PRAXIS

The Politics of Money and Credit as a Route to Ecological Sustainability and Economic Democracy

Mary Mellor

Introduction

In recent years the role of money in society has been raised by ecofeminists,[1] greens[2] and ecosocialists.[3] Ecofeminists have pointed to the gendered dimension of money systems which reward male-dominated and ecologically destructive activities, while much of women's work and lives is marginalized or excluded. Ecological economists have criticized money accounting systems for externalizing environmental damage and treating nature as a free good.[4] Although anti-capitalist critics have long explored the role of finance capital,[5] this paper asserts that money and credit have played a stronger role in all economic systems—particularly capitalism—than has been previously acknowledged. As Glyn Davies has argued, "our lack of mastery of money is in large part the cause of widespread relative poverty and mass unemployment."[6] While not supporting the implicit assumption in Davies' statement that controlling money could of itself ameliorate the problems of capitalist economic systems, understanding the role of money and credit could provide a possible route to an ecologically sustainable and just society through a democratized and socialized money system.[7]

[1]Marilyn Waring, *If Women Counted: A New Feminist Economics* (London: Macmillan, 1989) and Mary Mellor, "Women, Nature and the Social Construction of 'Economic Man,'" *Ecological Economics*, 20, 2, 1997, pp. 129–140.
[2]Herman E. Daly, *Ecological Economics and the Ecology of Economics* (Cheltenham: Edward Elgar, 1999).
[3]Joan Martinez-Alier, *Ecological Economics: Energy, Environment and Society* (Oxford: Blackwell, 1987) and Joel Kovel, *The Enemy of Nature: The End of Capitalism or the End of the World* (London: Zed Press, 2002).
[4]Peter Soderbaum, *Ecological Economics: A Political Economics Approach to Environment and Development* (London: Earthscan, 2000).
[5]Rudolf Hilferding, *Finance Capital* (London: Routledge and Paul Kegan, 1981) and David Harvey, *The Limits to Capital*, (Oxford: Blackwell, 1982).
[6]Glyn Davies, *A History of Money* (Cardiff: University of Wales Press, 2002), p. 17.
[7]Frances Hutchinson, Mary Mellor and Wendy Olsen, *The Politics of Money: Towards Sustainability and Economic Democracy* (London: Pluto, 2002).

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What is Money?

In contemporary profit-oriented commodified economies, the socio-economic justice claims of individuals and groups are often met by the handwringing political response, "where's the money to come from?" The question is an intriguing one. Where *does* money come from? Given that money is just metal, paper, and blips on a screen, why does production and circulation have to stop because somehow it is "missing." An immediate answer from both the left and right might be that it is not the physical money that is important, it is what money represents. Another intriguing question. The capitalist economist's answer would be that money represents economic activity in two senses. It avoids the need for barter by representing value in exchange, and it represents accumulated wealth.

Explorations in anthropology and the history of money indicate that it was not barter but other factors—reciprocity, tribute, bride money, retribution, and perhaps distribution—that played a key role in the origins and earliest developments of money.[8] According to Davies, the economist Jevons (1835–82) started the myth that money developed to replace barter. Money, as Keynes acknowledged, is as old as trade, and evidence indicates that trade could not occur without it. Money systems based on banking (e.g. stored grain) or other means of accounting (e.g. shells, camels, silver) are around 5,000 years old. Coins came later, around 650 BCE.[9] Davies argues that the link between money and civilization must not be ignored "money and civilization usually marched onward together."[10] Herman Daly has argued that "money ranks with the wheel and fire among ancient inventions without which the modern world could not have come into being."[11]

Although money has existed in some form in most societies, the most relevant for contemporary money systems are coin and banking. Banking and notional accounting emerged in Mesopotamia around 3000 BCE, as the huge numbers of cuneiform tablets found there indicates. In Babylon, as in Egypt, a sophisticated banking system developed based on grain that was stored mainly in Royal Palaces. This early banking system offered a range of recognizable services including deposit banking, foreign exchange, and secured and unsecured lending. The first banking law (Code of Hammirabi) was enacted in 1750 BCE.[12] The Egyptian and Babylonian systems did not use specie (e.g. gold, silver) or coin until much later. Europe, on the other hand, had coin and commodity money for more than 1,000 years before it had a banking system. China also had a very ancient system of coin (cash) and invented paper money 500 years before Europe.

In Europe and the Middle East, gold and silver were the main money forms which, according to Richard Douthwaite, led to the false idea that money was a scarce

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[8]Davies, *op. cit.*, p. 23.
[9]*Ibid.*
[10]*Ibid.* p.47.
[11]Daly, *op. cit.*, p. 135.
[12]Davies, *op. cit.*

and precious resource.[13] Davies notes that "long run trends in depression and prosperity correlate extremely well with the specie famine and surplus of the Middle Ages,"[14]and "the countries which experienced the greatest economic growth were those which had indulged in the most severe debasement."[15]

Anything can be money provided it is widely agreed as a means of account. Some forms of money have use value, such as camels or grain. But none of them have intrinsic value *as money*. Where money commodities have little or no utility, such as metals, shells or paper, maintaining confidence in its "value" is difficult. In our own era, "sound money" has been sought at great cost. In 1931 the United States and France had 75 percent of world gold stocks but couldn't stabilize their currencies. Money is not a "thing;" it is a purely social construct.[16] What is important about money is that although its value is totally socially constructed, whoever finds it, steals it, or issues it has first call on the real resources of a community. Holding money is a debt on society.[17] States have been built on the accumulation of specie money, the issue of coin or paper notes, or through raising money as debt. The power of the issuer is not limitless, the form of money must inspire public confidence.

