The Treasury

Reserve Bank Act Review Phase 2 Submission Information Release

March 2019

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Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[2] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

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Iain Parker Reserve Bank Act Review Submission

The opening terms of reference prior to the phase 1 government external expert panel consultations;

Scope of the Review
To ensure the Act continues to support the operation of the Reserve Bank, the Review will consider the following:
- The institutional arrangements for prudential regulation and supervision
- Objectives, objective setting processes, and alignment with government policy and risk appetite
- Statutory functions and powers
- Role clarity for the Minister of Finance, the Board, and the Governor, including the allocation and coordination of powers, functions and tools
- Accountabilities
- The strengths of current legislation, including its flexibility
- The balance between primary, secondary, and tertiary legislation, including in respect of setting policy
- Coordination across government, including pre-existing forums such as the Council of Financial Regulators
- Alignment with the domestic regulatory management system - Procedural approaches, fairness, and safeguards - International experience and best practice.

A successful regulatory regime is one that has the following characteristics
- The Act's purpose and the Reserve Bank's objectives are clear
- The roles and responsibilities of key participants, including the Minister, the Board, and the Governor, are defined in statute and are clear and coherent
- The regime engenders trust and confidence in New Zealand financial markets
- The regime is enduring
- The regime provides sufficient flexibility to adapt and evolve in response to market developments
- The regime engenders trust and confidence in decision-making processes
- Powers available to the Reserve Bank are sufficient to achieve its objectives
- There is clarity as to how the regime interacts with other regulatory regimes and government policy as whole
- The regime is clear about the role of government and the scope of the Reserve Bank's operational independence.
End

By the end of phase 1 the all-encompassing terms of reference had been reduced to this;

The key decisions that have been made by Cabinet under phase 1 are:

- To include supporting maximum sustainable employment alongside price stability as an objective of monetary policy in the Act.
- To require that monetary policy decisions be made by a Monetary Policy Committee (MPC) of 5-7 members that includes a minority of external members.
- The MPC will take decisions by consensus where possible, but publish records of meetings that outline differences when they exist and the balance of votes where consensus is not reached
- Members of the MPC will be appointed by the Minister of Finance following a nomination of the Reserve Bank Board, with the Reserve Bank Governor and Deputy Chief Executive being members by virtue of their positions in the Bank. The Governor will be the chair of the MPC.
- The Reserve Bank will retain operational independence.

End

1 - This review was promoted as an exercise investigating if the present checks and balances in regards to the stability, soundness and fiscal responsibility of our nations financial infrastructure are sufficient.

2 - For over a decade I have had a passionate interest in the fundamentals of money as a system and the history of money systems.
I have spent thousands of hours reading thousands of on the record official documents from many governments and global regulatory institutions in regards of credit liquidity facilities at the wholesale level, financial system infrastructure and the outcomes for their citizenships.

3 - I have taken the time to read every submission and the internal government department/expert panel communications of phase 1 & 2 of the Reserve Bank Act Review process set up essentially to investigate if the checks & balances of the financial infrastructure of New Zealand ensure equitable stable outcomes for its citizenship, need reforming or remain status quo.

4 – I contend that this process is a very expensive facile exercise for the reasons detailed here on in;

5 – The review is investigating the worthiness of expanding the consultation group that announces the Official Cash Rate (OCR)
This to me is an exercise in futility given it is on the record common knowledge among both state and private financial infrastructure executives, that as it stands within our entirely foreign borrowed base credit, decentralised central banking money system, the OCR follows the Overseas Funding Cost Rate rather than in any way truly influencing it.

I include below several quotes from prominent institutions and people that make this absolutely clear;

This RBNZ paper:

http://www.rbnz.govt.nz/financial-stability/financial-stability-report/fsr2015-11/implications-of-global-liquidity-developments-for-new-zealand

Titled - Implications of global liquidity developments for New Zealand - from the Nov 2015 Financial Stability Report;

"There are three key channels through which New Zealand could be affected by declining market liquidity: the impact on New Zealand banks' funding markets; the impact on short-term interest rates and monetary policy implementation; and the impact on the New Zealand government bond market.

