Monetary Reform as Incremental Innovation?

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Introduction

Monetary reform initiatives so far have pursued an approach of radical innovation, or a big-bang approach. Reform programs start from the assumption that there is a D-Day upon which

- the monopolies on coins and banknotes would be extended to money-on-account and e-cash, devolved to the national central bank (or the ECB, respectively) or a Monetary Commission
- the creation of bank money would be terminated overnight
- balance sheets and accounting procedures would equally be readapted overnight
- seigniorage from creating new money would entirely benefit the public purse from that date on.

Examples of well-designed programs of reform initiatives are the *American Monetary Act* and *H.R. 2990* by the American Monetary Institute[2], the *Bank of England Act* in various presentations by Positive Money[3], the German *Monetative* reform program[4], and the proposition for a constitutional amendment by the *Monetary Modernisation* initiative in Switzerland.[5]

Notwithstanding the validity of the concepts underpinning such reforms, some supporters of monetary reform have expressed from the beginning a preference for incremental reform too and these voices have grown in number of late. One motive certainly is that in spite of increased attention paid for monetary analyses and reform, D-Day still seems to be far off. Might it not be easier to do the trick with some *part* of the package? Instead of aiming to implement reform in one go, might there not be some way to *phase it in step-by-step*?

In the following sections, three of these incremental perspectives will be discussed:

1. A gradual transition to full reserve (step-by-step implementation)
2. Overt money finance (OMF), i.e. the issuance of sovereign money in parallel with bank money (partial implementation)
3. The introduction of safe money accounts, or even safe money banks, in parallel with fractional-reserve giro accounts (step-by-step implementation).

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[2] monetary.org/wp-content/uploads/2011/09/32-page-brochure.pdf - monetary.org/wp-content/uploads/2013/01/HR-2990.pdf

[3] positivemoney.org/our-proposals/draft-legislation/ - positivemoney.org/our-proposals/positive-money-proposals-in-plain-english/

[4] vollgeld.de/vollgeld-broschuere/ - sovereignmoney.eu/papers-and-manuscripts/ → column right, scroll down.

[5] www.vollgeld-initiative.ch - www.vollgeld.ch/

Gradual transition to full reserve

The option of a gradual transition from fractional to full reserve builds on the idea of bulking up the present holdings of 3% or 12% reserves on deposits to 100%. This would not be done in one major step, but gradually in a number of small steps over a certain period of time, say by 1 or 2 percentage points every month. The full 100% would then be reached after 4–8 years.

According to Zarlenga, this idea was first put forth by Lauchlin Currie, who was a supporter of 100% banking within the US administration in the 1930s.

> He thought he could 'sneak' 100% reserves through in the administration's 1935 banking legislation with a provision giving the Fed the power to raise reserves. He thought 'we'll just get them raised to 100%.' But Senator Carter Glass, representing banker interests, easily blocked this by putting in a provision in the conference committee limiting the reserve requirement to double what they were at that time, which was about 15%.[6]

Let us leave aside for the moment political questions of putting a reform through. Let us assume Currie's concept would have been successful and the reserves on deposits would have reached 100%. The result, I am afraid, would nevertheless have been disappointing for a number of reasons.

To begin with – and this is as simple as it is fundamental – control of the money supply cannot be achieved through reserve coverage of deposits. According to the credit multiplier model and the reserve position doctrine, it is assumed that central banks provide an amount of reserves (i.e. the money base) in a first step and banks then create a multiple of this by way of granting primary credit, thus creating the demand deposits we use as bank money. In reality the causation is the reverse. The initiative is with the banks. They create credit and bank money pro-actively. The central bank thereafter has little choice but to re-act accordingly and accommodate the banks' demand for reserves, thus in actual fact re-financing what the banks have determined in advance.

There is also the fact that the banks that grant credit or purchase securities, thereby creating the deposits (= bank money), are *not* responsible for ensuring the required *coverage* reserves. This, in contrast, falls on the banks that *receive* money transfers (deposit transfers). The credit-creating banks, at the most, have to look for fractional *payment* reserves (*excess* reserves) at the end of the day. In brief, credit creators are not liable for deposit coverage, but receiving banks are.

[6] Zarlenga 2005.

This might appear to be counter-intuitive, but it is the very principle on which fractional reserve operates. It works as long as all banks extend their balance sheets largely in step with each other so that outflows and inflows among the banks largely even up and balances thus remain just a small fraction of the entire payments turnover.

