The Essential Nature of Money

by Thomas H. Greco, Jr.

The pinnacle of power today is the power to issue money. If that power can be democratized and focused in a direction that gives social and ecological concerns top priority, then there may yet be hope for saving the world.

The question, "What is money?" may seem trivial, but it is confusion about the definition of money that has allowed it to be abused and misallocated. Money in classic economics is defined as: a medium of exchange, a standard of value, a unit of account, a store of value, and a standard of deferred payment. There are many problems with these definitions, but their primary inadequacy is that they describe what money *does*, not what it is.

The fundamental economic exchange process is the barter exchange. When Smith delivers a sack of flour to Jones and Jones gives Smith a bushel of apples in return, a complete barter transaction has occurred. The problem with simple barter, of course, is that Jones may want Smith's flour, but he might not have anything that Smith wants. The fundamental purpose of money is to transcend this limitation.

We can see then that the essence of money is an *agreement* to accept something that in itself may have no fundamental utility to us, but which we are assured can be exchanged in the market for something that does. Once we have grasped money's essence, we can begin to design exchange systems that will equitably serve the needs of people and the Earth.

Michael Linton, the originator of an exchange system called "LETS" (Local Employment and Trading Systems), defines money as "an information system we use to deploy human effort." The possession of money is evidence that the holder has delivered something of value to someone in the community and therefore has a right to receive like value in return (or that the holder has received a gift or other transfer of value from someone else).

The proper kind of money used in the right circumstances is a liberating tool that can allow the fuller expression of human creativity and the fuller realization of a dignified life for everyone.

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Money has not lived up to its potential as a liberator because it has been perverted by the monopolization of its creation and by politically manipulating its distribution — which makes it available to the favored few and scarce for everyone else.

Conventional money malfunctions in three basic ways:

- there is never enough of it to serve the purposes for which it was created;
- it is misallocated at its source, so that it goes not to those who are most in need or who will use it most effectively, but to political power centers and those who already control large pools of wealth (like large corporations) and;
- it systematically pumps wealth from the poor to the rich.

Money is the vital medium within which we live our economic lives. As water is to fish, so money is to people. When the money supply is "polluted," the economy sickens and people suffer. The symptoms are easily evident — inflation; unemployment; bankruptcies; farm, home and business foreclosures; ever-increasing indebtedness and impoverishment; homelessness and a widening gap between the "haves" and the "have-nots."

> ***Money's potential as a liberating tool has been perverted by monopoly and maldistribution***

Social and environmental decay are not accidents; they derive from the inadequacies and errors inherent in structures that humans have themselves created.

How Money Is Created

Wealth creation and money creation are two entirely different things. Planting crops, assembling computers, building houses and publishing newspapers are all examples of the production of wealth. Money, on the other hand, is a human contrivance created by entities called "banks of issue." In the US, it is mainly the commercial banks that create the bulk of the money supply in the form of bank deposits (or bank credit).

Here is the way it works. Company X goes to a commercial bank and receives a loan to expand its business. The bank simply credits the account of Company X for the amount of the loan. Where did the bank get the money to lend to Company X? It did not get it anywhere; it created it.

Unlike savings banks, savings and loan associations, and other "thrift" or depository institutions that primarily can only lend out money that has been deposited with them, commercial banks actually create money out of nothing and put it into circulation by making loans.

As the Federal Reserve itself describes it: "[All bank deposits, originally] come into existence as banks extend credit to customers by exchanging bank deposits for the various assets that banks acquire."

Commercial banks lend something that they create out of nothing and then require that the "borrower" pay interest for the privilege of the loan. Banks usually require that the borrower pledge some "collateral," which they will confiscate if the borrower fails to repay the loan. The "debt trap" is the bane of the vast majority of people who work for a living, but have little or no financial net worth. The chronic insufficiency of money assures that there will inevitably be forfeitures. It is interesting to note that the word "mortgage" derives from root words meaning "death gamble."

There Is Never Enough Money

Money created by commercial banks is not distributed fairly. The allocation decisions are made by elite groups of bankers who act in their own interests, pursuing goals that are typical of any corporate business — profit and growth.

The greatest abuses, however, derive from the politicization of money. Banking and government have become mutually dependent. In return for its privileged position, the US banking cartel must assure that the central government is able to borrow virtually any amount of money. Despite their public protestations, the banking system will always "float" the necessary budget deficits of the central government, by "monetizing" the debt.

What this means is that the banking system will create enough new money to allow the market to absorb the new government bonds that must be issued to finance the deficit. Thus, it allows the government to spend as much as it wishes without raising taxes directly. The result is inflation, which has been called a "hidden tax." The constitutional limitation on the federal government with respect to monetization of its debt has been circumvented by its collusion with international banking interests.

Over the years, the monetary authorities have managed to quietly redefine the dollar from a specified weight of gold, to a unit of bank credit with no defined value.

The people have been cut out of the most important decision process, that of determining how the aggregate wealth of the nation will be spent. Massive expenditures for weapons, military interventions and legalized "bribes" to client governments, along with savings-and-loan and corporate bail-outs that benefit the wealthy few and increase the gap between rich and poor, are but a few of the abuses.