New Zealand banks fund a significant proportion of their balance sheets by accessing offshore wholesale debt markets. They do this by borrowing in foreign currency, then 'swapping' this back into NZD. Conditions in global financial markets are therefore an important determinant of New Zealand bank funding. New Zealand banks tend to focus on the primary market (new issues) rather than the secondary market for debt. Hence, funding liquidity is of more immediate importance than market liquidity. Funding liquidity refers to the ability of the banks to raise debt as required at a reasonable cost. Reserve Bank discussions with bank treasurers suggest that funding liquidity conditions have deteriorated somewhat in 2015, owing largely to greater market volatility caused by events such as the Greek crisis mid-year and recent turbulence tied to China.

New Zealand banks typically use market makers to help facilitate the foreign currency swap leg involved in borrowing from offshore. Market makers take the other side of the transaction with New Zealand banks (providing NZD in exchange for foreign currency that the banks have raised), while charging a spread. This spread has widened as costs have increased for the institutions providing these market making services for the reasons described above. Overall, the cost increases have been manageable thus far, but this highlights the flow-on effects of changes in market liquidity to New Zealand entities seeking offshore funding."
end

Former New Zealand Prime Minister and former international investment banker John Key said 17 November 2012;
https://www.youtube.com/watch?v=5Nc6aoQGmLk
"Our (Govt) debt to GDP levels by then will top at just under 30 percent. In other words we'll be relatively lowly indebted compared to countries like America and Europe, but I

put it to you we are a small open economy, we have high levels of private sector debt, We, Mum and Dad, have borrowed that debt effectively from foreigners because their local bank has sourced that from foreigners."
end quote

Bernard Hickey(BH) - Grant Robertson(GR) interview 23 March 2016
https://www.youtube.com/watch?v=253QChyCREI
GR - "There are problems in our monetary policy and we do need to look at it"
BH - "What would a policy targets agreement under a Labour Government, you would be, if you were Finance Minister you would be the one signing the agreement."
GR - " Yeah, and look we have got to sit down and talk that through with the Reserve Bank Governor. I am still a supporter of an independent monetary policy. I think, I think that the Government can help create the settings, but in the end we are, we are well served by the independence of the Reserve Bank, so it will be a genuine conversation.
I have said often before that it is possible for the Reserve Bank to have a mandate beyond just controlling inflation.
I think if it had, had a mandate around employment we wouldn't have seen the rates go up when they did, we might have seen them come down a little bit quicker.
I have been clear before that I would like to see something like an employment based or an overall health of the economy based target included within the PTA.
On inflation itself, this is where we have to sit down and have a genuine conversation with a range of experts involved about what s the future of inflation.
Its a big topic and I know the Reserve Bank Governor is concerned about it himself.
So, you know, there will be some change. I could see a broadening of the criteria and we do have to look at how we, how inflation is measured and what it means in the economy."
BH - " So the Reserve Bank could cut interest rates, do what it wants and then the banks might not pass it on, so, what,"
GR - " Yeah well"
BH - "what do you think the banks should do about it. Because they haven't passed on, they haven't passed on all the official cash rate cut. "
GR - "No they have not. Although they were very quick to cut savings rates. So clearly on that side of the ledger they responded quickly. Look that is, you know, it was the Reserve Bank Governor who said very clearly at the Parliamentary Select Committee I was at, that he expected the rate to be passed on, it wasn't.
I understand that there has been an increase in the cost of borrowing overseas for banks, but I also don't think that increase legitimises not passing on the cut and it does start to neuter the value of monetary policy.
That's a conversation for me as Finance Minister to have with the Reserve Bank Governor as well, is does he have the tools in his tool box that makes him comfortable that, that the value of him setting an official cash rate is still there and we will have that conversation.

That's not, that's not to say that we would determine those rates, but it is to say that we need some pretty serious conversations with the banks about what they are doing."
BH - "Would Labour go as far as to looking to regulate retail interest rates."
GR - " Agh I am reluctant to say that. I think that what we would do is to talk to the bank, the Reserve Bank Governor about the tools that he has. I mean the, the overall relationship between the trading banks and the Reserve Bank is one that's, you know, has a number of different levers within it and I think that's probably the place to go looking for whether or not, you know, you can assure New Zealander's they should, they'll get the value that they should from an OCR cut, but that is the primary relationship, the Governor to the trading banks.
The government is there to set the rules, not be involved in the middle of that."
End of interview.

