**Monetary and Banking Reform**

**PROPOSAL**: Monetary and Banking Reform **SPONSOR:** Nebraska Green Party

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**BACKGROUND:**
In [Chapter IV – Section I. Monetary and Banking Reform](http://www.gp.org/economic_justice_and_sustainability_2016#monetary-reform) replace “Monetary Reform (Greening the Dollar)”, the Preface Paragraphs, and #15-17 with the following to more adequately reflect the operations happening, and to acknowledge while banks do create money, they do not have the capacity to create net financial assets at will like the federal government.

**Monetary Reform (Greening the Dollar) (Original Text)**

~~The crisis in our financial system makes it imperative that we restructure our monetary system. The present system of privatized control has resulted in the misdirection of our resources to speculation, toxic loans, and phony financial instruments that create huge profits for the few but no real wealth or jobs. It is both possible and necessary for our government to take back its special money creation privilege and spend this money into circulation through a carefully controlled policy of directing funds, through community banks and interest-free loans, to local and state government entities to be used for infrastructure, health, education, and the arts This would add millions of good jobs, enrich our communities, and go a long way toward ending the current deep recession.~~

~~To reverse the privatization of control over the money issuing process of our nation’s monetary system; to reverse its resulting obscene and undeserved concentration of wealth and income; to place it within a more equitable public system of governmental checks and balances; and to end the regular recurrence of severe and disruptive banking crises such as the ongoing financial crisis which threatens the livelihood of millions; the Green Party supports the following interconnected solutions:~~

~~15. Nationalize the 12 Federal Reserve Banks, reconstituting them and the Federal Reserve Systems Washington Board of Governors under a new Monetary Authority Board within the U.S. Treasury. The private creation of money or credit which substitutes for money, will cease and with it the reckless and fraudulent practices that have led to the present financial and economic crisis.~~

~~16. The Monetary Authority, with assistance from the FDIC, the SEC, the U.S. Treasury, the Congressional Budget Office, and others will redefine bank lending rules and procedures to end the privilege banks now have to create money when they extend their credit, by ending what&#39;s known as the fractional reserve system in an elegant, non-disruptive manner. Banks will be encouraged to continue as profit making companies, extending loans of real money at interest; acting as intermediaries be- tween those clients seeking a return on their savings and those clients ready and able to pay for borrowing the money; but banks will no longer be creators of what we are using for money.~~

~~17. The new money that must be regularly added to an improving system as population and commerce grow will be created and spent into circulation by the U. S. Government for infrastructure, including the &quot;human infrastructure&quot; of education and health care. This begins with the $2.2 trillion the American Society of Civil Engineers warns us is needed to bring existing infrastructure to safe levels over the next 5 years. Per capita guidelines will assure a fair distribution of such expenditures across the United States, creating good jobs, re-invigorating the local economies and re-funding government at all levels. As this money is paid out to various contractors, they in turn pay their suppliers and laborers who in turn pay for their living expenses and ultimately this money gets deposited into banks, which are then in a position to make loans of this money, according to the new regulations.~~

**Monetary Reform (with proposed changes)**

Monetary Reform

The present organization of the Federal Reserve System Incorporates strong influences from the financial sector, Wall Street, and the nation’s largest systemically dangerous private banks. The result has been that regulation of the banks has been lax and has resulted in the misdirection of financial resources into speculation, toxic loans, and phony financial instruments creating huge profits for the few, no real wealth or jobs for the many, and also severe instability in the financial system and the larger economy.

Our Government retains its sole ability to create high-powered government money (government reserves, currency, and coins) and to deficit spend this money into circulation through fiscal policy directed toward major federal programs addressing our mounting volume of societal, energy, environmental, and climate change problems, strengthening and growing community banks, state banks and interest-free loans, and local and state government entities to be used for infrastructure, health, education, and the arts. Nevertheless, under the influence of neoliberalism, the financial sector supporting it, and the legions of paid neo-classical economists employed by it, government has been reluctant to use its fiscal powers. It has, instead, relied on monetary policy implemented by the Federal Reserve, which policy, in turn, has been strongly influenced by the financial sector and its allies, and by its interest in guarding against the possibility of inflation by depressing wage increases systematically over the past four decades or so. This emphasis on monetary policy and neglect of fiscal policy has contributed to an obscene and undeserved concentration of wealth and income, an explosion of bank-created private debt, including mortgage, consumer, and student loan debt; and to the regular recurrence of severe and disruptive banking crises, such as the ongoing financial crisis, which threatens the livelihood of millions.

To end these problems and their severe effects on us all, the Green Party supports the following interconnected solutions:

15. Reorganize the Federal Reserve by placing the Board of Governors and the FOMC (Federal Open Market Committee) within a new Monetary Authority in the Treasury Department reporting directly to the Secretary, and nationalizing the Regional Federal Reserve Banks with proper compensation to be rendered for the ownership stock liquidated by this action. The 12 Regional Federal Reserve Banks, and the Monetary Authority Board of Governors will be staffed by Senior Executive Service staff and career civil servants. Their charge will be to regulate bank operations in the interests of system stability and to maintain the Federal Funds Rate at its target rate set by the FOMC.

On the regulation side, the Monetary Authority should recognize that the fractional reserve system conceived as a prior limitation on bank lending no longer exists, since the overnight funds market or the Federal Reserve will supply any shortfall of reserves under a bank&#39;s requirement after the fact for the sake of system stability. Market discipline, however, must be maintained on the asset side of the balance sheets of banks. The Monetary Authority will be charged with maintaining asset standards such as assuring banks hold only legal assets and that they meet certain minimum capital requirements to ensure stability.

In addition, the Monetary Authority should enforce a range of prohibitions ensuring that banks operate only in accordance with the public purpose of banks which is to provide a payments system and to fund loans based on credit analysis.

16. The Monetary Authority, with assistance from the FDIC, the SEC, the U.S. Treasury, the Congressional Budget Office, and others will break up all banks over a certain size into smaller units limited in size going forward. The Monetary Authority will also provide necessary capital support for new local community banks to be created across the United States, and for new State and local level public banks all to be part of the re-constituted Federal Reserve System.

17. The new high-powered government money/net financial assets, that must be regularly added to an improving economic system as population and commerce grow, will be created and spent into circulation by the U. S. Government using fiscal policy and will not be within the purview of the Monetary Authority. The Monetary Authority will, however, support the network of community, state, local, and commercial banks and credit unions in creating money in the form of bank deposits backed by loans as needed to support credit worthy customers in fulfilling their personal and business needs.

These solutions are very important in the long term, but are a lower priority in the short term. They should be passed after careful study of various impacts and only after more immediate needs are met through new legislation designed to bring needed benefits to most Americans and to meet immediate crises such as the climate change crisis.