Money – The Neglected Agent of Change

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Introduction

More than ten years ago I wrote a paper for this journal entitled *The Politics of Money and Credit as a Route to Ecological Sustainability and Economic Democracy* (2005) that argued for the democratisation of money.

> 'In a money-based society access to money must be a human right. To be denied that access is to be denied the right to sustenance. Since money is created out of nothing there is no logical reason why it should be borrowed from banks, then circulated through commercial production before being taxed into social use. A more logical way would be to issue the money to the people, individually or collectively, who could then choose their provisioning priorities… exposing the vacuous and deeply exploitative reality of money issue and making proposals for putting such a simple yet sophisticated mechanism in the hands of the people would be a revolutionary act.' (2005:60)

Three years before the banking crisis broke, the paper called for a politics of money:

> 'modern banking…is both illusory and unstable, there is no intrinsic value of money and there is effectively no bank reserve. Money systems are confidence systems, they are social systems…It is important to analyze the development of debt-based banking as an historical, structural form …Failure to see banking as a social and historical system can lead to the development of horrendously vile politics in the wake of economic collapse as in the 1930s. It is therefore vital that Socialists have a clear analysis of how and why money systems operate and develop clearly thought out alternatives' (2005:59-60)

Following the 2007-8 crisis I argued that money should be reclaimed as a public resource (2010) as the root of the problem was the privatisation and commodification of the public currency as debt (2016). The bulk of modern currencies were being created and circulated as commercial commodities, through bank loans, to be repaid with interest. Although states were also borrowers, most of the new money was directed towards commodity exchange and various forms of private investment. However public trust in that debt-issued money and ultimately its viability remained the responsibility of the state and the central bank, a Janus-faced structure that straddled the public and private sectors (2016:113).

A time of crisis provides the opportunity for change as it exposes the failures and contradictions of the established order. It opens up the chance to achieve radical momentum, or at least to undermine the prevailing hegemony. However, radical movements did not see the political potential of one of the critical institutions of modern society, money, or more precisely the public currency. While 2007-8 was seen as a banking and financial crisis, it was fundamentally a crisis of money supply. What terrified governments was the fear that ATM machines would dry up causing widespread popular panic. This was because there is relatively little cash (notes and coin) in modern money systems, in Britain as little as 3% of total money supply. As is increasingly being recognised, the supply of public currencies in modern economies is dominated by bank loans that exist only as bank accounts (Bank of England Quarterly Bulletin 2014, IMF 2012). Although economic theory makes a distinction between real money (notes and coin) and credit money (bank accounts), in practice both are seen by the public as 'real' money. Deposit holders would not welcome being told their bank account did not contain the national currency.

Public Money as Debt

Relying on bank lending to create new supplies of public currency, ties the money supply to the credit supply. If borrowing falters there is the danger of a collapse in money circulation. When governments and central banks are urging banks to start lending again, they are concerned as much with money supply as productive activity. This link between commercial credit and public currency supply is a major benefit to, but also a major weakness for, capitalism. While privatising the public money supply through bank lending has provided capitalism with huge benefit as the new money fuels consumption and investment, any economic downturn leaves the economy very exposed. However lack of a radical analysis of money means that criticism has been deflected away from the failure of bank-issued debt-based money to the public economy as debtor as it struggles to maintain public services and support the private sector.

There is no monetary reason for states to be in debt. The ability to create money has long been a state power. Even though today money is largely created as bank debt, it is a commonly held assumption that the public currency is created by state institutions, despite the trumpeting by neoliberal capitalism of the edict that states must not 'print' money. This injunction is not challenged even by the left. Historically supplying the public currency was the prerogative of the ruler. This power has passed to the banking sector largely without public awareness. Yet ceding monetary power to the private sector is a radical denial of public democracy. What it means is that the public has no right to create its own money which it could issue and circulate free of debt. Instead, states have to borrow to cover any deficit in taxation (or more correctly sell their surplus expenditure to the financial sector), even when the money is being used to rescue the banks. As a result of the raised state 'debt' following the crisis, austerity has been imposed on the public economy.

Far from being able to create its own money, the modern state has become a debtor to the commercial banking system and the financial sector generally. This situation emerged with what Felix Martin has called the Great Monetary Settlement (2014:109) whereby rulers gave away their prerogative of public money creation in order to receive commercial credit, that is, privately issued money. In the process it allowed the private money that was being created to claim the status of the public currency. A key example was the Bank of England. It made commercial loans to the state, but was then able to issue its own bank notes in the name of the state. Over time all banks were brought into the same remit, banks no longer issued money in their own name (Bank X notes) but in the name of the public currency (dollar, pound sterling). This resulted in two major changes. States built up a national debt to the banks and the public became the back stop to the banks who were issuing money in their name.

