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Iceland Considers Stripping Power to Create Currency From Banks

Still reeling from the economic catastrophe that struck in 2008, Iceland and its Parliament are debating a plan that would dramatically restructure the tiny nation's monetary system by stripping commercial banks of the legal ability to create currency out of thin air — and handing that power exclusively to politicians and central bankers under what is being labelled a "sovereign money" system. The proposal to quash private bankers' fractional-reserve system, where banks literally bring new currency into existence with government permission and then charge interest on it, is already making major waves. It is being described by analysts as everything from "radical" and "revolutionary" to a prescription for "an almost Soviet-style banking system." Either way, the implications of the debate are enormous.

In a parliamentary report released on March 31, commissioned by the prime minister about the monetary idea, Chairman Frosti Sigurjónsson on Parliament's Committee for Economic Affairs and Trade suggested that a "fundamental reform" of Iceland's monetary system was needed. "Iceland, being a sovereign state with an independent currency, is free to abandon the present unstable fractional reserves system and implement a better monetary system," explained MP Frosti, who authored the report. "Such an initiative must however rest on further study of the alternatives and a widespread consensus on the urgency for reform."

The explosive 110-page report, entitled "Monetary Reform: A Better Monetary System for Iceland," offers a great deal of educational material on the inherent flaws of the current fractional-reserve banking system. In essence, with full government backing, the existing monetary system literally allows commercial banks to create fiat currency out of nothing, based on the amount of deposits held by the commercial bank. The banks then charge customers interest payments on the currency that they created out of nothing. Countless analysts have blasted the existing system as a scam and a fraud that serves mostly to loot the public.

Of course, *The New American* magazine has been attempting to raise awareness of this system for decades — along with the inherent instability it produces, as well as how it allows government-backed bankers to get rich at public expense. The Icelandic report, if nothing else, should serve as a valuable educational tool to create more widespread public understanding of the systemically flawed system now in place across virtually the entire globe. The parliamentary document itself acknowledges that education on the existing system is necessary if it is ever going to be seriously reformed.

"For more than half a century, Iceland has suffered from serious monetary problems including inflation, hyperinflation, devaluations, an asset bubble and ultimately the collapse of its banking sector in 2008," the report's preface explains, pointing to the fractional-reserve system as the culprit and adding that other countries have also experienced similar problems. "Despite its frequent failures, the banking system has remained essentially unchanged and homogenous around the world…. A necessary step toward monetary reform is to increase awareness of the drawbacks and risks of the present system and why reform is needed."

In the summary of the report, it explains that "commercial banks expanded the money supply nineteen-fold in the fourteen year period that ended with the banking crisis of 2008." And while the monetary lunacy was not limited to Iceland — in the United States, the privately owned Federal Reserve created more than $20 trillion to bail out mega-banks and crony companies around the world — the Icelandic economy was among the most deeply affected. In fact, the economy of the tiny island, with a population of around 300,000, practically imploded as the European Union and "banksters" tried to foist unimaginable debts incurred by private banks onto the backs of bewildered taxpayers.

"There is also indication that the fractional reserve system may have been a long term contributing factor to various monetary problems in Iceland, including: hyperinflation in the 1980s, chronic inflation, devaluations of the Icelandic Krona (ISK), high interest rates, the government foregoing income from money creation, and growing debt of private and public sectors," the report continues. To deal with all of that, the explosive report proposes adopting the "Sovereign Money system" in which "only the central bank, owned by the state, may create money as coin, notes or electronic money." Commercial banks, meanwhile, would be banned from creating money, it added.

The report explains clearly that after quashing bankers' ability to create money, politicians — hardly notorious for their sound financial stewardship anywhere in the world at any time in history — would take over that power. "Crucially, the power to create money is kept separate from the power to decide how that new money is used," Frosti, also a businessman and economist, wrote in the report. "As with the state budget, the parliament will debate the government's proposal for allocation of new money." Also giving pause for thought, multiple analysts have pointed out that such a monetary system would be enormously lucrative to the government — a point that may not sit well with free-market advocates.