It is beyond the scope of this paper to go into any great detail on the question of why a *full* reserve system basically has the same sort of shortcomings as a *fractional* one, even though the dysfunctions might be less pronounced in a *full* reserve system.[7] In particular, 100% reserves do not allow pro-active control of the money supply any more than fractional reserves. A 100% reserve will thus fail to control inflation and asset inflation effectively and prevent major crises. Moreover, property rights are not settled in that reserves are the property of the banks, not of the customers. In a severe banking crisis, both the reserves and the deposits might still be at risk.

With regard to the cost structure of 100% deposit coverage, it represents an expensive interest burden *in addition* to the deposit interest banks already pay. The banking industry would largely pass that burden on to the customers and the entire economy. The likely outcome would be an increase in the general level of interest and in the volume of interest payments. This results in a disadvantage for the real economy and earned income to the benefit of financial income.

It thus has to be concluded that a *full* reserve system is partially as dysfunctional or suboptimal as a *fractional* reserve system, no matter whether the full reserve would be introduced step-by-step or in just one major step.

Overt money finance (OMF). Issuance of sovereign money in parallel with bank money

Sovereign money as a 'parallel currency' to bank money

The issuance of sovereign money in parallel with bank money is a recent Positive Money proposal, written by Andrew Jackson and entitled Sovereign Money Creation.[8] The idea is to let the government create sovereign money, or cause it to be created, and spend it into circulation in parallel with the existing private creation of bank money. It thus represents a special kind of 'parallel currency' approach. Over the years, quite a few economists have proposed this idea, including Adair Turner recently in 2013, at the time chief UK financial supervisor, under the term Overt

[7] For further details on this cf. sovereignmoney.eu/100-per-cent-reserve/
[8] Jackson 2013 pp. 16 et seq.

Money Finance (OMF).[9] Several months earlier, Martin Wolf, Chief Economics Commentator of the Financial Times, wrote an article on *The Case for Helicopter Money* in which he said: 'I fail to see any moral force to the idea that fiat money should only promote private spending'.[10]

Operationally, the proposal can be put into practice in various ways, depending on national settings. Regarding the UK, Jackson proposes that the government issues 'perpetual zero-coupon consols' (non-interest-bearing government bonds with no specified maturity) directly to the Bank of England. The Bank in turn credits the Treasury account with the corresponding amount of liquid reserves, i.e. central bank money-on-account. Whether the sovereign money involved represents *debt* or national monetary *equity,* or something else, is a matter of setting a suitable accountancy convention. A still better option of accounting for debt-free sovereign money is to treat it like coins, also if delivered on account or as banknotes or e-cash.[11]

Such sovereign money creation, as explained by Jackson, represents a certain combination of monetary and fiscal policy, without however blurring the boundaries between the two. Government and parliament have no right to demand money from the central bank or otherwise encroach upon it. The central bank in turn is obliged to consider only monetary aspects in fulfilling its legal mandate. However, in the UK, the US and other countries this includes contributing to government policies on the economy and employment as far as this is compatible with monetary criteria.

In comparison to a big-bang monetary reform, it may be easier to gain support from the side of politics and academia, especially from Keynesian and post-Keynesian economists. The resistance of the banking industry and the banking-school type of economists, however, will certainly stay the same. Here, I want to point out that the extent to which central bankers also endorse banking doctrine nowadays should not be underestimated.

The prohibition of the sovereign from issuing sovereign money

OMF is faced with a legal issue. In the US, the proposal collides with US Code (Title 12, Chapter 3, Subchapter IX) § 355. In the European Union, it collides with Art. 123 (1) of the Treaty on the Functioning of the EU (TFEU). These legal provisions allow for the purchase and sale of public debentures of any kind '… but only in the open market' as U.S. Code § 355 (1) states. This corresponds to Art. 123 (2) TFEU, while Art. 123 (1) TFEU explicitly

[9] Turner 2013a (cf. 2012, 2013b).
[10] Wolf 2013.
[11] Cf. Mayer 2013.

prohibits any central-bank contribution to public budgets such as central bank loans to public bodies or the *direct* purchase of government bonds.[12] A few exceptions relate to interest-borne seigniorage as part of the annual central bank profits that are discharged to the Treasuries, contributions to the IMF, the traditional purchase of coins from the Treasuries, and intraday overdraft.[13] European governments, however, if in doubt, have shown a tendency of not caring too much about European law.

