MONEY VALUES AND ETHICAL VALUES
Curing the Mismatch Between Them

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James Robertson, May 2009.

CHANGING THE SCORING SYSTEM FOR THE GAME OF ECONOMIC LIFE

The present mismatch between money values and ethical values is one reason for the growing interest in business ethics. Practical questions for discussion and study on business ethics should therefore include whether and how the mismatch can be rectified or at least reduced.

This paper outlines proposals that would significantly reduce it by reforming and developing the worldwide money system. It raises some philosophical and political questions, as well as institutional ones. It suggests that people concerned about the ethics of business should see the money system as the scoring system for the game of economic life and should consider how they could help to change it to get a better game.

The global financial collapse of recent months underlines the importance of these proposals. If they had been in force, they would have done much to prevent the collapse occurring and to limit the damage if anything like it had occurred.

1. The Money System: a Scoring System that Needs to be Improved

It is now a commonplace of environmentalist thinking, if not yet of environmental practice, that preventing the creation of waste and pollution upstream at source may be more effective than treatments after the event "at the end of the pipe". But, in most spheres, higher priority is still given to remedial than to systemic ways of responding to problems - such as dealing with sickness rather than promoting healthy conditions of living, and responding to crime with penal solutions rather than by creating conditions that promote law-abiding behaviour.

Encouragingly, some of the contributions to the 2006 Interdisciplinary Yearbook of Business Ethics discussed upstream approaches to the problems of business ethics. A significant cause of the problems is the mismatch between money values and ethical values. Business survival and success depend on making money, and will continue to do so. But, because the rewards and penalties offered by the money system are now often perverse, businesspeople find they have to compromise or suppress their ethical values in order to survive and succeed. So indeed does everyone else.

Few politicians, business leaders, public officials, economists, sociologists, political scientists and other professionals and academics have been interested in money as a whole system that might be made to work better. Most are preoccupied with achieving survival and success, accepting that the money system now works as it does. Even more noticeable is how few campaigners for ethical causes - social justice, a better deal for developing countries, ending poverty, fairer sharing of the world's resources, dealing with climate change, human rights and so on - seem to see the present system of money as an important cause of the ills they oppose. Why has its development over time left us with a system that many people experience as promoting economically inefficient, socially unjust, and environmentally disastrous outcomes?

Once we ask that question, the answer is clear. The primary interest of the goldsmiths and bankers and government servants who have evolved the monetary, banking and financial system over the centuries, and the primary interest of the great majority of the bankers and other financial specialists who manage it today, has been to make money for their customers, shareholders and other associates, and for themselves and their own organisations. Nobody has been responsible for seeing that the monetary and financial system works efficiently and fairly for all its users - locally, nationally and worldwide. Even in today's democratic societies virtually no economists and financial analysts and political scientists are employed to work out how it might be redesigned, evolved and managed from the standpoint of Adam Smith's "impartial spectator" (Buchan, 2006, 184) or John Rawls' "veil of ignorance" (Rawls, 1972, 607).

The worldwide economy - at personal, household, local, regional, national, international and global levels - is obviously much more important than a game. But, imagining it as a game, we can think of money as its scoring system.[1] The scoring system for any game rewards some things and penalises others; and so, by motivating the players in how to play the game, it shapes what kind of game it is and what kind of outcomes it will

[1] The rules of the game - laws, regulations, treaties and other features of legal and judicial systems - are, of course, also important. Company law, defining the rights of different stakeholders in businesses, is directly relevant to business ethics. But changes in the legal obligations of companies will be unrealistic if they conflict with what the money system rewards and penalises.

have. Money's power in that respect is even greater than many other scoring systems; high enough money scores are needed to enable players to survive and succeed as the game goes on.

More and more people are now experiencing its effects as damaging and destructive. They see it as responsible:

- for systematically transferring wealth from poor people and countries to rich ones,
- for the money-must-grow imperative that compels people to make money in socially and environmentally damaging ways,
- for the diversion of economic effort and enterprise towards making money from money and from the rising values of existing assets, instead of from providing valuable goods and services,
- for systematic bias in favour of people, organisations and nations who should be managing the system efficiently and fairly on behalf of all,
- for eroding the credibility of political democracy, and
- for fuelling opposition to globalisation in its present form, and thereby threatening world peace and security.

