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Public versus Private Sector Money Creation:
Society Enhancing Monetary Reform

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Abstract

Nearly all money in the US, UK and many other countries is created by the private sector through lending. Private sector money creation provides many benefits, but also imposes large costs on society. Transitioning to public sector money creation can provide equal or better inflation control, economic prosperity, credit availability and monetary value stability. It also can substantially reduce taxes, deficit spending and national debt, while significantly increasing funds available for essential public investments. High complexity often makes it difficult for citizens to understand monetary systems. Lack of public awareness keeps current systems in place. This paper provides a big picture overview of fiat monetary systems, with the goal of facilitating a transition to public sector money creation. The paper is based on the book Global System Change: A Whole System Approach to Achieving Sustainability and Real Prosperity. The book identifies practical system changes in all areas of society, including money creation. This paper provides several US examples. But the suggested transition to public sector money creation is important and relevant for all countries that allow the private sector to create national fiat currencies.

1. Introduction

Money is one of the most powerful forces in society. It strongly influences people's ability to survive and prosper. In a democracy, citizens, through their agent government, should control the creation, ownership and management of the money supply. But in the US and many other countries, the private sector (banks and other lenders) largely creates, owns and controls it. This degrades society because private sector money creation strongly focuses the money supply on benefiting the private sector instead of all citizens.

Substantial public investments are needed to maximize the long-term wellbeing of society. Essential public investment areas include environmental protection, infrastructure, healthcare, education, retirement security and achieving the UN Sustainable Development Goals (SDGs). Allowing the private sector to create, own and control the money supply greatly reduces the ability to fund crucial public investments.

To illustrate, when the private sector owns the money supply, government often must borrow money from it or encourage the private sector to invest in essential areas. Government borrowing frequently incurs interest charges and increases the national debt. This greatly restricts public investments. The private sector is systemically required to only make profitable investments. If investing in the long-term wellbeing of society is unprofitable, funds usually are not provided. If citizens, through democratic government, reclaimed their right to create, own and control the money supply, they could provide abundant zero-interest funds for essential public investments.

Private sector money creation has greatly increased taxes in many countries (i.e. by literally trillions of dollars over many years in the US). It also has substantially increased deficit spending and national debts, produced extremely complex, unstable and difficult to manage money supplies, and greatly reduced the amount of money available to rebuild infrastructure, strengthen the social safety net, and invest in other socially beneficial areas.

In the early US, Thomas Jefferson and James Madison strongly opposed Alexander Hamilton's financial plan for the United States. The plan consolidated federal and state Revolutionary War debts and established a largely privately owned national bank (like the privately owned Federal Reserve today). It also allowed banks to create money through lending, and then loan this money to government to fund deficits and government activities.[1]

Alexander Hamilton was one of the most important US Founders. As the first Secretary of the Treasury, he played a central role in establishing the US government after it was defined at the Constitutional Convention. He devoted his life to his country and greatly benefited it. But his preference for aristocracy and distrust of average citizens probably limited his ability to see the risks and costs of private sector money creation.

James Madison called Alexander Hamilton a monarchist.[2] Hamilton thought the British monarchy and aristocracy were the perfect form of government. He advocated emulating them in the US. His proposals largely were not implemented at the Constitutional Convention. But he was able to achieve aristocracy in money creation. Private sector money creation reflects the aristocratic colonial history of the US. It empowers a small group of lenders to create the money supply and strongly control citizens' survival and quality of life.

Money creation and lending are two distinct activities. As discussed below, many US leaders and experts have argued throughout US history that money creation should be a function of government while lending largely is a function of banks. But over 90 percent of the money supply in the US, UK and many other countries is created by the private sector.[3]

Under the current private sector money creation system, banks create money, loan it to government, and citizens pay interest on it. With public sector money creation, government creates money, loans it to banks and citizens earn interest. Money creation can generate substantial revenue. Banks have a right to profit from lending. But in a democracy, the profits from money creation belong to citizens. However, we have given away this wealth generating mechanism to the private sector.

Returning the creation, ownership and control of the money supply to citizens, through public sector money creation, would greatly benefit society. It would substantially reduce income taxes and the national debt, produce a far simpler, more stable and easier to manage money supply, and provide abundant zero-interest funds for socially beneficial purposes, including achieving the SDGs.

Private sector-created money (private money) occurs in many countries. It has existed for all of US history. Government-created money (public money) caused many economic and other problems in the early US, mainly because it was poorly managed. Public money was not seen as a viable option. The US monetary system has evolved through extensive expert input. The system provides many benefits, including inflation control, economic stability, credit availability and stable monetary value. (This is especially important in the US because the US dollar is a primary global reserve currency.)

There are several valid concerns about the use of public money, including the potential loss of some or all of these benefits. Public money is not a panacea. Government will not be able to create unlimited money to fund pet political projects. As with the current system, extensive expert input will be needed to ensure that public money systems provide the same or greater benefits as private money. As discussed below, public money systems are less complex. Therefore, they have strong potential to provide greater inflation control, economic prosperity, credit availability and monetary value stability.

In addition to valid concerns, invalid or deceptive objections to public money will be raised. Banks and other vested interests profit extensively from private sector money creation. They often will resist change. Some academics might hesitate to promote a system that is different than the one they have been teaching for many years. Emotional manipulation might be used to turn citizens against public money without rational consideration. For example, vested interests sometimes imply that public sector money creation would harm the economy or be impossible to implement effectively.

These arguments are irrational and probably based on self-interest or fear. Vested interests often try to protect profitable systems, even if they harm society. Everyone alive today in the US and many other countries has lived their entire lives under private sector money creation. Even experts sometimes feel threatened by new systems.

There is no inherent reason why government cannot create all fiat currency. The vast majority of people probably believe this already is happening. A dollar functions the same whether the public or private sector creates it. From a utility perspective, it does not matter who creates fiat currency. The key issue is management of the monetary system. The idea that this only can be done effectively by the private sector is absurd. For the many reasons discussed in this paper, it is highly likely that a public money system would be easier to manage effectively.

Vested interests also sometimes argue that the monetary system is too complex for average citizens to understand. Therefore, people should trust the experts when they say private money is better. It is true that the current system is extremely complex. Complex aspects include types of money, transfers between the government, central bank and commercial banks, international transfers, financial statements and accounting procedures, velocity of money, open market operations, inflation control, and fiscal versus monetary policy.

But citizens do not need to understand these complex issues. They only need to know the basic differences between public and private sector money creation. The purpose of this paper is to provide this basic overview, rather than discuss the deep complexity of current monetary systems. Once citizens understand the large benefits of public money, they can direct politicians and monetary experts to work out the complex details.

James Madison was concerned that Hamilton's plan gave banks too much control of the government.[4] He was correct. Making government dependent on private sector funding greatly reduces citizens' ability to control their destiny and wellbeing. It strongly suppresses democracy and republican government. The money supply usually is limited to control inflation and maintain monetary value. In this limited environment, the private sector often is given priority in a private money system. Government's ability to fund essential public investments frequently is constrained. With public sector money creation, citizens control their financial destiny. Essential public investments are given priority.

Government funding mechanisms include taxes, borrowing and money creation. Public sector money creation involves shifting government revenues from borrowing to money creation. It does not necessarily increase the money supply because money creation is being transferred from the private to the public sector.

Vested interests often say that public sector money creation would cause inflation and other economic problems. Zimbabwe, the Weimar Republic and some developing countries frequently are cited as examples. However, *A History of Public Money Creation* shows that several factors contributed to high inflation in these countries. The report gives many examples of successful public sector money creation throughout history. It was used effectively in ancient Rome and China. Over the past 100 years, several countries have facilitated economic growth without causing inflation by using public sector money creation, including the US, UK, Germany, Japan, Canada and New Zealand.[5] Effective use requires checks and balances that minimize political abuse of money creation. Many countries achieve this through independent central banks.

Thomas Jefferson accused Alexander Hamilton of making his financial system intentionally complex so that citizens and politicians would not understand it.[6] Lack of public awareness about the large costs of private money and benefits of public money keep current systems in place. Once citizens understand the many benefits of reclaiming their democratic (and in the US, constitutional) right to create, own, control and profit from their own money supply, they almost certainly will demand a transition to public sector money creation.

This paper summarizes the costs, benefits and operation of public and private sector money creation in ways that average citizens can easily understand. To further enhance clarity, it also summarizes some of the deceptive arguments that vested interests might use to try to keep current systems in place.