It can be argued that these legal provisions do not apply to the transfer of newly created debt-free central bank money-on-account to the Treasury as such a transfer represents *genuine* seigniorage, like the benefit from coinage. If interest-borne seigniorage is exempted from those paragraphs as well as genuine seigniorage from coinage, then further forms of genuine seigniorage are surely exempted as well.

Contemporary financial teaching, though, is banking-school doctrine.[14] It only acknowledges credit and interest-borne seigniorage, while ignoring the option of debt-free money and genuine seigniorage. Even if new currency teaching finds increasing support, larger amounts of genuine as well as interest-borne seigniorage will undoubtedly lead to debate on whether or not this represents *direct* funding of public budgets as prohibited by US Code §355 or Art. 123 (1) TFEU respectively.

Sovereign E-Cash

As long as the questionable prohibition of the sovereign (i.e. parliament and government) from issuing sovereign money or *directly* obtaining that money from the national central bank is in force, there is an option that would allow circumvention of the self-defeating prohibition. That option is the traditional and undisputed prerogative of the government to issue coins. The concept of the US *trillion dollar coin* proposed in 2011/12 in the context of the disputes over debt-ceilings and the fiscal cliff, recalls that sovereign right. Section 31 US Code § 5112, grants to the Treasury the right to 'mint and issue platinum bullion coins' in any denomination.

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[12] Art. 123 (1) TFEU: Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as 'national central banks') in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments.

[13] Art. 123 (1) TFEU applies to all EU member states, including the UK and other non-euro states. The British government, however, won a derogation concerning its ways-and-means facility with the Bank of England, but nothing more.

[14] For more information on currency-versus-banking teaching cf. sovereignmoney.eu/ currency-and-banking-teachings.

Furthermore, the US Constitution, Art. 1, Section 8, Clause 5, more generally grants Congress the right 'to coin money'. In Europe, equivalent rules are laid down in individual national laws.

Coins have become irrelevant today. They count for about 0.3 per cent of the money supply. Treasuries would certainly not be expected to send out crates full of coins to the addressees. But the situation is bound to be different with regard to the modern digital equivalent of traditional cash, that is, electronic cash, or e-cash for short. EU Directive 2009/110/EG explicitly grants the right to issue e-cash not only to banks, but also to government bodies. If the ECB were not to co-operate in buying e-cash from the government, treasuries could easily pay recipients by handing out e-cash cards or by sending out the amounts involved via IT devices such as mobile phones. Given the banking-prejudiced attitudes of most experts today, the issuance of sovereign e-cash would certainly be highly controversial. However, if the government of the day were determined to implement OMF by issuing e-cash, yes, it could.

Central banks too can issue e-cash in analogy to banknotes and reserves (central-bank money-on-account for banks).[15] In fact they ought to start doing so immediately, for one thing in order not to stand in the way of the digital future of money, for another thing in order not to completely lose control of private e-currencies from the beginning, 'virtual' real currencies that are already producing strange effects across the world. The dissemination of private e-currencies is probably the most effective way to dispense with the need for central banks at all, to the benefit of dubious interests, and also in the interest of the 'free banking' faith community that wants to do away with central banks and the monetary sovereignty of states altogether.

OMF as a countercyclical stimulus

There is another aspect of the proposal of which one should be aware. Money finance, particularly as set out by Jackson, is not introduced as an unspecified general option, but is meant to be an economic policy measure of limited application, more precisely, an up-to-date debt-free substitute for Keynesian deficit spending.[16] If there is a business cycle trough or some other kind of economic stagnation with underemployed capacities, when banks are tight with credit, customers reluctant to borrow and investors shy away from new investment, then OMF can and should step in and fill the gap. As long as the economy does not operate near full capacity, no monetary overshoot and problems of instability will ensue. In such a

[15] Cf. Lochmaier 2014.
[16] Jackson 2013 pp. 19 et seq.

situation, sovereign money creation, rather than happening in parallel with and adding to the supply of bank money, would compensate for a temporary lack of bank credit in times of downturn and the troughs of crises.

