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On January 17, 2019, a research institute of the Dutch government, The Netherlands Scientific Council for Government Policy (WRR), offered its report on banking and money-creation to the Dutch government [1]. The report was commissioned by the government after a motion in the Dutch parliament in March 2016 during a debate, which itself was triggered by a citizen’s initiative organized by the Dutch monetary reform organization [Ons Geld](https://onsgeld.nu/) (Our Money)[2].

**The Report**

The 301-page report is titled “Money and Debt: The Public Role of Banks” and was accompanied with a 15-page synopsis [3]. An English translation is forthcoming. In its own words the scope of the report was thus:

In this report we discuss how money-creation works; how the context of money-creation has changed; and which problems the current system has. We investigate to what extent a public money system – as proposed among others by Ons Geld – can provide a solution. Finally we make recommendations to reform our system (Synopsis, 5; translated from Dutch original).

This article will give a summary of all these points as presented in the synopsis and also a summery of the official response by Ons Geld. How this report came about you can read [here](https://www.monetaryalliance.org/ons-geld-and-the-road-to-the-wrr-report/) [5].

**Money-creation**

In the section “How money-creation Works” the authors explain the manner by which money is created and enters the economy. One of their findings is that 93% of the Dutch money stock is created as debt when banks originate loans and 7% of the money stock consists of cash in the form of coins and paper money. The Dutch named the non-cash part of the money supply “giraal geld”, which would loosely translate as “check money” and is usually named in English bankmoney or debt money. Because of this money-creating role by banks “money, debt and banks are in the current system very closely entangled”. But, though banks do create the bulk of the money supply, they cannot just do so without some restraints, of which the authors identify three: 1) The demand for money by businesses and individuals; 2) risk assessments by banks; and 3) monetary policies set by central banks.

**Context**

As far as the “Changed Context of money-creation” is concerned the authors identified three developments: 1) the shift from using cash to check money (after World War II just above half was check money); 2) the disappearance of public payment and savings options (the public Postbank was privatized and became part of ING); and 3) there was a shift from a “diverse banking landscape” to one in which there are only three big, uniform banks. The effect of these shifts was that 1) bank money became less prone to be changed into cash; 2) the necessary amount of prudent bank reserves diminished; and 3) banks acquired an implicit, public guarantee against insolvency. The overall effect was that “the brakes on money-creation” lessened and the risk of asset bubbles, inflation and economic crises heightened.

**Core Problems**

The report indicates “Two Core Problems” with the current Dutch money system: 1) The large amount and volatility of debt creates instability and economic crises; and 2) the balance between private and public interests became skewered. The banking sector became more important and powerful in the economy and the government became more important in the banking sector by guaranteeing and bailing out banks in crisis, with both tendencies leading to a “sort of semi-public” banking sector. This section ended with a call for “a good balance between public and private interests” (Synopsis, 8).

**Public Money Proposal**

In the section “The Public Money System as Solution” the report addressed the proposal offered by the Dutch monetary reform organization Ons Geld (Our Money), which proposal was inspired by the 1930 Chicago Plan and has now many variants developed in other countries like Iceland, the United Kingdom and Switzerland. Their synopsis is as follows:

These proposals differ in effect, but they essentially always come down to breaking the close link between money and debt. The current banking landscape would be split into a payment sector and a financing sector. In the payment sector money is held in accounts directly at the central bank or with payment banks where all deposits are 100% covered with central bank reserves. New money can only be created by the central bank. New money comes into the economy through government spending, loans or possibly direct transfers to citizens. In addition, it is possible that new money is used to reduce taxes or to pay off the public debt. In the financing sector, banks first have to raise money before they can provide loans. They can therefore not create new money. People lending money to these financing banks can also suffer losses and they can not reclaim their money at any time. How this financing sector should function exactly differs from one proposal to another (Synopsis, 9).

Though they find the wish to separate payments from financing to be “understandable”, the authors think that it also creates many new uncertainties. Their barrage of questions range from whether the central bank would be able to withstand public pressure; to whether they could prevent money-creation to get out of hand; to whether there would be enough credit to finance real estate; to whether a shadow finance system can be devised by the banks, effectively canceling the reform; to whether the government will really let banks fail. “What looks good on the drawing board can become something quite different in practice”. Together with the fact that such a system has never been tried out, the authors think it is hard to establish whether the new system might function better than the current one. And finally it is uncertain how such a system will fare during the transition period after introduction, and in the context of substantial international economic interdependence.