The purpose of this paper is not to criticize financial institutions or leaders. They intend to benefit society, and do in many ways. As in all other sectors, flawed economic, political and financial systems often compel good, well-intentioned leaders to take actions that harm society. The problem is systems, not leaders or companies. The purpose of this paper is to illuminate the flaws of current monetary systems and suggest more beneficial alternatives.

2. United States Leaders

Throughout US history, many leaders have opposed private sector creation, ownership and control of the money supply. They argued that this should be a function of republican government. For example, Thomas Jefferson criticized the first 'national' bank of the US because it largely was privately owned and controlled.

In 1803, he said, "[The] Bank of the United States... is one of the most deadly hostilities existing, against the principles and form of our Constitution... I deem no government safe which is under the vassalage of any self-constituted authorities, or any other authority than that of the nation, or its regular functionaries."[7]

In 1896, US presidential candidate William Jennings Bryan said, "we believe that the right to coin and issue money is a function of government… We believe that it is a part of sovereignty, and can no more with safety be delegated to private individuals than we could afford to delegate to private individuals the power to make penal statutes or levy taxes… I stand with Jefferson rather than with [banks], and tell them, as he did, that the issue of money is a function of government, and that the banks ought to go out of the governing business."[8]

In 1941, Congressman Wright Patman, Chairman of the House Committee on Banking and Currency for twelve years, said, "I have never yet had anyone who could, through the use of logic and reason, justify the Federal Government borrowing the use of its own money… It is absolutely wrong for the Government to issue interest-bearing obligations… Now, take the Panama Canal bonds. They amounted to… $49 million… By the time they are paid, the Government will have paid $75 million in interest on bonds of less than $50 million. So the Government is paying out $125 million to obtain the use of $49 million… The question is: Should that policy be continued? … I believe the system should be changed. The Constitution of the United States does not give the banks the power to create money…"

"I believe the time will come when people will demand that this be changed. I believe the time will come in this country when they will actually blame you, me and everyone else connected with this Congress for sitting idly by and permitting such an idiotic system to continue… I have talked to the Secretary of the Treasury and members of the Federal Reserve Board… They know this can be done easily and conveniently, and it will save money; but their one reply is, "It will have a bad psychological effect." Well, I do not think it would have a bad psychological effect to save the people 50 percent of their national debt. I do not think it would have a bad psychological effect to save the people over a billion dollars a year in interest… It certainly would have a bad effect on the people who are collecting interest on the Government's money."[9]

Nobel Prize-winning economist Milton Friedman said, "I share [the view] that the creation of fiat currency should be a government monopoly." In 1985, Dr. Friedman wrote, "I have not given up on advocacy of one-hundred percent reserves."[10] (One-hundred percent reserves means prohibiting banks from creating money through lending.)

Many economic, academic and other leaders have tried to raise public awareness about the expensive, undemocratic and harmful nature of private sector money creation. Charging citizens' interest to use their own money generates large profits for the private sector. As a result, private sector lenders and their political and media allies largely have kept citizens in the dark about this issue. For example, media frequently discusses the importance of reducing the national debt. But conservative and liberal media rarely mention that there would be much lower deficit spending and national debt if citizens reclaimed their right to create, own and control their own money supply.

3. Operation and Transition

This section summarizes the mechanics of private and public sector money creation, as well as the process of transitioning from the former to the latter. Fiat currencies, such as the US dollar, are created by fiat or decree. The money has value only because a trusted entity, such as government, says it does. Fiat currency can be created by the public or private sector. In both cases, government or banks simply declare that new money exists. Government support enables this money to be used as a medium of exchange. The money is not backed by any resource or commodity, such as gold. It does not come from anywhere. It simply is created out of thin air.

3.1. Private Sector Money Creation

Coins and Federal Reserve notes (paper money) are less than 10 percent of the money supply in the US. As noted, the vast majority of money, over 90 percent in the US, UK and many other countries, is created by the private sector through lending. The money is created in electronic form. It appears as deposits in bank and other accounts.

When the complexity of fractional reserve lending and other factors are stripped away, the process of private sector money creation is simple. Banks simply declare that new money exists. An equivalent situation might involve a retailer waving a magic wand and making products appear on their shelves. Products cannot be created out of thin air. But money can because it is not material. It simply is an assertion that new money exists. When people agree that it does, it can be used as a medium of exchange.

Vested interests sometimes argue that banks do not create money out of thin air. They say, for example, that loans create assets and liabilities on bank balance sheets. The monetary system is extremely complex. But if one steps back and looks beyond bank financial statements at the big picture, it becomes clear that banks often do create money out of thin air. To illustrate, money exists. It does not magically appear. Someone creates it. Not every loan creates new money out of thin air. But many effectively do.

Fractional reserve lending is sometimes used to describe how banks create money. But this adds an unnecessary layer of complexity. To illustrate the process, someone might deposit $1,000 into a bank. At a common 10 percent reserve requirement, the bank is required to hold $100, but it can loan out $900. When it does, it often creates $900 of new money out of thin air. When the $900 is deposited in another bank, it must hold $90, but it can loan out $810. Through this process of depositing and relending, the banking system can grow a $1,000 deposit to $10,000 at a 10 percent reserve requirement, thereby creating $9,000 of new money out of thin air.

The confusion arises in the above example because it appears that the bank did not create $900 of new money. It only loaned out part of the $1,000 deposit. But this often is not true. The depositor's account does not say $900 was loaned to another party and is not available. The system still shows $1,000 in the depositor's account. It can be withdrawn at any time. The bank frequently does not loan out $900 of the depositor's money. It often creates $900 of new money out of thin air. Before the loan, the system showed $1,000 in one account. After the loan, it showed that plus $900 in another account. The money supply increased by $900. New money was created through lending.

> *"Maximizing the long-term wellbeing of society requires that citizens, through democratic government, create and own the money supply."*

Creation implies ownership. In the same way that companies own the products they produce, banks effectively own the money they create. This enables them to demand that 'their' money be repaid with interest. But as discussed below, banks should not own national fiat currency. Protecting and maximizing a nation's wellbeing requires that its fiat currency be publicly created and owned. Citizens/governments often do not have the funds needed for essential public investments because they have given away ownership and control of the money supply to the private sector.

Banks create money out of thin air, call it their own, lend it out and collect interest. We literally have given banks a license to create money and keep all the profits from it. As noted, it is a large wealth generating mechanism that We the People have given away to banks.

3.2. Public Sector Money Creation

Public sector money creation involves government creating money out of thin air simply by declaring that new money exists. The Federal Reserve (Fed) sometimes creates money with quantitative easing. But the Fed is not part of the US government. It is comprised of 12 regional banks that are completely owned by private banks. The Fed receives no government funding. Its employees are not government employees. The President appoints the Fed's board of governors and chairman. But once appointed, the government has little ability to influence Fed policies and decisions, short of changing the Federal Reserve Act that established the Fed. The Fed is more influenced by its owner banks than citizens/democratic government. In this sense, Fed-created money is closer to private money than public money.

Public and private sector money creation can coexist. But as discussed below, it would greatly benefit society to implement full public sector money creation. Under this approach, bank reserve requirements would be set at 100 percent. Banks could loan out some owners' equity or time deposits. For example, if a customer bought a certificate of deposit redeemable in one year, the bank could loan the depositor's money out for a year. But banks would not be allowed to loan out demand deposits (deposits that can be withdrawn at any time), such as those in most checking and savings accounts.

There are several ways to operate a public sector money creation system. One of the most effective is to run it through the current banking system. A robust banking system is needed to provide funds to individuals, businesses and other organizations. One way to operate this system is to provide banks with a borrowing account at the US Treasury (or the Fed if it becomes part of the US government). When a customer seeks a bank loan, the bank could automatically draw on the Treasury account, provided that due diligence and other requirements were met. Treasury accounts would be routinely audited to ensure that banks were complying with government loan covenants.

Banks would borrow from the Treasury at a low interest rate, reloan the money at a higher rate, and profit from the spread. If a bank's treasury account ran low, the Treasury could create money out of thin air and put it in the account, in the same way that banks currently create money out of thin air and put it in customers' accounts.

3.3. Transition to Public Money

Transitioning to public sector money creation involves citizens, through democratic government, taking over the creation, ownership and management of the money supply. In the US, this most likely would involve making the privately-owned Federal Reserve part of the US Treasury. It also would include implementing 100 percent bank reserves. Banks would be required to hold 100 percent of demand deposits. They would be prohibited from creating new money out of thin air through lending.