Thus far, one can agree with the proposal of OMF. In practice, however, there is a double problem with this kind of compensatory government spending. First, Keynesian deficit spending has become an all-seasons practice beyond just serving as a counter-cyclical stimulus. Second, the governments' all-seasons debt accumulation not only feeds on secondary credit on the basis of already existing money, but also involves additional money creation through primary bank credit. As the sovereign debt incurred has in fact never been paid back since the 1960s and continues to accumulate up to the present day, there is some overshooting in money creation involved. This is further expanded by the banks' primary credit and deposit creation for various additional purposes as soon as the economy starts to recover from some cyclical weakness. Since around 1960, this has repeatedly resulted in an overshooting money supply and various waves of consumer-price inflation and/or asset inflation. Chronic public deficits and debt accumulation, partly private debt accumulation too are to as great an extent as financial investment leverage the major driving forces behind present-day dysfunctions and crises of fractional reserve banking.

Is there a convincing reason why the situation would be better with OMF? Even if parliament, government and the central bank were willing to restrict OMF just to serving as a temporary compensatory stimulus, would the Treasury, if necessary for monetary reasons, also be willing and able to reduce the quantity of sovereign money (which would reduce its immediate spending power)? Alternatively, would the central bank be willing and able to reduce the quantity of bank money? It has not worked so far. What could make it work from now on?

Limits to OMF

Also and particularly if OMF were introduced as a regular practice, the rights and liberties, claims and boundaries of the central bank, the government and the banking industry need to be determined unambiguously. This especially relates to
(1) the *monetary* responsibilities of the central bank
(2) the *fiscal* responsibilities and discipline of government and parliament
(3) the *monetary* and *financial* functions of the banking sector.

As far as the position of the banking industry and its relationship to the central bank is involved we are bound to say that so far there is no 'transmission mechanism' that would effectively control and limit banks' primary credit and deposit creation. The reserve position doctrine has been rendered obsolete by the banks pro-actively determining what the central bank has to re-finance fractionally afterwards. Therefore, quantity policy does not work in practice.[17] Short-term base-rate policy is a weak substitute.[18] The capital markets, rather than exerting discipline, fail to do so because modern fiat money can freely be created out of nothing. It thus lacks an anchor of scarcity (such as real economic productivity as the major point of reference). Interest rates, accordingly, are far from being reliable market prices.

From the viewpoint of currency teaching, the *monetary* function of the banking sector (i.e. the creation of bank money by way of banks crediting customer accounts) is dysfunctional and illegitimate and should not exist at all. As long as banks are able to create money of their own in the form of money-on-account and e-cash, interest rates will not be reliable market prices and banks will never be truly 'efficient' in their lending and investment business.

Sovereign money issuance in parallel with bank money does not provide an answer to these issues. This is not meant to be an objection, just a statement on what the proposal can achieve. The proposal does not constrain the ability of the banks to expand their balance sheets and create as much additional money as suits them according to the sentiment and practice of the day. The banking sector will thus continue to engage in pro-cyclical business behaviour, thus also continuing the dysfunctions of fractional reserve banking, such as pro-cyclically overshooting (also temporarily undershooting) money supply, inflation and asset inflation, credit and debt bubbles, ensuing financial instability and unsafe money in the course of crises and breakdowns.

Consider what happens in the payment system if sovereign money-on-account is issued in parallel with, as well as in addition to, bank money. The Treasury's account at the central bank will receive central bank money-on-account (payment reserves). The money will then be spent for purposes on which the cabinet and, where applicable, the parliament have agreed. This may include reducing taxes or paying down public debt. Thus far, the advantage to the public purse is obvious, even though this measure should

[17] Bindseil 2004, Häring 2013.

[18] Huber 2014

not go too far because the hypothetical sound maximum of admissible money finance is set by the current growth potential.

The addressees of government expenses will then receive the money. More precisely, the *banks* of the addressees will receive the payment reserves, while the recipients themselves, the bank customers, will obtain a demand deposit, i.e. bank money, a claim on sovereign money, of the same amount.

To the banks, the reserves received represent a welcome cost-free substitute for having to borrow reserves from the central bank against interest. (The ECB even pays banks deposit interest on reserves. This is contrary to the alleged policy purpose of reserves, but that is a different issue). The banks can use the reserves received to fulfil their minimum reserve requirements, or buy the amounts of cash from the central bank that customers still want to use, or redeem debt to the central bank, or lend the money on the interbank money market. Over time, banks will become still less dependent on central bank credit than they already are. If traditional material coins and notes, which banks still have to refinance to 100%, are then replaced with electronic cash originated by the banks themselves, any monetary policy instrument will ultimately become pointless.

