What is "Sovereign Money" and why do people think it's a good idea?
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The Sovereign Money Movement is gaining momentum of late. The Swiss are going to referendum on it in June of this year (2018). Names like Positive Money and the term, "debt-free money" define its appeal. But is sovereign money a real solution? Is it actually "positive" and "debt-free"? How well have its advocates thought this out?

The term "sovereign money" as used by Positive Money and other advocates means a national central bank *monopoly* on the creation of money. The national government would create money by simply *spending it into existence*. Advocates point out that, from 1938 to 1976, Canada financed its greatest period of growth and prosperity via interest-free "loans" from the central bank of which it was (and still is) *sole owner*.

In a fully sovereign money system, there would be no need to borrow from privately-owned banks as Canada's governments have been doing since the mid-70's, amassing a huge and unnecessary public debt. There would be no need to cut social services in order to pay interest to bank shareholders. Without interest charges, the costs for government services and infrastructure would plummet. I have illustrated such sovereign money as highly desirable in all of my *Money as Debt* movies.

The problem as they see it

Sovereign money advocates claim that the root problem that causes periodic economic crashes is the elasticity of the money supply that is enabled by the commercial banks' ability to create bank credit money directly from the borrower's promise to repay it. Banks make their living from interest and fees and therefore have the incentive to persuade borrowers to borrow as much as possible ... or more. Easy credit and low interest rates lead to excessive money creation that tends to drive up prices in whatever the current "tulip mania" might be. This bubble of rising prices and increasing money stock always bursts in the end. In the 90's it was wild-eyed investment in over-hyped tech stocks that became worthless. In 2008 it was overpriced real estate that plummeted.

Those in favour of sovereign money propose that banks should be able to lend no more than they have in reserve (full-reserve banking) and that the total quantity of reserves be controlled by experts at the nation's central bank so as to align with national Gross Domestic Product (GDP). In its simplest form, the governing equation would be:

GDP = money stock (total reserves) x velocity (the rate of money transactions)

The thinking is that the need for money is determined by the gross volume of monetary transactions per unit of time. With the money supply centrally controlled as the central bank's monopoly, sudden inflation of the money supply, asset bubbles and crashes like 2008 would be impossible.

The goal is commendable. But perhaps more thought is needed. It is my contention that, with the money supply centrally controlled as the central bank's monopoly, sudden inflation of the money supply and asset bubbles would indeed be impossible. But a crash or a very high rate of default would be caused for reasons sovereign money advocates haven't considered at all.

"Positive Money"?

First, let me establish that, *any form of money of any origin*, from gold coins to Bitcoins, once it is lent

and has to repaid is money-as-debt just like bank credit. The government may spend it into existence, so-called “debt-free” (more on that later) but once it has been lent out it is debt-money on a repayment schedule, pure and simple. It has been my experience that sovereign money advocates tend to dismiss this obvious fact and repeat their simplistic mantra of “positive debt-free money” as if repetition will make it true.

Sovereign money’s origins as a weapon of conquest

Apart from claims of “exclusive constitutional rights of government”, why, in practical terms, does the national government have monetary sovereignty?

The answer is now and always has been ... *taxes*. The government can use legal force to make us pay taxes in the government’s choice of money. This has been a standard instrument of conquest and control since coins were invented.

First, the empire conquered militarily. The conquering soldiers were paid in “sovereign money”, tokens (in the past, iron or copper coins) with a picture of the ruler on them that, unlike gold or silver coins, had no intrinsic value. The soldiers demanded from the vanquished real goods and services in exchange for these tokens. At some point, the soldiers returned with the tax collector to collect the tokens back as taxes. The empire spent them again to maintain the garrison that kept the victims subjugated and their real wealth flowing to the conquerors. The conqueror’s “sovereign money” would soon be declared the *only* legal tender of the realm. The conquest is completed.

The point to understand is that tax-collecting governments have monetary sovereignty simply because they can both *create and enforce demand* for their so-called “sovereign money”. It is the enforced demand for the money created by taxes collected under threat of legal force by the state that gives any “sovereign money” its value. It really all depends on the intentions of government whether this is good or bad for the people. Hitler’s success in building defeated and penniless Germany into a prosperous military superpower in 6 short years (1933-39) was due to his brilliant use of “sovereign money”.

Is Sovereign Money really “debt-free”?

As explained above, the money’s value is created by the requirement to pay taxes and whatever value to the taxpayer the government delivers in exchange (some unwanted but most of it essential). And, in a situation of trying to maintain a *stable* money supply, every dollar created and spent by the sovereign government would have to be taxed back at the same rate as it is spent, (a balanced budget) something I have illustrated in all three of my *Money as Debt* movies.

Therefore, the claim that sovereign money is always “debt-free” by nature is nothing short of *fraudulent misrepresentation*. In a stable money supply it has to be taxed back at the same rate it is spent to keep the money supply the same. In such a situation, it is clearly money as debt-on-a-schedule as is bank credit today. What *is* true is that taxpayers would *not* be paying interest to bank shareholders. That, in itself, is huge and would be the truthful way to sell this idea.

To repeat: from 1938 to 1976 Canada financed its greatest period of growth and prosperity via interest-free “loans” from the central bank of which it was sole owner. Note that some of these loans were paid back and the money extinguished, and some were not. The actual “debt-free” money (forgiven loans) were only made possible by the *real economic growth* that vastly increased Canada’s GDP and absorbed all the extra money without devaluation. This growth was enabled by the infrastructure the government

built with the money, the big examples being the St. Lawrence Seaway and the national highway system.

