Could the money system be the basis of a sufficiency economy?

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In Issue 53 of the *real-world economics review* Richard Smith called for 'a practical, workable post-capitalist ecological economy, an economy by the people, for the people, that is geared to production for need, not for profit' (2010:42). He suggests economic theorists should 'go back to the drawing board' to re-frame how such an economy would operate. In my book *The Future of Money* I have explored whether the money system could be a possible mechanism for achieving a socially just, democratically administered, sufficiency economy (2010a). A sufficiency economy would be one oriented to meeting people's material needs to the minimum necessary to enable a high quality of life for all. My case for advocating the money system is that as a socially constructed intangible economic form it is most immediately amenable to collective social action. As Geoffrey Ingham has argued 'money...is the most powerful of the social technologies' (2004: 202). A major proviso is that even radial reform of the money system will not eliminate the private ownership and control of tangible economic resources, a key element of the capitalist economy, but it could provide a stepping stone to radical social change.

Those arguing for an ecologically sustainable economy point to the destructive nature of the capitalist market (Scott Cato 2006). This is mainly in terms of externalities and the drive for growth (Scott Cato 2009). Value is attributed to those activities and resources that can immediately access and generate money. Resources not already in private ownership are treated as free goods, and market prices do not take account of long term damage to the environment. The capitalist financial system also drives growth as the search for profits drives competition and expansion together with the reliance on debt-based bank credit to fund the monetary circuit (Rossi 2007, Parguez & Seccareccia 2000). Ecofeminist political economy adds to the ecological critique by pointing out that much of women's work and lives is excluded from the money-based economy (Mellor 2010b). The market economy and the public economy both frame their activities in money terms, externalising unpaid community and domestic activities. The real economy in ecological and feminist terms would embrace all aspects of the provisioning conditions for human existence to include unpaid work and environmental resources , damage and resilience.

So why see money as the key to developing a sufficiency economy? It is true that money has had a bad press. Love of it is the root of all evil. It commodifies and alienates human relationships. It is the mechanism of the extraction of profit and capital accumulation. At the same time it is arguably a symbol of social trust in that people honour it in their dealings, and it can be, potentially if not actually, an instrument of social policy. What is even more important is the evidence, particularly in the recent financial crisis, that the only mechanism that stands behind money systems is the state as representing the collective economic resilience of the population. While the state can create and circulate money *ex nihilo*, it still relies on social trust and acknowledgement of that money to enable it to circulate, its power to tax and the collective activities of the people in accepting that money as a reward for labour.

So why not do away with money?

A range of greens, social transformers and social libertarians have made the case for abolishing or reforming national systems of money (Large 2010 Greco 2009, Bennholdt - Thomsen et al 1999). Feminists have also debated long and hard about whether domestic work should receive a wage and often rejected it as crystallising the inequalities inherent in domestic labour. My case for not rejecting a national (or international) money system is that I do not see how complex societies can operate without a generalised mechanism of valuing human activities and fairly allocating goods, services and resources. This case is enforced by the fact that most examples put forward for how local economies would operate involve either localising the existing market system (e.g. farmers markets, craft fairs, etc.) or building new local economic systems based on some alternative means of accounting. In the later case there needs to be either a prior issue of local tokens (Ithaca Hours, Stroud Pounds, etc.) or a central system of recording the interchange of activities as in a LETS scheme (North 2009). What is notable about such local innovations is that it is the money/accounting system that creates the economic circuit, not the interchange of activities that produces an organic emergence of some form of represented value.

This will come as no surprise to social theorists of money. The most important aspect of money is not that it circulates to enable economic exchange, but that it has to be created and issued. This is often skated over in the conventional discussion of money in market systems. The commodity view of money sees it as emerging out of an original market that is assumed to be based on barter. One commodity is adopted as a medium of exchange to solve the problem of finding suitable mutual exchanges. A valuable, durable, divisible and portable commodity is chosen such as gold or silver. From this 'metallist' perspective, money is both natural and neutral. It is natural in that the value of money is assumed to relate back ultimately to the intrinsic value of the commodity, usually based on its scarcity or special qualities. It is neutral because commodity money only represents a prior value as between relative goods.

