International Consequences and Obstacles to Sovereign Monetary Reform

By Mark Young

While I support and agree that sovereign monetary reform, as defined by monetary reformers, has the potential to change the lives for the better throughout the world, there are several potential consequences and obstacles that must be discussed and solutions provided before full implementation can be considered on a national and international level. These consequences and obstacles concern the possible effects and affects on our free markets systems and on our geopolitical structure, institutions and governments. The potential effects and solutions discussed below relate to the international implications of monetary reform. There are also national concerns that must be addressed prior to implementation but are not mentioned here.

Sovereign monetary reform ultimately should not be turned into a competition between nations on how to utilize sovereign money for benefit over other nations, as our current system has been used, but should instead be a reform that levels the playing field between nations and allows all nations to raise their respective citizens standard of living, improve national economies and infrastructure and tackle long standing social ills in a fair and just manner.

Monetary Reform by a Single Nation

One of the first questions that arise when discussing monetary reform on an international level is, can monetary reform by a nation be done in a vacuum, by only one nation, while maintaining the current debt system that exist in other nations? For example could Canada or Mexico implement sovereign monetary reform on its own without regard for how other nations monetary systems operate? History has shown (in Germany post WWI, Venezuela, Zimbabwe and others) that this would cause other nations (*particularly the US*) and the international banking system to balk at its creation and to retaliate. Let us assume Canada or a similar nation adopted a sovereign monetary reform which allowed them to create money as an asset, debt free, and spend it into their economy, thus, eliminating the need for bond transactions, borrowing of any kind, and/or taxation to fund government spending.

The most likely response to this action from other nations and the banking system (IMF and bond brokers) would be to implement various sanctions and penalties on Canada. These sanctions would come in the same form that they have historically taken when other nations have printed money to pay off debt (Germany after WWI), and/or finance government expenses or programs to support an economy (Zimbabwe). A recent example is when Zimbabwe began printing excessive money in the early 2000s, the United States issued a series of executive orders the most recent being, E.O. 13469, which added new criteria to target senior officials of the Government of Zimbabwe and entities owned or controlled by the Government of Zimbabwe. This essentially froze any international assets of Zimbabwe and restricted investment in many areas exacerbating their national economic problems and ensuring economic collapse or a change in policy. Under this example of Zimbabwe and in the case of Germany neither country ceased participation in the debt system, they simply tried to respond to it for the benefit of their citizens by printing more money. Under sovereign monetary reform Canada, as a government, would be detaching itself totally from the global monetary debt based system. In my opinion this would elicit an even greater response from other nations (particularly the U.S.) and the international banking system because it would be viewed as a precedent for other nations to follow and would have the potential of undermining the international banking system and the monetary system that has allowed hegemony and economic control by the largest economies over smaller nations.

Another worthy thought experiment would be to contemplate what would happen if the United States implemented sovereign monetary reform first. Because the United States is currently the world's largest economy and its dollar acts as the reserve currency for global transactions, the response from other nations and the international banking system would likely be much different. If within the United States a serious movement and groundswell of public and legislative support for monetary reform began, before it was even implemented it would likely trigger a domino of other nations looking at similar legislation and changes. Under this scenario I believe other problematic issues would arise from the onset of what could be termed competitive sovereign money creation. These resulting issues are the focus of the remaining international concerns covered in this paper.

How would nations account for money created under Monetary Reform

Under our current system a nation, business or individuals ability to obtain debt based money is based on the ability to repay that money back through taxation (for governments) or profits (for businesses) or income (for individuals). All governments, business, and individuals are treated as for profit entities and revenues must equal expenditures. The difference between revenues and expenditures is either profit or loss (for businesses), savings or bankruptcy (for individuals) and debt/deficits or surpluses (for governments).

This debt based structure reflects the backbone of the global accounting system in which we operate. It allows governments, businesses and individuals to act within the system where monetary value can be verified and trusted. While this system is fine for businesses and even individuals to certain level, when nations and governments have to operate under the same system, people, cities, states and economies suffer. This is because governments are the only entities of the three (businesses and individuals being the other two) that by their very nature operate as non-profits that depend on taxation and debt to carry out their functions. Businesses and individuals depend on revenues from customers and salaries from employers.

The fundamental change sovereign money reform affords, is that governments of nations would not have to operate under this system and could create money as an asset, as needed, to spend into the economy. While this could be extremely beneficial to a nation, its' citizens and the environment as a whole, the fact remains that sovereign monetary reform as currently proposed does not offer any such accounting of newly created money between nations and the current system needs to be replaced by something that can be verified and trusted.

If no system of accounting exist, what mechanisms would be in place to control dangerous money creation by a nation(s)? Under sovereign monetary reform, if enacted nationally, there could be 195 nations creating money any way they see fit. This could be a dangerous proposition considering the level of competition between nations for economic and military advantage. The potential collapse of any system because of over creation could derail support for monetary reform. In short, nations should work together to design an accounting system based on asset money creation to replace the current system used by governments. The current international accounting conventions should continue to be utilized in free market capitalism by businesses and individuals.