In its conclusion on a public money system the reports states that,

The WRR considers the transition to a public money system an unsuitable experiment with the monetary-financial system, the backbone of the economy (Synopsis, 10).

**Recommendations**

Apart from the negative conclusion about an alternative money system the report does provide four recommendations to change the balance between private and public interests: 1) Promote diversity in the financial sector; 2) limit the prolific growth of debt; 3) be better prepared for the next crisis; and 4) solidify the public dimension of banks.

Diversity is important for increased choice and better prices for consumers; increased stability of the sector; and better guidance of credit allocation. A possibility is to have a public or private bank solely dedicated to payments and savings or even the introduction of “digital central bank money”, all of which would have a disciplining effect on the banking sector and diminish their dominance. And their dominance, the authors observe, should be actively weakened by the government through different regulatory measures.

In order to diminish the growth of debt–which the authors deem important for stability, fast recuperation after crises, and balanced economic growth–macro-prudential policies have to be introduced to handle systemic risks. Some tax changes would be necessary and also the behavior of other parts in the economy (pension funds and the real estate market) will have to be regulated to manage debt levels.

Because instability is inherent in the current system, preparations for future crises are important to diminish its effects and enable fast recuperation. Financial risks will have to be spread in a more balanced manner from debtors to creditors; banks might be obligated to recapitalize; and besides the lowering of interests and the buying of bonds maybe more controversial monetary measures by the central bank will have to be applied like the monetization of government debt.

As there exists an unavoidable tension within banks between their private activities and public functions, the latter should be better “anchored’, i.e. the public interest should get “a more robust place” in the system through, for example, an advisory council; increased choice; an alternative payment system; and more publicly responsive regulators.

**Conclusion**

The report’s final word is a call for several balances: 1) a balance between regulation and freedom in private money-creation; and 2) a balance between private and public interests. “The prudent guidance of money and debt is a permanent task” (Synopsis, 13).

**Reception by Ons Geld**

Ons Geld published an official response to the report [4]. They especially appreciated three issues which the report addressed: 1) The call to study possible economic scenario’s and alternative money systems; 2) the possibility of a “secure harbor” for one’s money in the form of a “digital safe” to store one’s digital cash; and 3) the report’s starting point with the problematic entanglement of private and public interests in the current financial system.

On the other hand their critique and disappointment with the report is that it points in the wrong direction. The report proposes to solidify and manage the entanglement through further regulations, while Ons Geldproposes a clear separation between money-creation as a public utility and money lending as a commercial business. One venue which could incrementally lead to this separation is the establishment of a digital variation of cash. Once people get accustomed to digital cash, Ons Geld reasons, it will be easier to end the bank privilege of money-creation.

Meanwhile the societal discussion on the role of banks has been broadened and the issue of a fundamental change of the money system is on the political agenda. It is up to the government now to publish its own response to the report. Stay tuned.

**Footnotes**

[1]. IMMR. 2019. “[Dutch WRR Report on Money and Debt is out](https://internationalmoneyreform.org/news/2019/02/dutch-wrr-report-on-money-and-debt%EF%BB%BF-is-out/)“. International Movement for Monetary Reform. 1 Feb 2019.

[2]. Wortmann, Edgar. 2015. “[Burgerinitiatief Ons Geld](https://pubs.onsgeld.nu/legacy/burgerinitiatief.pdf)“. Ons Geld, 21 April 2015.

[3]. WRR. 2019. “[Geld en Schuld: De Publieke Rol van Banken](https://www.wrr.nl/binaries/wrr/documenten/rapporten/2019/01/17/geld-en-schuld---de-publieke-rol-van-banken/rapport-100-geld-en-schuld-de-publieke-rol-van-banken.pdf)“. WRR Raport No. 100. Den Haag: Wetenschappelijke Raad voor het Regeringsbeleid. [Synopsis](https://www.wrr.nl/binaries/wrr/documenten/rapporten/2019/01/17/geld-en-schuld---de-publieke-rol-van-banken/R100+Geld+en+Schuld+-+Synopsis_web.pdf). Translations from Dutch by editor.

[4]. Ons Geld. 2019. “[Reactie van Stichting Ons Geld op het WRR-rapport ‘Geld en Schuld’](https://onsgeld.nu/ons-geld-reactie-op-het-wrr-rapport/) “. 19 Jan 2019.[5]. Schuller, Govert. 2019. “[Ons Geld and the Road to the WRR Report](https://www.monetaryalliance.org/ons-geld-and-the-road-to-the-wrr-report/)“. News – Alliance for Just Money, 6 Mar 2019.