While the shift from barter to gold/silver, to paper representation is still told, the commodity theory of money has been extensively challenged. As Parguez & Seccareccia argue 'the very notion of a commodity money is an illusion' (2000:106).The opposing view is a social theory of money (Innes 1914/2004, Ingham 2004, Smithin 2009). This rejects the barter story, pointing out that money had a variety of early uses such as tribute, wergeld (injury payment) or temple money (offerings). It is also pointed out that money has appeared in many types of society and in many different forms. The emphasis on metal coinage in western economic thinking reflects the fact that in Europe coin emerged a thousand years before banking. However in historical terms the banking and accounting functions are thousands of years older than coinage. Even in the case of coin, the link with precious metal was tenuous as Mitchell Innes pointed out as early as 1913. Rarely was the nominal value of coins the same as the value of the metal of which it they were made (Innes 1913/2004). Given the varying amount of precious metal in coins, the only guarantee of the worth of the coin became the authority behind the minting. Far from being a precious commodity that had become readily accepted through trade as the barter theorists thought, money as coin has generally been issued by fiat, that is, issued and guaranteed by an authority, such as a powerful leader, an office-holder or a religious organisation. In fact, as Davies has argued, when coins were too closely associated with scarce precious metal, economic activities became restricted. Economies flourished where coins were plentiful, such that 'long run trends in depression and prosperity correlate extremely well with the precious metal famine

and surplus of the Middle Ages' (Davies 2002:646). Even debasement of the coinage through reducing the precious metal content was not in itself a problem as the countries which experienced the greatest economic growth were those whose leaders had 'indulged in the most severe debasement' of their coinage' (Davies 2002:647).

As Rossi argues, money cannot be a commodity because its value would need to be established using another standard of value such that 'infinite recursivity makes this measurement logically impossible' (2007:13). Money value is therefore much less certain than even an arbitrary measure such as an inch. Once an inch is chosen as a unit of measurement it stays constant whereas money as a unit of measurement can never be assumed to be constant no matter what it is made of. For Ingham money does not in itself embody a value, it measures relative values. He argues that the market could not exist without a means of establishing relative value and therefore money as a unit of measurement is 'logically anterior and historically prior to market exchange' (2004:25). Measuring value in economic exchange is much more important than the actual medium used to transfer value. Money should be seen not as a 'thing' but as a social form (2004:80) and the idea that there is some 'invariant monetary standard' is a 'working fiction' (2004:144). 'Sound money' is a product of society, not of nature. Money is something that people trust to maintain its value or be honoured in trade, while its actual value can vary. Effectively when we say people trust in money they are trusting in the organisations, society and authorities that create and circulate it, other people, traders, the banks and the state. Money, whatever its form, is a social construction not a natural form. However as a social form it represents power (Hutchinson, Mellor and Olsen 2002:211).

Power and the issue of money

Power is central to the issue and circulation of money. As Wray (2004), Ingham (2004) and others have pointed out, states or other monetary authorities have used their power to establish the circulation of money either as accounting records or as physical tokens such as clay tablets, tally sticks or coin. Money systems can also be established by consent as indicated earlier for local money systems, but establishment through power or authority has historically been the main mechanism. The state theory of money was set out by Georg Knapp in the early 1900s (1924). Central to his ideas was a link between the issue and circulation of token money and state taxation. Rather than demanding goods and services directly, states 'buy' goods and services issuing what is effectively an IOU while at the same time demanding tax payment in a form of money that it designates. As Wray points out, 'what Knapp called the state money stage begins when the state chooses the unit of account and names the thing that it accepts in payment of obligation to itself - at the nominal value it assigns to the thing. The final step occurs when the state actually issues the money things it accepts' (2004:243). Why should people give up their labour, goods or resources for a worthless accounting record, tablet, stick or coin? Because tax is demanded that must be paid by that same mechanism. As those people not directly subject to state 'purchase' also need to pay taxes, the money-tokens circulate more widely in the economy and become generally accepted. Taxation must also not reclaim all the IOU's otherwise there would be no mechanism for general circulation. The state must therefore always be in deficit, an important lesson for today's advocates of a balanced budget.

State money theorists point out that there is no artificial limit within a monetary system to how much money a state or political authority can issue, provided it doesn't outstrip

the capacity of the people to produce and circulate goods and services. There is no need for a state to contract any debt other than through the issue of its own IOUs. As Nersisyan and Wray argue in Issue 53 of the *real-world economics review* 'there is no financial constraint on the ability of a sovereign nation to deficit spend' (2010:123). Quite the contrary 'every recession since World War II was preceded by a government surplus or a declining deficit-to-GDP ratio (2010:120). The problem is that the state role in the issue of money has been virtually obliterated in modern economies. Money has been privatised through the issue of money through banks as debt.