Money creation would be a function of government, while banks distribute government-created money through lending. Under private sector money creation, money creation and lending are combined into one function. With public sector money creation, they are separated into two distinct functions, as they should be in a democracy.

Requiring banks to hold demand deposits means that money often would be sitting idle in bank accounts, rather than lent out. To provide the credit needed for economic prosperity, government probably would create more money, and make it available through bank loans. This would not necessarily cause inflation. Inflation largely is caused by the amount of money circulating in the economy. The total volume of money might grow. But the amount circulating would remain about the same, and therefore be no more inflationary than a private money system.

Critical money supply issues include, who creates and owns the money supply? Who decides how much money is created? And who decides how public money is used? As discussed throughout this article, maximizing the long-term wellbeing of society requires that citizens, through democratic government, create and own the money supply. They also should control how public money is used.

Checks and balances are needed to control inflation and prevent political abuse of money supply management. To achieve this, a partly independent entity, such as a central bank, might decide how much money government is allowed to create. However, democracy requires that this entity ultimately be controlled by citizens. The bank-owned US central bank (Federal Reserve) violates this model. The UK central bank (Bank of England) ultimately is democratic. It is owned by the UK government. But government does not control daily operations.

A main goal of public sector money creation is to greatly reduce government borrowing. Creating money, instead of allowing banks to create it and borrowing it, could substantially reduce national debt, deficit spending, public interest expense and taxes. Government would retain the ability to borrow if necessary, for example, if public sector money creation would cause inflation. However, when the private sector no longer is allowed to create money, borrowing from it could reduce money circulating and be recessionary. In these cases, as discussed below, government could use taxation and other tools to limit the money supply and control inflation.

4. Costs and Benefits

Comparing public to private sector money creation, or evaluating any other complex system, usually requires identifying critical system components or issues, and then assessing relative performance on each. Opinions about one approach versus another are irrelevant, unless they are backed up by facts and logic. Key money creation issues include cost, focus, control, stability, public investment, national debt, national independence, economic growth, decentralization, corruption, government lending, state and local money creation, charging interest and the UN Sustainable Development Goals.

4.1. Cost

Government has two basic money creation options—allow banks to create money, borrow it and pay interest or create money itself and pay no interest. Alexander Hamilton, along with banks and large companies, established the Federalist Party. They wanted to profit by creating money and loaning it to government. They were concerned that Thomas Jefferson would pay off the national debt when he was elected President in 1800.[11] This would remove their large revenue generating mechanism.

The Federalists got what they wanted. For all of US history, the government mainly has been allowing banks and other lenders to create money and borrowing it from them, instead of creating money itself. As noted, this has cost taxpayers trillions of dollars. Private sector money creation is one of the largest forms of corporate welfare. It represents a substantial transfer of public wealth to banks and their investors.

To illustrate, interest on the US national debt is about $400 billion per year.[12] Much of this would be unnecessary if government created rather than borrowed money. In addition, by giving away their right to create money to banks, citizens lose about $100 billion per year of interest income.[13] Private sector money creation costs US taxpayers as much as $500 billion per year, nearly half of federal individual income taxes.

The Federal Reserve was established in 1913. In the same year, the Constitution was amended to allow increased income taxes. Citizens' federal income taxes are nearly doubled because they are paying banks to create the US money supply, rather than creating it themselves for free. In a democracy, the money supply belongs to the people. When citizens allow banks to create money, they are paying interest to use their own money. Public sector money creation is far less expensive than private sector money creation.

"The US uses a deceptive 1960s era definition of poverty that actually measures extreme poverty. Using a more honest definition (inability to meet basic needs), nearly half of US citizens are living in poverty. This mainly occurs because private sector money creation and other large forms of corporate welfare unfairly concentrate public wealth at the top of society."

4.2. Focus

When the private sector creates, owns and controls the money supply, the focus of money mainly is on benefiting banks and other private lender/money creators. Banks face strong systemic pressure to maximize shareholder returns. They often do this by channeling loans and investments into speculative areas, rather than job creation and other areas that benefit the real economy.

The main goal of democratic government, when it is not strongly influenced by vested interests, is to promote the long-term wellbeing of society. When the people control money creation, ownership and management, the money supply is used to equally and fairly benefit all current and future citizens.

Unfortunately, democracy largely does not exist in the US and many other countries. Campaign finance laws and other democracy protections have been greatly weakened in the US. As a result, the US government and both major political parties largely are controlled by wealthy campaign donors. This converts democracy to plutocracy. Under this system, the primary focus of government is to maximize the wealth of those who control government. Plutocracy helps to explain the persistence of private sector money creation. Under true democracy, citizens would take back control of money creation, ownership and management.

4.3. Control

With private sector money creation, it is far more difficult to manage and control the money supply. Currently, thousands of banks and other lenders create money through lending. The Fed tries to control the money supply by controlling the lending of these institutions. It uses several tools to do so, such as open market operations and adjusting reserve requirements and key interest rates.

But the stated goal of the Fed often is in conflict with the systemically mandated focus of banks. The Fed is supposed to manage the money supply in ways that broadly benefit society, while banks are required to maximize their own financial wellbeing. But as a bank-owned institution, the Fed often faces pressure to put the wellbeing of banks ahead of the wellbeing of society.

In addition, deregulation since the 1980s has increased lending in unregulated markets. This makes it even more difficult for the Fed to control lending/money creation. Trying to control the lending of thousands of regulated and unregulated financial institutions that are focused on something other than social wellbeing is like trying to herd cats.

With public sector money creation, only one entity, that is focused on maximizing social wellbeing, creates money—democratic government. This makes it much easier to control the money supply.

It also makes it easier to channel public money through the banking system into job creation and other beneficial areas. For example, government could charge banks low or even zero interest for loans that benefit society. It also might assume some default risk for highly beneficial loans. Loans for activities that cause large negative environmental or social impacts could be made at higher interest rates. This process holds companies more responsible for negative impacts (i.e. internalizes externalized costs), and thereby makes beneficial activities more competitive.

4.4. Stability

When banks create money (private money), they are not really creating money. They are creating debt. Private money (i.e. debt) is constantly appearing and disappearing as loans are made and repaid. This produces an inherently unstable money supply. Government-created money (public money) would be actual money. It would not disappear when loans were repaid. Instead, banks would return the money to government, where it originated. Through this process, public sector money creation produces a far more stable money supply.

This greatly facilitates economic stabilization. During recessions, banks often restrict lending to build up reserves and protect against growing loan defaults. Reduced lending can exacerbate recessions. Loan restrictions due to limited reserves are much less of a concern under a 100 percent reserve system. Also, the government can increase bank lending to counteract recessions by lowering interest rates and possibly assuming some default risk. Public sector money creation would strongly promote a stable, beneficial economy by providing a far more stable, easier to manage money supply.

4.5. Public Investment

Greatly increased public investment is a major benefit of public sector money creation. This benefit is strongly emphasized by modern monetary theory. As noted, government investments in infrastructure, education, healthcare, retirement security, research and other beneficial areas are severely constrained when they are funded by interest-bearing debt.

For example, interest expense can increase the cost of infrastructure improvements by two to three times. To illustrate, as discussed above, the Panama Canal cost about $50 million.

Then we paid $75 million of interest to borrow the $50 million.[14] If citizens created the money through government, the canal would have cost 60 percent less. Public sector money creation often would enable society to do two to three times more infrastructure work (and create two to three times more jobs) for the same amount of money.

The US is one of the wealthiest nations in the world. But we have nearly the highest poverty rate in the developed world. Forty-three percent of US citizens cannot afford to meet basic needs.[15] The US uses a deceptive 1960s era definition of poverty that actually measures extreme poverty. Using a more honest definition (inability to meet basic needs), nearly half of US citizens are living in poverty. This mainly occurs because private sector money creation and other large forms of corporate welfare unfairly concentrate public wealth at the top of society.

Vested interests often argue that social welfare spending must be reduced to pay down the national debt. This constraint does not exist with public sector money creation. Under this system, government can provide far more money to reduce poverty, rebuild infrastructure and broadly benefit society, without increasing the national debt or causing inflation. As discussed below, it is easier to control inflation with public sector money creation.

4.6. National Debt

Private sector money creation is the primary reason national debt exists. (The US national debt was $27 trillion at the end of 2020.) Citizens have given away their right to create money to the private sector. As a result, when government runs a deficit, banks often create money, loan it to government and citizens pay interest on it. Again, we are paying interest to use our own money. Paying $400 billion per year of interest on the national debt is a main cause of deficit spending. With public sector money creation, we could substantially lower deficit spending, greatly reduce the creation of new government debt, and pay down existing debt.

