

AN INSTITUTIONAL PERSPECTIVE ON SEIGNIORAGE

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ABSTRACT

Almost all modern economic textbooks on monetary economics or macroeconomics include a chapter on the revenue from seigniorage. Despite the theoretical differences, all these treatments are united by the implicitly or explicitly assumed institutional framework. It is assumed that a government provides the whole quantity of money through deficit spending.

However, in later chapters it is of course admitted that part of the money supply is provided by banks in form of bank money. These chapters are usually detached from the treatment of seigniorage. But if money supply is increased why shouldn't there be a further return similar to that of seigniorage.

In this paper the impact on bank's revenues due to a fractional reserve system will be analysed. First the different theoretical positions regarding this question will be traced in the history of economic thought. Second it will be shown within the classical framework that the supply of bank money yields a seigniorage-like return in any fractional reserve system.

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