6 – So lets now move onto the musings of including for improvement the maximising of employment as a dual mandate alongside the present primary mandate of price stability;

It is also on the record common knowledge among state and private financial infrastructure executives that the methodology presently being used for official statistics to judge a person employed or not employed is seriously flawed.
The flaw is that a person in the survey period need only have been employed for one hour of paid employment or have swapped a minuscule amount of work for a minuscule amount of barter goods to be deemed employed. Despite it being very clear and evident this amount of employment would in no way ensure a person of dignified access to the bare essentials of life.
It is very questionable what improvement in regards the greater common good this measure would bring as long as this flawed methodology remains in place.

Labour force categories used in the Household Labour Force Survey
http://archive.stats.govt.nz/browse_for_stats/income-and-work/employment_and_unemployment/Labour-force-categories-in-HLFS.aspx

People employed
Definition
All people in the working-age population who, during the reference week:
- worked for one hour or more for pay or profit in the context of an employee/employer relationship or self-employment
- worked without pay for one hour or more in work that contributed directly to a farm, business, or professional practice operation owned or operated by a relative
- had a job but were not at work due to: their own illness or injury, personal or family responsibilities, bad weather or mechanical breakdown, direct involvement in an industrial dispute, or leave or holiday.

7 - This is an opportune time to also examine the soundness of the present primary mandate of price stability as determined by what is known as the Consumer Price Index (CPI) within an overarching Interest Rate Inflation Targeting model. The CPI is a list of various goods and services of which the cost of them is monitored and the averaged change of cost up or down is said to represent the changing cost of living.
It is on the record common knowledge among state and private financial infrastructure executives that this measure is presently seriously flawed due to the cost of housing not be accurately represented due to the land portion of property being removed from the CPI list back in 1999;

Joseph Stiglitz, Ex Vice President of the World Bank and Nobel Price winner for economics wrote of the shortcomings of Interest Rate Inflation Tageting in a 2008 article;
The answer came in the form of "inflation targeting," which says that whenever price growth exceeds a target level, interest rates should be raised. This crude recipe is based on little economic theory or empirical evidence; there is no reason to expect that regardless of the source of inflation, the best response is to increase interest rates. One hopes that most countries will have the good sense not to implement inflation targeting; my sympathies go to the unfortunate citizens of those that do. (Among the list of those who have officially adopted inflation targeting in one form or another are: Israel, the Czech Republic, Poland, Brazil, Chile, Colombia, South Africa, Thailand, Korea, Mexico, Hungary, Peru, the Philippines, Slovakia, Indonesia, Romania, New Zealand, Canada, the United Kingdom, Sweden, Australia, Iceland, and Norway.)
End

20 February 2012 Deirdre Kent put this Official Information Act question to the New Zealand Minister of Statistics;

Despite the fact that section prices tripled in fifteen years to 2007, land is not now included in the Consumer Price Index. This means that the official measure of inflation is unreliable as it is far lower than the actual figure.

and received this reply;

Today I received a letter back from the Minister of Statistics, Hon Maurice Williamson. I had heard that land went out of the CPI but couldn't remember when or why so I sent in an Official Information request. The Minister dates the letter 14 Mar 2012 and says
Dear Ms Kent
Thank you for your letter of 20 February regarding the exclusion of the price of land from the Consumers Price Index (CPI) basket of goods.

I am advised by Statistics New Zealand that land (i.e. residential section) was included in the CPI until the June 1999 quarter. Following a review of the CPI in 1997 land was excluded, taking effect from the September 1999 quarter.
The 1997 review by an external advisory committee confirmed the CPI's main purpose as being informing monetary policy setting, and that the CPI should be focussed on the concept of acquisition. The reason given for excluding land from the CPI from 1999 was that it was considered to represent the investment component of home ownership (with dwellings representing the shelter component).
The September 1999 quarter CPI information release explained it as follows: A dwelling provides shelter over a long period of time. Over time land is not consumed and so can be considered to represent the investment component of home ownership. As investment expenses are outside the scope of the CPI the rebased CPI excludes expenditure on residential sections.
Information on the sale of land is available from QV (www.qv.co.nz) and the Real Estate Insititute of New Zealand (www.reinz.co.nz).
I trust this information meets your needs and thank you again for taking the time to write.
Yours sincerely
Hon Maurice Williamson
Minister of Statistics.
End