All things taken together, OMF by issuing sovereign money in parallel with bank money opens up a somewhat ambivalent perspective. It has a certain potential for replacing deficit spending and public debt with debt-free sovereign money. To this extent, the practice would be a relief for public budgets. In a situation of underused capacities, it can be economically beneficial if handled responsibly. It might also be a door opener for re-introducing a modern currency-school paradigm in economics as opposed to banking-school doctrine and thus for re-introducing sovereign money policies. However, the issue here is that the proposal does not achieve greater control of fractional reserve banking, that is, no pro-active central bank control over banks' credit and deposit expansion. OMF would simply add a sovereign money feature to the existing monetary system. But in order to become a real halfway house on the road to a plain sovereign-money system, OMF would in some way have to start restricting and gradually put an end to bank money. At this point, additional proposals come in.

Plain money accounts on demand

A number of people have proposed the idea of starting monetary reform 'on demand', with changes to individual banks or bank accounts. This is

appealing to activists and those who are looking for some form of bottom-up approach in which they can be part of the experience. In fact, innovations have a better chance of being adopted and diffused if they can immediately be connected to people's lives and can be tested and observed. I would like to discuss a number of suggestions of this kind: safe deposits on the basis of a voluntary full reserve, central-bank accounts for everyone, and individual as well as summary customer sovereign-money accounts.

Safe deposits on the basis of a voluntary 100% reserve

As a consequence of the banking crisis since 2008 and in particular after the Cyprus bank run in 2013, the safety of money-on-account has again become an issue. Safety seems to be more appealing to people than the question of whether the money comes from commercial banks or the central bank or the Treasury.

In 2013, Swiss monetary reformers planned to file a petition to the federal government for banks and postal offices to offer *safe accounts* in addition to the usual giro accounts (but then dropped the plan in favour of a big-bang reform initiative). 'Safe' means that money on such an account is shielded from a bank's insolvency. The initiators were confident that if such an offer were possible it would cause people to vote with their feet by draining money away from giro accounts to safe deposits.

Thomas Mayer, a former chief economist of Deutsche Bank, declared it the first and foremost duty of an 'honourable bank' to offer safe deposits that can be converted into legal tender under all circumstances. In his opinion, this can be achieved through 100% reserve coverage on liquid deposits.[19] Some supporters of monetary reform have in fact suggested too that approachable banks should voluntarily implement 100% reserve coverage on demand deposits. A small part of this would represent the minimum reserve requirement, while the largest part would represent the voluntary difference to 100% and be held as excess reserves (without being used as such, but just held by the respective bank).

What was said in the beginning of this paper on a gradual introduction of 100% reserve coverage on deposits applies here in much the same way. In particular, customer accounts are still giro accounts and the customers still have a claim on sovereign money rather than the money itself. The reserves are the property of the banks, not the property of the customers. It is questionable whether a bank's reserves, i.e. its claims on the central bank, can be assigned to customers by way of private contract. A central

[19] Mayer 2013a+b, Gollan/Hanten/Mayer 2013.

bank reserves for itself the unrestricted right to take hold of a bank's assets if need be.

The additional reserves, moreover, come with an additional cost to the banks on top of the deposit interest they already pay. Fees for running safe deposits would thus be significantly more expensive than giro accounts. As a result, the expectation of deposits draining away from giro accounts to safe deposits would not happen on a large scale.

The fees for safe deposits would be calculated on the basis of the money-market interest rate that has to be paid for the 100% reserve, plus the account management fee added by the bank. If the reference rate were at 1%, as is the case today, the entire fee could add up to 1.8% of the safe deposit. A reference rate of 3% might result in a fee of about 3.8%. The price for the safety of money would in fact be rather high and thus uncompetitive. This may even pertain to the wealthy customers of private bank houses. It would anyway not be very conducive to the approach if it were seen as a privilege of the better off.

The cost effect could be neutralized if banks obtained the reserves for free, which is problematic (as was the pre-crisis practice of the ECB to lend reserves at 4% interest, but pay the banks deposit interest of 3%, which results in reserves nearly for free).[20] The favour would have to be done to all banks, which would again give a competitive advantage to the banks that offer less safety. Finally, the central bank, thus the public purse, would no longer have interest-borne seigniorage.

In consequence, because of uncompetitive refinancing costs, unsecured property rights and the lack of a long-term reform perspective, holding a voluntary 100% reserve coverage of deposits is not a viable option.

