

Synopsis of 100% reserve versus plain sovereign money¹

compiled by Joseph Huber

100%-reserve ²	Plain Sovereign Money ³
... is still a reserve system based on a split circuit (interbank circulation of reserves, and public or nonbank circulation of bank money, with only banks participating in both circuits).	... is a plain money system with a single circuit beyond any reserve. No more reserves, no more demand deposits, just plain money.
The difference between M0 and M1 is still relevant, as it reflects the split between reserves and bank money (demand deposits).	Just one integrated money supply M , exclusively originated in any form by a monetary authority (central bank, or money commission within the treasury), and directly circulating for any purpose in any direction among banks and nonbanks alike.
M2/M3/M4 or similar monetary aggregates still exist.	Equivalents of M2/M3/M4 may exist statistically, but are no longer monetary aggregates ; instead, they are nonbank loans to banks or nonbank investment in bank debentures or bank equity. – There are no more deposits , strictly speaking.
Deposits in M2/M3 such as savings and time deposits remain inactivated, immobilised bank money . Banks do not obtain liquid reserves from this, but have to cover these deposits 100%. ⁴ As a result, banks' funding or refinancing costs are bound to increase significantly. As a consequence, there would be a higher general level of interest.	Plain-money loans to banks provide banks with liquid means of payments. Savings and similar deposits are no longer inactivated bank money, but plain money that remains in circulation. Customer loans to banks thus do not incur additional costs. As a result, plain money does not per se increase banks' financing costs, i.e. it tends to be neutral with regard to the level of interest.
Most approaches to 100% reserve (Chicago plan, Fisher, Allais, Kumhof) include a particular element of separate banking , namely the separation of money service banking from	In a plain sovereign money system, elements of separate banking can, but do not need to exist.

¹ A similar synopsis was compiled by Andrew Jackson, Positive Money. This is available at <http://www.positivemoney.org/2013/01/the-chicago-plan-versus-positive-money/>

² Alternative terms for 100%-reserve include 100%-banking (Chicago plan), 100%-money (Fisher), full reserve (as another generic term).

³ Alternative terms for plain money (Huber/Robertson) include sovereign money, sovereign currency, liquid money (Schemmann), state money (Werner), public money (Yamaguchi), and U.S. money, i.e. money issued by a United States government body (AMI).

⁴ If idle deposit reserves could be re-designated as liquid payment reserves, this would represent a step beyond the reserve system into a system of plain sovereign money. This cannot take place, however, if the 100% reserve requirement is levied on *all* deposits in M1/M2/M3. Only if the 100% reserve requirement is levied just on demand deposits, could transforming a demand deposit into a time deposit be paralleled by a corresponding transformation of idle coverage reserves into liquid payment reserves. This, though, would need special regulation.

<p>credit/investment banking. If investment banking were intended to be carried out by commercial or universal banks, these activities would fall under the 100% reserve requirement, and the above statement would apply to credit/investment banks too. If those credit/investment entities were intended to be capital trusts, strictly speaking, they would not be banks but would have to run current accounts with a money service bank. In this case the above statement would apply anyway.</p>	<p>Separation of money and credit is inherent in a plain money system. Thus, there is no need for the separation of money service banks and credit banks, even though some such specialization may occur. - Separating credit from investment banking is another aspect. It may, however, be subject to dispute whether this is not beyond the scope of monetary reform. Similarly, decoupling lending and investment activities does not necessarily imply institutional separation. This can also be achieved by some simple rules, such as strictly ruling out funding investment-banking activities through bank credit, or eliminating proprietary trading (Volcker rule).</p>
<p>Mingling banks' and customers' monetary properties. Customers' current accounts are still part of a bank's balance sheet where they remain bank overnight liabilities to the customer. Customers are not in direct possession of their money. The customers' 'money' is indissociably exposed to banking risks.</p>	<p>Separate banks' and customers' monetary properties. A customer's current account is no longer a 'deposit' in a bank's balance sheet, but exists as a money account in its own right.⁵ Banks (as universal banks or specialized money service banks) are fiduciaries that manage these accounts on behalf of their customers.⁶</p>
<p>Customers' money might still be unsafe. Even under 100% reserve, deposits may not be 100% safe (and there might still be bank runs) as long as coverage deposits are not available to banks. Coverage deposits are not meant to be a safety net, but (erroneously, according to the reserve position doctrine and the multiplier model) an instrument for controlling banks credit and deposit creation. Alternatively, reserves would have to be re-declared as a safety buffer that could become available to banks under certain conditions. This raises further questions.</p>	<p>Like coins and notes, plain sovereign money on account or mobile storage medium cannot disappear monetarily. Plain money is absolutely safe by itself. There is no need for coverage or deposit insurance.</p>

