of assets –

property, brands, stocks and shares, corporations, works of art, race horses etc…

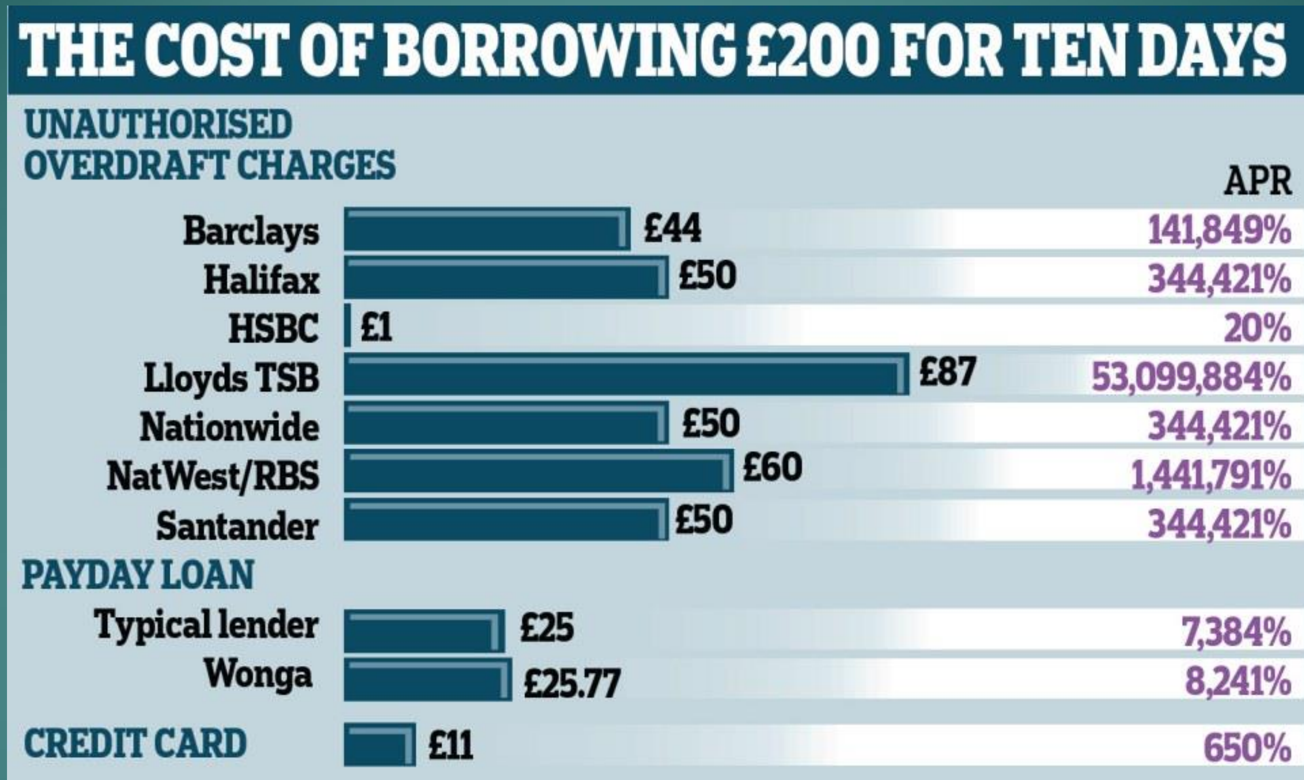
A public right to create money has been captured by the private banking sector – and aimed largely at speculation and self-enrichment of bankers & wealthy.


Murder! murder! Rape! murder!
O you Villain! what have I kept my Honor
untainted so long, to have it broke up, by you at last?
O Murder! Rape! Ravishment! Ruin! Ruin! Ruin!!!
BANK of ENGLAND
LOANS
POLITICAL-RAVISHMENT or The Old Lady of Threadneedle-Street in danger!