The growing concern with business ethics is one of many signs that the workings of the money system now need to be changed.

So what needs to be done?

2. Money Cannot Be a Scientifically Objective Calculus of Value

The 20th century showed that a centralised socialist economy cannot work efficiently, justly or ecologically. But the idea that the only alternative is a free market economy based on prices dictated by objective money values outside human control is sheer fantasy. The way today's money system works reflects its historical development by people. It must surely be within the capacity of people today to develop it further now to reflect the needs of the 21st century.

Our starting point is to note that at the national level a government's principal operational functions include control of how the money supply is created and managed, control of how public revenue is raised by taxing and charging and borrowing, and control of how that public revenue is spent. These functions directly affect well between a third and a half of the total flow of money through modern economies. Prices and money values therefore reflect how these functions are carried out - including who creates new money and puts it into circulation, in what form; what is taxed or charged for, at what rates; and what government spends its money on, in what amounts. In other words, however the government carries out those functions it will inevitably skew the price structure of the whole economy against some things and in favour of others. The proverbial 'level playing field' is simply a mirage.

This means that the democratic state has a crucially important responsibility which at present goes by default. It should manage its own money dealings in ways that provide a framework that encourages its citizens and their organisations to deal with *their* money in ways that automatically tend to serve the interests of other people while serving their own. The "invisible hand" of supply and demand should be programmed to serve the interests of all participants in the economy.

In that context the teaching attributed to Milton Friedman that there ain't no such thing as a free lunch (TANSTAAFL) should be seen as nonsense. By profiting from more than their fair share of the value of common resources, powerful individuals and organisations and nations now enjoy massive free lunches. Examples of common resources are given later. As inputs to essential economic activity their value should provide a source of public revenue, not private profit.

Before going more deeply into the monetary and financial responsibilities of governments, we should note that global and local money problems cannot be effectively handled at national or Eurozone level. "The Global Dimension" is discussed below. Local monetary and financial initiatives, like LETSystems, time banks and community development banks, have been growing in numbers in many countries to support local economic exchange and trading. They can usefully complement the mainstream money system and should be encouraged.

3. The Monetary and Financial Responsibilities of the National State

The state, then. has three main operational monetary and financial tasks:

1) to arrange that a sufficient *money supply* of official currency (pound, euro, dollar, etc) circulates efficiently and fairly;
2) to collect *public revenue* for spending on public purposes; and
3) to administer *public spending* programmes.[2]

3.1 The Money Supply

In a democratic society one might expect that all the money created as additions to the national money supply backed by the state would be created by an agency of the state, that it would be spent into circulation on public purposes, and that it would be created debt-free.

What actually happens, however, is quite different.[3] In the UK, for example, less than 5% of today's national money supply is created debt-

[2] The state also regulates non-state financial institutions.

free by the Bank of England and the Royal Mint as banknotes and coins. Over 95% is created by commercial banks writing it electronically into their customers' bank accounts out of thin air as profit-making loans. It has been estimated that UK commercial banks make over £20 billion a year in interest from creating this electronic bank-account money, whereas the issue of banknotes and coins brings in public revenue of less than £3bn a year. It has also been estimated that additional public revenue of about £45bn a year would result from a reform that

- prohibited commercial banks from creating bank account money, as they are prohibited from creating banknotes and coin, and
- gave the Bank of England the task of creating it and passing it as debt-free public revenue to the government to spend into circulation.

Treasury ministers have so far been unwilling to ask their experts in the Treasury or the Bank if those financial estimates are broadly correct.

The following are among the arguments for a reform on those lines.

(1) The official-currency money supply is a public resource. The value of creating it should be a source of public revenue. To allow it to be captured as private profit is both economically damaging and unfair to particular sections of society.

(2) Creating money as interest-bearing debt is systematically inflationary. A debt-based money supply means that more money than has been created is always needed to pay back the debt involved in its creation - not only the "principal" (the sum borrowed) but also the interest payments on it while it is outstanding. That is why the main objective of monetary policy now has to be a target level of inflation - within a bracket of, say, 2% - 3% a year.