Icelandic Prime Minister Sigmundur Davíð Gunnlaugsson, though, celebrated the report he commissioned from Parliament upon its release. "I am very pleased to receive this new report on monetary reform," Sigmundur Davíð said in a statement. "The findings will be an important contribution to the upcoming discussion, here and elsewhere, on money creation and monetary policy."

Some financial heavyweights lent credence to the debate. In a foreword to the report, former U.K. Financial Services Authority boss Lord Adair Turner, for example, noted that despite regulatory schemes to stabilize the financial system, a "fundamental issue" has still not been addressed. That issue, he said, is "the ability of banks to create credit, money and purchasing power, and the instability which inevitably follows." As a result, Turner continued, "the reforms agreed to date still leave the world dangerously vulnerable to future financial and economic instability." While stopping short of endorsing the proposal, which he said should be debated based on its merits and feasibility, Turner said that any policies pursued "must be grounded in the philosophy which this report proposes — that money creation is too important to be left to bankers alone."

The report is already drawing a fair amount of attention. In a remarkable admission for an "establishment" media source about how the current monetary regime operates, Max Ehrenfreund with the *Washington Post* even gave a brief, if simplistic, explanation of fractional-reserve banking. "It sounds strange to say it, but creating money is indeed something that banks do all the time," Ehrenfreund reported, offering a hypothetical example to illustrate his point that "the total amount of money out there actually multiplies with each cycle." He also acknowledged that the current system is "unstable."

In his article about the plan, Ehrenfreund cited at least one expert as saying that the Icelandic proposal does not go far enough. However, he also quoted Ted Truman, a former Federal Reserve economist and a fellow at the establishment-minded Peterson Institute for International Economics, warning against the plan. "You essentially don't have a banking system," Truman argued. "You would have, actually, an almost Soviet-style banking system. It's a monobank, in the terms of Russia, the former Soviet Union."

Of course, the privately owned "Federal Reserve" banking cartel, owned and run for the benefit of its currency-creating member banks, is hardly a reliable or unbiased source for information on developing a prudent monetary policy. In fact, the Fed and its hangers-on are probably the worst possible people to go to on money matters. Still, Truman makes an important point — stripping commercial banks of the power to create currency but then handing that power to government is unlikely to bring about either stability or sanity. As such, the Icelandic plan is hardly ideal from a truly free-market perspective.

Indeed, seizing the awesome power to manufacture credit from commercial banks and handing it over to politicians is unlikely to solve the problem. In fact, it could even make matters worse, since governments also have coercive powers — the ability to wage war, imprison, tax, and more — that commercial banks do not possess. Still, the fact that there is now an ongoing debate surrounding bankers' ability to create currency from thin air is undoubtedly a positive development. The discussion is crucial if mankind is ever to have a truly prosperous economy in which the fruits of peoples' labor are not secretly siphoned away by government-backed banking gimmicks and politicians.

Instead of further empowering governments and central bankers at the expense of commercial banks, there is a far better solution to create a monetary system that would benefit the public, not just the establishment. It would include quashing everyone's ability to create fiat currency — commercial banks, central banks, and politicians. In place of inherently unstable fiat currency that can be printed or extinguished based on the edicts of governments and bankers, the economy could once again rely on honest money based on real value and hard assets that cannot be manipulated or created out of nothing. Gold and silver, for example, have been used successfully throughout almost all of human history, and remain excellent candidates for the job.

Abolishing entirely the government-granted or -controlled power to create currency out of nothing, of course, would be fiercely resisted by those who benefit from the current monetary regime at humanity's expense. That includes bankers, politicians, and those connected to them. For the sake of free markets, liberty, prosperity, everyday workers, and financial sanity, though, restoring honest and sound currency is essential. Anything less would ultimately mean more of the same chaos and looting — and the world can no longer afford it.

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