A speech by Governor Reserve Bank Of New Zealand Dr Alan Bollard and Enzo Cassino, delivered by Dr John McDermott to the Sim Kee Boon Institute Conference on Financial Economics Singapore, 5 May 2011
http://www.rbnz.govt.nz/speeches/4389919.pdf
Overall, there has also been a recognition that credit growth over the past decade was excessive and a potential risk to financial stability given the build-up in leverage and rising asset prices that accompanied it. We are continuing to build our understanding of money and credit at the RBNZ, and its inter-relationship with both sectoral financial decision making and potential risks for the banking sector.
End

Signs suggest inflation cycle is bottoming out 19 October 2016
https://www.odt.co.nz/business/signs-suggest-inflation-cycle-bottoming-out
Labour finance spokesman Grant Robertson said low inflation piled pressure on the Reserve Bank and the Government.
Low inflation would be welcomed by many but the data painted a troubling picture of the New Zealand economy.
The CPI only counted new builds in terms of housing costs. Those rose 2% annually and 6.2% for the quarter. Factoring in rises in rents and the spiraling cost of purchasing

existing homes, the cost of housing for most New Zealanders was rising far in excess of inflation, he said.
"This is a huge problem for most New Zealanders who have seen their wages barely rise in recent years," he said.
End

8 – Now I would like to turn to the question of fiscal responsibility and fuduciary duty. Given the unsoundness of much of the methodology used to measure the success of the present money system funding structures that I contend already render the proposed changes an exercise of futility, of great concern is the refusal to take a closer look at the fact that we belong to a club of nations whose base credit supply of their money systems is presently entirely borrowed from external of state institutions who type the credit they lend out into their account at the time of lending rather than relending anyone's savings that have been deposited with them and how it impacts our society.

The motives for this have to be questioned given that these surely most interesting of facts are documented in many of the reference sources from which the government expert advisory panel have included information but never mentioned the primary base credit creation issue and again it is common knowledge among the executives of state and private financial institutions;

Mr. Alan R Holmes was Senior Vice President, Federal Reserve Bank of New York. Worked for 33 years at the Federal Reserve Bank of New York, where from 1965 to 1979 he was manager of the Federal Reserve System Open Market Account. In that position, he was responsible for the creation of money in the United States and nations to which they made loans.

1969 speech – Operational Constraints On Stabilization of Money Supply
http://bostonfed.org/economic/conf/conf1/conf1i.pdf
"The idea of a regular injection of reserves-in some approaches at least-also suffers from a naive assumption that the banking system only expands loans after the System (or market factors) have put reserves in the banking system.In the real world, banks extend credit, creating deposits in the process, and look for the reserves later. The question then becomes one of whether and how the Federal Reserve will accommodate the demand for reserves. In the very short run, the Federal Reserve has little or no choice about accommodating that demand; over time, its influence can obviously be felt. In any given statement week, the reserves required to be maintained by the banking system are predetermined by the level of deposits existing two weeks earlier."
End

What should the future form of our money be?

Speech by Deputy Governor Jon Nicolaisen at the Norwegian Academy of Science and Letters, 25 April 2017.
https://www.norges-bank.no/en/Published/Speeches/2017/2017-04-25-dnva/

How is money created?
So how do banks create money? The answer to that question comes as quite a surprise to most people.
When you borrow from a bank, the bank credits your bank account. The deposit – the money – is created by the bank the moment it issues the loan. The bank does not transfer the money from someone else's bank account or from a vault full of money. The money lent to you by the bank has been created by the bank itself – out of nothing: fiat – let it become.
The money created by the bank does not disappear when it leaves your account. If you use it to make a payment, it is just transferred to the recipient's account. The money is only removed from circulation when someone uses their deposits to repay a bank, as when we make a loan repayment.The money supply is therefore only reduced when banks' claims on the rest of the economy decrease.
Banks also fund lending by raising loans themselves instead of creating money in the form of deposits. In order to reduce risk, banks also use other forms of investment in addition to lending. Nevertheless, the money supply is growing at almost at the same pace as total bank credit.
To sum up: banks create money out of nothing and withdraw it when loans are repaid. Growth in total bank credit is normally matched by growth in the money supply.
End

