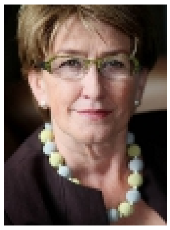
Money as a social construct and public good

In a new book, **Ann Pettifor** *explores money and monetary systems, subjects which have been neglected for far too long by the academic profession. As long as we remain ignorant of how monetary systems operate, for so long will the public good that is money be captured to serve only the interests of the tiny, greedy minority in possession of private wealth.*



> *Everyone, except an economist, knows what 'money' means, and even an economist can describe it in the course of a chapter or so… - A.H. Quiggin*

Right now many of us are transfixed by a new kind of digital money that seems to escape the control of central bankers: Bitcoin and its new market challenger, Litecoin. There are two striking things about the 'money' that is Bitcoin. First, its creators (computer programmers) have apparently ensured that there can never be no more than 21m coins in existence. Bitcoin therefore is like gold: its value lies in its *scarcity*. This potential shortage has added to the currency's speculative allure, leading to a rise in its value. However, these rises and falls in value made it unreliable as a means of exchange.

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Second, Bitcoin is not buttressed by any of the institutions that maintain advanced monetary systems. These include the rule of law, accountancy and criminal justice systems and central banks. It is these institutions that (try to) keep us honest. By contrast Bitcoin's great attraction is precisely that it bypasses the state and all regulation. Indeed Bitcoin appears to be based on distrust. "Bitcoin was conceived as a currency that did not require any trust between its users" Jonathan Levin wrote recently.

Equally its scarcity means that unlike the endless and myriad social and economic relationships and transactions facilitated by credit, Bitcoin's capacity to generate economic activity (trade, investment, employment) is limited – to 21 million coins. Like the architects of the gold standard, Bitcoin's designers intend to deliberately limit economic activity to 21 million coins in order, ostensibly, "to prevent inflation". In reality the purpose is to ratchet up the scarcity value of Bitcoin most of which are owned by originators of the scheme.

As this article is published, speculators have inflated to delirious heights the value of Bitcoin. The winners will be those who sell – just before the bubble bursts. In the absence of institutions that reinforce and uphold trust, the losers will be robbed.

Money is both a many-splendoured but also a many-layered thing. We all know what it is. We deal with it – in tangible or intangible form – every day. Most of us think it important. Not so economists. The dominant economic orthodoxy – taught at every university to the exclusion of other schools of thought – declines to take money, banks or debt seriously, as Professor Steve Keen argues. One prominent economist – whose anonymity we shall protect – once discouraged a PhD student from majoring in the subject, arguing that the study of money or credit is "a matter of third order importance."

As a result of that neglect, those who control our money system escape close scrutiny. As a result too, there is widespread public ignorance of how the system for both creating and pricing money is effectively controlled not by central banks, but by the commercial banking system and by private, global capital markets. Despite all the hype around central bank decision-making, the public authorities have little impact on the management of the global financial system.

Perhaps one of the most disturbing aspects of academic neglect of money and monetary systems is the public's failure to appreciate that the monetary systems of advanced economies evolved as a result of great struggles between private wealth and wider, democratic society. The success of these historic struggles meant that monetary systems in advanced economies evolved to become a great *public good* serving wider interests. However, periodically monetary systems are recaptured by the "robber barons" of private wealth, and then controlled and manipulated to serve their own rapacious greed.

To shine more light on the subject of money, and to broaden the discussion to a wider public, I published a short e-book aimed mainly at students – especially women students and green campaigners. Its title is *Just Money: how society can break the despotic power of finance.*

Shining light on the subject of money
(Credit: epSos.de CC BY 2.0)

While we all know what money is and means, there is still a great deal of confusion. In the book I try to draw out the key differences between economists that rely on the classical or neo-classical tradition of monetary theory; and those who take a radically different perspective on credit and money. These include great economists like the Scot, John Law, John Maynard Keynes, Joseph Schumpeter, JK Galbraith, contemporary economists like Prof. Victoria Chick, Dr. Geoff Tily, Prof. Randall Wray, Prof. Steve Keen, Standard and Poor's Chief Global Economist, Paul Sheard; anthropologists like David Graeber; and sociologists like Geoffrey Ingham.

They all understand that the thing we call money has its original basis in a promise, a social relationship: credit. The word credit after all, is based on the Latin word credo: I believe. "I believe you will pay, or repay me for my goods and services, now or at some point in the future."

To understand this, think of your credit card. There is no money in most credit card accounts before a user begins to spend. All that exists is a social contract with a banker; a promise made to the banker to repay the debt incurred as a result of spending on your card, at a certain time in the future, and at an agreed rate of interest. And when we spend 'money' on our credit card, we do not exchange our card *for* the products we purchase. This is because money is not like barter. No, the card stays in our purse. Instead the credit card, and the trust on which it is based, gives us the power to *purchase a product.* It is the means *by* which we purchase the good.

Your spending on a card is expenditure created 'out of thin air.' The intangible 'credit' – nothing more than the bank's and the retailer's belief that you will honour an agreement to repay – gives you purchasing power.

That is why money and credit is a great public good. As a result of monetary systems it is wrong to ever suggest that "there is no money" – for childcare, education, the arts or for the transformation of the economy away from fossil fuels. The bigger question is this: is our money system just? And as a public, not private good, does it serve the needs of wider society?

As long as we remain ignorant of how monetary systems operate, for so long will the public good that is money be captured to serve only the interests of the tiny, greedy minority in possession of private wealth.

This article first appeared at the LSE's British Politics and Policy blog.

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