4.7. National Independence

In addition to borrowing money from the private sector, the US government also borrows from other countries. China holds about $1 trillion of US debt. It is the second largest US creditor behind Japan.[16] As the largest global economy with an attractive currency, the ability of foreign creditors to harm the US, for example by demanding repayment, is limited. However, becoming indebted to other countries can cause economic and other problems, as frequently shown in developing countries. If US citizens created their own money supply, they could greatly reduce foreign borrowing. Not becoming indebted or beholden to foreign governments increases national independence.

4.8. Economic Growth

Private sector money creation strongly drives unsustainable economic growth. Experts have been saying for decades that human survival and prosperity requires switching the focus of society from maximizing economic growth to maximizing the long-term wellbeing of society. Sustainable natural systems seek balance, not growth. It is unintentionally suicidal to seek infinite growth in a finite system.

With private sector money creation, nearly every dollar in circulation is earning interest for banks and other lender/money creators. Existing debt must be paid back with interest. This creates pressure to continuously expand the money supply. Economic growth facilitates this by creating demand for new debt/money. As discussed below, with public sector money creation, interest rates and the need to pay interest would be much lower. This would greatly reduce pressure to continuously and unsustainably grow the money supply and economy.

4.9. Decentralization

Private sector money creation concentrates or centralizes the power of money creation into a relatively small group of banks and other lenders. These private sector entities have little or no accountability to the public. Citizens do not control the creation, ownership and management of their own money supply.

Public sector money creation has centralization and decentralization benefits. It decentralizes the power of money creation, ownership and management out to all citizens, where it belongs in a democracy. At the same time, it centralizes money creation into one democratically controlled entity—government. This takes advantage of economies of scale. As noted, it greatly simplifies the creation, ownership and management of the money supply.

4.10. Corruption

Corruption is a potential problem with government-created money. But the problem is much smaller and more easily managed than it is with private sector money creation. As noted, banks and other lenders/money creators have little to no accountability to citizens. They can do nearly anything they want with the people's money. They often channel this money into speculative areas that degrade society.

With public sector money creation, politicians could give government-created money to cronies through unfair contracts. But this problem already exists under current systems, for example, when politicians direct borrowed money or tax revenues to cronies. Managing corruption is far easier in the public sector than in the private sector. There is much greater transparency and accountability.

In addition, the entire private sector money creation process is inherently corrupt. It involves a corruption of purpose. As discussed, in a democracy, the money supply should be focused on maximizing the long-term wellbeing of society. But private lender/money creators are systemically required to focus on a goal (maximizing shareholder returns) that often is in fundamental conflict with maximizing social wellbeing. They frequently face conflicts between doing what is best for shareholders or society. If they put society ahead of shareholders, they might go out of business. This is a fundamental, systemic corruption of the purpose of the money supply.

To illustrate, in 2009, the US government gave Citigroup a $45 billion bailout and received preferred stock in return. When the preferred shares were converted to common shares with voting rights, some shareholders were concerned that Citigroup would be run with a focus on benefiting society instead of shareholders. To assure shareholders that this was not the case, the CEO said, "For those people who have a concern about nationalization, this should put those concerns to rest. We're going to run Citi for the shareholders."[17]

> *"Currently, nearly all national fiat currency in the US and many other countries is created by private lenders. This would be ended under a public sector money creation system."*

This is not said as a criticism of the CEO. He simply was doing what he was systemically required to do. This perfectly illustrates why private banks and other lenders should not be creating, owning and managing the money supply. They are structurally incapable of putting the wellbeing of society before all other factors. Activities that must be completely focused on maximizing the long-term wellbeing of society, such as the military, police, taxation, legal system and money creation, should only be managed by citizens through democratic government.

4.11. Government Lending

In a democracy, citizens can and should use the money supply in many ways to benefit individuals and society. Government will create and direct public money into infrastructure and other large-scale endeavors. Public money will be channeled to individuals and organizations primarily through the banking system. However, additional mechanisms could be established. For example, government could provide low or zero interest loans through the Post Office system.

Citizens do not need to charge themselves interest to use their own money. Loans and sometimes grants could be provided through the Post Office and other means for beneficial purposes, such as those related to meeting basic needs and supporting local businesses.

To illustrate, Thomas Jefferson, Benjamin Franklin, John Adams and other US Founders believed that educating young people was essential for maximizing the long-term wellbeing of society. As a result, publicly funded K-12 education has been provided for much of US history. With the growing complexity of society, providing publicly funded higher education also is critical.

Public money should be used to fund public universities and reduce tuition to very low cost or free. Public money grants also should be provided to cover living expenses while young people are in college. Currently, we allow the private sector to create money, loan it to students, and burden them with high debt when they graduate. Instead, we could create the money ourselves, fund higher education, and enable young people to graduate debt-free. This would enable them to better follow their hearts and build successful lives.

Many low and middle-income families cannot afford to send their children to college. Young people often cannot afford to pay back the large debts that were required to get a college degree. Making it difficult or impossible for many young people to get a higher education severely hobbles our country. With public sector money creation, we can end this degradation and injustice.

> *"The purpose of money and the money supply is to facilitate a productive, sustainable, fair economy, not earn money for bankers. Money is a medium to facilitate exchange, not a commodity to be traded."*

4.12. State and Local Money Creation

Currently, nearly all national fiat currency in the US and many other countries is created by private lenders. This would be ended under a public sector money creation system. However, the creation of national fiat currency does not need to be fully centralized at the federal level. States and possibly regions or cities could create national fiat money, for example, by establishing public banks. Only one state in the US has a public bank. It provides many benefits. The Bank of North Dakota supports community banks, funds state infrastructure projects, provides loans to local businesses, and returns profits to the state.

In addition to raising tax revenues and receiving money from the federal government, states often fund deficits and other activities by borrowing money, for example, by selling municipal bonds. Like the federal government, instead of allowing the private sector to create national fiat money, borrowing it and paying interest, states could create it themselves and pay no interest.

No public or private entity can create unlimited amounts of money. That would make the currency worthless. State and local creation of US dollars or fiat currencies in other countries, if it occurs, would be coordinated at the federal level. Currently, thousands of private institutions in the US and many other countries create their nations' fiat currencies. Concentrating money creation at the federal and possibly state levels would greatly reduce the number of entities creating national fiat money, and thereby greatly simplify management of the money supply.

In addition, public money created at any level of government would be actual money that does not disappear when debts are repaid. As noted, this produces a far more stable money supply and economy than private money (i.e. debt), which is constantly expanding and contracting as loans are made and repaid.

4.13. Charging Interest

For much of human history, charging interest was seen as taking advantage of desperate or vulnerable people who needed money to survive and meet basic needs. As a result, Judaism and Islam restrict or prohibit charging interest. Long ago, Christian churches sometimes threatened to excommunicate those who charged interest (usurers).[18] In Dante's *Inferno*, usurers were consigned to a lower level of hell than murderers.

Usury laws (interest restrictions) are among the oldest types of economic regulations. By 1886, every US state had some type of usury law.[19] Prior to 1980, 48 states had usury laws that capped interest rates, usually in the eight to twelve percent range.[20] But following deregulation in 1980s, most usury laws were removed or weakened. Now, interest rate caps, if they exist at all, often are in the 35 percent range.

As has been the case throughout human history, charging interest often is not needed. Creating money in the form of interest-bearing debt drives inflation. Paying interest imposes extreme burdens on many individuals and companies. Interest expense represents as much as 30 percent of the cost of products and services.[21] Additional interest often is needed to buy these products and services.

The purpose of money and the money supply is to facilitate a productive, sustainable, fair economy, not earn money for bankers. Money is a medium to facilitate exchange, not a commodity to be traded.

Banks create money for free out of thin air. There often is no cost to this money, other than overhead. When they loan out free money at 30 percent (or even 15 percent) interest, they are taking advantage of people who need money. This once was a criminal act. It still is morally criminal. Citizens should not be paying exorbitant, usurious interest rates to use their own money.

This situation shows the need for whole system solutions to complex, systemic challenges. Bank executives obviously do not intend to harm society or take advantage of customers. But they operate in systems that, not only allow, but often compel this harmful behavior. When businesses and their owners are allowed to make unlimited, anonymous campaign contributions, as occurs in the US, politicians often become the servants of wealthy campaign donors, instead of all citizens as the Constitution requires. In this environment, politicians frequently remove usury laws and other regulations that benefit society, but interfere with ever-increasing shareholder returns.

