

## IDEAeconomics welcomes UK Parliament's historic Money Creation debate

*Paul Gambles, Managing Director*

The UK Parliament held a debate yesterday (20<sup>th</sup> November) on Money Creation and Society. This was first time money creation had been debated in the House of Commons since 1844.

The objective of the backbench debate was for Members of Parliament from all parties to learn about the issue, ask questions and deepen their understanding, so they would be in a better position to legislate in the future.

A recent survey carried out by Positive Money<sup>1</sup>, an organisation whose aim is to “democratise money and banking so that it works for society and not against it” showed that only one in ten MPs actually understand that banks create new money; whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower’s bank account. It was therefore unfortunate that merely 18 MPs attended the debate.

As he opened yesterday’s debate Steve Baker pointed out that the last time Parliament debated money creation, the Bank Charter Act 1844 was enacted, “because banks’ issue of notes in excess of gold was causing economic chaos, particularly through reckless lending and imprudent speculation.”<sup>2</sup>

The Act did not avert financial crises in 1847, 1857 and 1866 and on each of these occasions the Act was suspended. As Steve Baker explained, the Bank Charter Act 1844 “failed to recognise that bank deposits were functioning as equivalent to notes, so it did not succeed in its aim.”<sup>3</sup>

He added, “There was a massive controversy at the time between the so-called currency school and the banking school. It appeared that the currency school had won; in fact, in practice, the banks went on to create deposits drawn by cheque and the ideas of the banking school went forward. The idea that one school or the other won should be rejected; the truth is that we have ended up with something of a mess.”

Alan Harvey, Executive Director of IDEAeconomics, of which I am an advisory board member, commented “Positive Money has done yeoman's work in its campaign to educate the public, and now with this historic debate, Parliament. In the absence of a crisis, this is a remarkable thing. If it were understood how badly the mainstream

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<sup>1</sup> <http://www.positivemoney.org/2014/08/7-10-mps-dont-know-creates-money-uk/>

<sup>2</sup> Hansard: <http://www.parliament.uk/business/publications/hansard/commons/todays-commons-debates/read/unknown/314/>

<sup>3</sup> *ibid*

and the central banks have missed, or maybe I should say, misled on the realities of where money comes from, it would go a long way to breaking the illusion that they know what they are doing.”

Harvey added that he saw the campaign Positive Money is coordinating as deserving “all the support in the world.” He did suggest, however, that their solution may need to be adjusted or negotiated. “Our view is that it may not be politically actionable in its current form, and also that it risks throwing the baby out with the bathwater, abandoning vanilla banking basically to get rid of speculation.”

“It is a question we struggle with ourselves every day. How to build and reinforce a realistic view of the economy while at the same time avoiding setting up targets for the critics. It is one thing to get agreement on a critique of the mainstream, it is quite another to get agreement about any particular remedy. But political will is built around policy.”

Harvey also noted the irony of the campaign, “Positive Money has the unenviable task of defending its policy against all kinds of hypothetical doomsday scenarios; yet the mainstream's policies of austerity, which have not worked and cannot work, can find defence behind TINA - *There is no alternative.*”

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