Money – Born of Credit?
Christopher Kent
Assistant Governor (Financial Markets) Reserve Bank Australia 19 September 2018
https://www.rba.gov.au/speeches/2018/sp-ag-2018-09-19.html
How Is Money 'Created'?
In summary, changes in the stock of broad money are the result of a myriad of decisions, including those of banks, their borrowers, creditors and shareholders. And these decisions take place within the framework of a range of regulatory and institutional arrangements. It is worth noting that the Reserve Bank does not target a particular level or growth rate of money (although it has done so under a previous monetary policy regime). Instead, the Reserve Bank has some influence on the money stock via the effect of its interest rate target for the overnight cash rate on other interest rates in the economy. These in turn affect the cost of borrowing and economic conditions more generally. Ultimately, borrowing and lending decisions – and thus the creation of money – are constrained by the need for prudent banking behaviour, the budget constraints of borrowers and the profitability of lenders.

One final word on the creation of money is that as fun as it is to teach students about traditional money multipliers, I don't find them to be a very helpful way of thinking about the process. In Australia, simple regulatory regimes – which had earlier required banks to hold a minimum share of their deposits as reserves with the Reserve Bank – have been replaced with modern prudential regulation and market discipline. Again, the demand for and supply of credit is the real driver of money. That point can be reinforced by examining the behaviour of credit and money over time.
End

Banking in New Zealand Fourth Edition - published by the New Zealand Bankers Association in 2006
Chapter 4 - The Creation of Money and Credit
https://issuu.com/iainparkerpubliccreditorbust/docs/nzba_banking_in_new_zealand_fourth_?fbclid=IwAR1UxdCgMQgo5AIRjbMb7aTg_EXND2Zw4exHRWw8CXtM3j9OdgAsAa3TrpM
THE CREATION OF MONEY AND CREDIT
what Actually Happens in reality, although the process outlined in the previous sections could occur, cash balances in bank vaults no longer act as a constraint on bank lending in the way that they might have up until the latter part of the 20th century.....
in such an environment, there is still scope for a bank to expand its lending and create credit, but it is dependent on there being net inflows of funds into the banking system as a whole. These inflows of funds may come from depositors from outside New Zealand (and we have seen significant inflows of funds from such sources in recent years), or from the government making net deposits of funds into the banking system (through its fiscal policy, as outlined below).
We also have a situation where, since 1985, New Zealand banks have not had any specific reserve requirements applied to their deposit liabilities. This means that, in theory, banks could keep on creating credit and expanding their loan portfolios indefinitely. in such an environment, it is the cost of credit, based upon the costs that banks have to pay to raise the deposits, that becomes the constraint on the quantity of credit that is created.
end

Excerpts from book - CRISIS - by New Zealand Reserve Bank Governor - Alan Bollard - published September 2010.

Preface - I have also tried to be scrupulous to ensure that I have written nothing on New Zealand that could not have been made public under the Official Information Act; indeed, much of the official policy is already in the public arena. This means at times the book is less revealing than it might otherwise be. We hope its no less insightful and interesting.

*Pg 19-20 - “Banking practices differ around the world, but we ensure ours meet international standards. These are set by a somewhat shadowy group called the Basel Committee on Banking Supervision. Comprised of representatives of large countries(not including New Zealand), the group meets in Switzerland at the Bank of International Settlements (BIS).”

*pg 157 - Another governance worry related to the power and competence, or lack thereof, on the part of banks chief risk officers and risk committees. These officers assess the possible outcomes from any deal and decide whether the risks are acceptable under the banks mandated policies. We were now hearing about cases where risks had been miscalculated, procedures bypassed and officers overruled, all in the race for higher earnings.