(3) Creating money as debt is pro-cyclical. It tends to amplify the volatility of the business cycle instead of damping it, because banks want to lend more and bank customers want to borrow more when the economy is booming, and less when it is depressed. It thus contradicts the anticyclical aim of monetary policy.

(4) If the great majority of new money entering circulation is channelled into the investment and spending priorities of commercial banks and their customers, it creates economic distortion in favour of speculative investment in the value of existing assets, and against productive investment to produce new goods and services. For example it encourages speculative investment in land - one reason for the spectacular rise in house prices compared with other prices and wages and salaries in many countries in recent years.

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[3] The facts and figures in this section apply to the UK (Huber & Robertson, 2000; Robertson and Bunzl, 2003). But the case for reform applies to other countries too.

(5) One inevitable feature of an economy in which money is almost entirely created as debt is greater total indebtedness - higher levels of debt for citizens, companies and government. This causes:

(a) Social damage and injustice. It artificially widens the gap between poor and rich. It increases the flows of money from poor to rich, since the poor have greater need to borrow money and the rich are better placed to lend it.

(b) Environmental damage and destruction. When the money needed for all transactions has to include a sum to pay the interest arising from the way it was created, organisations and individuals are compelled to convert natural resources into money more rapidly than they might otherwise need to.

(6) Allowing commercial banks the privilege of creating, free out of thin air, the main resource they need as input to their business gives them a subsidy enjoyed by virtually no other industry. It protects the big, established commercial banks from competition from smaller, more enterprising, efficient and customer-friendly potential new entrants to their various lines of business, including the country's main system for making and receiving payments. This reduces the economic efficiency both of the wider financial services industry and of the economy as a whole.

(7) How money is now created and what the effects of that are, should not remain veiled in mystery. Widespread failure to understand how the monetary and financial system now works is a serious impediment to its improvement.

Official monetary statistics recognise that electronic money in current bank accounts constitutes by far the biggest proportion of today's money supply. Nonetheless, supposedly knowledgeable opponents of reform argue that it isn’t really money, it’s only "credit". Unwittingly they alert us to a parallel with the past. In the 19th century, when paper banknotes were finally recognised to be real money, the Bank of England became the only bank in England allowed to issue them. Its banknotes still say "I promise to pay... " - a reminder that banknotes originated centuries earlier as credit notes from private businesses, but everyone now knows they are now cash, not just credit notes. Similarly, almost everyone recognises that electronic money in current bank accounts has become real money immediately available for spending. The continuing creation of state-backed electronic money for private-sector profit by commercial banks is now a glaring anachronism.

Prime Minister Gordon Brown, when UK Chancellor of the Exchequer (Minister of Finance), took a significant preliminary step in 1997 towards bringing monetary control up-to-date. He gave the Bank of England, which had been nationalised in 1946, operational independence to manage monetary policy in accordance with the government's published policy objectives. But the Bank can still only influence how much new money the commercial banks create, by regulating interest rates, thus the price of borrowing, thus bank customers' demand for loans, and thus the amount of new money the banks create. It is time now for the obvious next step - to make the Bank clearly responsible on behalf of the state for actually creating the required amounts of state-backed electronic bank-account money, just as state agencies create new banknotes and coins.

3.2 Public Revenue

Existing taxes are becoming less viable. For example:

- National economies in a *competitive global economy* have to reduce taxes on incomes, profits and capital to attract investment capital and highly qualified people - both being increasingly mobile.
- *Ageing societies* will be unable to support growing numbers of "economically inactive" people by taxing the work and enterprise of fewer people of working age.
- *Internet trading* is making it more difficult for governments to collect customs duties, value added tax and other taxes and levies on sales, and easier for companies and rich individuals to shift earnings and profits to low-tax regimes and tax havens.
- *Tax avoidance* by big corporations and rich individuals is reaching crisis proportions. Estimates are that tax havens cost £255bn annually to governments worldwide, and hold assets of $11.5 trillion ($11,500bn), causing serious distortion of economic priorities and supporting criminal money laundering (Tax Justice Network, 2005).