It is ironic that something so fundamentally social should be given such a tangible role in human societies. Despite this, money in all its forms has played a key role in human development. It is a defining feature of social and national identity. From the early days of the Greek city states, the use of coin has been a symbol of the power and reach of the state. Money is a symbol of nationalism; the national currency with the flag and anthem represents the nation state. It is also an agent of imperialism. In the third century BCE, Alexander's gold and silver money enticed or cajoled new populations into his empire in the same way as did the pound sterling for Britain or the dollar for the U.S.

It is odd that radical theorists have ignored the role of money when it is such a totalizing phenomenon in modern societies. The core feature of "total" money economies is that they have no self-provisioning sector—people have no choice but to engage in labor or trade. They have to work for wages if they want to eat. As Marx pointed out, money is not just a medium of exchange or a store of value, it enables the basic circuits of economic life. Wealth is defined by accumulation of money or goods measured in money values. While economists of all persuasions would argue that "real" wealth rests in land/resources, capital assets and labor, it is money that enables the realization of that wealth.[18] Contemporary capitalism celebrates risk-taking entrepreneurs who are seen as using their own, or other people's savings (usually represented as "hard earned money"), in speculative ventures to make

[13]Richard Douthwaite, *The Ecology of Money* (Totnes: Green Books, 1999), p. 33.
[14]Davies, *op. cit.*, p. 646.
[15]*Ibid.*, p. 647.
[16]Geoffrey Ingham, *The Nature of Money* (Cambridge: Polity, 2004).
[17]L. Randall Wray (ed.), *Credit and State Theories of Money: The Contributions of A. Mitchell Innes* (Cheltenham: Edward Elgar, 2004).
[18]Ingham, *op. cit.*

profits. The savers and investors are rewarded with profit (or if it is loan capital, interest) and the workers with wages. For capitalist economists wealth can only be created in the private entrepreneurial sector. The only way it can be transferred or distributed is through higher wages, taxation or philanthropy. It is implicitly (or explicitly) assumed that there is a fixed amount of "investment" capacity, that any money extracted through taxation is seen as a "drain" on future investment, and that higher wages mean lower profits. Therefore, within a capitalized money economy, access to money becomes crucial. Money is no longer dug out of the ground or collected as shells; it is issued into a society in various ways as coins, notes, debts and credits. Money issue and circulation are not the by-products of the productive interaction of resources and labor but the engine of the capitalist economy. It is not by mistake that capitalism uses the words money-making and wealth-creation interchangeably.

A major error is to confuse money-based exchange systems with "the economy." The former covers only those things that are exchanged for money. The latter covers all the goods and services human beings need to attain their full potential as well as all the impacts they have on society and the environment. It is well known that money/market economies "externalize" domestic life, social and neighborly activities, the remnants of subsistence, and costs and damage to the environment. This is because the money economy represents the priorities of those who have historically controlled its designation, from dominant social groups to traders and workers—nearly all men. However, even as money systems create boundaries around aspects of human societies they recognize and value, they can also transcend boundaries of oppression and discrimination. Many marginalized social groups, particularly women, have gained social status by moving into trade or paid work. What is important is to identify the progressive aspects of money while eliminating its exploitative and destructive uses. For the latter, Marx is an excellent starting point.

Money and Credit in Marx

In *Capital*, Marx briefly acknowledges the important role of money in capital formation and its illusive origin:

> From our present standpoint it therefore seems likely that the capitalist, once upon a time, became possessed of money, by some accumulation that took place independent of the unpaid labor of others, and that this was, therefore, how he was enabled to frequent the market as a buyer of labor power.[19]

As David Harvey points out, Marx's analysis of money was incomplete, and Engels had great difficulty putting together Marx's notes. For Harvey, what Marxism brings to the theory of money is the differentiation between money and money capital and its role as a source of social power.[20] Marx opens *Capital* with an analysis of money and commodification. He sees money as the "Strange God" that "proclaimed

[19]Karl Marx, *Capital Vol. I* (London: Lawrence and Wishart, 1954), p. 534.
[20]Harvey, *op. cit*., p. 241.

surplus-value making as the sole end of humanity."[21] Marx's key insights were to identify the role of money in the capitalist exploitation of labor and to see that the use of money destroyed utility. The first is well known; I want to pay more attention to the second, as it explains the destructiveness of money-value.