*pg 183 - “In self-interest, banks may encourage New Zealander’s to take on more debt than is good for them individually or deliver more external liability than is good for the country.”
End

Iain Rennie government external consultant to this process;

Between 15 and 24 March 2017 discussions were held with representatives from the Bank for International Settlements and various overseas central banks to obtain their views on, and experiences with, different central bank decision-making models and governance. The representatives were: • Bank for International Settlements – David Archer (Head of Central Banking Studies) • Reserve Bank of Australia – Anthony Dickman (Secretary) • Bank of England – John Footman (Secretary) • Bank of Israel – Daniel Hahiashvili (Chief of Staff to the Governor); Yoav Soffer (Spokesperson and Head of Economic Information); Esther Schwartz (Secretary of the Monetary Committee) • Bank of Canada – Stephen Poloz (Governor) Summary of discussions The representatives from the central banks discussed the decision-making and governance models employed at each of their respective central banks. The following key points were also raised in the discussions: • International trends Given the depth of powers of central banks, and more recognition about the ability to get things wrong, there is political discomfort internationally with the limitations on holding central banks to account. Countries are struggling with financial policy. There is a trend towards interagency financial stability councils with unclear powers. There is recognition within central banks that there is an issue that needs to be dealt with, but generally speaking action on this has been limited.
End

Prasanna Gai University of Auckland excerpt of submission to this process;

The costs of financial system failure thus far exceed the private costs to the managers, creditors, and shareholders of the failing entities. This is a consequence of negative externalities – the private benefits of the socially destructive behaviour exceed the private costs. In financial systems, these externalities take two broad forms. First, the actions of a financial firm can directly influence the choices that other firms make.6 And second, the actions of a financial firm can influence the constraints facing other firms through their effect on prices. Such "pecuniary" externalities can also arise in efficient markets and are not of themselves distortionary. But when there are other constraints and distortions present, the effect of one agent's actions on other agents in the system via prices can matter.

The endogeneity of risk means that macroprudential regulation avoids an important fallacy of composition – the financial system is not made safe by simply making sure that each and every financial balance sheet is sound. What may look stable at the level of an individual institution can be fragile and unstable at the system level due to the interconnections of financial institutions. For example, Beale et al. (2011) demonstrate how, in an inter-linked and procyclical system, the homogeneity of risk management practices can be collectively disastrous.

In the I(ntermediation)-theory of money, Brunnermeier and Sannikov (2016) argue that the presence of financial frictions means that price stability and financial stability are so intimately intertwined that it is impossible to make a distinction. The close connection arises because the health of the financial intermediation sector determines the degree of inside money creation and the price of risk in the economy.

Central banks must, thus, be acutely aware of aggregate and sector-specific credit growth and other monetary aggregates, since a narrow focus on current interest rates can be misleading.3
End

10 – Very relevant to this process I would like to take the opportunity to applaud those within government, who in recent times have realised the national security value of keeping at hand a state-owned electronic payment, transfer and settlement system, that presently is resided within the RBNZ/Kiwi Bank/ Post Office structures, to guard against private interests gaining a monopoly of these most important of facilities. Facilities that if ever become entirely external of state-owned without a ready state alternative, would leave our society wide open to criminal exploitation that would be very hard to hold to account. As a number of nations found out the hard way post the 2008 GFC.
I was very proud to be the only individual submitter outside of the privately owned financial service sector institutions to put forward a submission during the "public

consultation" period (that bizarrely called for submissions from only industry participants) and the only one that was pointing out the negatives of privitisation of the facilities.
I am encouraged that Government has not only decided to keep a ready alternative means of money distribution internal of the state, but has also set about strengthening the legislation in regards the obligations of the parts of the facilities that are privately owned.

11 - When you fully comprehend the fundamentals of money as a system of human & natural resource capital value, base credit underwritten economic enablement, you soon realise that no government has ever needed to be revenue constrained to any lesser extent than the territory it governs is constrained by physical resources available to it.

Any government has had at hand the means to develop the physical resources within its territory for internal use, or in readiness to trade with societies external of it, any goods surplus to their own requirements for goods that would further increase the standard of living of its citizens.

No government has ever needed to external borrow to develop the commonwealth resources within its own territory. If it has been doing so it has suffered a conjob at great external extortion expense to the citizens it represents.

