

SEIGNIORAGE

FOLLOWING ARE BRIEF 'QUICK-SCAN' EXTRACTS FROM CURRENT PROFESSIONAL LITERATURE RECOGNISING THE CONCEPT OF 'SEIGNIORAGE' IN ITS MODERN GUISE OF NET EARNINGS OF COMMERCIAL BANKS ON THE DEPOSITS HELD IN EVERYDAY TRANSACTION ACCOUNTS BUT ON WHICH INTEREST IS NOT PAID. THIS AS WELL AS THE HISTORICALLY ACCEPTED CONCEPT OF CENTRAL BANK PROFITS ON THE ISSUE OF BANKNOTES.

Bank of Canada (2013), *Backgrounders. Seigniorage*.

Using the concept of 'private seigniorage', an upper limit can be calculated for the Euro Area of (at this moment) about €300 billion, or **€1,000 per Euro Area inhabitant***, for these rents. Central banks transfer their seigniorage income to the government. Considering the government guarantees which are the backbone of the modern monetary system as well as all kind of implicit guarantees, an argument can be made that at least part of this seigniorage income should be transferred to the government (on top of taxes), a policy which has to include macro-prudential checks for the banking sector, aimed at restraining bonuses and wage income for the senior managers – as these are, in effect, not private entrepreneurs but civil servants.

**..... this is about the same as my estimate for Australia*

<https://www.worldeconomicsassociation.org/newsletterarticles/private-seigniorage/>

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SEIGNIORAGE: DOES IT APPLY TO BANKS?

As seigniorage has always been discussed in the context of governments and central banks, some reviewers of previous versions of this article have found somewhat disconcerting the use of this concept in association with private-sector entities such as commercial banks. This is because – I presume – money creation has always been thought of as a state prerogative and because banks have always mostly been considered as pure intermediaries of existing resources, especially by mainstream economics theory (see Section 2). While this understanding is finally changing across the economics community, including mainstream, which now growingly recognizes the money creation power of banks, legacy still creates reservations to the idea of associating seigniorage to commercial banks.

NOTE taken from ---

<http://www.postkeynesian.net/downloads/working-papers/PKWP2111.pdf>

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Copenhagen Business School

This is useful but did not lend itself to 'cut and paste'

https://neweconomics.org/uploads/files/NEF_MAKING-MONEY-OUT-OF-MONEY_ame ndment_E.pdf

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Seigniorage in the 21 st Century: A study of the profits from money creation in the United Kingdom and Denmark

Abstract: This paper develops a new theory of seigniorage suited to modern economies where the majority of money is created not by the state or central bank but by commercial banks and other monetary financial institutions via their lending activity. We identify four different forms of seigniorage that take account of the modern institutional separation between the state, the central bank, commercial banks and the non-bank private sector in terms of their identities as 'money creators' and 'money users'. The new typology differentiates between seigniorage profits arising from interest rate spreads on stocks of created money and profits arising from flows of interest payments on newly created assets. We illustrate our theoretical framework with empirical data on commercial bank seigniorage and related variables in the United Kingdom and the Denmark over the past quarter century

Conclusion

In this paper we have set out a new conceptual framework for understanding seigniorage in modern economies, where commercial banks are the primary creators of money.

Commercial bank opportunity cost seigniorage, which recognises that in modern economies the vast majority of money is created as the liabilities of commercial banks as they create credit for the non-bank private sector as well as the government. Commercial bank opportunity cost seigniorage can be calculated as *the difference between the interest money users pay on their deposits and a market benchmark interest rate* that is a proxy of the interest the bank would have had to pay, if deposits were not simultaneously liquid money.

We found that in the UK commercial bank seigniorage made up between 1% and 3% of GDP over the last quarter decade, whilst in Denmark the figure was lower, varying between 0.2% and 1%. We found that seigniorage profits make up a significant element of banks' profits during the period under investigation, suggesting such profits are integral to commercial banks business models.

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Money creation in the modern economy -- Bank of England Bulletin 2014 Q1

This article explains how the majority of money in the modern economy is created by commercial banks making loans. Money creation in practice differs from some popular misconceptions — banks do not act simply as intermediaries, lending out deposits that savers place with them, and nor do they ‘multiply up’ central bank money to create new loans and deposits. The amount of money created in the economy ultimately depends on the monetary policy of the central bank. In normal times, this is carried out by setting interest rates. The central bank can also affect the amount of money directly through purchasing assets or ‘quantitative easing’.

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2012 International Monetary Fund Working Paper **The Chicago Plan Revisited**

Abstract

At the height of the Great Depression a number of leading U.S. economists advanced a proposal for monetary reform that became known as the Chicago Plan. It envisaged the separation of the monetary and credit functions of the banking system, by requiring 100% reserve backing for deposits.

Irving Fisher (1936) claimed the following advantages for this plan: (1) Much better control of a major source of business cycle fluctuations, sudden increases and contractions of bank credit and of the supply of bank-created money. (2) Complete elimination of bank runs. (3) Dramatic reduction of the (net) public debt. (4) Dramatic reduction of private debt, as money creation no longer requires simultaneous debt creation. We study these claims by embedding a comprehensive and carefully calibrated model of the banking system in a DSGE model of the U.S. economy. We find support for all four of Fisher's claims.

Compiled by Peter Mair June 2024