⁵ If customer's money accounts are maintained as a part of banks' balance sheets, as suggested by Schemmann—which is technically feasible, but sub-optimal—they must be in a current account separate from banks' proprietary means and represent a sterile pair of liquid payment reserves (not coverage reserves) on the asset side and corresponding overnight liabilities on the liability side. A bank loan to a customer would result in a deduction from the bank's proprietary liquid means to the customer's money account, and the reverse for a customer loan to the bank.

⁶ Alternatively, customer accounts can be run with the central bank, be this as a collective customer transaction account of a bank, as suggested by Positive Money, or as individual accounts, as suggested by Schemmann ('central-bank accounts for everybody').

100%-reserve	Plain Sovereign Money
<p>100% reserve is liability-centered in that it refers to the liability side of banks' balance sheets.</p>	<p>Plain sovereign money is a liquid asset in whatsoever balance sheet; it is never a liability.⁷</p>
<p>... rather corresponds to the banking practice of covering one type of monetary or debt item with another monetary or debt item. With modern fiat money, this has become pointless since any amount of fiat money can be created at discretion.</p>	<p>Plain money needs no coverage. It represents lawful money by itself. The sole coverage any fiat currency needs is a productive and competitive economy delivering the goods and services money can buy.</p>
<p>The payment system remains a split-circuit two-tier procedure of <i>clearing of bank deposits</i> to be transferred and final <i>settlement in reserves</i>.</p>	<p>Since customers' money accounts exist outside banks' balance sheets, there is no more consolidated bank current-account clearing and settlement in today's sense. Instead, there are direct bilateral payments among customers and/or banks (to which bilateral clearing and settlement of credits and debits in plain money may still apply).</p>
<p>The 100% reformers of the 1930s did not reflect that in a reserve system credit and deposit creation, on the one hand, and deposit coverage, on the other, are apart; equally, they did not reflect that payment reserves (excess reserves) and coverage reserves (fractional or full deposit reserves) are two different functions.</p>	<p>Plain sovereign money is the only means of payment. There is no deposit creation and no other general means of payment. Thus, there is no falling apart of something such as money creation and money 'coverage'.</p>
<p>Falling apart of payment and coverage responsibilities, and delays between the creation and coverage of deposits. A bank that creates primary credit is <i>not</i> liable to 100% coverage of the ensuing deposits. The latter falls on those banks that receive deposits from outgoing payments coming from the primary credit creator. Moreover, there is a delay between receiving deposits and the fulfillment of the 100% coverage requirement. Depending on the applicable procedures, this can take between two weeks and three months. On the surface, this does not seem to be reasonable or just. However, it is exactly what the banking sector's collective ability to create credit and bank money is built upon.</p>	<p>Since there are no more deposits, banks are no longer able to create primary credit and bank money (deposits).</p>

⁷ If money is created by central-bank credit to banks (which can be, but does not need to be the case) the money would not be accounted for as a liability, but as part of the national monetary equity. Even this, however, is just one out of a number of ways of how to account for plain sovereign money.