Money system pyramid frauds orchestrated by shysters (a person who uses unscrupulous, fraudulent, or deceptive methods in business.) have been noted as regular occurrences since humans started recording written history.

But very bizarrely an intergenerational class of associated people are still able to suppress the knowledge of this most important of issues and get away with doing it with seeming impunity.

12 – Several nations have grown tired of institutions external of the state being entrusted with the extraordinary privilege of custodianship of the base credit of societies money only for them to repeatedly cook the credit books in very destabilising ways out of short-term self-interest and have made meaningful money system funding structure reforms that have reinstated a state institution at the top of the wholesale base credit tree to be administered as a public trust in the public interest.
This includes Japan. The third largest economy in the world with who New Zealand has just signed into the CPTPP trade agreement and are still accepting their currency as payments.

Adair Turner 20 Sept 2018
Japan's Successful Economic Model

"As for government debt and unsustainable fiscal deficits, doom-mongers who warn of an inevitable crisis if belt tightening is not soon imposed are likely to be disappointed. Japan's gross government debt may be 236% of GDP, but after netting out government-owned financial assets, the International Monetary Fund estimates net debt at a much lower 152%.
Moreover, the Bank of Japan owns government bonds worth 90% of GDP, and ultimately returns to the government as dividends all the money it receives from the government as interest on the bonds it holds. Deducting both public financial assets and all the debts the Japanese government and people effectively owe to themselves, the debt level is only about 60% percent of GDP and not rising. This level of debt could be sustainable even if fiscal deficits remain high for many years.
To see why, suppose a country had gross government debt of 250% of GDP, net debt of 150%, and central bank bond holdings of 100% of GDP, leaving net debt of 50%. Then suppose that inflation and real growth were steady at 1% each, so that nominal GDP grows at 2%. With bond yields at 2% (versus 0.1% in Japan today), those debt ratios would remain stable even if the government ran a primary deficit of 4% of GDP, and a total deficit of 5%, year after year.
That is roughly what Japan is doing now. Far from reacting in horror at this clearly unsustainable behavior, bond buyers around the world still line up to buy government bonds in return for yields that are little more than zero."
End

Bank of Japan Monetary Policy
https://www.boj.or.jp/en/mopo/outline/qqe.htm/

13 – The IMF are now saying that more progressive monetary policy reform is justified. I agree with them;
Winds of Change: The Case for New Digital Currency
By Christine Lagarde, IMF Managing Director
Singapore Fintech Festival
November 14, 2018
https://www.imf.org/en/News/Articles/2018/11/13/sp111418-winds-of-change-the-case-for-new-digital-currency
Let me now turn to my second issue: the role of the state—of central banks—in this new monetary landscape.
Some suggest the state should back down.
Providers of e-money argue that they are less risky than banks, because they do not lend money. Instead, they hold client funds in custodian accounts, and simply settle payments within their networks.
For their part, cryptocurrencies seek to anchor trust in technology. So long as they are transparent—and if you are tech savvy—you might trust their services.

Still, I am not entirely convinced. Proper regulation of these entities will remain a pillar of trust.
Should we go further? Beyond regulation, should the state remain an active player in the market for money? Should it fill the void left by the retreat of cash?
Let me be more specific: should central banks issue a new digital form of money? A state-backed token, or perhaps an account held directly at the central bank, available to people and firms for retail payments? True, your deposits in commercial banks are already digital. But a digital currency would be a liability of the state, like cash today, not of a private firm.
This is not science fiction. Various central banks around the world are seriously considering these ideas, including Canada, China, Sweden, and Uruguay. They are embracing change and new thinking—as indeed is the IMF.
Today, we are releasing a new paper [1] on the pros and cons of central bank digital currency—or "digital currency" for short. It focuses on domestic, not cross-border effects of digital currency. The paper is available on the IMF website.
I believe we should consider the possibility to issue digital currency. There may be a role for the state to supply money to the digital economy.
This currency could satisfy public policy goals, such as (i) financial inclusion, and (ii) security and consumer protection; and to provide what the private sector cannot: (iii) privacy in payments.
End

Please expand the terms of reference to include the soundness of the decentralised central bank entirely external of state base credit model.

Yours sincerely
Iain Parker
13/1/2019