For Marx, the elements of capitalism are in the trade process itself, such that the "simple commodity form is the germ of the money form."[22] Marx's discussion of the process of exchange shows clearly how money is central to the construction of value-as-price but also to the destruction of value as anything other than price. He uses the example of comparing the value of 20 yards of linen with a coat. To say 20 yards of linen is "worth" one coat establishes a relative value for linen expressed in terms of another commodity, the coat. Equally, the coat could be expressed as relative to the value of the linen. This is not a simple equivalence, since one is being expressed relative to the value of the other.[23] But the value of the equivalent in each case cannot be established. The value of the linen cannot be expressed in terms of linen any more than the value of the coat can be expressed in terms of the coat, or a dollar in terms of a dollar.

Whatever takes the role of money in this context can now move to the "general" form of value by expressing the value of all commodities, such that 20 yards of linen could be "worth" one coat *or* 10 lbs of tea *or* 2 oz gold *or* 1 ton of iron *or* . . . x commodity A.[24] Marx says this general form of value has no basis other than social convention, because it:

> results from the joint action of the whole world of commodities, and from that alone. A commodity can acquire a general expression of its value only by all other commodities, simultaneously with it, expressing their values in the same equivalent; and every new commodity must follow suit. It thus becomes evident that since the existence of commodities as values is purely social, this social existence can be expressed by the totality of their social relations alone, and consequently that form of their value must be a socially recognized form.[25]

In being socially identified as money, a single commodity (e.g. the linen) effectively becomes valueless in itself, since it cannot be the measure of its own value. Twenty yards of linen could only be valued as twenty yards of linen. Similarly, today the worth of a dollar cannot be defined by itself. The dollar therefore is essentially valueless unless another money equivalent defines its value, which in turn becomes intrinsically valueless. A dollar is worth a euro, but what is a euro then worth?

Within bourgeois economics, price value appears to be natural, but Marx argues that value is a social construct, as is its symbol—money: "a particular commodity

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[21]Karl Marx, *op. cit.*, p. 706.
[22]*Ibid.*, p. 75.
[23]*Ibid.*, pp. 55–56.
[24]*Ibid.*, p. 68.
[25]*Ibid.*, p. 71.

cannot become the universal equivalent except by a social act . . . thus it becomes—money."[26] Since Marx's overall aim is to challenge the "naturalism" of classical economics and the economic system it represents, he asks: "Whence arose the illusions of the monetary system? To it gold and silver when serving as money, did not represent a social relation between producers, but were natural objects with strange properties."[27] Marx certainly didn't think there was any inherent money-value in gold and silver but argued that they were very useful as money, although not both at once. Gold and silver are not useful as money if they have a commodity value, particularly in terms of each other, as there must be only one universal equivalent form of value, because "money itself has no price."[28] Marx says:

> the enigmatical character of the equivalent form . . . escapes the notice of the bourgeois political economists, until this form, completely developed, confronts him in the shape of money.[29]

A key to Marx's analysis of commodification is the way in which exchange value destroys use value. For Marx, use values "constitute the substance of all wealth."[30] Unlike exchange value, use values can vary qualitatively in terms of use and labor input. Use-value has a "plain, homely, bodily form."[31] In a very green-sounding phrase, Marx quotes William Petty who sees for use value "labor as its father and the earth its mother."[32] On the other hand, Marx says, "exchange values . . . do not contain an atom of use-value."[33] This does not mean that commodities' exchange-values have no meaning but that their valuation in markets (e.g. their price) is not based on use-value. Two things can be valued the same in a market, such as a car and life-saving equipment, but their use is very different. This is ironic when we know that under the capitalist market system, a car is seen as a wealth creator whereas the life-saving equipment will be seen as a drain on wealth creation unless it is used within a market-based health service.

However Marx goes further than to say that exchange value replaces use value. He shows how the "form of the value" destroys the intrinsic value of things.[34] Commodity value is always relative to the equivalent, which has no value in itself. Everything then becomes valued in terms of something that has no value other than its social existence (a dollar is worth a dollar), so that anything valued as a commodity ceases to have value as itself or as anything else other than the valueless money price. Therefore use-value is destroyed as resources and labor are poured into the bottomless chasm of money-value.

[26] *Ibid.*, p. 90.
[27] *Ibid.*, p. 86.
[28] *Ibid.*, p. 98.
[29] *Ibid.*, p. 63.
[30] *Ibid.*, p. 44.
[31] *Ibid.*, p. 54.
[32] *Ibid.*, p. 50.
[33] *Ibid.*, p. 45.
[34] *Ibid.*, p. 54.

In all economic systems directed by capitalized money, there is an economic incentive to transfer utility into the money form. Forests are cut down to "earn" income; land is sold or mortgaged. To sell a forest for money is no more logical than native Americans selling Manhattan for a string of beads (wampum at that time was highly valued money and used by settlers). Both are equally sensible or stupid depending on the logic from which it is addressed. If the money form is able to store value (purchasing power), then the trade may, temporally, be a good one. However, something of inherent utility has been traded for something of no inherent value. Money, therefore, destroys utility but is also a means of accumulating future buying power, i.e., it is a credit upon society, providing the money form retains its socially constructed value and there remains anything of utility to buy. Money as a credit is therefore a future debt on society.

