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Cover; Contents; I. Introduction; II. The Chicago Plan in the History of Monetary Thought; A. Government versus Private Control over Money Issuance; B. The Chicago Plan; III. The Model under the Current Monetary System; A. Banks; B. Lending Technologies; C. Transactions Cost Technologies; D. Equity Ownership and Dividends; E. Unconstrained Households; F. Constrained Households; G. Unions; H. Manufacturers; I. Capital Goods Producers; J. Capital Investment Funds; K. Government; 1. Monetary Policy; 2. Prudential Policy; 3. Fiscal Policy; 4. Government Budget Constraint; L. Market Clearing IV. The Model under the Chicago PlanA. Banks; B. Households; C. Manufacturers; D. Government; 1. Monetary Policy; 2. Prudential Policy; 3. Fiscal Policy; 4. Government Budget Constraint; 5. Controlling Boom-Bust Cycles - Additional Considerations; V. Calibration; VI. Transition to the Chicago Plan; VII. Credit Booms and Busts Pre-Transition and Post-Transition; VIII. Conclusion; References; Figures; 1. Changes in Bank Balance Sheet in Transition Period (percent of GDP); 2. Changes in Government Balance Sheet in Transition Period (percent of GDP) 3. Changes in Bank Balance Sheet - Details (percent of GDP)4. Transition to Chicago Plan - Bank Balance Sheets; 5. Transition to Chicago Plan - Main Macroeconomic Variables; 6. Transition to Chicago Plan - Fiscal Variables; 7. Business Cycle Properties Pre-Transition versus Post-Transition

Sommario/riassunto

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. Furthermore, output gains approach 10 percent, and steady state inflation can drop to zero without posing problems for the conduct of monetary policy.