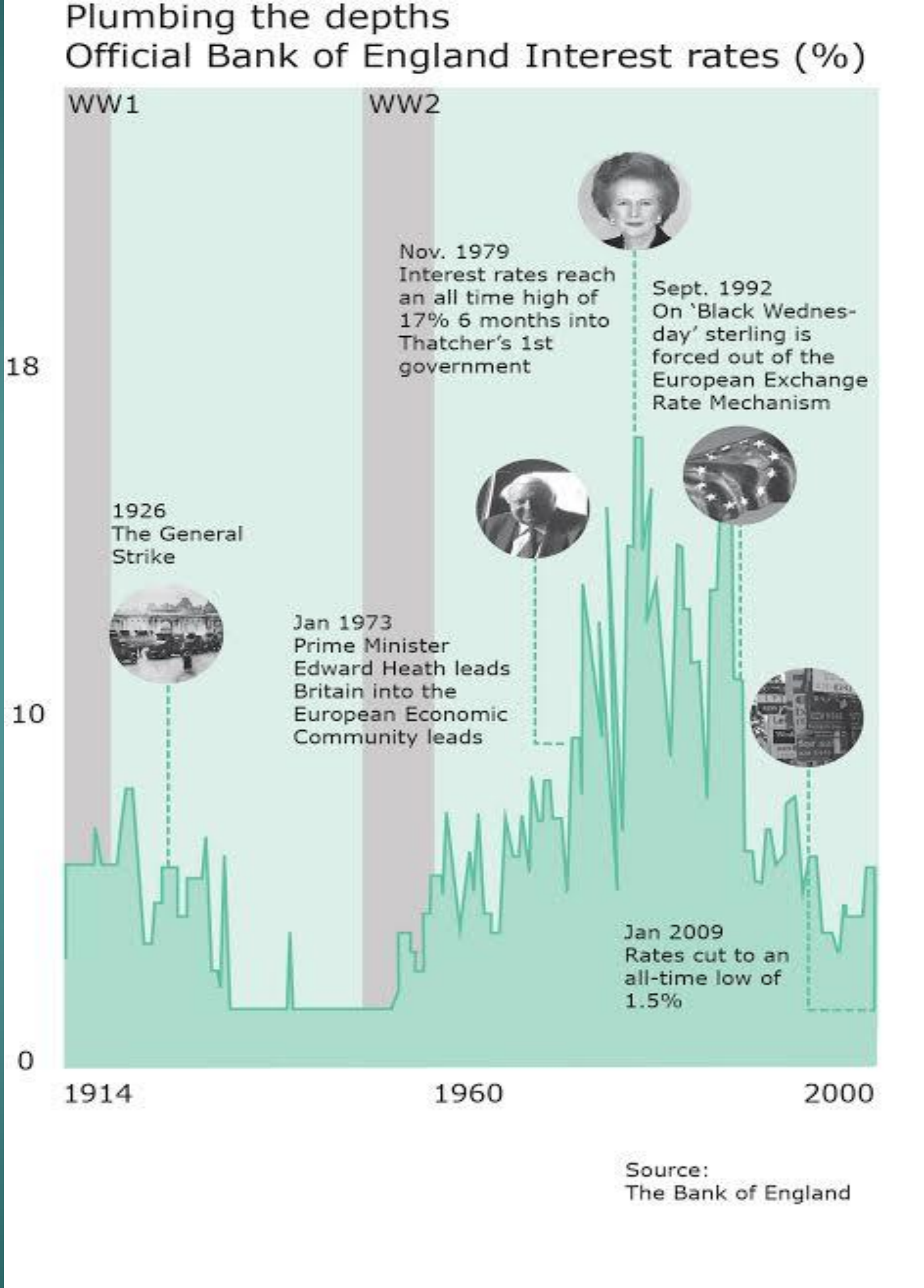
The elastic, private production of credit…



Source: Gabelli Mathers Fund
http://www.itulip.com/forums/showthread.php/428-Ka-Poom-Theory-is-a-Rhyme-not-a-Repeat-of-History



This is Money, 30 January, 2013.
http://www.thisismoney.co.uk/money/saving/article-2270230/How-sky-high-bank-overdraft-charges-force-borrowers-use-payday-lenders.html



With acknowledgements to the Financial Times.