In a fully commodified economy, money reaches both its zenith as capital and its most contradictory position. Marx described the development of a capitalized money economy. Money in a trading economy is largely a means of trade: C(ommodity) − M(oney) − C(ommodity). Capitalism begins where commodities are sold purely to make money—that is, to increase the value of money invested: M − C − M+. For Marx, commodification (the categorization of "things," including labor-power, as exchangeable units of economic wealth) begins when people produce goods specifically for the market. Hence the

> division of a product into a useful thing and a value becomes practically important, only when exchange has acquired such an extension that useful articles are produced for the purpose of being exchanged, and their character as values has therefore been taken into account, beforehand, during production.[35]

With the emergence of finance capital, the link with the productive economy becomes gradually lost. Stocks and shares become the item of wealth, not the share of the factory they represent. In contemporary society, the link with real commodities is so detached that we see a sequence where Money is invested in Money to make more Money: (M − M − M+). This is unsustainable for three reasons: First, since money is a debt upon society (i.e., a call upon goods and services), piling up mountains of money produces unredeemable demands. Second, because there is no "real" investment in goods and services to be consumed, investment in money just breeds more money, which requires more money investments to be found. Third, as in any crisis of overproduction, the system collapses when there are no more purchasers—that is, when stock market or house prices move beyond the ability of new people to enter the market.

In modern economies, failures in purchasing power are temporarily overcome through credit; in fact, debt becomes the major form of money creation. As Harvey notes, Marx identified (but did not elaborate) the role of the credit system:

[35] *Ibid.*, p. 78.

> the credit system appears more and more as a complex centerpiece within the Marxian jigsaw of internal relations . . . the credit system is a product of capital's own endeavors to deal with the internal contradictions of capitalism.[36]

Debt-based Money

Historically, money has been found (shells), mined (gold, silver), or been socially identified (cattle). Money today is issued as coin, paper, or an electronic record—most of it as debt. Debt-money is nothing new. Money has been lent at interest throughout history, as rules about usury in most religions indicate. Douthwaite sees the laws on usury as being linked to the shortage of metal currency.[37] If gold has to be paid back with additional gold, then this must be achieved by extracting it from someone else, which is an incentive to unfair trading. What is notable about modern money systems is how reliant they are on debt-based money issue.

Modern accounting and banking developed in Italy and Holland following the acute shortage of gold before 1492. Credits were issued in paper form, and over time the amount of paper circulating expanded in relation to the amount of commodity money. This evolved into the system known as fractional reserve banking. Marx noted the importance of the "international credit system" that spread from Italy through Holland to England and on to the U.S. He argued that the credit system "conceals one of the sources of primitive accumulation" and represents "the capitalized blood of children."[38] One of the main borrowers was the state, which Marx saw as a key to capitalist development: "The national debt has given rise to joint-stock companies, to dealings in negotiable effects of all kinds . . . in a word to stock exchange gambling and the modern bankocracy."[39] For Marx, public credit becomes the "credo of capital" where "the only collective possession the people has [sic] of the national wealth is the public debt." Public debt becomes "one of the most powerful levers of primitive accumulation. As with the stroke of an enchanter's wand it endows barren money with the power of breeding and thus turns it into capital."[40] However, as destructive to the public good as the role of money and credit is, Marx argues that the process of industrial labor and the extraction of surplus value remain the "fundamental cause of misery."[41]

Over the years three things have happened within the money system in modern economies. First, the myth that there was ever intrinsic value in money has finally been abandoned. In Britain the idea of intrinsic value was a philosophical invention of John Locke, and the actual value of gold was "divined" by Isaac Newton. Second, the concept of a fractional reserve has become meaningless given the huge amount of credit in

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[36]Quoted in Harvey, *op. cit.*, p. 239

[37]Douthwaite, *op. cit.*

[38]Karl Marx, *op. cit.*, p. 707.

[39]*Ibid.*, p. 706.

[40]*Ibid.*, p. 706.

[41]*Ibid.*, p. 708.

circulation. Third, issuing cash has virtually ceased in favor of electronic "sight" accounts. In Britain in 1990, total notes and coins were calculated as £320 per head, while M4 (all money sources) was £8,000 per head.[42] In the 1960s, around 30 percent of money issued in Britain was in notes and coins; today it is 3 percent. In the absence of issuing coins and notes, the only way left to create money is by debt. Currently, 97 percent of all money is borrowed into existence by governments, companies and individuals. In recent years mortgages have been a source of money issue as the same houses are bought over and over again at ever-increasing prices. Mortgage borrowing in the U.K. accounts for approximately 60 percent of credit money and 80 percent in the U.S. In earlier eras it was agricultural and industrial borrowing; today consumer and student debt are growing sectors.