When regulated entities (businesses) control regulators (government), self-regulation essentially exists. This is equivalent to no regulation. It creates a *Lord of the Flies* type situation where unregulated companies are compelled to severely degrade society.

Global System Change describes the economic and political system flaws that compel companies to degrade the environment and society. It also describes the whole system change processes needed to align the wellbeing of business with the wellbeing of society. In this environment, banks and other companies maximize shareholder returns by maximizing the wellbeing of citizens and society.

Many actions are needed to evolve our economic and political systems into sustainable forms. However, extensive monetary reform can be done under current systems. As discussed below, transitioning from private to public sector money creation could be done in a timely manner.

The evolution of society sometimes is paradoxical. Charging interest used to be seen as a horrible crime, often equivalent to murder. But slavery was widely accepted. Now we understand the evil, horrible nature of slavery. But we have come to accept a frequently harmful action, as we once accepted slavery. Public sector money creation will greatly benefit society by substantially reducing interest rates and the need to charge interest.

4.14. Sustainable Development Goals

The UN Sustainable Development Goals are one of the most important milestones in the history of the sustainability movement. They establish goals for resolving major environmental, social and economic challenges. As much as $3 trillion of investments are needed per year to achieve the SDGs.[22] Extensive work has been done to encourage the financial community to invest in the SDGs.

This illustrates a major systemic flaw of private sector money creation. Citizens/government often must seek private sector investment to meet societal needs because they gave their right to create money away to banks and other lenders. As a result, the private sector effectively owns the money supply. It largely controls how money is used. It is systemically required to only make profitable investments. If protecting life support systems and meeting basic needs (i.e. enabling humanity to survive and prosper) is not profitable for the financial community, the funds often are not provided.

This is not said as a criticism of the private sector. It simply is doing what it is incentivized to do. Current financial systems essentially say that the private sector should not fund human survival if it is not profitable. Economic and financial systems that put human survival in conflict with the private sector show the unintentionally suicidal nature of our reductionistic systems. This systemic conflict perfectly illustrates why the private sector should not be creating, owning and managing the money supply.

Current systems frequently limit investments in essential areas by putting them through a profitability filter. Human survival and prosperity obviously take priority over private sector investment returns. We should not be putting our survival and other basic needs through these types of filters or screens. Beyond direct private sector investments in the SDGs, government often borrows from the private sector to fund SDG and other public investments. This increases national debt and severely limits the ability to fund survival and other needs.

If citizens took back their right to create, own and manage their own money supply, they could provide much of the funds needed to achieve the SDGs. This would not increase national debt because no money is being borrowed and there is no interest expense. We do not need to earn a financial return on this zero-interest public money. The return on investment is human survival and prosperity. Government will direct public money into the economy through SDG and other societal investments. The private sector frequently will provide SDG and other critical services, and earn a fair return for doing so.

5. Raising Public Awareness

Public sector money creation can outperform private sector money creation on nearly every major comparison point. Private sector money creation outperforms in generating large financial returns for banks and other private lenders. But this should not be the focus or goal of the public money supply.

Switching from private money to public money would greatly benefit society. As noted, lack of public awareness is the primary factor keeping the current system in place. Transitioning to public sector money creation, re-establishing usury laws and lowering interest rates could substantially reduce the revenue of banks and other lenders (as well as greatly reduce taxes, public and private interest expense, and the cost of products and services).

Banks and other lenders often will face strong systemic pressure to oppose public sector money creation and usury laws. Honestly admitting the reason for their opposition (large revenue losses) would not be an effective strategy for blocking the transition. Citizens would have little sympathy for this position. To protect revenues and shareholder returns, private sector lenders frequently will face pressure to mislead the public. Leading economic and monetary experts might be hired to craft compelling, but deceptive arguments about the society-degrading impacts of public sector money creation.

This section discusses some of the deceptive arguments that might be used to protect private sector money creation. It also shows the bias and flawed reasoning behind them. The goal is to help citizens see through the deception that probably will occur when they assert their right to create, own and control the money supply.

As noted, the purpose here is not to criticize banks and their managers. None of them intends to harm society or take advantage of citizens. Their goal is to benefit society, and they do in many ways. But they are between a rock and a hard place. If they do not put shareholder returns before all other factors, bank leaders might lose their jobs or banks might go out of business. The enemy is not these well-intentioned banks and leaders. It is the flawed economic, political and financial systems that compel their harmful behavior.

The purpose here also is not to harm the banking system. It is to protect and strengthen it. Society needs a strong banking system. Currently, the banking system, like many other business sectors, is hurting itself. Flawed systems put banks and other businesses in systemically mandated conflict with society.

As discussed in *Global System Change*, myopic systems unintentionally create a situation where companies are compelled to degrade life support systems and society. They can increase profits by acting more responsibly up to a point. But beyond this point, if they stop harming the environment and society, costs often will go up and they will put themselves out of business. No one intended this. These flawed systems result from failing to look at the big picture (reductionism).

Harming society by unfairly taking public wealth through private sector money creation and usurious interest rates ultimately will end or change the current banking system. Banks and other companies cannot survive by degrading the environmental and social systems that enable them to exist.

In the same way that individuals are held responsible for murder, assault and robbery, companies must be held fully responsible for the harm they impose on society. Under this system, banks and other businesses maximize profits by fully benefiting and not harming society.

A main goal of this paper is to help transition the current unsustainable, unintentionally harmful banking system to a sustainable one that fully benefits society, and earns fair financial returns for doing so. Helping citizens to understand the following deceptions is essential for achieving this transition.

5.1. Government Competence

Calling government incompetent is a common public deception. Banks and other companies face strong systemic pressure to provide ever-increasing shareholder returns. Privatization (i.e. taking over public services, or in the case of money creation, keeping them) is a common strategy for doing so. Creating the public impression that government is incompetent or inefficient facilitates privatization. But in a democracy, government is the people. It is as good as we demand that it be or as bad as we allow it to be. Vested interest-controlled government often does a poor job of serving average citizens because it is not paid or compelled to serve them. It serves a different master.

However, government has systemic advantages, such as economies of scale and a primary focus on maximizing social wellbeing, that often enable it to provide higher-quality, lower-cost services. The private sector can do many things more efficiently and effectively than government. But money creation is not one of them.

As discussed in the Costs and Benefits section, public sector money creation is far more efficient and less expensive than private sector money creation. In terms of efficiency, one entity creates money versus thousands of banks. Regarding cost, banks create money and citizens pay interest versus citizens create money (through government) and earn interest. The superiority of public money on an efficiency and cost basis is obvious.

Arguing that government is incompetent implies that citizens are incapable of ruling themselves. Instead, they need a small group of bank executives to control their financial destiny. This is the flawed logic of aristocrats and monarchs. The US was established to oppose aristocracy. Even if public sector money creation were less efficient, probably virtually all citizens would accept this in return for greatly reduced taxes, interest expense and cost-of-living. But as noted, public money is much more efficient.

5.2. Politicization

Vested interests often argue that public creation, ownership and management would politicize the money supply, and thereby potentially harm the economy and society. This is a legitimate concern in all areas of government, not just the money supply. There are few perfect solutions in government, business and broader society. (Among the few, abiding by the laws of nature is the most important. As discussed in *Global System Change*, higher consciousness producing this outcome will completely determine the survival and prosperity of humanity.)

> *"The capitalism versus socialism deception is misleading. It implies that society could or should do one or the other. But civilized, sustainable society would have a mix of public and private services. It would never do pure socialism or capitalism."*

The US Founders studied previous forms of government and developed a new type of republican system. They intentionally structured government in ways that minimize the ability of vested interests to abuse majorities and minorities. Government manages many areas adequately or well, including the military, legal system, taxation and transportation. Administration changes and other political issues sometimes affect important government functions. But the functions continue, and usually perform at least adequately. The idea that money creation is in a separate category from other government functions and cannot be protected from politicization is irrational.

Government already controls public investment, for example, through the use of tax revenues and borrowed funds. Taking over money creation does not significantly increase the already existing political risks. Arguing that money creation should be controlled by the private sector implies that government is the child and the private sector is the parent. The private sector must control the purse strings of government. This is grossly wrong.

