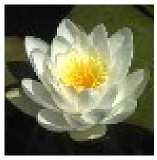
low-impact money



Probably what most people think of when they hear the word 'money'.

what is it?

First we have to define money. What you'll often read is that money functions as a:

- means of exchange: for buying and selling;
- store of value: money as wealth;
- unit of value: to show what things are worth.

But that's what money does, not what it is. Most people would probably imagine money as coins or notes, but it's really a huge system, of which coins and notes are only a tiny, superficial part. Money can be described as something transferable that can give access to things we want.

History of money

Many economics textbooks still claim that money evolved from barter – but it's not true. There's never been a society in which barter was the means of exchange (it's too difficult to find someone who wants what you have and has what you want). Money appeared in many forms at various times in different parts of the world; but here are 3 important ways that money originated.

Tax tokens: a way of building empires stretching back to ancient times. A king stamps his head on coins, pays soldiers with them and demands them as taxes, so that all subjects have to provide goods and services to the soldiers and to the king, to obtain the coins.

Goldsmith's receipts: goldsmiths kept valuables in their store-rooms and provided receipts that could then be passed around as, in effect, money – because everyone knew the receipts were good for real gold or jewels. Goldsmiths saw that people didn't often come to collect their valuables, so started lending money backed by gold in their vaults. They eventually realised that they could lend out more than they actually had, and became fabulously wealthy. This is the basis of 'fractional reserve' banking – i.e. they only had a fraction of what they lent in reserve in their vaults.

'Common tender': can include traders' market money, or informal mutual credit. Imagine a medieval village in which everyone is a producer and a consumer, and knows everyone else, but no-one has money. Everyone obtains the services of thatchers, carpenters, farmers, fishermen, blacksmiths, bakers, cheesemakers, weavers etc. because everyone keeps a tally in their head (or maybe in a more formal way), of what's been provided to the community (including by you). If anyone is lazy or unreliable, people won't want to provide things for them, and so everyone plays the game, and they all get what they need.

In 1694 the Bank of England was founded, which brought together the state and private issuance of money (the first two examples above). The state gave monopoly control of the money supply to banks, the entire economy was monetised, and common tender was squeezed out. Since then, all countries have formed central banks, and the state-bank partnership has come to dominate.

Where does money come from now?

Most people probably believe that the state creates money. That's true for c. 3% of money – coins, notes and central bank reserves. The other 97% is created by banks when they make loans. If you borrow £10k from a bank, they haven't taken that money from anywhere else. They've just created it from nothing and deposited it in your account. It's not even a 'fractional reserve' system any more, in that that no portion of the money banks lend out needs to be held in reserve anywhere. Their decisions are solely based on confidence that the loans will be repaid (with interest).

Low-impact money…

… is money that's created and controlled by us, not by banks. It's not the kind of money that can be sucked out of communities and delivered to tax havens. For that to be the case, it's important that our exchange medium is not also a store of value. Truly low-impact money would be used to trade within communities, but it wouldn't be possible to extract it and store it away.

Rai stones were used as money on the Pacific island of Yap for hundreds of years. Not what most people would think of as money.

Gold mining destroys landscapes and involves the leaching of toxic waste including cyanide, mercury and sulphuric acid.

what are the benefits?

We can't have a sustainable, healthy, democratic society with the current money system, because it's used to buy and sell things, and to accumulate and become wealthy with. Money gravitates towards stored wealth, because money attracts money and gives access to the political system. This continues until so much is concentrated, and so little circulating that the economy crashes – as it has many times, and will continue to do so until those functions are separated. During crashes, communities and ordinary people suffer. During booms, nature is destroyed. So there's never a good part of the boom-and-bust cycle.

There's a big difference between a commodity-based economy and a money-based economy. In a commodity-based economy, people do useful work, for which they receive some exchange medium, which they use to purchase the results of other people doing useful work. In a money-based economy, people with money invest in the production of commodities, which they sell in order to make more money. They don't produce anything – they're only interested in the money they can accumulate. Low-impact money, as an exchange medium, is useful only in a commodity-based economy, which doesn't require perpetual GDP growth (which damages ecology); doesn't concentrate wealth in very few hands (which prevents democracy); prevents the exchange medium from being sucked out of communities and stored (which reduces community resilience and well-being); doesn't require interest, banks or bailouts; solves the scarcity of money / poverty problem and protects communities from wider economic crashes.

what can I do?

Avoid commercial banks - use building societies or credit unions. But you're still using conventional money. Some want money backed by gold, or issued by states not banks. But why dig gold out of the ground (in environmentally-damaging and exploitative ways), just to bury it again in bank vaults, where it has to be guarded, and some people can still hoard it? State control doesn't change the money monopoly, it just puts it under new management (and not that new, really, when bank CEOs become US Treasury Secretaries).

There are alternatives. Local currencies stay in communities longer, but have to be bought with conventional money, so aren't a real separation from bank-issued money. Cryptocurrencies represent a real separation from banks; but they come with problems of their own – a) Bitcoin requires huge and growing amounts of electricity (crypto enthusiasts will tell you that there are new coins that don't require much electricity at all – but they barely exist); b) it's mostly used for speculation, not trade; c) they don't separate exchange and store of value functions – you can still become a Bitcoin billionaire. But they show that we can have a money system without banks.

Mutual credit does separate the exchange and store of value functions - it's just an exchange medium. It's a revival of the informal mutual credit networks of medieval villages, but with the internet, a looming scarcity of conventional money, and the software to federate groups up to the global level. Mutual credit networks exist in many parts of the world, and the Credit Commons protocol can connect all these groups together, anywhere in the world, so that they can intertrade.

Henry Kissinger said: 'Who controls money controls the world'. Unless we want a global financial elite, we have to control it ourselves.

resources

- lowimpact.org/money for more info, courses, links & books, including:
- David Graeber, *Debt: the first 5000 years*
- Felix Martin, *Money: the unauthorised biography*
- Glyn Davis, *a History of Money*
- bit.ly/3uypEhN – Money & Society MOOC
- bit.ly/2RYfV6V – Brief history of money
- brettscott.substack.com – Brett Scott's Altered States of Monetary Consciousness

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