Local Money, Local Control

Healthy local economies, like healthy individuals, are characterized by a diversity of skills and resources, and a large measure of self-reliance and self-determination. Economic empowerment will require some degree of de-coupling from the present global exchange system and the implementation of exchange media that are locally and democratically controlled.

The emerging trend in economic development will be for communities to become more reliant upon their own resources, to place greater emphasis on quality of life, and to begin restructuring to reduce reliance upon money and markets, and/or to bring money and markets under local, democratic control.

On the personal level, this means becoming free of the consumerist mentality, distinguishing real needs from conditioned wants, eliminating expenditures that are induced by fear, becoming more diversified in one's skills and abilities, learning to do-it-yourself, do without and, above all, developing mutual support relationships.

The process of money creation should be open and accessible, or, to use Ivan Illich's term, "convivial." It must also be debt-free and interest-free. If money were to become a symbol of merit from the very point of its creation, the producer of economic value would be properly rewarded for his/her effort and skill, and production would be encouraged. At the same time, production would be ecologically sound, since money, in a convivial system, is more readily available and has less power to induce people to act in self-destructive ways.

Scrip of the Great Depression

History is full of examples of successful local initiatives aimed at providing exchange media, but in the Great Depression of the 1930s, this was done on an unprecedented scale.

Besides learning how to "make do, or do without," people began to establish mutual support structures, like workers' co-operatives, many of which recycled and repaired donated or broken items. People learned to share what they had and to bypass the market and financial systems. Most of these measures were considered stop-gaps to be utilized until things "got back to normal." One of these "stop-gaps," which was intended to address the problem of the dearth of currency in circulation, was the issuance of "scrip."

Literally hundreds of scrip issues were put into circulation by a variety of agencies, including state governments, municipalities, school districts, clearing house associations, manufacturers, merchants, chambers of commerce, business associations, local relief committees, cooperatives and even individuals. Common scrip types involved certificates of indebtedness, tax anticipation notes, payroll warrants, trade scrip, clearing house certificates, credit vouchers, moratorium certificates and merchandise bonds.

Healthy Community; Healthy World

Large corporations, because they control so many jobs and so much revenue, can make a community dependent upon them. Their lopsided economic power allows them to buy political influence, negotiate tax breaks and extort concessions on zoning, safety and environmental regulations.

While chain stores and absentee owners may be able to offer lower prices, theirs is often a false economy since lower prices often come at the expense of the environment, working conditions and personal relations. Meanwhile, chains and absentee owners withdraw most of their revenues from local communities, building up ever greater pools of capital that can distort economic relationships.

While continual growth and construction may benefit some privileged elements in the community (such as land owners, builders and real estate brokers), it can often be detrimental to the community as a whole, since the added costs for fire, police, water, sewer, road construction and maintenance may exceed any additional tax revenues.

Locally owned businesses are more likely to use local suppliers, reducing the environmental costs of transport and stimulating local production. They are more likely to employ local workers.

The Return of Local Currencies

Just as a break-water protects a harbor from the open sea, a local currency protects the local economy from the effects of the global market and the manipulations of centralized banking and finance. Complete reliance on national currencies and the competitive conditions of the global market tend to force all communities to the lowest common denominator of environmental quality and working conditions.

The intentional scarcity of official money has a destructive effect that can be overcome by supplemental local currencies. Local currencies provide a buffer that allows local communities to set their own standards and maintain a high quality of life.

The fundamental advantages of local currencies or credits are:

- they can be spent only within the limited area of the community,
- they can be created locally in accordance with the needs of the local economy, and,
- they encourage local people to patronize one another rather than buying from outside the community.

In Massachusetts, SHARE (Self-Help Association for a Regional Economy) has received some media attention for its four varieties of local currency — Deli Dollars, Berkshire Farm Preserve Notes, Monterey General Store scrip and Kintaro Restaurant scrip.

The most successful present-day local currency plan in the US is the "Ithaca HOUR" initiated by Paul Glover in New York (see story on page 37). In Colorado, the Boulder Barter Network has been circulating "Boulder HOURS" since mid-1993.

A number of other alternative currencies have also been formulated. These include service credits, mutual credit systems, commodity-based systems, Time Dollars, Earth Rescue Receipts and Cooperative Community Service Credits.

There need never be any scarcity of local currency since it is created by members of the community themselves in the course of trade. Any time two parties wish to make a trade they can do so, even if they have no money. Local currency or credits can easily be created to enable the exchange to take place.

The present dominant structures of money and finance, by their very nature, promote the concentration of power into fewer and fewer hands, increase the disparity in the distribution of wealth, channel the vast majority of the Earth's resources into wasteful production and create both social and ecological degradation.

The key element in any strategy to transform society must be the liberation of money and the exchange process. Once equitable exchange mechanisms have been established, it will no longer be possible for the privileged few to appropriate the major portion of the land, productive resources and political power.