money guide

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A Brief History of Money

Contrary to popular belief, when banks make loans, they are not lending out money that people have deposited with them, but are instead creating completely new money, out of nothing. As absurd as this may seem, the fact is that 97% of our current money supply is created in this way - by private banks for private profit, out of nothing.

What's more, in order to make a guaranteed profit, banks create money out of nothing, and then lend it to us at interest, demanding we pay back more money than actually exists! Collectively we are always left in the impossible situation of owing more money than actually exists.

Instead of telling the banks where to go (by creating our own money systems based on collective mutual advantage and reciprocity), we then scramble to the banks and beg them to lend us more money. This situation is utter madness.

Money for nothing

Creating money out of nothing first emerged in the 13 century, at goldsmiths' benches (or bancos) in Italy, when receipts issued for deposits of gold, goldsmiths' "tokens of promise to pay", began to be used for trade because they were much easier to exchange than the gold itself. Goldsmiths soon realised that depositors would never try to retrieve all of their gold at the same time, and so cleverly, or perhaps deviously, began to issue tokens (i.e. create money) for gold they didn't have (i.e. out of nothing).

This was the beginning of both western "promise to pay" paper currencies and of the so-called "fractional reserve banking" systems that persist today - "fractional reserve banking" being the fancy name given to the process that enables banks, like the goldsmiths before them, to create more money than they hold, out of nothing.

Money and War

The ability to create money out of nothing inevitably gave bankers, and the banking system as a whole, a significant amount of power - a power that was increased substantially during the 17th century when "a deal was struck between the governments and the banking system. The banking system obtained the right to create money as "legal tender" in exchange for a commitment always to provide whatever funds the government needed" - BernardLietaer, *Future of Money*.

This power was first granted to the Riksbank in Sweden (then called the Bank of the Estates of the Realm) when in 1668 the crown needed urgent money to fund a war against Denmark. Similarly, the Bank England was founded in 1694 when King William of Orange needed an extra £1.2 million to fund a war against the French.

At Bretton Woods, 250 years later, war was again instrumental in the shaping of today's global economic (dis)order. A year before the end of World War II, on July 22nd 1944, the Bretton Woods Agreement was signed in New Hampshire, USA and the US dollar became the de facto currency of the world. Under this agreement, 44 countries "had to fix their currencies to the US dollar, and the US committed in counterpart to keep its dollar convertible into gold upon request from any central bank at the fixed rate of US$35 per ounce of gold.

A new institution - the International Monetary Fund (IMF) - was created to police the system...(and it) worked well for over two decades until President Johnson introduced his "guns and butter" strategy during the Vietnam War...This triggered an unprecedented dollar outflow from the US ... (and) it was these substantial dollar holdings in the hands of foreign central banks that were to force President Nixon in 1971 to renege on the convertibility promise of dollars into gold" - BernardLietaer, *Future of Money*

Thus, when Britain and France wanted to convert dollars into gold, and Nixon said "no", dollars - the linchpin of global economic system - were no longer backed by a fractional reserve of gold, but by nothing. Since that time, the dollar has represented a promise from the US government to redeem the dollar with - another dollar. This further increased US influence in global monetary policy and, with currency exchange rates left to the whims of the market, inaugurated an era of unprecedented monetary instability; today's "global casino" of international trade, completely dominated by speculation, had been born.

So, under the present banking system, we allow banks to create money out of nothing, so long as they hold a fractional reserve, not of gold, but of money previously created out of nothing. This is a pretty clever a trick (more devious even than the Italian goldsmiths), but it's still only half the picture: modern banks don't just create money out of nothing, they create it by lending it to us at interest, insisting that we pay back more money than actually exists! - we have to pay back what we've borrowed (i.e. the money we've allowed the banks to create out of nothing) plus interest (i.e. money that doesn't even exist).