This situation leads us to look anew at how the banking system works as a source of money issue.[43] Herman Daly reminds us that until the 1920s, bankers didn't really understand how banks created money.[44] Steve Keen argues that neo-classical theorists still theorize banking as a barter between savers and borrowers[45] despite the fact that no matter how much the bank lends out, individual savers can still get their money back on demand. Equally, the idea of a bank reserve is mistaken. Far from the textbook model, which says that the bank reserve system drives the level of loans, Keen argues that in practice, the state or the national reserve bank has to follow the clearing banks' lead by creating a suitable notional reserve:

> Rather than the State directly controlling the money supply via its control over the issue of new currency and the extent to which it lets banks leverage their holdings of currency, private banks and other credit-generating institutions largely force the State's hand.[46]

Given the prevalence of debt-based money issue and the virtual non-existence of fractional reserve banking, the money currently issued into our society is effectively created out of nothing.[47] As John Kenneth Galbraith has argued, "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."[48] For Daly even though the mechanism of money creation is now largely understood, its impact has not been addressed.[49] He says this is particularly important given the fact that "money creation has become a source of private income."[50] The concentration of money issue in commercial banks has meant that banks have also become major

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[42]Davies, *op. cit.*, p. 440.
[43]Ingham, *op. cit.* and Wray, *op. cit.*
[44]Daly, *op. cit.*, p. 142.
[45]Steve Keen, *Debunking Economics: The Naked Emperor of the Social Sciences* (Annandale: Pluto Press, 2001), p. 289.
[46]*Ibid.*, p. 303.
[47]Hutchinson, Mellor and Olsen, *op. cit.*, and Wray, *op. cit.*
[48]John Kenneth Galbraith, *Money: Whence it Came and Where it Went* (London: Penguin, 1975), p. 29.
[49]Daly, *op. cit.*, p. 142.
[50]*Ibid.*, p. 141.

owners and investors in modern society. When Enron collapses and major banks are "exposed," does this mean they are an investor or lender?

Although in practice money is issued through government and private debt, the ideological dominance has been given entirely to private capital. The modern system of money issue has left the direction of the economy effectively in private and commercial hands. Commercial borrowing is lauded as investment, while government borrowing is decried as expenditure. In Britain this leads to contortions of public policy where investment in the public sector, such as hospitals, are funded by commercial finance which leads to increased overall costs in the long term. Which institutions have the social capacity to issue money and on what basis is therefore a critical question. Following Weber rather than Marx, Geoffrey Ingham argues that "money is a socially (including politically) constructed promise . . . money is always an abstract claim or credit." Further, "moneyness" is provided by whatever is agreed as "money of account." It is socially produced and "constituted" through the social relation of credit-debt.[51] Ingham goes on to point out that any scarcity of money is socially and politically determined and that conventional economics is only applicable "once money has been produced." He sees the epiphenomenal status of money as resulting from the fragmentation of the social sciences, such that the question of how money was produced and how it functioned was not posed.[52] For Ingham, money is arguably the most important institution in capitalist society. The money market is therefore the "headquarters" of capitalism that links the hierarchy of debtors from the private sector to the state through the banking system.[53] The "elastic creation" of credit money is the mechanism through which the capitalist system can be actualized.[54]

It is ironic that even the government—historically the issuer of debt-free money (coin and paper)—now borrows new money from the banking system. As bank money is effectively created out of thin air, the people, through the state, are being made to repay with interest something they could have created out of thin air themselves.

Debt-based money does, however, have internal contradictions. It requires constant growth within the productive economy if it is to be sustainable. While the debt is created out of nothing, the borrower has to engage in economic action in order to repay the debt. Money must also be paid out in advance of recoupment by the sale of the product, service or money-product. Consequently there is a need for an ever-expanding increase in debt-based money as more money must be paid back than was originally issued. In the short term this can be accounted for by faster circulation of the existing money form, but in the whole system there must be a source of expansion that can only be through more debt-based money issue. A widespread failure to borrow could at any time provoke a crisis. Hence the contradiction of current

[51] Ingham, *op. cit.*, p. 198.
[52] *Ibid.*, p. 197.
[53] *Ibid.*, p. 201.
[54] *Ibid.*, p. 202.

government handwringing on personal debt alongside the fear that the consumer's willingness to incur debt will cease. Given that the emergence of consumer debt is a way of avoiding Marx's prediction of a crisis of purchasing power (realization of value), it is an unstable system poised to collapse.

Micro-Credit

In the last decades of the 20th century, credit issue even became central to "development" policy. This reflected a shift in the approach to poverty alleviation from grant and project based initiatives to more individually based solutions that have been implemented through providing small-scale loans to stimulate or support micro-enterprise. The basic idea spread from Mohammad Yunus's initial 1976 loan of £17 to around 40 poor people and craftworkers in Bangladesh who were forced to borrow small sums from traders and money lenders at extortionate rates in order to buy their working materials. This led to the founding of the Grameen Bank in 1982 that by 1998 had 1,112 branches employing 12,000 people lending to 2.3 million borrowers. Loan defaults were very low—initially at around 2 percent—but rose slightly over time. In principle, micro-credit loans are very small, and borrowers are not required to demonstrate possession of large savings or securities. In fact, loans are given based on the absence of assets or banking access. In many cases borrowers are encouraged to form small groups that offer a peer guarantee if any individual is unable to repay their loan, thus putting the risk and costs of default onto the borrowers themselves.