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Capital Mobility and the Incidence of Banking Crisis: All Countries, 1800-2007:

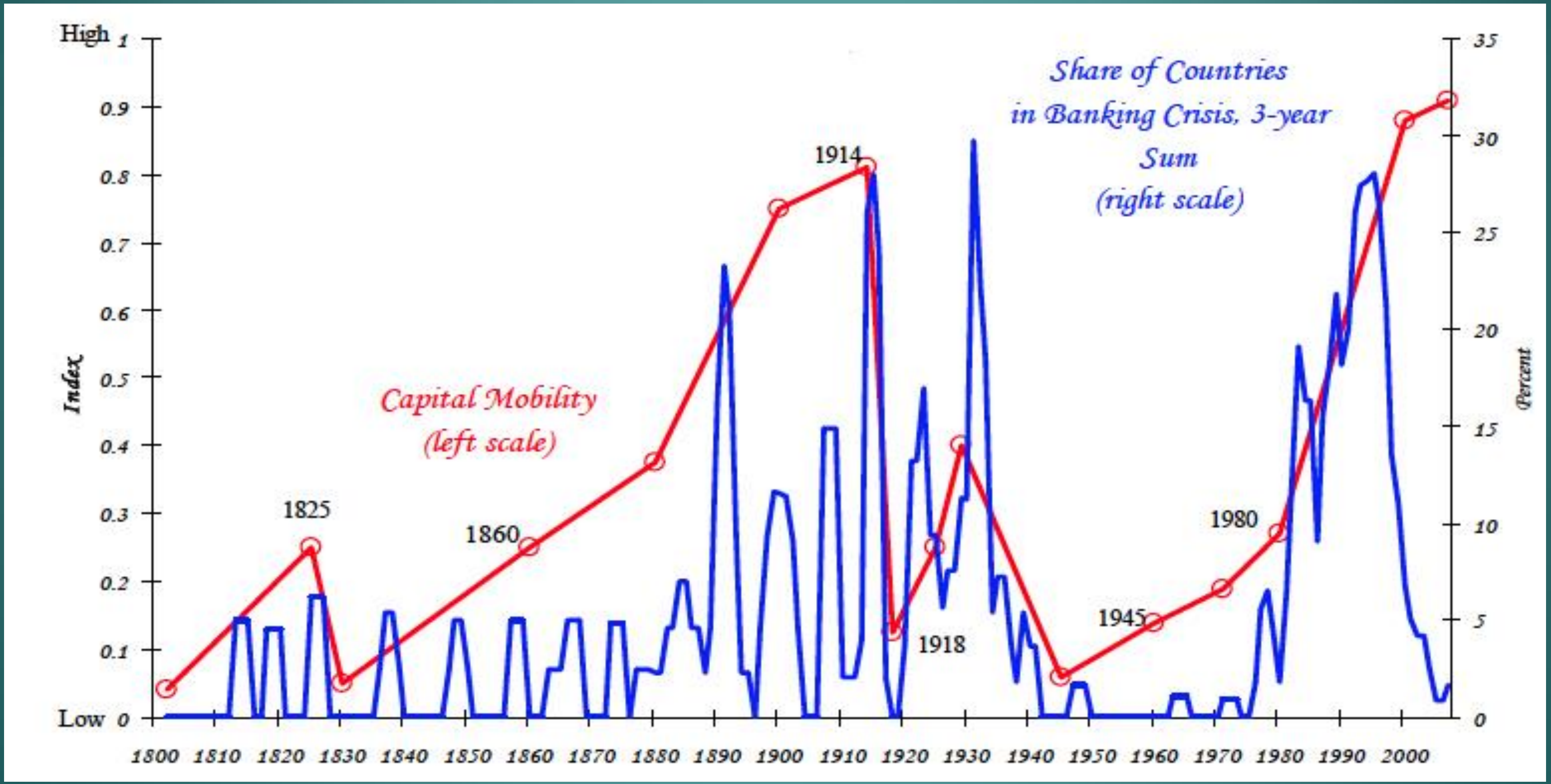


Chart taken from "This Time is Different: A Panoramic View of Eight Centuries of Financial Crises" by Carmen M. Reinhart, University of Maryland and NBER; and Kenneth S. Rogoff, Harvard University and NBER.

The age of asset management (Haldane 2014) the reverse of the demise of the welfare state.

Assets Under Management (AUM) are currently estimated at around $87 trillion globally (TheCityUK (2013)) - equal to around one year’s global GDP or around three quarters of the assets of the global banking industry.

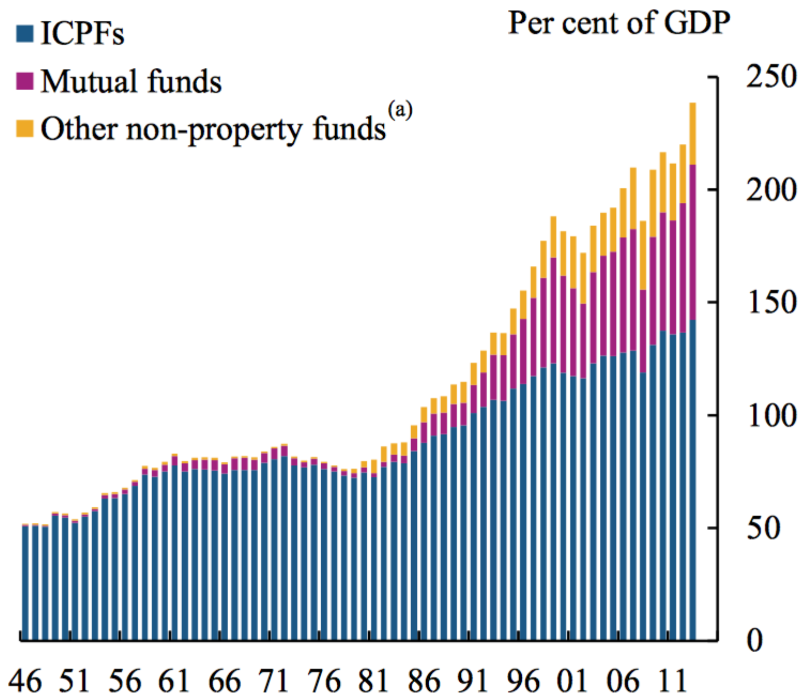
The top 400 asset managers

Asset managers in our listing are ranked by global assets under management and by the country of the main headquarters and/or main European domicile. Assets managed by these groups total €63.3trn

	Company	Country	Total 2017 31/12/16 (€m)	Total 2016 31/12/15 (€m)
1	BlackRock	US/UK	4,884,550	4,398,439
2	Vanguard Asset Management	US/UK	3,727,455	3,091,979
3	State Street Global Advisors	US/UK	2,340,323	2,066,479
4	Fidelity Investments	US	2,129,650 [1]	1,830,330
5	BNY Mellon Investment Management	US/UK	1,518,420	1,492,895
6	J.P. Morgan Asset Management	US/UK	1,479,125	1,361,178
7	PIMCO	US/Ger/UK	1,406,350 [1]	1,321,158
8	Capital Group	US	1,401,780	1,272,080
9	Prudential Financial (PGIM)	US	1,201,082	1,089,737
10	Goldman Sachs Asset Management Int.	US/UK	1,116,606	996,651

