

A Fee Makes Money Go Round

A stable currency and a sound financial sector form the vital basis for a peaceful, socially well-balanced and ecologically sustainable society. Essential for the associated change is inflation- and deflation-free money that flows smoothly even with zero interest rates on savings accounts.

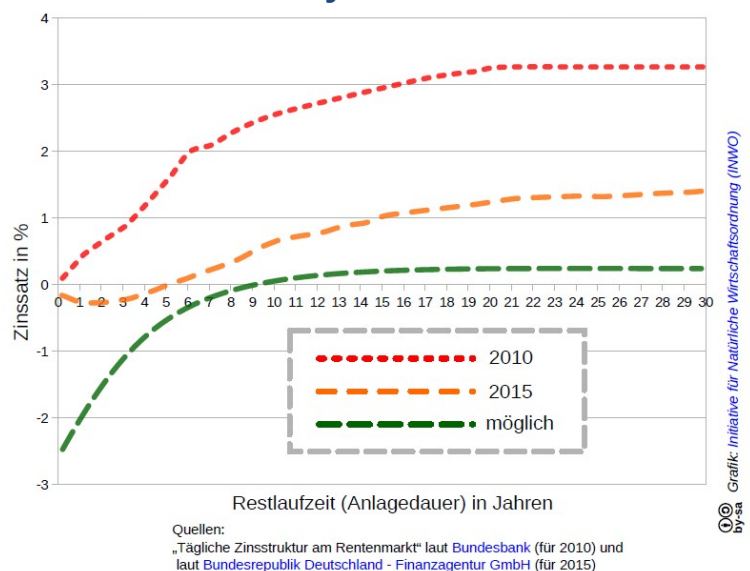
The glut on the market along with lasting mass unemployment plunges central banks into a dilemma: On the one hand they provide cheap money to foster a high credit supply together with low capital market interest rates in order to stimulate economic growth. On the other hand, decoupling the monetary base from the economic performance has adverse effects: the results are asset price bubbles and hazardous risks of inflation.

At the same time, a yield curve that is too flat reduces the incentive for long term savings. This leads to speculative bubbles and deflation tendencies. An effective correction would result from a yield curve with a considerable negative yield on liquid assets.

Carrying costs on the means of payment would provide a constructive instrument for central banks:

- Liquidity costs induced by a fee would provide sufficient stimulus to tie up superfluous money, even if almost no interest is paid. Long-term investments remain attractive, even without any yield, because they preserve the value of the money assets.
- Carrying costs charged on the means of payment allow the necessary spread on the yield curve. In this way the credit supply for the real economy will be ensured independently from the development of the key interest rates.
- A disproportionate increase in liquidity can be avoided. There won't be any decoupling of monetary aggregates from the economic performance.
- Money can circulate without any noteworthy inflation or deflation, even if the economy isn't growing or is even shrinking.

Different yield curves



There is a lack of scientific research on the impacts and opportunities of liquidity costs by putting a charge on the means of payment. The idea of complementing central bank instruments by carrying costs on the monetary base and sight deposits should be scientifically analysed and be tested in experimental research. If a fee stabilises the circulation of money, even with inflation rates and capital market yields nearing zero, this would have positive effects on our society and our future.