Citizens, through their agent government, must decide the priorities of society. The private sector should not be deciding, through creation, ownership and control of the money supply, when public needs will or will not be met. If citizens/government decide that they are willing to risk some inflation to prevent children from going hungry or meet some other critical need, that is their decision to make, not the private sector's. The private sector is structurally required to focus first on the wellbeing of the private sector, not society. If the choice is protecting society or bank profits, citizens and society often will suffer.

Perhaps the most deceptive aspect of the politicization argument is the implication that money creation, ownership and management are necessarily linked. Creation and ownership of the money supply is separate from the management of it. The private sector often implies that they must create and own the money supply to manage it well. For the many reasons discussed in this paper, this simply is not true. Citizens must create and own their own money supply. They should not be paying interest to use their own money or restricting their ability to fund survival and other critical public needs.

An independent board could be established within government to oversee management of the money supply, like existing oversight groups. The board would be completely focused on maximizing social wellbeing. Board members who put bank profits or any other factor ahead of the long-term wellbeing of society would face civil and criminal penalties.

Also, the board probably would not have complete autonomy to manage the money supply, because several aspects of government influence it. The board might serve mainly in an advisory role. To illustrate, if government decided that substantial public investments were needed in critical areas, the money might be created and different government tools (aside from restricting money creation) could be used to control inflation and other monetary factors. For example, government could tax pollution and other harmful activities to reduce the volume of money circulating.

Politicization implies mismanagement. But mismanagement is not exclusive to the public sector. The entire process of private sector money creation is mismanaged from a social wellbeing perspective. For example, the goal of nearly every dollar in circulation is to generate income for the private sector entity that created it. But as discussed below, this should not be the goal or focus of a nation's fiat currency.

Politicization risk must be balanced against the large benefits of public sector money creation. The risk can be managed effectively, as it is in other government areas. The risk of politicization does not come close to outweighing substantially reduced taxes and national debt, increased public investment and other large benefits of public sector money creation.

The US Founders established checks and balances to prevent essential government functions from being whipsawed by fluctuating public opinions and emotional manipulation of citizens by vested interests. The solution to politicization risk is not to end republican government by removing the people's ability to control essential government activities. Long-term and/or supermajority oversight structures can be established that limit the influence of administration changes, but ultimately are controlled by citizens.

These types of structures are essential in several areas beyond management of the money supply. For example, environmental protection is the most important issue in society. Without environmental life support systems that are clean and stable enough to support human life, we are dead and all other issues are irrelevant. Environmental protection should not rise or fall depending on which political party or administration is in office.

The environment is the foundation of society and life. It is by far the most important aspect of national security. Focusing on insulating money supply management from political influences while leaving environmental protection vulnerable to them is literally suicidal. Long-term, quasi-independent oversight structures can be established in government that insulate environmental protection, money supply management and other critical government functions from political influence, while retaining ultimate control by citizens.

5.3. Public Money and Socialism

Calling government action socialism is one of the most common vested interest strategies for protecting shareholder returns. Citizens are emotionally manipulated into blindly supporting a philosophy or political view instead of thinking rationally. The capitalism versus socialism deception is misleading. It implies that society could or should do one or the other. But civilized, sustainable society would have a mix of public and private services. It would never do pure socialism or capitalism. Philosophies and blind faith views interfere with rational, objective assessment.

The goal of society should be to maximize long-term wellbeing, not abide by a philosophy. In each situation, citizens and leaders should rationally consider options for achieving a goal, and then select the ones that objectively provide the greatest benefits for the least cost. Allowing a philosophy to inhibit this objective analysis degrades society.

Healthcare provides a perfect example of how the socialism deception misleads citizens into paying more money for lower quality services. The US pays far more than any other developed country for healthcare, usually two to three times more. Every other developed country provides healthcare to all citizens through government-managed or government-owned healthcare systems. But the US leaves millions of citizens uninsured or underinsured. The US also has mediocre healthcare outcomes.[23]

The private, for-profit US healthcare system is by far the most expensive, has by far the worst coverage and frequently produces inferior results. Every other developed country proves that the public sector can provide lower cost, higher coverage and frequently superior results in the healthcare area. When citizens oppose public healthcare because they think it is socialism, they essentially are saying that they are willing to pay much more money for much lower quality service to support their philosophical or political views. This is not rational.

The contrast is even starker between public and private sector money creation. Ending this large form of corporate welfare will greatly benefit society. Allowing the socialism deception to block public sector money creation will cause citizens to pay higher taxes, interest and prices.

5.4. Private National Bank

This is an oxymoron. A private bank is not national. National implies being completely focused on the wellbeing of the nation. This might be the stated or intended focus of the Federal Reserve. But the bank is structured in a way that often makes it difficult to achieve this objective. As noted, the Fed is completely owned and strongly controlled by private banks. Through campaign finance, lobbying and other influence strategies, banks can encourage the President and Senators to appoint Fed board members who serve their interests, in large part by perpetuating the private sector's ability to create and own the money supply.

When banks are regulated by an entity that they own and strongly control, they essentially are regulating themselves. Again, this is equivalent to no regulation. The focus of the Fed on benefiting banks instead of society is shown in many ways. For example, as a privately owned institution, the Fed does not have to disclose its activities to citizens. Obligations of the Fed sometimes become obligations of the US Treasury (i.e. taxpayers).

During the 2008 crisis, up to $12 trillion was spent to bail out banks and other investors in derivatives and other high-risk areas. Much of this bailout money came from the Fed.[24] In effect, the banks, through the entity they own and control, used taxpayer money to bail themselves out without taxpayer permission or even telling taxpayers how their money was being used to bail out wealthy speculators. These clearly are not the actions of a publicly controlled institution that is completely focused on maximizing the wellbeing of society.

Interstate or nationwide banks were prohibited in the US before deregulation in the 1980s and 1990s. Increasing the size of banks increased the need to bail them out because failure could greatly harm the economy. Larger banks had become too-big-to-fail. Deregulation enabled banks and other institutions to invest in high-risk areas. If things went well, they made very large returns. If they did not, taxpayers often were compelled to cover the downside through bailouts, limited liability and other mechanisms. This is capitalism on the upside and socialism on the downside (because taxpayers were compelled to act as business owners by covering losses).

Covering speculative losses rewards harmful behavior and incentivizes more of it. Banks sometimes were allowed to use taxpayer bailout funds to buy other banks.[25] As a result, some of the too-big-to-fail banks are even larger now. This creates the potential need for even larger taxpayer bailouts. Harmful activities have been made legal. The current concentrated, less regulated financial system unfairly concentrates public wealth and makes many citizens unable to meet basic needs.

In the 1970s, the US was the world's largest creditor, importer of raw materials and exporter of manufactured goods. We also had the largest middle class. Following deregulation beginning in the 1980s, we are the world's largest debtor, exporter of raw materials and importer of manufactured goods, with a severely degraded middle class.[26] Increased business control of government and resulting deregulation caused nearly all economic benefits over the past 40 years to flow to the top of society. Today's young people are the first generation in US history that will be worse off financially than their parents.[27] Private sector money creation is the main factor enabling this unfair concentration of public wealth.

During the 2008 global economic crisis, Iceland and some other countries protected average citizens and held banks and others who caused the crisis responsible. But the business-controlled US government and Fed instead protected speculators and did little to help their victims (low and middle-income citizens).

The unexpected and overwhelming economic impact of COVID-19 initially compelled Republican and Democratic politicians in the US to work together to help average citizens. The initial bipartisan COVID-19 stimulus strategy was highly successful at preventing economic disaster. But as the shock wore off, partisan government reverted to its usual strategy of protecting wealthy campaign donors and letting average citizens suffer.

When the Fed creates money with quantitative easing, much of this new money goes directly to their owner banks. The Fed allows banks to create money for free and then frequently loan this zero-cost money to average citizens at over 30 percent interest. In many ways, the Fed is more of a bank protector than regulator. It is not a public institution. The Fed will not be a national bank until it is made part of the US government and controlled by the only legitimate leaders of society—citizens.

5.5. Private National Currency

This also is an oxymoron. The primary focus of private money usually is to benefit the private sector institutions that create and own it. But the complete focus of a country's national fiat currency, such as the US dollar, should be to benefit society. Fiat national currency is inherently public. In the same way that private organizations could not effectively create and enforce laws, they also cannot effectively create, own and manage the national money supply.

Private organizations could create crypto-currencies and other types of alternative currencies. However, citizens might restrict forms of private money that concentrate benefits among money creators, rather than fairly distribute them to all users. Some types of beneficial private money could exist. But many national economies operate almost completely on fiat currency (excluding barter and unpaid work). As a result, maximizing the wellbeing of society requires that national fiat currencies be publicly created, owned and managed.