Paying back more money than actually exists is, of course, impossible - unless, that is, more money is created, by issuing more loans and creating more debt. This "debt imperative", the perpetual need for more money to pay back our ever-expanding and constantly spiralling debt, leads in turn to a "growth imperative", the need for perpetual economic growth. Unfortunately, we now know conclusively that perpetual economic growth is neither possible nor desirable.

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What Is Money?

excerpted from Thomas Greco's Money Ebook.pdf

see also what is the matter with money

"Money is an information system we use to deploy human effort". - Michael Linton

“Money is the Nothing, you get for Something, before you can get Anything”
- Prof Frederick Soddy, The Role of Money

The question What is money? may at first seem trivial. Afterall, we in this modern day make constant use of it. But it is our confusion about the essence of money that has allowed it to be abused, misused, and misallocated. Like water to the fish, money is the primary medium with in which we live our ecomics live. As such, we take it for granted and rarely look at it objectively.

At the outset, it is necessary to make a clear distinction between money and wealth. It is quite common for us to use the terms interchangeably, but an understanding of the money problem requires that we precise in our usage of terms. Have you ever heard someone make a statement to the effect that so-and-so "has a lot of money?" What do people mean by that? That so-and-so has stacks of United States currency notes stuffed in a matress or closet? Or a huge balance in a checking account at the bank? Or owns lots of stocks, bonds, or real estate? Chances are that so-and-so actually has very little currency and only a small amount in the bank. Whaat was probably meant,and what should have been said, is "so-and-so is very *wealthy*". People hold their wealth in various forms, but most of these forms are not money.

How did we come to be so careless in our usage of these words? It is understandable in light of the fact that we live in a culture in which market mechanisms are highly developed and very efficient. These markets allow for the easy conversion of one form of wealth into another by means of ordinary exchange processes of buying and selling, and borrowing and lending. Stock markets, bond markets, real-estate markets, and others make it relatively easy to convert "illiquid" assets into more "liquid" form: into money. It is no accident that we apply the term liquidity to distinguish various kinds of assets from one another on the basis of their acceptability as payment in the market for goods and services. As blood in the physical body is liquid and provides for the easy exchange and transport of nutrients and wastes throughout the body, money is also liquid in that it facilitates the exchange of goods and services and their allocation throughout the economy.

Definitions

So what is money? There are three kinds of definitions we should consider.

A practical definition describes money s distinguishing feature in common practice.

A functional definition tells what money *does*.

An essential definition tells what money actually *is*.

The practical definition of money is this: Money is anything that is *generally accepted* as a means of payment. According to this definition, money is whatever people collectively say it is. Something is established as money by a general consensus among traders that they will accept that something as payment for the goods and services they sell.

The functional definition of money is the one typically found in the textbooks, which lists multiple functions as belonging to money. These include the following:

1. Money is a medium of exchange.
2. Money is a standard of value.
3. Money is a unit of account.
4. Money is a store of value.
5. Money is a standard of deferred payment.

There are many problems with these definitions, but their primary inadequacy is that they tell what money *does*, not what it *is*. We need to understand the basic *essenece* of money. Once we have grasped its essence we can begin to design exchange systems that will more equitably serve the needs of people and avoid money s destructive impact on the earth.

The Essential Nature of Money

What, then, is the essential nature of money? Michael Linton, the originator of an exchange system called LETS (Local Employment and Trading System), has provided us with an essential definition of money. Linton defines money as "an information system we use to deploy human effort". This is a profound revelation, and, if we think about his definition, it becomes clear that our **acceptance of money is based on its informational content**.

Think of the market economy as a game of put-and-take. Each player takes goods and services from the market, and each player puts goods and services into the market. Money is really just a way of keeping score. When you take something from the market (by buying), you offer money in payment. When you put something into the market (by selling), you receive money in payment. Other things being equal, those who put more value into the economy (by selling) receive, overtime, more money. **Money, then, is an accounting system**...

We can see then that **the essence of money is an agreement** (a consensus) **to accept something that in itself may have no fundamental utility to us, but that we are assured can be exchanged in the market for something that does**.