Debt-based bank issued money

Modern market economies do not rely on the state to initiate a monetary circuit, they create money endogenously within the market system through the issue of credit via the banking system. This is now so extensive that governments have become clients of the so-called 'money markets'. This endogenous theory of money describes a monetary circuit where 'the creation of money is essentially tied to bank credit' (Rossi 2007:21). In what Rossi describes as the 'monetary production economy' (2007:32) bank deposits are created by firms 'monetising' their production costs' since ' if there were no workers to remunerate bank deposits could not exist…as there would be no production at all and financial markets would be meaningless' (Rossi 2007:34). The new money issued pays the cost of production. This is then repaid in the process of exchange and consumption, and the circle turns again.

The most important aspect of the shift to money issue through bank debt is that banks (like the state) create money *ex nihilo*. While it is widely assumed that banks issue multiples of deposits placed 'on demand', intermediating between savers and borrowers, this does not explain where the savers got their money from in the first place. Money must be issued before it is saved. As it is the bank, not the depositor, who creates the money, logically debt-based money issue must come before deposits are made. Even when debt issued money is lodged as a 'new' deposit there is no tangible link between deposits and loans. As Steve Keen argues, neo-classical theorists continue to theorise banking as a barter between savers and borrowers despite the fact that no matter how much the bank lends out, individual savers can still get their money back on demand (2001:289). As Galbraith observed, conventional theory would imply that money within the banking system could be in two places at once (1975:19).

Anyone who takes on debt is creating new money. In Galbraith's well recorded words, 'the process by which banks create money is so simple that the mind is repelled. Where something so important is involved, a deeper mystery seems only decent' (1975:18-19). James Tobin has described bank issued money as "fountain pen money" (1963:408). The most important outcome of the dominance of bank issued money is that the supply of money is largely in private hands determined by commercial decisions, while the state retains responsibility for managing and supporting the system, as has become clear through the financial crisis. While the public collectively bears ultimate responsibility for the failures of the privatised money creation system, there is no direct public influence on the overall direction of how that finance is invested or used. As Chick points out, 'money confers on those with authority to issue new money the power to pre-empt resources' (1992:141).

For Smithin, money is a social relation that makes possible 'both market exchange and the more extensive set of relationships known as capitalism' (2009:59). Modern banking

and the capacity of virtually unlimited creation of money through debt, has enabled capitalist expansion. For Ingham, 'the essence of capitalism lies in the elastic creation of money by means of readily transferable debt' (2004:108). Far from money representing prior market activities as the barter theorists claimed, it is the prior issuing of bank credit that is essential to bringing profit-seeking activities into being. Capitalism would collapse if everyone paid their debts, or if no further debts were taken out. However, as Ingham points out, 'the state and the market share in the production of capitalist credit money' (Ingham 2004:144). The modern banking system brings together private banking in relation to trade and the currency creating powers of the state.

Early commercial bankers issued their own credit notes drawn on the bank, but as money issue and banks became more regulated, the money the bank issued was declared legal tender, that is universally recognised money authorised by the state. Through this process privately generated debts in the market sector were being turned into transferable state money through the banking system. The significance of this is vital to state responsibility for the viability of the banking system. Commercial debt issued as commercial paper between traders is a liability on the issuer. Commercial debt exchanged for a bank credit note is a liability on the bank. But, commercial debt exchanged for bank money that is recognised as legal tender, is a liability on the state. State endorsement of bank debt through its designation as national money means that 'banks are…able to issue liabilities at will' (Parguez & Seccareccia 2000:105).

If banks are issuing new money designated in the national currency, they are issuing what is, or should be, a national resource. Certainly they are issuing money that carries a public liability as is clear from the recent financial crisis. Even when money was deposited within another banking system (as in the case of the Icelandic banks), default became the responsibility of the British state. Equally, the Icelandic people, through the state, were forced to take on financial liabilities that were created by their private sector banks. This is the peculiarity of the political and social nature of the banking system. If a company produces a car which goes bust the owner does not go to the state asking for a new one. However, for bank deposits and certain other financial investments such as pensions, that is exactly what the holder of that money will do. If conventional economics and neoliberal ideology tells us that money is a private matter, the stampede of people towards a government guarantee of bank deposits in the event of default tells us otherwise.

Money: Endogenous or Exogenous?

As Ingham argues in the preface to his long researched and immensely useful 'The Nature of Money', 'deciphering some economic 'lexicons and idioms' was 'slow-going'. He had particular problems with 'endogenous' and 'exogenous' money which 'took a little time to unravel'. He reports that when he asked 'exogenous to what?' he found at least three meanings which, unfortunately he does not elaborate in the book (2004:ix). Advocating the reclaiming of the money system from the market would seem to be making a case for exogeneity. This is particularly the case if money issue is to be used to democratically influence economic priorities.