The political danger of starving the public sector of money is that it will undermine the political legitimacy of the system. Disaffection with poor public services and conspicuous private wealth breeds cynicism and discontent. Unfortunately, it is likely to be the right, rather than the left, that will be the beneficiary of popular dissent if there is no convincing radical alternative. Failure to see the creation and circulation of money as an active economic agent, removes the chance to build action around the supply of the public currency as the means of achieving social change. As Wolfgang Streeck (2014) has argued, the dominance of the financial sector and the growth of debt are setting up a conflict between democracy and capitalism. In particular, the tax system is failing and the public infrastructure with it. The 'tax state' of the post WW2 era, generated manageable budget deficits, balanced corporate-union power and enabled uncontentious government expenditure. Most governments ran at a deficit which meant they put more money into the economy than they took out as tax. If states reclaimed the right to create money free of debt, necessary public expenditure could once more be made and remove the strangle-hold of the financial sector. The choice needs to be made between debt and democracy (Mellor 2016).

The Unsustainability of Privatised Public Currency

The major contradiction of the capitalist privatisation of money is that it is based on debt. The privatisation and commodification of the public currency supply as debt is socially, ecologically and economically unsustainable. It is socially unsustainable because the creation of money as debt must favour the wealthy rather than the poor. The main criterion for a loan is that the proposed expenditure is viable and the borrower is credit worthy. The poor are unlikely to score on either count. Money must therefore gravitate towards the better off. It is ecologically unsustainable because creating money through debt must drive economic expansion. If loans are to be repaid with interest there must be growth of some form. This does not necessarily mean ecological damage – it may just bid up the price of existing assets – but there is certainly no basis for degrowth or a steady state economy. Economically basing a money supply on debt must end in crisis when businesses and citizens can take no more debt. This often occurs after a wave of speculative lending when boom is followed by bust.

Given the range of problems the present money system brings why see it as a route to sustainability and social justice? Is it so flawed it should be demolished? Why bother with money at all – why not find another way of running economies?

Why Bother with Money?

The main reason is practical. Globally the trend is towards concentrated urban living that would mean a move away from the resources and skills for self-provisioning. While money has strong negative connotations, it is hard to think of a better mechanism for organising large scale provisioning. Provisioning is used here in preference to 'economy' or 'production' as it is not limited to the current boundaries of the money economy or the private sector. It could cover currently externalised ecological costs or unpaid work such as domestic labour. It would also see public services as being as valuable as the 'wealth' of the private sector.

Concern with the problem of provisioning on a large scale (e.g. the mega-city) conflicts with the view of many people that building more ecologically sustainable and socially just provisioning would be best achieved on a smaller scale, that 'small is beautiful' (Schumacher 1973). The aim is for local production and exchange to 'short-circuit' the wider money system (Douthwaite 1996). The emphasis tends to be on social money or local money initiatives as advocates of alternative monetary systems want to decentralise currencies to the lowest level possible (Lietaer 2001:266).There are certainly many attractions in organising on a smaller scale, in particular, the possibility of innovative provisioning structures. However, many of these would require face to face or communal interaction. This would not be possible for larger settlements where most interaction would be between strangers.

The Benefit of Public Money

One of the unique benefits of a public currency is that it provides a largely unacknowledged solidaristic connection between strangers. Each holder is confident that their money will be honoured by people they are yet to meet. Like social money this confidence rests on social acceptance, but also critically, in addition, on public authority. The alternative mechanism for organising the provisioning of larger communities would be planning and allocation without money, but it is hard to see how this would be done. Money is a flexible way of organising work and consumption, but a socially just and ecologically sustainable money system would be very different from the present debt-based bank–led version.

A major practical benefit for the use of a public currency is that the mechanism of public creation of money already exists. Public monetary authorities can and do create the public currency free of debt as in quantitative easing. States are effectively creating money when they spend more than they tax (before they package up the 'deficit' and sell it as a debt). Given the amount of public funds created to rescue the banks, the case for QE for the people, and for nature, is irrefutable. The experience of the 2007-8 crisis has demonstrated the dependency of the private sector on public money. Awareness of this contradiction can make a major contribution to radical politics and economics. The analysis and critique of money is not a diversion from the struggle against capitalism, it is a core aspect of it. Without the socially and publicly constructed mechanism of money, capitalism cannot realise its profit. Control of the money supply is therefore vital to capitalism. Challenging that control is as important as challenging the ownership and control of other factors of production.