Shifting a large part of the tax burden on to the value of land and other common resources which cannot be moved abroad will probably be national governments' most effective response to these problems.

As well as becoming less viable, existing patterns of taxation are now positively perverse:

- By heavily taxing employment and rewards for work and enterprise and lightly taxing the use of common resources, they systematically encourage inefficiency in all kinds of resource use - under-use and under-development of human resources, and over-use of natural resources (including energy and the environment's capacity to absorb pollution, including carbon emissions); and
- By taxing the value added by most people's positive contributions to society (VAT), and failing to tax value subtracted by those who make most profit from common resources, they systematically skew the overall burden of tax in favour of a rich minority.

These facts argue, on both economic and ethical grounds, for a "tax shift" on to the use of, or profits from, the value of common resources.

Common resources are resources whose value is due to nature and to the activities and demands of society as a whole, and not to the efforts or skill of individual people or organisations. The site value of land is the most obvious example. The value of a particular land-site, excluding the value of what has been built on it, is almost wholly due to the activities and plans of society around it. For example, in the UK when the route of the London Underground Jubilee Line was published, properties along the route jumped in value. Access to them was going to be much improved. A public policy decision and subsequent investment of public money, gave owners of those properties a £13bn windfall financial gain. They had done nothing for it; they had paid nothing for it; they had been given a very large free lunch. By contrast, the UK Treasury raised £22.5bn for UK taxpayers in 2000 by auctioning twenty-year licences to use the radio spectrum for the third generation of mobile phones. The governments of other European countries also raised significant sums that way.

Local government in the UK, including the Greater London Authority, has been exploring whether rail and road transport developments could be financed out of the increases in property values which they generate. In 2004, the Vice Chair of Transport for London summarised some of the arguments for land value taxation (Wetzel, 2004):

> "With income from LVT … the government could provide new public transport infrastructure; abolish economically damaging property taxes such as council tax, business rates and stamp duty; raise personal allowances so that millions of lower-paid workers pay no income tax at all; and reduce VAT rates to help consumers and businesses. The tax would improve earned incomes; cut the cost of tax collection; provide affordable homes; reduce urban sprawl; avoid property-led business booms and slumps; and minimise the need for constant changes in interest rates to control land prices".

Pressures for a shift to environmental taxation have recently risen along with awareness of global warming and other threats too - including world shortages of energy, food and drinkable water, and worsening pollution of the oceans.

In addition to land-sites, the electro-magnetic spectrum, the national money supply, and the environment's capacity to absorb pollution and wastes, important common resources include: the value of unextracted energy; limited space available for road traffic, airport landing slots, etc; and water for extraction, for fishing and for waterborne transport. The annual value of these and other common resources is very great, and rises along with the world's economic growth.

Public Spending

The overall structure of public spending programmes needs more searching scrutiny by politicians, the media and the public than it now gets. Two examples illustrate this.

First, $1.5 to $2 trillion a year is estimated to be spent worldwide on *perverse subsidies* which encourage economically, socially and environmentally damaging activities (Myers, 1998). These include the subsidies from rich-country governments to their farming and agricultural sectors, which - combined with tariffs against imported food - devastate those sectors in poorer countries and expose the hypocrisy of rich-country support for free trade. But there are many other examples of perverse subsidies. Sustained national and international determination is needed to reduce them year by year.

Second, support for a *basic income* (or Citizen's Income) continues to grow, especially in Europe but elsewhere too.[4] It would be paid to all citizens as of right, out of public revenue. It would include state pensions and child allowances, it would replace many other existing social benefits, and it would eliminate almost all tax allowances, tax reliefs and tax credits. It would recognise that, in a society of responsible citizens, some of the public revenue arising from the value of common resources should be shared directly among them. Politicians and government officials now channel huge sums in contracts and subsidies to private-sector business and finance, as well as to governmental organisations, to provide citizens with public services. Much of that public money could be given directly to citizens to spend for themselves in a market economy made more responsive to their needs by the other reforms proposed. It would especially help poor people who would not benefit from reductions in income tax but would have pay the new environmental taxes.