Today, the endless growth of human economic activity is the root cause of climate change and the Sixth Great Extinction of species currently well underway towards our own. It has been my experience that sovereign money advocates tend to simply *deny* that any taxes will be required to maintain the value of the money because endless economic growth will absorb it all. This magical belief in endless growth is the only way they can maintain the fable of "debt-free money".

Something sovereign money advocates do not take into account
The impossible debt that plagues this world is built in to our primitive conception of money as *a single quantity made valuable by its own scarcity*. Whatever its origin, emperors' tokens, gold, silver, Bitcoin ... once that type of money is lent, spent and re-lent multiple times, the result is *multiple simultaneous principal debts of the same money*, a situation that can only be escaped by default and only kept afloat by continuous growth of the money supply.

My website at moneyasdebt.net is replete with multiple mathematical proofs that this is the case and no one has managed to prove any of my facts, logic or elementary arithmetic to be in error.

Getting it Backwards
Requiring banks to have a reserve dollar for every dollar they lend, and pegging the amount of reserve dollars to GDP as sovereign money proposes, is a total misreading of the situation. Sovereign money will not change the fact that so-called "positive money", once borrowed and needed for repayment, will have been acquired by those more powerful and is now only available to be borrowed a second time, creating an *additional principal debt of itself*. How many times can the same mortgage-lent full-reserve dollar be saved and re-lent over the 20-30 years it is in circulation? The only limit is how many times it takes to cause *mass default*.

Currently, in the commercial bank credit system, everyone is caught in a borrow from Peter to pay Paul and vice versa trap of *multiple simultaneous principal debts of the same money*. Therefore, it is mathematically inevitable that whenever the rate of new borrowing falls below the required rate of debt repayment, some borrowers must default due to the math alone, an actual aggregate shortage of money.

To compare to musical chairs, the music stops when new borrowing slows down and the number of chairs removed increases in proportion to the number of times the same money has been re-lent.

According to the Federal Reserve's published money supply statistics, that number reached an unprecedented high just before the Crash of 2008. Logically, the cause was increased income inequality, and the huge amount of borrowed money locked away in the savings accounts of global corporations.

This is all ignored by sovereign money advocates who believe the money supply should be proportional to GDP. So let us model a test case.

Modelling the sovereign money response to *shrinking* GDP
GDP decreases when people save rather than spend. That is because saving reduces velocity, spending increases it. If reserves are to be directly proportional to GDP, this means that the total reserves, and thus the ability of commercial banks to make loans, should be reduced or at least not increased because fewer goods and services are being traded via money.

But the real cause of money shortage is something not considered: all the money that has been borrowed

by one party and is now locked up in some other party's savings.

Therefore, the only way that current debt can be repaid is by borrowing from the saver, thus creating a perpetual debt that can only be escaped by default. Furthermore, to prevent mass default, the aggregate amount of money bouncing back and forth must never decrease, and, in practical experience, *must forever increase regardless of GDP*.

But, if they persisted in aligning reserves with GDP, the sovereign money controllers would see a shrinking GDP and pull back on creating new reserves accordingly, causing a mathematically inevitable mass default like in 2008.

Then, to prevent a complete social and economic collapse, the government might do the opposite of 2008 and go on a massive sovereign money spending program that *bailed out the borrowers*.

The borrowers would then pay off their debts to the banks, which in a sovereign money system truly *is* lending the money of their savings depositors. In the current system, when principal debt to a bank is paid off, that bank credit money is extinguished thus reducing the total money supply. In the sovereign money system it would not be extinguished as the money repaid is the actual savings of depositors.

To prevent devaluation, this massive amount of new money would have to be earned by the taxpayers and paid as taxes to the national government. But where would it end up? It would be in the savings accounts of those depositors who have excess money and will only *lend* it. The only way it could be earned to pay the taxes is by collectively *going back into debt to put it into circulation*. Then, if the government extinguishes it to prevent or reverse devaluation, how does this new debt get repaid? The unavoidable result will be *another wave of mass default*.

Wrong analysis, wrong "solution"

According to my analysis, reforming our system to sovereign money is most likely to bring about several undesirable outcomes: the crash the reform was intended to prevent, further concentration of the money supply into the possession of those who already own most of it, and massive devaluation of the currency, driving up prices for rich and poor alike.

All of this mathematical woe is caused by our limited concept of money as a single quantity made valuable by its own scarcity. Sovereign money's misguided "solution" is *more of the same*.

The ONLY positive money is credit for real stuff

My whole website at moneyasdebt.net is devoted to REAL monetary sovereignty, which belongs to ANYONE with assured demand for what they do to serve others.

This includes governments at all levels as well as producers of the raw materials, goods and services we depend on. This is the only sovereign money I advocate, the one in which the terms "monopoly" and "exclusive right" will NEVER apply .

I will end by quoting an advanced thinker and eloquent writer who came up with most of the ideas I promote before I was born.

"There is a treasure buried in your consciousness. If you will dig it up from the debris of superstition and fear that covers it you will gain a freedom and self-mastery that will lift your life to a higher plane. This

is the money power in you.

The power to create money with which to purchase wealth, health and happiness actually lies dormant within you. You have thought of the money power as something remote from you and beyond your grasp. You have dreamed of the good you could and would do if you had money power. You have blamed others for not accomplishing this good. You have blamed them for evil economic and political conditions; for unemployment, for poverty, for crime, for war.

It is quite logical to blame these maladies upon the malfunction of the money power, but you have not suspected that the money power resides in you and because of your failure to exert it the world is afflicted with miseries. You have the power; you have the responsibility. The power and responsibility to banish poverty, unemployment, insecurity, misery and war rests entirely with you.