Analysis and critique of the current money system can open up the path to economic democracy, sustainability and social justice through the democratisation of money. Money is not intrinsically a commodity. It has been privatised and commodified under capitalism but it has a long social and political history.

Money as a Social and Political Phenomenon

The textbook view of money defines it mainly by its functions in a market economy: means of exchange, means of account, store of value, means of payment. More socially oriented approaches see the emphasis on money's role in exchange (assumed to be trade in commodities) as too limiting. Instead, they argue money is useful as a means of account in many different contexts, including social and public arenas (Zelizer 1994, Graeber 2011). The different meanings attached to money will affect how it is seen as operating in its role of representing value. While commercial views of money will always stress value in money terms as profit, (money invested to make more money), social and public forms of money can address outcomes in terms of social and public benefit.

Money is not a thing that exhibits an intrinsic form or value. Across societies money has appeared in many different forms. Values can be compared in a totally abstract way or as a record. At times, money has taken the form of valuable commodities (gold, silver, sheep, knives) but can also be paper, wood (as in the widespread use of tallysticks) or written or verbal accounts. Modern money is purely fiat – it exists by public authority alone, there is no other form of money behind it. Yet it enables people to exercise their entitlement to goods and services or pay their obligations in different contexts whether social, public or commercial. However it is commercial value that claims the ideological high ground. Capitalism appears to have won what John McMurtry calls the 'value war' between the market economy and the 'life economy'. As a result: 'The livelihoods of millions are discarded as 'uncompetitive'. Life security for whole societies is abolished as 'unaffordable'. Financial war is waged against the welfare state' (McMurtry 2002:4). In the world of TINA (There is no Alternative) only one form of value is recognised: profitable exchange in the market place. This ignores the existence of many other forms of exchange based on different values: 'the community exchange market, the traditional public market, the non-monetised barter market, the socialist market, the local exchange-currency market and so on' (McMurtry 2002:91).

While the public currency has a nominal value, whether dollar, euro, or pound, it embodies very different kinds of substantive value depending upon the context. In social contexts, capitalist market values may be irrelevant. A thoughtful but inexpensive gift may be more highly valued than an expensive but inappropriate one. In a non-capitalist context, creating, attaining and holding money is not an end in itself. In such contexts, money or some kind of notation is used for social or public purposes, rather than as a measure of profitable exchange. The aim would be to maximise social or ecological value, not to maximise money value. The money or accounting system can be seen as symbolic of participation in a provisioning community. It can enable exchange that is reciprocal rather than commercial: maximising social and use value not profit. Similarly public expenditure should be judged by public service value not capitalist market value. Money is not 'wasted' if it does not 'make' money when it creates social or environmental benefit.

Exchange for Social and Public Benefit

One stumbling block is Marx's distinction between use value and exchange value, which appears to tie exchange value to commodification. This would seem to separate use value from monetary exchange. Use value is the value of the good or service in itself. Exchange value sets up a comparative measure of commodified value in which money is the universal equivalent, the pivot around which comparative values could be established. Marx saw this as alienating the product from the producer and creating the mechanism for the extraction of profit.

However, the use of money in social and public provisioning need not imply the capitalist form of exchange based on commodification. Aligning money with commodification was certainly important to Marx as it opens his study of Capital, but he sees two forms of exchange. The first is simple commodity exchange C – M – C (commodity exchanged for money which is exchanged for a different commodity). In this model, the aim is to seek another commodity or service by providing something that can be exchanged for the money to buy that good or service. This could be seen as an exchange of use values without recourse to the notion of profit.

Marx's main critique is directed at profit-seeking exchange where the aim is not to buy a good or service, but to achieve a profit in money terms. M – C – M+ where money is invested to purchase or create commodities, goods and services that can be sold on for more money than initially invested. Under financialisation the process is taken a stage further to M – M – M+ where money is invested in money commodities to create more money. It is clear that M - C – M+ and M – M – M+ exist entirely to make a profit. However C – M – C is less clear cut. Certainly money is the means of establishing and transferring value, but the aim is not necessarily mercenary. The fact that money acts as a medium of exchange is not to assume it is a medium for the extraction of profit nor that simple commodity exchange (as use value exchange) need necessarily lead to a full blown capitalist market. Forms of exchange that use social money are not set up to enable the extraction of profit. In fact, the monetary/exchange system would soon collapse if someone in the system was demanding more services, resources or exchange medium than they were willing to contribute. Equally, hoarding the money and not participating would undermine provisioning.