Off-balance money accounts in addition to on-balance giro accounts

A conclusion that can be drawn from the proposals discussed so far is that a key aspect of starting a process of phasing out bank money is to ensure that reserves (central bank money), including reserves from government expenses, can in fact flow to the recipients rather than to their banks. This implies the existence of *customer* sovereign-money accounts, 'money accounts' for short, in addition to giro accounts. To achieve this in practice, customers either need access to an individual central bank account, or banks have to be enabled to run separate customer money accounts off the banks' balance sheet.

[20] European Central Bank, Monthly Bulletins, Table 1.2

Both sides should have freedom of choice. Customers should be free to opt to maintain a money account rather than a giro account, just as the banks should be free to offer or deny money accounts. Moreover, special money and payment service banks could be set up that run customer money accounts only.[21]

An idea proposed in this context time and again is central bank accounts for everyone. Schemmann published a book on this.[22] In addition to government and bank accounts with the central bank, there would be individual central bank accounts for individuals, companies and other institutions wishing to open one.

The idea is simple and compelling. Sovereign money in a central-bank account is safe because it is separate and thus shielded from credit and investment banking. The main element of what is called 'separate banking' would thus automatically be accomplished. If the fees for central-bank accounts were comparable to bank giro accounts, the migration of these to central-bank money accounts would no doubt be strong. The ensuing near-monopoly of account management might be seen as a problem, but this is comparable to the former monopolies of the national railway companies or post offices. In these cases, it is actually not evident that privatisation has brought about better service or cost advantages.

And yet, the idea is rather unlikely to be realised. Central banks steadfastly refuse to run accounts other than for banks and the government. A number of companies have sued central banks in an attempt to force them to run company accounts, but the suits have been dismissed by the courts. The option of a central-bank account for anybody who wants to open one would thus have to be established by decree. In that case, the central bank would have to build up additional capacities for the management of accounts and payments, while the banking industry – where these capacities do exist and would be bound to shrink – would suffer high sunk costs.

As an alternative to such a major reshuffle, banks themselves might be allowed to run individual sovereign-money accounts as a fiduciary off-balance item, analogous to customer securities deposits.[23] This implies institutionalising customer money accounts as a new kind of bank account and adapting bookkeeping and payment systems accordingly. This certainly requires a legal basis.

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[21] Cf. Gudehus 2014.

[22] Cf. Schemmann 2012.

[23] The suggestion of individual customer sovereign-money accounts run by banks is part of the reform proposal by Huber/Robertson 2000.

An alternative and associated suggestion is to take a bank's customer current accounts off the balance sheet in their entirety and run them separately as a customer transaction account.[24] This mechanism would not represent individual accounts, but a summary account of the customers of a bank maintained by the respective bank with the central bank separate from that bank's proprietary means. Such an omnibus arrangement may be easier to implement. It nevertheless also implies running separate central-bank accounts with account numbers of their own, and adapting bookkeeping accordingly.

Another variant might be for a bank to use one of its central-bank accounts *on-balance* as a customer payments account (transaction account) on the basis of liquid reserves. Whether, however, it is possible to interpret such an account as a 'regular deposit', i.e. a custodian account the central-bank money on which is the property of the customer, is questionable again. Juridically, the same questions arise as mentioned before, and the central bank would almost certainly see the arrangement as one of undesired 'private accounts'.

If one considers introducing special money banks, i.e. money and payment service banks that run money accounts only, the situation is not essentially different.[25] Whether as an additional offer of existing banks in parallel with giro accounts, or offered by specialised banks, and no matter whether offered as individual accounts or summary accounts, in each case, the money-on-account would be the property of the customers, separate from the banks' proprietary means, while the banks would act as fiduciaries of their customers' money. It can be assumed that the availability of fee-competitive safe money accounts 'on demand' would induce a strong migration from giro accounts to money accounts.

That migration would be easily compatible with traditional credit and investment banking, because account holders can invest some of their money in that bank or another. Sovereign money is not the same as a 100% payment reserve. In a sovereign money system, customers' claims on money have to be settled, i.e. paid out in sovereign money. To make this

[24] This suggestion is part of the reform proposal by Positive Money: Positivemoney.org/ our-proposals/draft-legislation/ - positivemoney.org/our-proposals/ positive-money-proposals-in-plain-english.