As Wendy Olsen points out, micro-finance programs remain relatively small in scope compared with the main banking system in nearly every country, yet they have come to play a large part in aid discourse and donor strategies for the poverty-alleviating impact of the aid packages. Enthusiasm for micro-credit has overtaken the previous focus on the role of state banking, the question of de-nationalizing or liberalizing banking, or whether banks should supply subsidized credit to specific categories of borrowers. As a result, privatization and liberalization of banking now get little public attention, although they remain central to structural adjustment programs. In Sri Lanka, for example, the 2001 International Monetary Fund adjustment package included specific components aimed at commercialization and denationalization of the country's two major national banks, the People's Bank and the Bank of Ceylon.[55]

For Olsen, micro-finance (savings and credit) projects a capitalist ideology that encourages poor people—often women—to discipline themselves in order to join the market system without tackling the fundamental question of whether poverty can ever be alleviated under the private property system. In fact, it encourages the employment and exploitation of waged labor—even by the poorest—in order to repay the borrowed finance. Drawing on Kantor's evidence of the clothing industry

[55]Hutchinson, Mellor and Olsen, *op. cit.*, p. 203.

in Ahmedabad, India,[56] Olsen points out that profits were only earned if a woman hired others; sole operators had no profits to report.

There is a gender dimension to micro-credit, since it has particularly focussed on women borrowers, particularly the Grameen Bank.[57] Women are seen as more reliable and efficient recipients of credit. However, a linked aim is to "free" women by drawing them into the money economy. Linda Mayoux sees the development approaches to micro-finance for women as varying from neoliberal notions of "freedom" through market-oriented production and "equal" opportunities to a communitarian view of people empowering themselves, not individually, but in groups.[58] However neither of these views explores the dynamics of gender. Mayoux argues for a feminist empowerment view that takes account of the class locations of women. Other studies have argued that taking on debt, far from liberating women, has added to their burdens in a gendered society such as Bangladesh.[59] Wood and Sharif also criticize the tendency towards a "micro-credit monoculture" that concentrates on the micro level and ignores development at the macro level.[60] The poor may be able to enhance their income but cannot access wider capital and asset sources. In any event, there is limited market demand for services provided by poor people. Local markets easily reach saturation. Fisher and Sriram also argue that micro-credit has tended to become a top down policy seen as an end in itself (they subtitle their book Putting Development Back into Micro-Finance).[61] The problem of poverty cannot be solved by accessing money in a system over which people have no control. The crucial issue must be social control of money systems.

The Social Control of Money

Within the present money/credit system, most of the money issued is in the private hands of companies or individuals. This is something akin to Hayek's desire for the "spontaneous order" of privatized money issue. However, this does not represent freedom for people, because more and more people are sucked into huge levels of personal debt. What is lost in the process is what Hayek rejected as the "designed order" of money issue—that is, democratic control through the state. The most important aspect of the present form of money issue is that there is no social

[56]Paula Kantor, "Female Mobility in India: Its Determinants and Influence on Economic Outcomes," *Conference of the International Association for Feminist Economics*, Oslo, 2001.
[57]Hugh Stretton, *Economics: A New Introduction* (London: Pluto, 1999), pp. 92–93.
[58]Linda Mayoux, "Women's Empowerment and Micro-Finance Programs: Approaches, Evidence and Ways Forward," *DPP Working Paper, No. 41*, Open University, Development Policy and Practice Research Group, 1998; and Linda Mayoux, "Participatory Learning for Women's Empowerment in Micro-Finance Programs: Negotiating Complexity, Conflict, and Change," *Bulletin of the Institute of Development Studies*, 29, 4, 1998, pp. 39–50.
[59]Geoffrey D. Wood, and Iffath A. Sharif (eds.), *Who Needs Credit? Poverty and Finance in Bangladesh* (London: Zed Press, 1997).
[60]*Ibid*., p. 374.
[61]Thomas Fisher and M. S. Sriram, *Beyond Micro-Credit: Putting Development Back into Micro-Finance* (London and Delhi: Oxfam/New Economics Foundation/Vistaar, 2002).

control over the economic priorities it represents. Who pays the piper on borrowed money calls the tune in the economy. While public debt is seen as a "drain on the economy," private debt is welcomed—even if the investment is in armaments or rainforest clearance. One way to challenge the exclusionary, exploitative and destructive effects of capitalism would be to demand that money issue and use be made subject to democratic control.