Social exchange mechanisms work on the assumption of reciprocity, rough parity, a sense of fair play and good will. Money is being used to exchange goods and services because they are what others can use and benefit from. Part of the confusion in Marx's model lies in calling the goods and services commodities in the simple C – M – C form of exchange. This implies that the goods and services are valued not for their beneficial use, but for their monetary value. Using the example of social or public money, a better expression would be P – M – P. Provisioning – Money – Provisioning. Money still acts as the universal equivalent. It can bring strangers into contact and be transferred between holders. However, rather than maximising the accumulation of profit, the aim would be to maximise provisioning. Social or public money could be a highly efficient mechanism of exchanging use value. In the P – M – P model, money is not created as debt. It is created and circulated to enable maximum sufficiency provisioning. That is, provisioning for sufficiency, enough for all, not too much for some and not enough for others. Rather than Gross Domestic Product, the measure would be Gross Domestic Provisioning.

The aim of ecologically sustainable sufficiency provisioning is to enable people, as far as possible, to set up and work in activities relevant to their well-being and flourishing. This would create a more socially just and ecologically sustainable one-step provisioning system unlike the present two-step economy where people have to work at whatever will provide them with an income in order to obtain what they really need.

Money for the People

Democratising the public currency would provide the framework for an ecologically sustainable and socially just means of provisioning human communities. Proposals for how this could be done are set out in my book *Debt or Democracy* (2016:83-87). To focus on the monetary system is not to ignore other targets of social and ecological critique, but it has powerful resonance in the context of the 2007-8 financial crisis. What the crisis revealed was the frailty of the current privatised money and banking systems and their reliance on public monetary authorities. The private sector turned out not to be so private after all. At the heart of capitalist realisation and accumulation of profit lies the social trust and public authority of the public currency.

As the Mexican economist Alejandro Nadal argues, economic priorities are not set by some natural law; they reflect political choice. How money is created and used by different types of agents has 'profound macroeconomic implications in terms of growth and stability'

(2011:145). The ecological crisis facing economies today are a consequence of the 'privatisation of one of economics' most important public domains, the dimension of money creation …Does it make sense to run the banking system through private agents seeking profits when we are discussing sustainability objectives?' (Nadal 2011:148-149).

The choice between debt and democracy is the choice between a privatised money supply based on money created as debt, and a public money supply free of debt, where priorities are set by democratic debate. It is important, however, that public control should not be assumed to be the same as state or government control. As it is the public collectively who underpin the money system, it is the public at all levels who should determine how money is created and circulated. As public money is free of debt at the point of creation, it could be spent, lent or allocated into the economy at the local, national or global level.

Taking debt out of the money supply would enable both sufficiency and ecological sustainability. It would remove the destructive growth dynamic inherent in the present commercial money supply. Money would not need to be returned with interest. Banks would no longer be allowed to conjure money out of thin air, but would be restricted to doing what people think they do now: link savers and borrowers. A money supply oriented towards social and public benefit, would allow money to be allocated on the basis of need, not greed. Democracy would mean reclaiming public control of money and using it for publicly determined ends. This could include rewarding the currently unpaid labour of 'women's work' and community care. It could provide an income for nature or a citizens' income to enable people to avoid unnecessary work. The question then becomes how this would impact on the remaining commercial market, particularly the possibility of inflation. This would be avoided by retrieving a proportion of the money circulated in tax or fees. Such taxes would be aimed at reducing inequality and limiting the use of natural resources.

The Unfinished History of Money

Although Marx's analysis of money does not recognise its radical potential, the history of money can be understood through a Marxian framework of historical epochs and contradictions. Nearly all societies have had some form of money whether as a token (clay tablet, tallystick), object (shell, cattle, grain) or concept (hieroglyph) that can accord relative value. In many societies these were mainly used to settle social disputes or obligations such as injury payments, dowries or tribute. This evidence has undermined the myth of conventional economics that money emerged from commerce and was based on precious metal. The money form in pre-market societies appears to have rested on social acceptance and custom not value in trade.
As institutional power emerged money played a more political role. Central to the power of the ruling elites was the ability to create or nominate public forms of money which in the earliest autocratic societies took the form of hieroglyphic accounts. The invention of coinage came relatively late in this historical process. However, coinage was central to the emergence of autocratic rule in Europe. It was important for the conquest of land and peoples, most particularly in Greece and Rome. Coinages became associated with particular centres of power. The importance of the power to create money is that the creator has the benefit of first use of that money (seigniorage), without any obligation to repay in kind. The sovereign power to create and circulate money is also linked to the sovereign power to tax. Rather than relying on tribute in kind, goods and services could be rewarded with money which itself could be reclaimed through monetary taxation.