Whatever we use as money, then, carries information. The possession of money, in whatever form, gives the holder a claim against the community of traders who use that money. The amount of money informs us about the magnitude of that claim. But the *legitimacy* of that claim also needs to be assured in some way. The possession of money should also be evidence that the holder has delivered value to someone in the community and therefore has a right to receive like value in return, or that the holder has received it, by gift or other transfer, from someone else who has delivered value.

Unfortunately, throughout history, this ideal has been subverted in various ways depending on the kind of money used at the time...

What's the Matter with Money?

excerpted from Thomas Greco's Money Ebook.pdf

see also what is money

Conventional money malfunctions in three basic ways:

1. It is kept artificially scarce; there is never enough of it to serve the purposes for which it is created.
2. It is misallocated at its source, going not to those who are most in need or who will use it most effectively but to political power centers (especially central governments), well-connected insiders, and those who already control vast pools of wealth (such as large corporations).
3. It systematically pumps wealth from the poor and the middle class to the rich.

How Money Is Created

It is generally believed that money is created by the government, but here is the simple truth. **Today, money takes the form of bank credit that must be borrowed into circulation**. In other words, conventional money commonly exists as bank deposits, that is, balances in checking or savings accounts that are secured by interestbearing debt. Money is the product of a private banking cartel.

The familiar Bank of England or Federal Reserve notes, the cash that we use every day, are simply physical tokens of the money that was first created as bank credit. The use of checks and debit cards is simply a way of transferring bank credit (that is, money) from your account to someone else s account; the checks and debit cards are not themselves money. Neither are credit cards money, but they allow you to create money by going into debt to the issuing bank. The main point that needs to be understood is that **in order for money to come into circulation, someone must go into debt to a bank**. If there were no bank debt, there would be virtually no money - its as simple as that. Since banks charge interest on all this debt, and since the money to pay the interest can come only from further debt, debt grows like a cancer within the global economic "body". This *debt imperative* creates a *growth imperative* that is forcing us to destroy the life-support systems of the planet.

Wealth creation and money creation are two entirely different things. Wealth is created by the application of human skills to natural resources in the myriad ways that produce useful goods and services. Planting crops, assembling computers, building houses, and publishing a newspaper are all examples of the production of wealth. Money, on the other hand, is a human contrivance; it is a symbol created by a deliberate process involving entities called banks.

The Federal Reserve is the entity responsible for the issuance and regulation of money in the United States. Here is the simple truth about money and its creation straight from the horse's mouth. This quote comes directly from an official Federal Reserve publication:

"The actual process of money creation takes place in the banks . . . checkable liabilities of banks are money. . . . These liabilities are customers accounts. They increase when . . . the proceeds of loans made by the banks are credited to borrowers accounts."

Let's take that one piece at a time. *The actual process of money creation takes place in the banks.*

Yes, money is a human creation, and it is the banks that create it. People still dig gold and silver out of the ground, but we no longer use those metals as money. What, then, is the substance of money today? It is bank credit, that is, *checkable liabilities*, or *customers accounts*. So the balance in your checking account and mine is a liability of the bank - something the bank owes you and me and that is money.

How does that liability get created in the first place? These liabilities *increase when the proceeds of loans made by the banks are credited to borrowers accounts*. In other words, the money is created when the bank makes a loan to someone. That person s account is credited (increased) when the loan is approved, and new money is thus created. That person then spends the money, and somehow, perhaps after changing hands many times, it ends up in your account or mine.

What? you say, "I thought banks loaned out other people s deposits". That's true enough. In their role as depositories banks do lend other people s deposits, but in their role as *banks of issue*, they actually create new money by making loans. So banks are the wellspring of money. They create it by making "loans", and they extinguish it when loans are repaid. Money has a beginning and an ending. It begins when the bank makes a loan, and it ends when the loan principal is repaid...