[25] An elaborate plan on how to transform an existing savings bank into a sovereign-money bank was worked out by Monetative member Timm Gudehus in 2014.

possible, additional central-bank money would need to be provided as demand deposits would be extinguished.

From this perspective, it is the deposit-losing banks that have to shoulder the burden in the first instance. They would have to obtain the means by selling securities in their portfolio to the central bank as well as by unsecured borrowing from the central bank. At the same time, however, the same banks also obtain sovereign money in the payment traffic to remaining giro accounts as well as from investments (savings, time deposits, CDs). Such inflows would then actually provide usable excess reserves to a bank (liquid central-bank assets) rather than being immobilised demand deposits (mere liabilities). Seen from the point of view of a bank, dealing with customer money accounts would be the same as dealing with government central-bank accounts. Once the option were set up and the migration process initiated, banks would develop an interest of their own in seeing traditional giro accounts being converted into money accounts.

In any event, the cooperation of the central bank is required. It would have to enable money accounts, either as individual bank accounts with a bank, or as summary bank accounts with the central bank. Furthermore, the central bank would have to ensure that there are sufficient reserves available. At first glance, that barrier does not look as high as getting through an entire big-bang package of monetary reform. However, central banks and banks alike have a strong reason to be defensive: Setting up safe banks, or offering save accounts in parallel with giro accounts, is tantamount to declaring traditional deposits to be unsafe. This might trigger unrest among customers and the broader public, including a potential bank run. Not by chance, such a perspective was the judges' main reason for dismissing company claims for a central-bank account of their own. Within the present monetary and banking system, it is in fact risky to offer safe deposits—and this very fact might prove to be a suitable starting point for campaigning for monetary reform.

Conclusion: debt-free sovereign money in combination with off-balance customer money accounts

Thus far, three types of incremental monetary reform have been discussed: first, those that have to do with a 100% reserve; second, the issuance of sovereign money in parallel with bank money (OMF); third, off-balance sovereign money accounts on demand.

In my analysis, approaches related to 100% reserve coverage of deposits do not offer continuation, either in the form of a gradual sector-wide

bulking up of fractional to full reserve, or as the offer of individual demand deposits backed by reserves to 100%. The additional costs render the idea uncompetitive from the beginning, ownership of the money lies with the banks rather than the customers, and eventual transition to a plain sovereign-money system is not obvious.

The other two types of incremental reform might be worth campaigning for, in particular if in combination with each other. OMF without customer money accounts is probably bound to get stuck in an ambivalent parallel-currency constellation. On the other hand, the introduction of customer money accounts makes sense in any case. They would nonetheless largely benefit from being combined with OMF because this would help to provide an increased supply of sovereign money in the system and thus relieve the cost burden on the deposit-losing banks.

With regard to OMF, it is important that the sovereign money be issued debt-free, be this according to an accountancy convention that reads 'at zero interest and no specified maturity' or according to the traditional procedure in accounting for the issuance of new coins. This applies to *both* money-on-account and e-cash, as OMF can in fact be carried out in both ways. OMF is thus a partial approach to monetary reform.

Concerning off-balance money accounts on demand, bank accounts should be preferred over 'central bank accounts for everyone'. The reason for this lies in the organisational reshuffle and the high sunk costs involved, as well as the additional degree of opposition this would create. Whether the bank accounts would then be *individual* money accounts with a bank, or *summary* central-bank accounts of a bank, can be left open. Both are feasible and functional. Off-balance customer money accounts thus represent a step-by-step and simultaneous top-down-bottom-up approach to monetary reform.

In other words, neither OMF nor customer money accounts can be implemented just like that. There are legal prerequisites. OMF faces the problem of the strange prohibition of the sovereign against issuing sovereign money independently of banks (US Code §355; Art. 123 (1) TFEU). The issuance of e-cash may not face that hurdle, but will certainly be confronted with the same kind of banking-doctrinaire objections. Furthermore, the institutionalisation of customer money accounts and the corresponding adaptation of bookkeeping and payment systems will also need some regulatory modifications.

These legal prerequisites represent important obstacles. At the same time this represents ample opportunity to make the case for monetary reform. It is not immediately clear however, which kind of approach stands a better

chance of being successful—a piecemeal strategy, or a big-bang approach. The former does not necessarily preclude the latter. But partial and gradual reform has to overcome the same sort of incomprehension and resistance from vested interests as does a D-Day scenario. Monetary reform, after all, is about innovation.

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