To further stress this point, as an example, let us assume that four different nations undertook sovereign monetary reform; Russia, China, Unites States and Iran. I specifically picked these nations because of the geo-political interest each represents and to demonstrate how an unchecked sovereign money power could have unwanted consequences.

In this experiment, let us take Russia first. Russia's geo-political strategies would likely include its desire of regaining its global status as a super power, increasing its influence in Eastern Europe and growing its economy to compete with Germany, China and the United States. It is not difficult to imagine that to achieve these goals it would increase its military spending tenfold, using sovereign money, to be on par with the United States military spending. Additionally, it's probable that it would use sovereign money in various ways (fair or not) to increase its influence in the region, strengthen its economy and solidify Putin's dictatorship.

China's strategies could include becoming the largest economy by increasing its market share of the global production of goods being sold to the global market place and maintaining its one party communist rule and influence over society and industry. China could subsidize its industries, in which it already has a 30% stake in, by using sovereign money to pay the wages of employees in its nation's factories thereby allowing Chinese companies to lower their prices further in the global market place to increase market share. On the political side it could use sovereign money to increase its police state to buy compliance and quell democratic movements.

Iran would surely want to maintain its theocracy, support its sanctioned economy, grow its influence in the Middle East and strengthen its military to counteract U.S. and Israeli perceived and actual aggression. Iran could then use its sovereign money power to vastly increase military and economic spending, while also increasing its funding for non-nation actors that work to destabilize the governments of its enemies in the region and Israel.

Finally, the United States would want to maintain its status as having the largest military, largest economy and being the only remaining super power in the world. It is not difficult to envision that the U.S. would respond to the geo-political strategies of these other nations in-kind with their own increase in military spending, increased tariffs and sanctions on China and others to combat them economically and using possible military action to forestall perceived future threats.

Other nations would have their own geo-political goals and strategies that could push sovereign money creation into an increased competition amongst nations, instead of the intent of monetary reform to create a solution that benefits all of mankind. Without any restrictions, rules or limits on the creation of sovereign money by nations there is no reason to believe that a nation would not use the sovereign money power to attain its geo-political goals. This issue could result in a new military arms race without limit, the blurring of lines between nations and industries through the subsidization of industry for competitive benefit or cronyism and the spending of sovereign money to quell democratic views and movements.

Nations currently cannot arbitrarily borrow or spend unlimited money now and have been existing within a system of checks and balances provided by our current debt based money system. So acceptance of a new system of check and balances, that ultimately benefit a nation and its citizens infinitely more than the current system, should not be a stretch.

National Use of Sovereign Money

The answer to how much sovereign money a nation can create naturally leads into the next question of what can or should it be used for or more importantly, not used for. Obviously it can be used for anything, but the question remains, is that the best way to proceed considering possible consequences mentioned above. Two main issues arise when contemplating this question. First, should a nations sovereign debt free money be used to subsidize for-profit businesses which could result in the unfair manipulation of free market competition? Second, should a nations sovereign money power be used for military spending, which could results in various national and regional arms races and an exponential growth in the military industrial complex. If nations simply agreed not to use sovereign money for private for-profit business manipulation and military spending these consequences could be avoided.

These issues of how sovereign money is accounted for and what it can be used for are not currently being considered or debated in our monetary reform conversations but they must be if we are to be prepared for the opposition that is surely to come. These problems are not without solutions and our job as monetary reforms is to vet solutions in anticipation of likely arguments against our proposals. One obvious solution to the problem of the amount of sovereign money being created and what it is used for by a nation is the utilization of an agreed data formula for creation, based on a nation's population and expected growth, its minimum standard of living, and its existing capitalistic and public infrastructure and various other data points. A formula could establish a fair system of accounting of sovereign money creation that allows all nations to support their population's basic needs, eliminate the need for borrowing from banks or between nations, allow for nations to support the growth of their free market capitalistic industries and to ensure employment and desired standard of living goals are reached.

The role of the United Nations in Monetary Reform

Lastly, the United Nations could be the best place to begin the framing and eventual implementation of monetary reform for several reasons. One, our monetary system is global in nature and global problems require global solutions. Two, it is the only global body that includes 195 nations currently in its membership or recognized. Three, the United Nations has reached similar global agreements in the past that involve negotiations by various counties to reach a consensus on treaties such as, human rights and environmental conventions and nuclear non-proliferation agreements. If properly introduced and supported by the major powers, nations could come to together and agree on best practices for monetary reform and agree to implement reforms in similar fashions. Utilizing the United Nations could also provide the framework and possibility for a political grand bargain between nations that addresses taxation, living wages, universal basic incomes, full employment and many other issues of concern.

This paper is not meant to suggest final solutions to the questions and issues posed above but is merely a theoretical attempt to further discussions and debate amongst sovereign monetary reformers. All these issues must be addresses in whole are in part eventually by nations if monetary reform is to be successful and for the simple reason that those who oppose reform would use these arguments to discourage change, predict economic collapse and highlight possible negative consequences of monetary reform.