5.6. Public Money and Inflation

Vested interests might attempt to mislead citizens into believing that public sector money creation would cause inflation. The vast majority of people probably do not understand how money is created. They might think that government creating large amounts of money out of thin air inevitably would cause inflation. They probably do not realize that large amounts of money already are being created out of thin air. The key issue is who is creating money, the public or private sector? As discussed, the private sector creates nearly all money in the US and many other countries.

Economic and monetary experts at the Fed use various tools to manage the money supply and control inflation. It would be far easier to control inflation, deflation and other monetary factors with public sector money creation. As noted, one public entity that creates money and is focused on maximizing social wellbeing is far more efficient than thousands of private money creators that are focused on a conflicting goal. Even combined federal, state and limited local money creation would be easier to manage than thousands of private lender/money creators.

Vested interests often imply that public money will cause inflation because it sometimes appeared to do so in the past. This is deceptive because it ignores successful examples of public money and implies that government-created money was the sole cause of inflation. But *A History of Public Money Creation* shows that this often is not true. In essentially all cases, several factors combined to cause higher inflation. For example, in Zimbabwe and the Weimar Republic (Germany), economic collapse preceded and drove high inflation.[28]

As with any public or private function, success requires effective management. Effective money supply management frequently involves not increasing the supply of money faster than the supply of goods and services. In other words, if money supply growth matches growth in demand for products and services, inflation generally will not occur. Under public sector money creation, a quasi-independent entity (ultimately owned and controlled by citizens) often would decide how much money government is allowed to create. A primary responsibility of this entity would be to match money supply growth to product/service demand growth.

Vested interests might say that banks create money through lending, but the money regularly disappears through loan repayment. This provides an inherent balance to the money supply. Government-created money, on the other hand, does not disappear when loans are repaid. This could provide an ever-expanding, and therefore inflationary money supply. But this is deceptive. Money used to repay bank loans would be returned to government. It could be kept out of circulation or destroyed as easily as it was created out of thin air.

Virtually all of the tools used to manage private sector money creation could be used more effectively, or not needed, with public sector money creation. For example, in the same way that experts oversee private sector money creation, experts also would oversee public sector money creation with the main goal of limiting inflation.

To maximize the wellbeing of society, government probably would provide large amounts of money to create jobs, rebuild infrastructure and protect citizens. Modern monetary theory extensively discusses how public sector money creation can be managed in ways that control inflation. As discussed, taxes can be used to restrict the money supply if necessary. Taxation also can be used in conjunction with public sector money creation to incentivize society-enhancing actions. To illustrate, instead of discouraging job creation by taxing employment, taxation could be focused on pollution and other harmful actions.

5.7. Public Money and the Banking System

To perpetuate private sector money creation, vested interests might claim that public money will harm the banking system. Understanding this issue requires stepping back and seeing the big picture (i.e. whole system thinking). In a democracy, individuals, families, communities and life support systems have an inherent right to exist. But banks and other businesses do not. Business is a tool that should be used in ways that fully benefit and do not harm society. Societal control of business was reflected in early corporate charters.

Banks and other businesses do not have a right to operate in ways that harm society. Transferring the profits of money creation from citizens to banks harms society by unfairly taking public wealth. In addition, banks receive a guaranteed six percent return on their ownership interest in the Fed. This also unfairly concentrates public wealth. Banks have a right to profit from lending, but not money creation. These benefits belong to citizens.

Society requires a robust banking system. Demand for banking services will perpetuate the system. Under a fair, sustainable, public money banking system, there will be many profit opportunities, such as lending government-created money at higher rates and offering other types of financial services. Inefficient banks that rely on lending free money at usurious interest rates often will be replaced by more efficient banks, as should occur under democratic, competitive capitalism. The current private money system reflects aristocratic, wealth-concentrating capitalism.

The priority of society is society, not the economic or financial system. Banks and other businesses should be focused on helping individuals and society to prosper, not the other way around. Citizens should not be giving away their right to create money and other wealth generating mechanisms so that bank investors can earn unfairly higher returns.

The idea that the banking system cannot survive and prosper if it is not allowed to create and own money is untrue. As discussed below, there are practical and profitable ways to transition to a fair, sustainable banking system.

5.8. Public Money and the Economy

To protect current systems, vested interests might argue that public sector money creation will hurt the economy and inhibit the private sector, for example, by reducing credit availability and suppressing the creativity, innovation and private sector investment that greatly benefited society over the past 200 years. But the opposite is true. Businesses would have equal or greater access to private debt financing and equal or nearly as high access to public and private equity financing. Reduced taxes would increase product/service demand. Reduced interest expense would lower business input and production costs, and thereby improve capital efficiency and profits. Producing a more stable economy and business environment could increase business creativity, innovation and productivity.

Public money will strengthen and stabilize the economy in many ways. The money supply strongly affects the economy. The more stable money supply provided by public money will limit recessions. The much lower cost of public money will reduce the need for unsustainable economic growth. It also will benefit individuals, businesses and the economy overall by greatly reducing taxes, interest expense, and the cost of products and services.

Public sector money creation will increase credit availability. The focus of private money is on providing loans that maximize financial returns. The focus of public money is on broadly benefiting the economy and society, for example, by maximizing the wellbeing of individuals, communities and local businesses. Banks will be incentivized to loan to these groups at lower interest rates. As noted, the Post Office and other mechanisms also could provide low or no interest loans.

Public money could reduce bank loan profits. Instead of creating money for free, banks will pay interest to borrow it from citizens/government. Usury laws will end current exorbitant interest rates. With less profit on each loan, banks will be incentivized to increase lending. The more loans they provide, the more profits they make.

Public money can increase lending in another way. Under the current private money system, the Fed and other central banks restrict and control bank lending because it creates new money and expands the money supply. Lending must be restricted to avoid creating unlimited amounts of money and causing inflation. Public sector money creation decouples lending and money creation. Lending no longer will create new money. This reduces the need to restrict bank lending to control the money supply. Banks will have more flexibility to increase lending and thereby increase bank profits. (However, banks often would not be allowed to make unlimited loans because this might require new money from government, which could be inflationary. As a result, public money available to banks for lending could be restricted at times.)

Citizens might be concerned that changing a system that they lived under their entire lives could cause problems or be disruptive. But individuals and companies would see virtually no change at the retail and banking levels. Money would be available. They would still be able to make ATM withdrawals, write checks, use credit cards, do online banking, make bank deposits, take out bank loans, and use electronic payment systems and apps. Instead of causing problems, public sector money creation would greatly improve quality of life, for example, by increasing credit availability and substantially reducing taxes, interest expense, and product and service costs.

Essentially the only negative economic impacts of public sector money creation would relate to those who profit from creating money, loaning it to government and charging usurious interest rates. But these profits involve unfairly taking public wealth. They are not sustainable. Like all other flawed, destructive systems throughout history, they will change through voluntary or involuntary means. Banks and other lenders are far better off working collaboratively to implement sustainable public finance, money creation and banking systems.

5.9. Government Borrowing and Retirement Security

Vested interests might argue that investments in government bonds and other low-risk government securities are necessary for retirement security. Ending private sector money creation could greatly reduce government debt and the ability to profit from it. Understanding this situation also requires whole system thinking. Prior to 1980, most pensions were defined benefits (i.e. guaranteed benefits). Citizens worked for many years and earned a secure retirement. Their benefits did not fluctuate based on capital markets or other factors. Employers bore the risk and cost of retirement. But this inhibited their ability to provide ever-increasing shareholder returns.

As a result, during deregulation in the 1980s, business controlled government facilitated defined contribution pensions. This enabled companies to shift much of the risk and cost of retirement to employees. It often made the ability of elderly people to meet basic needs dependent on capital market growth.

From the perspective of wealthy investors, the transition from defined benefit to defined contribution pensions was a stroke of genius. It made average citizens cheerleaders for a system that often impoverishes average citizens, in part by driving wealth concentration. Prior to 1980, speculators largely bore the risk of their investments, while hard-working citizens earned a secure retirement. Making retirement security dependent on capital market growth frequently compelled taxpayers to cover the downside of investing through business bailouts and other mechanisms. Protecting the retirement security of average citizens, through capital market protection, compelled taxpayers to cover the downside of wealthy speculators.

