

# A safe-haven for book-entry money

Money creation was put on the political agenda in 2015 by Dutch IMMR-member 'Ons Geld' (Our Money). As a result, the Scientific Council for Government Policy (WRR) came up with the advice to create a safe-haven for book-entry money. The Netherlands Minister of Finance decided recently to ignore this advice. Edgar Wortmann and Martijn Jeroen van der Linden from 'Ons Geld' comment.

When we launched the citizens' initiative 'Ons Geld' with the theatre group 'De Verleiders' (The Seducers) in 2015, we never could have imagined that we would still be working on it today. The run-up was difficult, and the subject seemed doomed to confusion and abstraction. This has changed in the meantime, thanks in part to the [Money and Debt](#) report (2019) of the Scientific Council for Government Policy (WRR).

Recently, Minister of Finance Wopke Hoekstra gave [his response](#) to the report. He noted that the government 'sees a growing interest both in politics and in society (...) for the functioning of the money system and the possibilities for improving or redesigning this system.'

This means that our mission - public attention to the monetary system - has largely succeeded. Still, we are not yet where we want to be.

With the [citizens' initiative 'Ons Geld'](#) (Our Money) we questioned the foundations of our monetary system. We argued that the government had neglected its monetary responsibility, making our money system unstable and unsafe. We called on the government to create 'debt-free money' and to no longer grant state aid to banks.

Thanks to 110,000 signatories, our petition was put on the political agenda. It also unleashed an initiative for a full reserve bank, which received unanimous support in the House of Representatives. This process could be followed live on '[Follow the Money](#)'; in a series of articles, founder Richard van der Linde reported on his attempts to get a full reserve bank off the ground.

## Digital cash

The digitisation of money plays an essential role in our initiative. Digitisation makes it possible to separate the public money function from the risks of private banks, which can make the money system safe and stable.

Unfortunately, this potential has so far not been used. Instead, banks have come to dominate the monetary system by digitising book-entry money. Meanwhile, cash did not adapt to the digital age. As a result, imbalances in the monetary-financial system have increased. Book-entry money prevails, and cash is rapidly marginalised.

However, book-entry money is unstable: it cannot exist without public safety nets and the elimination of market processes. In the current system, the government is constantly working to ensure that we do not lose confidence in the banks. Without that trust, book-entry money is in danger.

To restore the balance, cash will have to keep up with the digital age. That is why we called on politicians in 2015 to start experimenting with digital cash. That call now appears to be heard somewhat, as minister Hoekstra announced research into 'digital central bank money'. Hoekstra, in his response to the WRR report: 'This enables citizens and businesses to pay with a digital form of cash that is directly transferable (through a token) or through an account with the central bank.'

This is a long-term development, for which we do not have to expect concrete results in the next few years. In England and Sweden, central banks have been investigating digital central bank money for some years now. The first *pilot* has yet to start. In the meantime, as Facebook's 'Libra' shows, private initiative is pushing to remove money altogether from public control.

Both the WRR and the minister fail to see the consequences of the digitisation of money. But the WRR does make an important recommendation to restore the balance in our money system: introducing a safe alternative to the bank account.

### **Safe-haven for book-entry money**

According to the WRR, a safe-haven for book-entry money can contribute to a more stable system: 'The fact that one has an actual alternative will have a disciplinary effect on the existing banks. It will force banks to finance more responsibly, with more equity capital and long-term debt. In this way, the creation of money and debt by commercial banks is also better contained.' (WRR, Geld en Schuld, 2019, p.237).

This advice is in line with the [unanimous wish](#) of the House of Representatives, who in 2016 considered 'that we want to give the Dutch the choice to be able to save at an institution that keeps the money purely for them digitally.'

The House of Representatives believed that citizens should be given the opportunity to hold money in their account without providing it as financing to a bank. This could be achieved by giving citizens direct or indirect access to De Nederlandsche Bank (DNB). No new banks need to be set up for that, nor do digital coins need to be developed.

From a technical point of view, this system can be introduced tomorrow, for example by giving payment institutions access to DNB's payment infrastructure. That is what the full reserve bank wanted. Former Minister of Finance Jan Kees de Jager also wanted this in 2012, in his case to deprive banks of improper market power.<sup>1</sup> Today, payment institutions are always dependent on their competitors, the banks, when offering payment services.

We believe that the safe-haven can succeed if the government takes matters into its own hands. This is because the government is exempt from restrictions that stand in the way of a private safe-haven. Moreover, the government can implement this in a way that does not undermine confidence in book-entry money. We explain the background of this in our position paper '[Public depository: safe haven and a level playing field for book money](#)', in which we argue for the introduction of a [personal safe account](#).

### **Risk management through market processes**

The government's response to the WRR report shows that Minister Wopke Hoekstra disregards the - in our view - most important recommendation of the WRR. Of course, as the WRR puts it, you do not want to do experiments with the backbone of the economy. We don't aspire to that either. But the WRR is pushing to gain the experience which enables us to fundamentally improve the money system in a controlled way. For the WRR, the following crisis is a given within the current system. The question is not *whether*, but only *when* it will come. The system is crying out for adaptation to the digital age.

The safe-haven allows us to gain experience with incentives that make citizens more risk-aware and expose banks to market discipline. These are the basic ingredients of a more market-oriented financial sector, with a level playing field for lending and a government that is moving to get out of its stifling symbiosis with the banks.

The extent to which this symbiosis penetrates the minister's psyche is apparent from the argument with which he rejects the public safe haven. He sees no need for that safe haven, because the government already provides a deposit guarantee scheme. In our opinion, that is putting the cart before the horse. The safe-haven is not only desirable to protect the citizens. It is also there to give them freedom of choice, to be able to phase out government support to the banking system, and to expose banks to market discipline. That makes them more responsive to their clients wishes, and also means that they can go bankrupt.

We are surprised that the government wants to maintain market-disrupting state support for banks, flanked by complex and stifling regulations that turn out to be outdated with every subsequent crisis. By creating a safe place for book-entry money, the government can break through this and phase out deposit guarantees. Account holders are then given an incentive to take a critical look at their bank. This in turn gives banks an incentive to behave more responsibly and hold more capital.

Many issues that the government believes to resolve with regulators, risk funds, (over)regulation and ultimately the taxpayer as a guarantor, can be better controlled by market processes. In order to do so however, the government must ensure that market processes are not frustrated. The safe haven for book money is an important first step to attain that. The experience gained in the process is necessary to achieve systematic improvement and to develop digital cash.

**Edgar Wortmann and Martijn Jeroen van der Linden of Stichting Ons Geld, June 22, 2019.**  
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<sup>1</sup> De Jager: ‘An important point for improving the competitive position of payment service providers other than banks is the provision of direct access to clearing and settlement systems. Under current law, banks and payment institutions are not allowed as direct members of clearing and settlement systems. This follows from the so-called Finality Directive (Directive 98/26/EC). The Netherlands believes that the legal framework should be amended in such a way that payment service providers that have a license and are supervised and meet certain conditions can become a direct member of clearing and settlement systems.’ See: <https://zoek.officielebekendmakingen.nl/kst-22112-1375.html>