

How should we reform the UK monetary system?

by *Jonathan Tame & Guy Brandon*

Money is part of our collective narrative as a society. We have always worried individually and as families not just about how much money we have, but about how decisions taken at a national and international level impact that. Inflation figures, interest rates and quantitative easing (QE) have become staples of the headlines. But although money is always there in the news, we have tended to take it for granted as a symptom or indicator of wider economic developments, rather than part of their cause.

Crumbling Foundations: A biblical critique of modern money is the Jubilee Centre's new research report engaging with the issue of money creation. It was launched on 5th December at an event titled 'How should we reform the UK monetary system?'

Around 60 guests attended at St-Botolph-without-Aldersgate, where Christian Heritage London hosted the event. The report author Guy

Brandon opened by giving a brief overview of the booklet, summarising the major problems with our approach to money creation from a biblical perspective. These included the centralisation of the money supply; the debt-based nature of our money; and the lack of commonality this produces between banks/government and the end-users of money, since these factors serve to extract value from the real economy to those who create and manage the money supply.

Paul Mills (Senior Economist at the IMF, speaking in a personal capacity) then explored the contemporary context, with reference to the Eurozone crisis and the recent Italian 'No' vote. He highlighted three characteristics of current monetary arrangements since severing links to gold in 1914/1931 and 1971: all our money is someone else's debt (predominantly private sector banks); money is borrowed into existence; and the payments system used for

everyday transactions is co-mingled with banks' leveraged risk-taking.

The results are endemic inflation (the price level has risen 100-fold since 1914), forcing taxpayers to subsidise or bail out banks to protect the payments utility, and the ongoing battle between the private and state sectors over seignorage (the value reaped from issuing money).

Paul outlined the biblical insights he considered most pertinent, particularly how money expresses 'common grace' but is also a false god. He proposed reforming the system by ring-fencing the payments utility from bank leveraged risk-taking; deleveraging the financial system to prepare for a return to a stable, long-term price level; and preparing a framework for alternative currencies (commodity-backed and/or e-currencies).

James Featherby (Chair of Church of England Ethical Investment Advisory Group), the first of three panelists,



made four points about the current system. Firstly, we need a financial system as a whole to create lasting value in the real economy; currently financial trading eclipses real trading, which leads to a lack of ownership and responsibility for the real economy.

Secondly, false ideologies enslave us, such as the idea that more money is the only way to solve our problems. Failure to control debt has led to a pace of globalisation which we struggle to cope with – and why benefits are so unequally distributed.

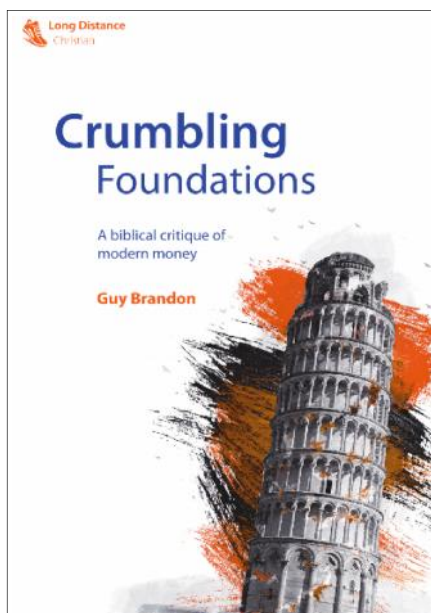
Thirdly, provision comes more from relationships than productivity; consequently collaboration, neighbourliness, mutuality, intergenerational fairness and caring for the environment are truly what makes the world go round, not just money.

Finally, it's dangerous if finance is politicised or politics is over-influenced by finance. The problem is we expect politicians to deliver endless economic growth, so they bend every aspect of policy to deliver that goal – including how money is created.

David McIlroy (Visiting Professor of Banking Law at SOAS) pointed out seven flaws in the financial system, namely:

- There is far too much debt in the system



- There is far too much trading which takes place for the sake of trading
- The financial system has become extractive of value rather than creating value
- There are far too many complex financial instruments which increase instability or which amplify the effect of shocks in the system



- The system needs fundamental reform because there will be another major crisis
- The banks and their regulators are in denial about the extent of the reforms required
- The existing tools have all already been used

Finally, Eve Poole (Chair of Faith in Business) produced a fish-shaped oven glove to illustrate a key feature of the money supply. Newfoundland cod is an example of the 'tragedy of the commons' – when individuals keep 'maximising their utility' (following Adam Smith's invisible hand theory) and helping themselves to a common resource until it runs out. Only then do we take action to protect it. The problem with money creation is that we never reach that point, as banks create money to ensure it never runs out. This has led to the benefits of QE being reaped almost entirely by financial institutions; very little makes it out to the real economy.

The Bible challenges the underlying assumption about utility and competitive behaviour; human beings in their fallen state might be described as utility-seeking machines. But there's also another story: that human life is all about relationships. So when it comes to reforming monetary policy, it's a positive idea to develop alternative currencies to facilitate relationships between people locally, when a monopolistic centralised money supply is failing to meet real needs.

The event finished with questions from the floor and a lively discussion around the issues raised.  

Copies of the research report are available for £5 from the Jubilee Centre.



Jonathan Tame is the executive director of the Jubilee Centre. He trained as an agricultural economist and worked directly and as a consultant for development projects, mainly in Africa. Following this he spent 11 years with YWAM in Romania, which included setting up a commercial café. He now lives in St Neots where he assists his wife Helene in leading a fresh expression of church on a new housing estate.



Guy Brandon is research director for the Jubilee Centre. He has a PhD in Old Testament theology from Cambridge, and is a freelance writer and consultant on various cryptocurrencies, including bitcoin. His books include Digitally Remastered: a biblical guide to reclaiming your virtual self (*Muddy Pearl*) and Votewise 2015 (*SPCK*). Guy is married with two children.