

A review of money issuance concepts in modern economic history

Bachelor Thesis

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1. Executive summary

This Bachelor Thesis contains a discussion of different theoretical as well as practical conceptions in money issuance. However the thesis is divided into two main sections. In a first step the historical roots of today's monetary structures shall become reviewed and it will be shown how different scientific approaches in money issuance helped to shape the very modern perceptions and arrangements of current monetary systems. Therefore the retrospect will go back as early as 1844, where the birth of currently prevailing *fractional reserve* system took place under the auspices of Peel's *Bank Charter Act*. Yet it shall be demonstrated how this event became a vantage point for scientific efforts of the two big antithetic forces in money issuance theory, i.e. *Currency* and *Banking School*. This initial discussion then leads into the deeper examination of historical reactions towards urgent questions dipped through the outset of modern fractional reserve environments. Thus the monetary conceptions of important writers such as Georg Friedrich Knapp, Carl Menger and Friedrich Hayek will be analysed in the light of the respective historical circumstances. I will then review how they experienced the monetary and societal conditions of their time very differently and why this led them to very distinct viewpoints, i.e. notions about monetary systems and money itself. The main tool to write this historical part however was to closely study the authors themselves but at the same time try to involve as many independent historical sources as possible, as well as to work through modern reviews by contemporary economists or historians. Hence develops a framework how modern monetary structures evolved through a synthesis of different monetary conceptions, which were always closely connected to scientific research.

The second section contains an examination of the highly complex mechanisms and difficulties of today's *fractional reserve* system. This is an important task since the world's financial superstructures are largely dominated by so-called *fractional reserve central bank* environments. It shall thus be demonstrated how structural instabilities and fundamental economic sufferings are inherited to this ambivalent mechanism to issue money. Where exactly does the hazardous pressure to exponentially extend the money supply come from? Why do governments exhibit disproportionate debt levels but at the same time have to finance monstrous rescue measures for private financial institutions when they are in financial tilt? The discussion of those urgent economic and financial problems of western societies shall open the door to eventually analyse some fundamental approaches to reform current monetary situations within the world. Therefore Joseph Huber's "*seigniorage reform*" as well as Erving Fisher's "*100%-money*" shall initially be contrasted. Similarly it shall be interesting to see how the historical concepts discussed in the first part are still evidently present and how they impacted the on going discussion with money issuance reforms.

The conclusive part of the second section will henceforth be directed towards the possible solutions implied by *seigniorage reform* that is *sovereign money reform*. How, if at all might a monetary reform be able to solve such deeply rooted difficulties like the one's revealed in the discussion about fractional reserve systems? What role does the development of communications technologies play and how are they linked with most processes to issue money? Through discussing the *seigniorage reform* approach in more detail, those and further questions shall be examined. It shall become obvious why *seigniorage reform* might be able to resolve some fundamental issues of the former described difficulties, but also where it is restricted. The first and most important quality of such attempt to reform however must be how realistic and straightforward the solution implied is. Thus shall be balanced reasons if *seigniorage reform* complies with critical features to effectively operate such vital transformations for contemporary monetary systems.

Naturally such attempts to reform inherit quite large potential for conflict since big parts of the economic environment are affected. In a last step it shall henceforth be dealt with possible objections against *seigniorage reform* and why some of them ought to be refuted and some of them ought not to be refuted. Finally the discussion will conclude with an outlook on international developments in *seigniorage reform* attempts. The second section is largely based on Professor Huber's work, since in my opinion he not only gives a very appropriate description of current issues with *fractional reserve* but also he tries to develop straightforward thinking solutions to the problems with *fractional reserve* without striving to subvert or negate achievements of liberal economic principles. In contrast it shall be my endeavour to give prove of the genuine and sincere efforts to preserve and maybe also to introduce free democratic or even deserved liberal principles with financial superstructures.