Monetary reform—finding new ways to issue and circulate money or goods and services—has stimulated a lot of current interest.[62] The search for social reform through new money and exchange systems has a long history. Robert Owen conceived of a labor-based National Equitable Labor Exchange in 1832–4. More recently, Owen's dream inspired the Ithaca Hours scheme.[63] Ithaca Hours are a paper currency issued in 1992 by Paul Glover, a community activist, in a small university town in upstate New York. Printed notes are denominated in one, two, half and quarter hours. One hour is worth roughly $10. Ithaca Hours have been issued as loans, grants to charities, and payments to those who advertised in the publication *Ithaca Money*. Nearly 400 businesses accept them, and it has been calculated that the $6,700 worth of hours in circulation has created $700,000 in trade.[64] The system now operates in 39 communities in the U.S.[65] While examples from the U.S. have raised a lot of interest, it should be remembered that Curitiba in Brazil, with 2.3 million inhabitants, has used complementary currencies for 25 years.

The classic example of using money issue to stimulate the economy was based on the ideas of Silvio Gesell (1862–1930). Gesell argued that the issue of money should be seen as a public service, and therefore a fee (demurrage) should be paid for holding it. Under this arrangement, money would always decline in value, and there would be little incentive to hoard it and prevent its circulation. The 1930s were a period of acute currency shortage, and this led to a number of monetary experiments. In 1932, Worgl, Austria, a town of about 4,500, had an empty treasury and nearly one-third of the community out of work. Michael Unterguggenberger, the town's mayor, negotiated a loan from the local credit union savings bank and issued around 10,000 schillings in scrip notes that had to be stamped each month to retain their validity. The money was then used to pay the wages of city employees and could also be used to pay local taxes. The money circulated widely and was actually preferred to the national currency. It has been estimated that each note changed hands 463 times on average compared to the average 213 transactions for the national currency.[66] There was no risk, since

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[62]Bernard Lietaer, *The Future of Money: A New Way to Create Wealth, Work and a Wiser World* (London: Century, 2001); Richard Douthwaite *op. cit.*; Richard Douthwaite, *Short Circuit: Strengthening Local Economies for Security in an Unstable World* (Totnes: Green Books, 1996); Michael Rowbotham, *The Grip of Death: A Study of Modern Money, Debt Slavery and Destructive Economics* (Charlbury: Jon Carpenter Press, 1998); and James Robertson, *Transforming Economic Life* (Totnes: Schumacher Society and New Economics Foundation, 1998).
[63]Mary-Beth Raddon, *Community and Money* (Montreal: Black Rose Books, 2003).
[64]David Boyle, *Why London Needs Its Own Currency* (London: New Economics Foundation, 2000).
[65]Lietaer, *op. cit.*, p. 188.
[66]Richard Douthwaite and Daniel Wagman, *Barataria: A Community Exchange Network for the Third System* (Strohalm, Utrecht: Barataria, 1999), p. 97.

the scrip was backed by the national currency loan. Major public works were carried out, and unemployment fell by 25 percent. However, within 13 months the scheme had been shut down by the national government, which feared a loss of control of currency circulation as other towns prepared to follow suit.

In 1933, Yale economist Irving Fisher promoted the scrip idea in the U.S., and 300–400 experiments were launched. Most of these were seen as emergency measures which were withdrawn following the influx of New Deal money. But Douthwaite and Wagman record that many were shut down by the federal government in 1933 on the advice of Harvard Professor Russell Sprague who claimed that the U.S. monetary system was being "democratized out of its hands."[67]

New money issue is not a magic solution however. During its recent crisis, Argentina tried to issue a "third currency" to no effect. Scrip, non-legal tender is also not necessarily democratic. Scrip was historically issued by employers or by local landowners to control the expenditure patterns of their employees or tenants. Contemporary examples, such as air miles or internet currencies, are also socially exclusionary.

Local Exchange and Trading Systems (LETS) are another current example of new mechanisms of exchange. LETS schemes, which require membership and typically trade in recorded computerized transactions, work best on a very small scale.[68] In areas where people are in formal work, LETS schemes are mainly an expression of political commitment rather than an economic need, because no alternative exchange system can really work unless it brings in basic means of provisioning. LETS are rarely in this position. The main problem for alternative economic communities is having to buy in currencies from outside in order to access goods and services (e.g., resources, knowledge, technology) they don't have themselves. This raises a further problem: that initiatives such as LETS or scrip currencies often operate in conjunction with the market economy rather than replacing it. This is a problem for cooperatives too. One exception is the early British Cooperative Movement, which did extend sufficiently to embrace most of the needs of its members for more than a century. Equally, the mutual sector has historically been very large. As recently as 1970, Building Societies' deposits exceeded bank deposits in the U.K.[69]

Descriptions such as "complementary," "auxiliary," or "parallel" reveal that many monetary reform schemes are ameliorative augments to the existing money system rather than revolutionary. Bernard Lietaer, who played a major role in the development of the Euro, sees community currencies as a complement to national currency systems.[70] Like Robertson,[71] he argues for multi-level currencies that could be circulated through a growing "cyber-economy."[72] Lietaer's reliance on the existing framework of