With the emergence of the capitalist epoch, paper money and modern banking saw the gradual privatisation of the sovereign power to create money. Constant conflict and shortage of precious metal weakened the monetary power of rulers. Control of money increasing fell into the hands of the newly emerging economic elite, as rulers became increasingly dependent on borrowing in the new form of money, commercial promises. Commercial money represented the promises that traders and investors made to each other. These would sometimes be settled in coinage, but the heart of commercial money was verbal or written promises. Fear that monarchical power was being replaced by commercial control of money, is illustrated by opposition to the creation of the Bank of England from supporters of the old monarchical order, who saw the control of money passing to a 'republic of commerce' (Galbraith 1975:32). As capitalist banking expanded, states built up large national debts to their banking sector as they became increasingly dependent upon money creation through bank-created debt.

Awareness of this process of privatisation of the public currency was obscured by the ideological framework developed by mainstream economics. A number of myths around money appeared to tie its origin to the emergence of markets. In particular, the analysis of money was restricted to coinage and particularly precious metal and the use of money in market systems. Histories of money tended to start with the development of modern trade and banking. The myths were promulgated that money economies emerged from barter (they did not, there is no history of widespread barter economies); that modern money originated as precious metal coinage (there is some limited truth in this, but modern money also emerged from commercial promises and other forms of money long preceded coin); that states do not, or should not, create money (they have historically done so long before modern banking and still do in practice through their central banks); that banks merely link savers and borrowers (no, the loans represent new money).

Modern money has not superceded the earlier forms of money. It embodies all previous forms. It is based on social acceptance, public authority and commercial promise. A weakness of capitalism is not to realise the importance of all three aspects of money. The major outcome of this failure is reliance only on a commercial view of money. Even then, this ignores its weakness as a commodity based on debt which is unsustainable and threatens to undermine the social and public foundation of money. It is this contradiction that undermines the capitalist privatisation of money and provides the need and opportunity to move to the next stage - the socialisation of money through its democratic control for social and public benefit.

Democratising Money

If the people are to take control of their public currency, they will need to assert its social and public origins. The sovereignty of money needs to be passed from the capitalist class to the people. The capitalist market wrested control of money creation from the autocratic sovereigns, but then harnessed it for itself. Money was privatised, not liberated. Democratisation of monetary creation would return to the public the benefits of seigniorage. The public would have a monetary right to the products of public wealth. The people could fund themselves, to provision themselves.

Under capitalist privatisation, the public currency has only valued those provisioning activities that produce a profit in money terms. Socially necessary provisioning was denigrated as a drain on the profit creating sector. The privatisation of the public money supply denied the public the use of public currency. It denied a public right to livelihood: to provisioning through the exchange of use value rather than commodity value. Under capitalism the public currency creates no requirement on the part of commercial creators of money to ensure equality of access to the means of livelihood and exchange, and thereby sustenance. The sovereign right to create money free of the need to repay has been lost for the modern public. Instead most countries are burdened with national debt.

Cutting off the supply of commercially created public currency in favour of all money being publicly created would choke off *a* key mechanism, if not *the* key mechanism, of capital accumulation. Reclaiming the capacity to create public currency without it needing to be repaid and using it initially for public purposes would also remove public dependency on the private financial sector. It would also expose how dependent the seeming profitability of the private sector is on the ability to commercially create new public currency. Democratising money would not, of itself, destroy existing patterns of ownership and control. It would only be one link in a chain of changes needed to create socially just and ecologically sustainable communities. However, it is a major link because public money is already in public hands, evidently so following the crisis. What is needed is the political will to recognise the potential power of public money creation. The crisis has provided empirical evidence of the centrality of public money and the monetary malfunctioning of capitalism.

The choice between debt and democracy is the choice between a privatised money system based on debt, for which the public is ultimately responsible, or a debt free, democratically controlled, money system as the framework for socially just and ecologically sustainable sufficiency provisioning. The public needs to recognise that the public currency is theirs, because the only thing that 'backs' it is the people themselves. Money must be reclaimed as a Commons, subject to a Commons regime of democratically determined use. The democratisation of money needs to take place if money is to complete its political revolution.

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