Currently, at least several trillion dollars of public wealth are unfairly concentrated at the top of society each year through many forms of corporate welfare, including private sector money creation, limited liability, externalities and unfair taxation.[29] At the same time, many elderly people live in poverty and are unable to meet basic needs. This is shameful, especially in a wealthy nation that could easily ensure that the basic needs of all elderly citizens are met.

Retirement security should not be based on how well people speculate in the capital markets. Instead of using public wealth to unfairly enrich those who are controlling government, it should be used to fund retirement security and other essential societal needs. Public sector money creation, combined with reducing other forms of corporate welfare, could be used to increase Social Security, provide guaranteed jobs to all who need them, and strengthen the social safety net.

Vested interests might attempt to mislead citizens into thinking that this is unfair wealth redistribution from the top of society. But this is grossly inaccurate. The approach involves ending wealth redistribution, not initiating it. Instead of unfairly redistributing trillions of dollars of public wealth to the top of society each year, public wealth will be used to equally and fairly benefit all citizens, as it should be in a democracy.

Shifting the focus of government and society from benefiting wealthy campaign donors (corporate welfare) to benefiting all citizens (social welfare) could take some time. However, switching from private to public sector money creation could be done quickly. While retirement security in the US and some other countries remains based largely on speculation, the lack of government debt investment options will not be an impediment to retirement security because there are several other low-risk debt investments.

5.10. Deception Strategies and Solutions

Perpetuating private sector money creation often requires keeping the public in the dark. If citizens understood how money currently is created and the availability of a superior option, they almost certainly would demand a rapid transition. The primary strategy for keeping citizens in the dark (i.e. deceived) is to overwhelm them with complexity. There are many complex papers online that defend private sector money creation. Although they rarely, if ever, use this term because pointing out that the private sector is creating the money supply would not serve their purposes.

Two other deception strategies used to protect private money are One Wrong Equals All Wrong and My Team Versus Your Team. If an article, paper or book makes a strong, compelling case for public sector money creation, vested interests often scan the work and try to find one or more mistakes or debatable points. Then they emphasize these points in public communications, implying that the whole concept is flawed and can be ignored because one point is wrong. This is irrational because one weak point usually does not mean that other aspects or the whole proposal is flawed.

My Team Versus Your Team is the most important deception strategy overall in the US and many other countries. The approach involves using emotional manipulation and deceptive media to divide society into debating factions, such as conservatives and liberals. When this occurs, citizens often waste their time focusing on false enemies (each other) and ignore major problems and solutions.

Vested interests frequently can keep harmful systems in place, for example, by slapping a liberal label on climate change, public sector money creation or other beneficial proposals.

Then conservatives often dismiss the proposal without rational consideration because they have been manipulated into disliking anything labeled liberal.

Rational thought is the general solution to vested interest deception. Instead of blindly believing philosophies or vested interest positions, people should rationally consider proposals and support those that objectively provide the greatest benefits for the least cost. Rational thought often is more difficult than blind faith. But this intellectual work is essential for maximizing the wellbeing of society.

The specific solution to deception in the money creation area is to cut through complexity and focus on one simple issue—who is creating money, the public or private sector? When banks create money, citizens pay interest. When government creates money, they earn interest. Vested interests often will use complexity and deception to keep citizens from seeing this simple distinction.

5.11. Practical Implementation

A main goal of this paper is to provide a big picture overview of money creation and help citizens to understand the large benefits of public money. Once they understand this, they almost certainly will demand that their political servants (i.e. elected politicians) implement public sector money creation. The practical details of how to quickly achieve this already have been worked out by many experts.

For example, the American Monetary Institute (www.Monetary.org) has developed a complete and practical plan to transition from private to public sector money creation. The plan was developed over many years by leading economic and monetary experts. It is in the form of an act that could be submitted to Congress and quickly implemented.[30]

Many academic and other experts also have written about modern monetary theory. This body of work extensively discusses job creation and many other benefits of public sector money creation. It also provides detailed information about practical implementation. The organization Positive Money (www.PositiveMoney.org) also provides extensive information about public money implementation.

The monetary system is part of the larger financial, economic, societal and even environmental systems (because humans and all human activities are part of nature). Whole system approaches to money creation and other systemic changes address all relevant factors in all major areas of society. To illustrate, a whole system approach to achieving sustainable society would address many factors beyond money creation, such as equitable resource distribution. Under current unsustainable systems, wealth concentration compels many people to take out loans to survive. In a sustainable society, fair wages, taxes and other mechanisms would enable many more people to survive and prosper without living on credit.

Global System Change provides a whole system approach for achieving necessary systemic changes. It provides practical strategies for driving system change in all areas, including government, the general public and corporate/financial. In the corporate and financial sectors, System Change Investing provides a powerful, short-term strategy for driving systemic changes, including public sector money creation. The approach uses investing to practically and profitably engage companies and investors in system change.

> *"COVID-19 illustrates how quickly and substantially reality and nature can change human society. Rather than waiting for reality to impose traumatic, involuntary system change, we can take charge of our destiny by learning to live within the laws and limits of nature. We can consciously evolve our economic, political, social and financial systems into sustainable forms."*

6. Conclusion

Thomas Jefferson and James Madison were correct to oppose Alexander Hamilton's financial plan. Citizens never should have given away their right to create, own and control the money supply. As noted, the purpose of the money supply is to broadly benefit society, not provide a wealth generating mechanism for banks and other private lenders. The purpose of money is to facilitate exchange and a sustainable economy, not provide a tradable commodity for speculators.

Religions were correct when they condemned charging interest long ago. It still often involves taking advantage of desperate or needy people. There is no need to charge interest in many cases. There never is a need to charge usury rates. When interest is charged, much of it belongs to the rightful owners of the money supply—citizens.

Children need parental regulations to grow up well and achieve successful lives. The same is true of banks and other businesses. Failing to hold companies responsible for the harm they impose on society often compels them to cause harm. Banks cannot help themselves. If they are allowed to take public wealth and charge usury interest rates, but fail to do so in competitive markets, they often will go out of business. They are not the enemy. It is the flawed economic, political and financial systems that compel their harmful behavior.

Sophisticated, visionary bank and other leaders understand the need for system change. They see that systems which compel banks to harm society inevitably will end. They also understand that they are much better off voluntarily working for system change, instead of waiting for reality to impose it on them involuntarily. No rational person wants to end the banking system. Banks and other financial sector leaders will find allies in all areas of society as they work collaboratively to evolve the banking and monetary systems into sustainable and truly prosperous forms. Public money will not end the banking system. It will protect it. There still will be many opportunities to profit from lending and other services.

Monetary reform illustrates the complexity of system change. It often is difficult to realize when we are in the middle of system change, and even more difficult to look into the future and see the form of sustainable systems and society. But fortunately, we have nature to guide us. The laws of nature have controlled all species for 3.5 billion years. These laws include equitable resource distribution and widespread prosperity.

Fair, equitable banking and monetary systems are the only types that can survive on Earth. The primary focus of the monetary system must be on benefiting society, not the private sector. Paradoxically, the only way that banks and business in general ultimately can prosper is by putting the wellbeing of society first. Courageous leadership is needed to guide this transition.

Public sector money creation would greatly benefit society. It will substantially reduce taxes, deficit spending and the national debt, focus the money supply on job creation and maximizing the long-term wellbeing of society, provide a far more stable and easy to manage money supply, strongly facilitate a stable, sustainable economy, protect the long-term wellbeing of the banking and financial sectors, and provide abundant, interest-free funding for infrastructure, state and local governments, education, healthcare and other society-enhancing purposes.

Extensive funding is needed to achieve the SDGs and protect the human economy and society. Public money greatly increases humanity's capacity to protect ourselves. Every environmental life support system is in rapid decline, with some regional exceptions. Billions of people around the world are unable to meet basic needs, including nearly half of US citizens. Throughout human history, all flawed, unintentionally destructive systems changed, usually by collapsing. Rapidly growing political, social and economic turmoil show that our systems are in the process of changing.

COVID-19 illustrates how quickly and substantially reality and nature can change human society. Rather than waiting for reality to impose traumatic, involuntary system change, we can take charge of our destiny by learning to live within the laws and limits of nature. We can consciously evolve our economic, political, social and financial systems into sustainable forms.

It is time to shine the light on money creation. Money is one of the most powerful forces in society. In the US and many other countries, citizens have been paying the private sector to create their money supplies for many years, when they could have done it themselves for free. It is time to end this unfair public wealth redistribution and implement a democratic monetary system. We can and should use the power of money to alleviate suffering and ensure the long-term survival and prosperity of humanity.

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