	Company	Country	Total 2017 31/12/16 (€m)	Total 2016 31/12/15 (€m)
61	Charles Schwab Investment Mngt.	US	284,700	254,556
62	Robeco Group	Netherlands	281,350	268,062
63	RBC Global Asset Management	Canada	277,992	257,297
64	SEI	US/UK	268,570	239,800
65	Fidelity International*	US/UK	264,455	251,386
66	MEAG	Germany	263,500	254,813
67	Dodge & Cox	US	262,116	238,761
68	Barings	US/UK	257,886	-
69	Geode Capital Management	US	248,356	194,198
70	Neuberger Berman	US/UK	241,940	221,263

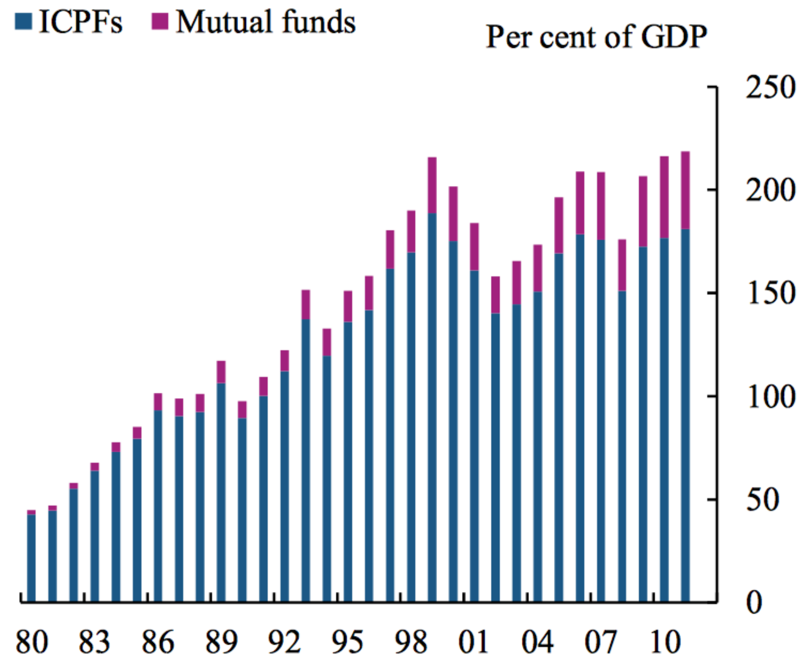
Chart 1 Total AUM of US insurance companies, pension funds, mutual funds and other funds, 1946 – 2013



Source: US flow of funds

(a) Other non-property funds include closed-end funds, exchange-traded funds and money market mutual funds

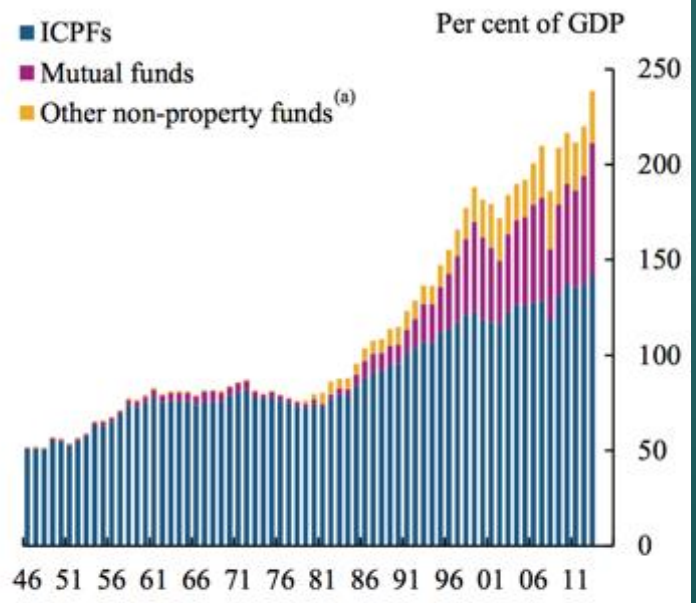
Chart 2 Total AUM of UK insurance companies, pension funds and mutual funds, 1980 – 2012



Source: OECD, ONS, Investment Management Association and Bank calculations

In the United States, AUM have risen almost fivefold relative to GDP since 1946, from around 50% of GDP to around 240% of GDP (Chart 1).