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[67]*Ibid.*, p. 100.
[68]Raddon, *op. cit.*
[69]Davies, *op. cit.*, p. 402.
[70]Lietaer, *op. cit.*
[71]Robertson, *op. cit.*
[72]Lietaer, *op. cit.*, p. 266.

economics is shown by his view that complementary currencies play a role in economic development, which he defines as "the capacity to transform resources into capital."[73] For Lietaer, auxiliary currencies address the limitations of the market by balancing communal yin to the market yang (the feminine being seen, once more, as picking up the pieces).[74] The limitations of many auxiliary currency proposals are that they are not framed within a fundamental criticism of market economics. It is also not clear how democratic control of money issue would connect with democratic control of resources and production. Lietaer, in fact, fears that the main area of growth will be corporate currencies that will only be issued to the rich, such as frequent fliers or web surfers, while national currency authorities will stamp out local currencies as they did in the 1930s. Douthwaite and Wagman, however, see the use of "auxiliary currencies" as "an important step in the democratization of money creation."[75]

While new exchange or monetary systems may be useful, they do not meet the green socialist aim of democratic control of economic provisioning and the creation of equal and ecologically sustainable provisioning systems. In such a system money issue would be under democratic control and directed to democratic and sustainable ends. Thomas Jefferson is reported as saying:

> If the American people ever allow the banks to control the issuance of their currency, first by inflation and then by deflation, the banks and the corporations that grow up around them will deprive the people of all property *until their children will wake up homeless on the continent their fathers occupied*. The issuing power of money should be taken from the banks and restored to Congress and the people to whom it belongs. I sincerely believe the banking institutions having the issuing power of money are more dangerous to liberty than standing armies.[76]

What is important, therefore, are not schemes to manipulate currencies, reform aspects of money systems, or devise local means of exchange. What is needed is ownership and control of the money system itself. The key issue here is seigniorage. Who controls the issue of money in whatever form has control over its use in the first instance. When it is issued by fiat (coin, note, without debt), then there is no penalty of repayment for the issuer. However, governments since the 17th century have allowed money issue to be privatized by building up the national debt. Borrowing has increasingly moved from bonds and the national bank to borrowing from commercial banks. Today the E.U. Central Bank cannot make loans to public bodies; money issue has become entirely commercial.

Conclusion

The current money/credit system plays a major role in the operation of the capitalist economy, and it is not just a reflection of market relations. As Marx has

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[73]*Ibid.*, p. 278.
[74]*Ibid.*, p. 285.
[75]Douthwaite and Wagman, *op. cit.*, p. 6.
[76]Thomas Jefferson cited in Rowbotham, *op. cit.*, pp. 34–35, emphasis in the original.

argued, money and credit have played a key role in the construction of inequality in modern society, particularly in enabling both primitive and capital accumulation. As we have seen, the modern banking system is both illusory and unstable, there is no intrinsic value of money, and there is effectively no bank reserve. Money systems are confidence systems; they are social systems. The danger in maintaining the illusion of money as an epiphenomenon and not openly debating its social nature is that when banks and money systems collapse, anger can be irrationally turned on particular groups of people. It is important to analyze the development of debt-based banking as an historical, structural form and not as some aspect of personalized greed. Bankers may have developed interest bearing credits and fractional reserve banking to make extra profit, but also to aid trade when it was restricted by shortages of specie money such as gold. Failure to see banking as a social and historical system can lead to the development of horrendously vile politics in the wake of economic collapse, as in the 1930s. It is therefore vital that socialists have a clear analysis of how and why money systems operate and develop clearly thought out alternatives.

In a money-based society, access to money must be a human right. To be denied that access is to be denied the right to sustenance. Since money is created out of nothing, there is no logical reason why it should be borrowed from banks, then circulated through commercial production before being taxed into social use. A more logical way would be to issue the money to the people, individually or collectively, who could then choose their provisioning priorities. When money is issued into a society, how it is spent or invested directly affects all members of the society and should therefore be a matter of democratic debate. Examples of democratic approaches to social expenditure already exist as in the democratic budgeting systems in Porto Alegre and elsewhere.[77] Money could be issued as of right through the state (with provision for democratic control of the use of it) or directly to people as a social income. Many people have called for a universal social income as of right but often, like Hardt and Negri,[78] without having any theoretical analysis of the money system to underpin this demand.

The most important factor for ecofeminist socialists is that the organization of provisioning should be ecologically sustainable and under common ownership and control. The resources, goods and services of a society should belong equally to all. Harnessing the functioning of the credit money system is not a solution in itself. However, it could form a basis for organizing a complex socialized economy in a flexible way while avoiding the bureaucracy of a planned economy or the limitations of localized provisioning. In this context, exposing the vacuous and deeply exploitative reality of money issue and making proposals for putting such a simple yet sophisticated mechanism in the hands of the people would be a revolutionary act.

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[77] William R. Nylen, *Participatory Democracy versus Elitist Democracy: Lessons from Brazil* (New York: Palgrave, 2003).
[78] Michael Hardt and Antonio Negri, *Empire* (Cambridge: Harvard University Press, 2000).