The endogenous, circuit theory of money has explained how credit creation is central to the development of capitalism. This is in contrast to exogenous views of the nature of money whether based on commodity theory, monetarism or a theory of state money.

Endogenous theorists are quite right to point to the impotence of the state and central banks in the face of capitalist financial expansion where capitalist finance controls money issue as bank-generated debt. The monetary experiments of the 1980s were a great failure as it proved impossible to control the amount of money circulating in the economy. Warburton argues that the Anglo-Saxon economies lost control of credit creation in the 1980s and this was the basis of the impressive performance of global equity markets in the ensuing speculative boom years (1999:8). This should not happen according to Rossi's version of the endogenous theory of money creation which argues that producers call forth money in order to launch the circuit of production. On this basis there should never be a problem of money inflation as the new money would always be accompanied by new production and consumption. However it is clear that in the late twentieth and early twenty-first centuries, the bank credit creation system was not just responding to the needs of production but the demands of speculative inflation. Rossi discounts the possibility of borrowing for pure speculation: 'we leave financial speculation aside, as at the end of any purely speculative …transaction there is always consumption' (Rossi 2007: 122).

While neoliberal ideology would quickly pounce on the possibility of the state borrowing or creating money, citing the problem of inflation, the massive issue of credit for speculative finance went largely unremarked. It was no less inflationary, but this was presented as 'wealth creation' through rises in asset price. Certainly it made many people very rich and some of the money found its way in to state coffers through tax. However, as states were receiving the product of uncontrolled credit creation, the public would eventually have to pay the price in its role as guarantor of the money system. It would appear that the endogenous circuit of money could destructively expand out of the sphere of production and exchange to launch leveraged speculative booms. Following Minsky, Steve Keen has been particularly forceful in his view that private debt has escalated to such an extent that the economy is threatened by total collapse (http://www.debtdeflation.com/blogs/).

Keynes certainly thought that money was a force independent of market forces. For Keynes 'money plays a part of its own and affects motives and decisions…we live.. in a monetary economy' (Smithin 2009:60). Central to Keynes' ideas was the severe impact on the productive economy if the money system malfunctioned. Markets were not necessarily efficient and money might not circulate: money could be created but people might not spend it. The government might therefore need to intervene to maintain the circulation of money,(that is, liquidity), so that effective demand continued within the economy, (that is, demand backed by money) (Chick 2000). The current economic downturn has certainly revealed how the productive economy is dependent on the functioning of the money system. However, recent experience of quantitative easing shows the limits of monetary policy that rests on a conventional view of monetary theory. The experience has been very much Keynes notion of pushing on string. In the UK the Bank of England was relying on the multiplier theory of bank credit issue. The quantitative easing of £200 billion was expected to translate into many times that in volume of loans. As endogenous money theorists would point out this is a fallacy. There is no direct link between deposits and loans, or government 'high powered money' and loans. If people or companies do not wish to borrow, no amount of money supply will encourage them to do so.

Even when working effectively, debt-based bank-generated money issue cannot achieve the aim of a sufficiency economy. The demand for repayment with interest creates a growth imperative with the need for an ever expanding increase in debt-based money as more money must be paid back than was originally issued. In order to repay their debts,

people must also find work and debt driven labour can have social and ecological implications if people have to work unnecessarily hard or long, or engage in ecologically destructive patterns of production and consumption. As Stigliz points out, only 2% of the US labour force is needed to produce all necessary food and exports (2010:288). For the rest, labour is necessary to gain access to money and therefore to an entitlement to share in the goods and services produced by the society. The most important change that a sufficiency economy would require is to establish the right to livelihood independent of the need to 'earn' it through labour. While there would be an obligation to share in necessary work, this would be independent of the right to livelihood itself, that is, necessary sustenance. At the same time, excessive work or consumption could be discouraged by adverse taxation.

Another major problem with seeing money issue as endogenously based in the capitalist market system is that it cannot support an extension of money issue to take account of the wider 'real economy' of the environment or women's unpaid work. To achieve such an extension the externalised activities would need to be incorporated into the monetary circuit of production, possibly as a reproductive and environmental 'charge' added to all productive activities. However, this would not change economic priorities. A practical alternative to escape the framework of commercial activities for profit would be the issue of an income as of right free of debt such as a citizen's income. This would shift the money circuit from one dominated by anticipatory production in search of profit, to one dominated by consumer demand. The more equally the power of the consumer was spread in such a system the more likely that the demand expressed would reflect needs rather than discretionary expenditure. However such an approach must mean that a money issue system based on a democratically determined allocation of money must be exogenous, certainly to the present conception of 'the economy'. However such an issue of money would not be exogenous to society as a whole. This would mean that there would be no externally determined exogenous limit to money issue and circulation. As Ingham said, the question in relation to the endogeneity or exogeneity of money must be endogenous to what? Exogenous to what?