As pointed out above, banks act both as creators of money and as depositories for money. When you deposit your paycheck in a commercial bank, the bank is acting as a depository. This money is then available for you to use by writing checks against your account or using a debit card. But the money that you deposited had to begin somewhere. You got it from your employer; your employer got it from a customer; the customer got it from another employer or customer; and so on, back to the beginning. The important thing to understand is the nature of that beginning. Banks create money by making loans; they don't just reshuffle it. The money that you received in your paycheck was created at the point when a bank, acting as a bank of issue, granted a loan to someone and credited her or his account for the amount of the loan.

As the Federal Reserve itself describes it:

"Debt does more than simply transfer idle funds to where they can be put to use merely reshuffling existing funds in the form of credit. *It also provides a means of creating entirely new funds*...[emphasis added]

...a depositor s balance also rises when the depository institution extends credit either by granting a loan or buying securities from the depositor. In exchange for the note or security, the lending or investing institution credits the depositor s account or gives a check that can be deposited at yet another depository institution. In this case, no one else loses a deposit. The total of currency and checkable deposits - the money supply - is increased. New money has been brought into existence by expansion of depository institution credit. Such newly created funds are in addition to funds that all financial institutions provide in their operations as intermediaries between savers and users of savings.

[All bank deposits originally] come into existence as banks extend credit to customers by exchanging bank deposits for the various assets that banks acquire promissory notes of businesses and consumers, mortgages on real estate, and government and other securities".

This last paragraph is just a way of saying that the bank credits your account for the amount of a loan, and you, in return, give the bank your promissory note or a mortgage on your house. Those instruments promissory notes, mortgages, and securities are assets to the banks. They are claims that the banks have against the property of its customers, but to the customers they represent debts owed to the banks.

An Example of Money Creation

1. You go to a commercial bank and ask for money, let s say, to start a business.
2. The bank offers you a home equity loan of $100,000, which you accept. You are re q u i red to sign a note giving the bank a mortgage on your house. This note carries interest at an annual rate of, say, 8%, and requires you to make regular monthly payments of $836.44 for the next 20 years. (By that time you will have paid the bank a total of $200,745.60.)
3. The bank makes two entries on its books. One increases the amount of its assets, while the other is a corresponding increase to its liabilities. Specifically, it debits (increases) its asset account for $100,000, the asset being your m o rtgage note; and it credits (increases) deposit liabilities for the same amount, the liability being the $100,000 it credits to your checking account.
4. You are now free to spend $100,000. You typically do this by writing checks drawn on your account or by using your debit card to make purchases. As you do so, the supply of money circulating in the economy is increased.
5. As you make payments on your loan, the principal portion of your payment reduces your loan balance, and the supply of money circulating in the economy is decreased by that amount. The interest portion of your payment is added to the bank s equity and reserves, which allows the bank to make additional loans to others and further expand the money supply.

How money works today.

How money works today is completely ludicrous.

It pits people against each other and guarantees that the rich get richer while the poor get poorer.

To understand how, imagine there are only 2 friends and a bank, and that in order to buy food, pay their rent, and trade amongst themselves, the 2 friends need money that only the bank can create.

The bank (actually an already wealthy 3rd person) creates £20 and gives £10 to each of the 2 friends.

All the bank asks is that both pay back £11 next year.

Since the 2 friends need the money to eat, they agree, gratefully accepting the £10 that helps them to fulfil their immediate needs.

They even promise (because the bank insists that they do) that if they are unable to pay back the £11 next year, they will allow the bank to take some of their belongings as payment.

The problem is, it is totally impossible for both to pay back £11, because the bank only created £20, and 2 x £11 = £22 - more money than actually exists.

The only way either of the 2 friends can pay back the £11 is to get the extra £1 they need off the other.

This leaves their friend with only £9, unable to repay their £11 debt.

The 2 friends are now pitted against each other, both desperately trying to get the extra £1 they need off the other in order to avoid having to hand over some (or all) of their belongings.

Whatever happens, at least one of them is going to lose some of their belongings, and it’s the bank (the already rich 3rd person) that is going to get them.

Basically that’s how banking works, and that’s why bankers (the rich) get richer and the poor get poorer.