<p>100% coverage would not apply to primary credit creation and the settlement of related payments.</p> <p>Banks create credit and deposits pro-actively (ex ante). They have to look for refinancing in liquid payment reserves only upon settlement (ex post), whereby settlement is not necessarily carried out on a daily basis. Thus, even with 100% coverage reserve on deposits, primary credit creation would continue to take place on a fractional base of liquid payment reserves (excess reserves). The initiative would still rest with the banks, and central banks would still have to re-act and feel forced to accommodate banks' demand for reserves, as is the case today.</p>	<p>Since there is plain sovereign money only, but no more reserves, there is no difference between payment and coverage reserves either.</p> <p>No delays or differences are possible between appropriating an available amount of money to payment and carrying out that payment.</p> <p>If banks do not have available the money they want to spend, loan, or invest, such activities will not be carried out.</p> <p>Banks may earn the money they need and will have to take it up from customers, other banks, or, if need be, the central bank.</p>
<p>As a result—because of the falling apart of credit creation and deposit coverage, and because of the ongoing fractional settlement of deposit-clearing in reserves—there remain considerable degrees of freedom for banks' pro-active primary credit and deposit creation. The '100% reserve' would in practice be less than 100%. There might be more control of the money supply than today, but far from the full control that is intended.</p> <p>Accordingly, promises relating to the effective control of inflation, asset inflation, and boom-and-bust cycles would not be completely met.</p> <p>If, however, the intention is to ensure 100% payment reserves accompany deposit transactions, this would again be a decisive step into a plain money system, rendering deposit coverage redundant.</p>	<p>In a plain money system, banks have no possibility at all to create additional means of payment. The existing quantity of money is under full control of the monetary authority. Banks cannot spend or lend money without having it available; if they spend or lend, they have to pay out the full amount involved, as the receiving banks, or customer money accounts, respectively, will immediately receive that full amount.</p>
<p>Unclear expectation of paying down public debt upon transition from fractional to 100% reserves.</p> <p>The expectation relates to the idea that the money that needs to be created for bulking up fractional to full reserve can be used for paying down public debt (in the Benes/Kumhof Chicago Plan Revisited, private debt too).</p> <p>In fact, banks would partially purchase required reserves by selling government bonds in their balance sheet to the central bank or treasury. Public debt would in effect be cancelled to the same extent. This,</p>	<p>Actual ability to reduce public debt significantly by a one-off transition seigniorage from substituting plain money for bank money.</p> <p>Upon the date of reform, customers' current accounts are declared to be sovereign money accounts and taken off the banks' balance sheet. Simultaneously, the banks' overnight liabilities to customers are redeclared to be liabilities to the central bank, as if the central bank had created that money in the first place. Banks have to redeem the corresponding amount of previous demand deposits in</p>

however, could provide only for the lesser part of the required reserves. The remaining major part would have to be lent to the banks (unsecured), for serving as 100% deposit coverage—for which purpose these means remain committed.

Supposed equity gains of the central bank or treasury ignore the fact that these means are committed and cannot be made available twice. Monetising the claims that the central bank or treasury have on the banks, would be dubious and in fact inflationary.

Moreover, the money lent to the banks would not represent a genuine one-off transition seigniorage, but interest-bearing seigniorage in permanence. This would be an additional burden on the banking industry and the economy, rather than representing the benign free lunch that results from debt-free sovereign money creation.

M1 to the central bank, which would happen according to the maturities of outstanding loans, or according to some other negotiable arrangement.

The central bank then, in order to provide for an adequate money supply, can decide how much of that money will immediately be re-issued into circulation, be it as long-term debt-free genuine seigniorage to the treasury, or, if urgent need be, short-term as an interest-bearing loan to banks.

The government ought to be obliged to use the means from the one-off transition seigniorage to redeem public debt as it becomes due at current maturities. In the end, when loans to the amount of the former demand deposits have been paid down after several years, the government should have paid down the bigger part of its debt.