The democracy deficit

The possibility of a more democratically based and ecologically sustainable economy through a radical reform of the money system has been made much more difficult by a major triumph of neoliberalism, its ideological attack on the idea of public action. The general condemnation of the state has brought even welfare systems into disrepute and undermined any notion of a right to livelihood with the castigation of 'benefit scroungers'. This is compounded by the privatisation of the money supply which has forced states into higher taxation or more public borrowing. As a result there is very little political base from which to launch the idea of an egalitarian sufficiency economy. The issue of money through the banking system has also removed from the public sector any direct control over the direction of money use. This means that those who take on debt are making vital choices about the direction of the economy and, as the financial crisis reveals, those choices can rebound on society as a whole. Despite the obvious problems of the capitalist economy and financial system, making the case for money as a national resource and the need to democratise or socialise the money system is very difficult. Yet it must be done. A starting point is the financial crisis itself and the demonstration that the money system is an essential national utility. It is clear that while the benefits of money creation have been privatised and largely piled up in the financial sector itself, the costs have been socialised.

This point has been made many times but some of the detail is telling. At the peak of the boom hedge fund and private equity managers in the US were earning up to 19,000 times the average wage compared with around 350 times for non-financial corporate executives (Stiglitz 2010: 350). Banks fed the speculative credit frenzy by creating 'complex pyramids of loans to each other' (Korten 2009:50). Using Phillip's calculations (2008) Korten points out that US financial sector debt at the height of the boom was about equivalent to US GDP ($14 trillion) and comprised 32% of all US debt. For Korten, 'Wall Street has been engaged in class warfare pure and simple'. It has used its control of money supply to create 'phantom wealth' on which it collected interest, dividend and financial service fees. A modern form of 'debt bondage' (2009: 52-3).

There are many voices challenging the status quo, not least in this journal. However, analysis alone will not create social change, but the real experience of people in their daily lives might. The task must be to link the critical analyses being made here and elsewhere with the real-world experiences of the wider public.

Money in a Sufficiency Economy

This paper has argued that the money system is a national resource that should be taken seriously as a mechanism for radical social change. The case has been made that money cannot be anything other than social, as there is no 'natural' base for it. While the money system is both social and public, its administration has been privatised, particularly the issue of new money. This is important because the ability to issue money in a society creates the ability to define what is to be seen as valuable (in money terms). Letting the market harness the allocation of money has prevented the recognition of value created by the environment, non-market activities and public investment. Largely, the financial sector has been able to allocate value to itself by issuing money to itself. Allocating money to citizens as of right or to public investment would give a completely different message about what is important in society.

Such a system of money allocation would not require growth other than to meet need because most money would be issued free of debt. Security of money allocation for consumption and production would remove the need to undertake unnecessary work and enable people to be confident of a sufficiency of material goods with more emphasis on the quality of life. Overall priorities would also put public welfare first (hospitals, education, transport) which would make people feel more secure about their future. This would mean they did not need to accumulate money savings. The problem with aiming to achieve future security in money terms is that there is no way people can know what their money will buy. While sufficiency can be calculated in real terms (how much bread will I need?), there is no basis for sufficiency in money terms (what will bread cost in thirty years' time?). Returning the money system to democratic control would not be a total answer but it would be an incredible step forward towards creating a socially just and ecologically sustainable sufficiency economy.

Where would that leave 'the market'? It would not be able to access new money from banks. Any money for investment would be a direct transfer of savings as equity or timed loans. However where firms (for profit or not for profit) were meeting democratically identified priorities they could request loans or grants from national, regional, or local democratically controlled banks. Firms would earn money by providing the goods and services that citizens

socially determine. Instead of money circulating through the market to create ‘wealth’ which is then taxed (under much protest) for public use, public benefit would be the basis for the allocation of money. Administration via a public money system would avoid both the rigidity of a command and control economy and the speculative exploitation, waste and inequality of a capitalist market. From a public perspective the fiscal and monetary systems would be two sides of the same process. Public expenditure would not require taxation but taxation would be used to regulate the economy, redistribute wealth and influence resource use or social benefit (including fair labour policies). The endogenous money circuit of capitalist production would be replaced by the endogenous money circuit of a public economy. As such it would respond not to the demands of profitable production but the provisioning of social need.

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