Chart 1 Total AUM of US insurance companies, pension funds, mutual funds and other funds, 1946 – 2013



Source: US flow of funds

(a) Other non-property funds include closed-end funds, exchange-traded funds and money market mutual funds

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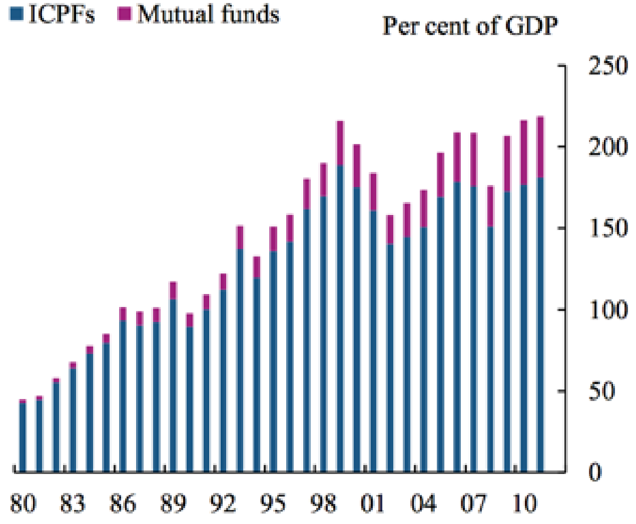
In the United Kingdom this pattern has been replicated, but over a much shorter time period since around 1980 (Chart 2).

Chart 2 Total AUM of UK insurance companies, pension funds and mutual funds, 1980 – 2012



Source: OECD, ONS, Investment Management Association and Bank calculations

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Haldane (2014):

Across most OECD countries, the patterns are similar.

The asset management industry has, it appears, come of age.

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‘Shadow Banking’

(Daniela Gabor, 2017)

- Opacity, leverage, interconnectedness:
- reliant on daily collateral valuation, highly pro-cyclical!

Assset Mgement Funds:

- Increasing activities in securities and derivative markets

- Across borders (financial globalisation)

- Off-balance sheet (shadow banking)

Banks (and shadow banks) fund securities continuously re-priced in repo transactions..

- Money issued against securities collateral

- Business model reliant on daily variation in market price of securities

-

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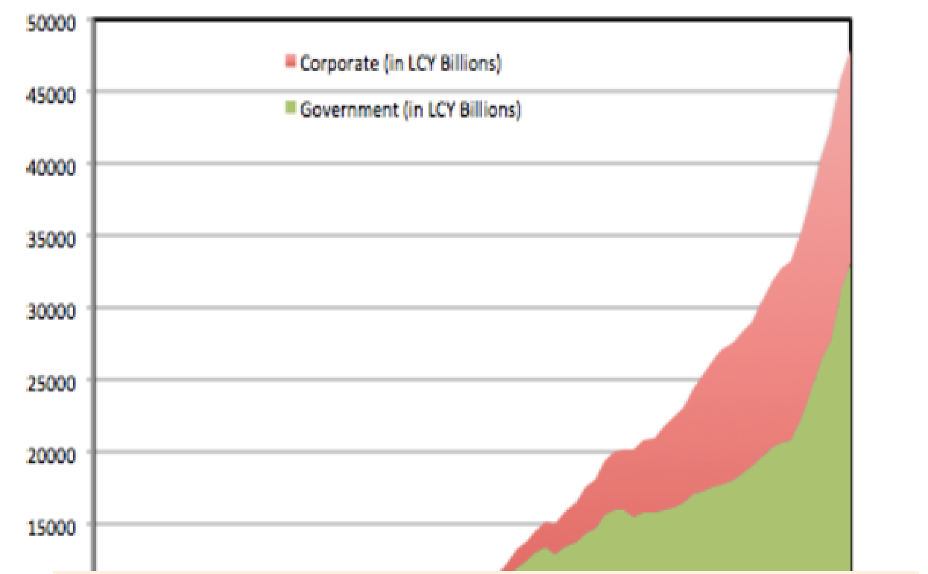
Shadow Banking here to stay?

Expanding to China



"The real issue isn't the volume of debt but rather the liability-side 'plumbing' that underlies the debt boom," says Jonathan Anderson, principal at Emerging Advisors Group and longtime China-watcher. "If there's going to be financial crisis in China, this is where it will come from."

INET grant Managing Shadov

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Shadow Banking: source of the next financial crisis?

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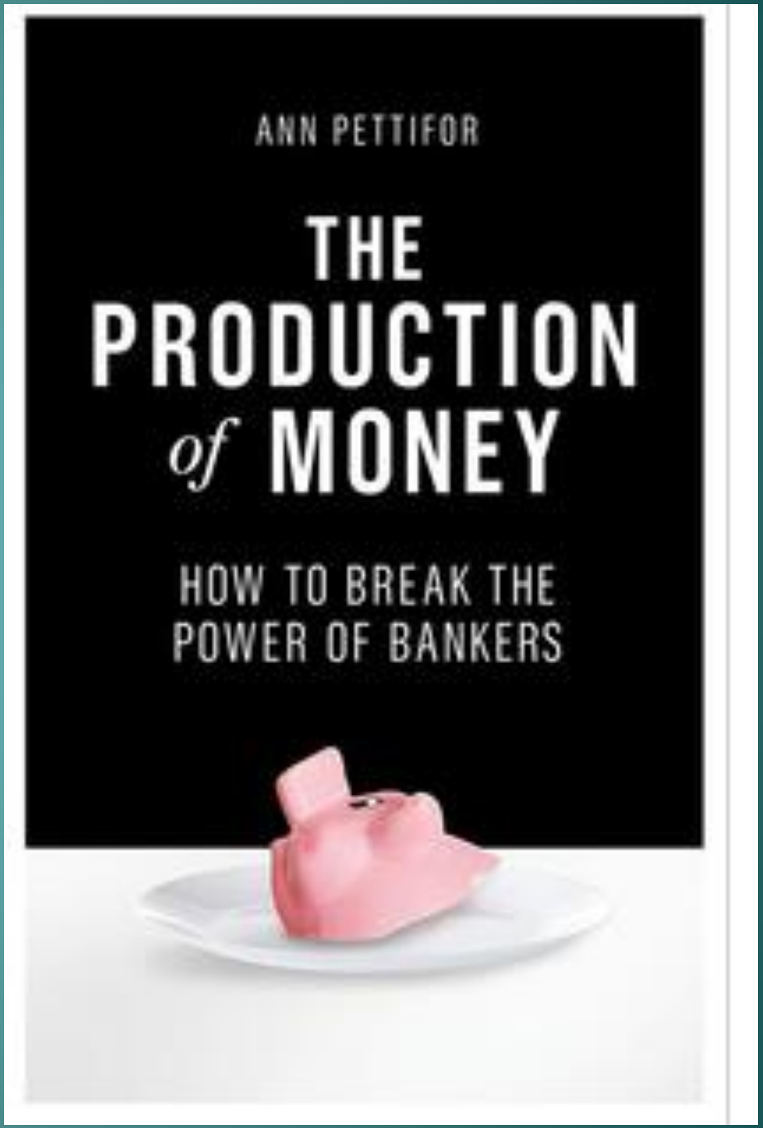
Thank you!

Ann Pettifor Director, Policy Research in Macroeconomics (PRIME)

www.primeeconomics.org
@AnnPettifor

Author: The Production of Money (Verso 2017)



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