3.4 Summary - the Responsibilities of the State

The state should carry out its three main operational monetary and financial responsibilities in ways that will distribute the value of common resources among all citizens and reduce or even abolish taxes on earnings and profits from providing useful goods and services. This will create a new framework of prices which reward the market economy for delivering outcomes which combine economic efficiency with social justice and environmental care. The state will then be able to let the market economy operate more freely, with less intervention, than now.

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[4] Basic Income Earth Network is one of the most useful among the growing numbers of websites in this field - http://www.etes.ucl.ac.be/BIEN/Index.html

People in business will then find not only that their businesses need to be less closely regulated by the state but that they themselves are troubled less by conflicts between the ethical values held by themselves, their families and their friends and the money values that must necessarily shape their business behaviour if they are to survive and succeed.

Business people and everyone else too, as citizens, will experience greater freedom at the personal level. A Citizen's Income will allow them, if they wish to do so, to reduce the amount of money they must earn by working as employees. Then, with more time and energy to supply themselves and their families with some of the goods and services they now have to buy, they will be able to further reduce their need to spend money if they want to. As consumers, employees and savers they will be in a stronger position to influence - and choose between - the people they have to deal with in those capacities.

4. The Global Dimension

Particularly acute problems of business ethics tend to arise in the international sphere. This is at least partly because the international institutions that deal with world monetary management, public revenue and public spending, are out of date. As at the national level, their further development should be based on sharing the value of common resources more fairly.

Over ten years ago the independent international Commission on Global Governance recognised the urgent need for international monetary reform in a globalised world economy (Commission on Global Governance, 1995). Since then there has been growing criticism of the present 'dollar hegemony' of the United States. For using the dollar as the main global currency, the rest of the world is estimated to pay the US at least $400bn a year. A Pentagon analyst justified this as payment to the US for keeping world order; others see it as a way for the richest country in the world to compel poorer ones to pay for its unsustainable consumption of global resources (Douthwaite, 2002). To build up their reserves, poor countries have to borrow dollars from the US at interest rates as high as 18% and lend it back to the US in the form of Treasury Bonds at 3% (Romilly Greenhill and Ann Pettifor, 2002). The dollar is a global monetary instrument that the US, and only the US, can produce; world trade is now "a game in which the US produces dollars and the rest of the world produces things that dollars can buy" (Henry C K Liu, 2002).

A genuine international currency, issued by a world monetary authority, is needed as an alternative to the US dollar and other 'reserve currencies' like the yen, euro and pound. Issuing it would provide a source of revenue to the world community, as national monetary reform would provide a source of revenue for nation states.

The Commission on Global Governance also recognised the need for global taxation “to service the needs of the global neighbourhood”. It proposed making nations pay for use of global commons, including:

- Ocean fishing, sea-bed mining, sea lanes, flight lanes, outer space, and the electro-magnetic spectrum; and for
- Activities that pollute and damage the global environment, or cause hazards beyond national boundaries, such as emissions of CO_2 and CFCs, oil spills, and dumping wastes at sea.

Revenue from global money creation and global taxes would then provide stable sources of finance for global spending by organisations like the United Nations, including international peace-keeping programmes. Some of it should be distributed per capita to national governments, reflecting the right of every person in the world to a global 'Citizen's Income' as a share in the value of global resources.

This approach:

- Would encourage environmentally sustainable development worldwide;
- It would generate a much needed source of revenue for the UN;
- It would provide substantial financial transfers to developing countries by right and without strings, as compensation for rich countries’ disproportionate use of world resources;
- It would help to liberate developing countries from dependence on grants and loans from rich-country-dominated institutions like the World Bank and International Monetary Fund;
- It would help to solve the problem of Third World debt;
- It would recognise the shared status of all people as citizens of the world; and
- By helping to reduce the spreading sense of injustice in a globalised world, it would contribute to global security.

5. A New Direction of Economic Development

The changes in the money system outlined here will help to create a new direction of economic development.

Attention will shift to creating well-being for people and the Earth; to enabling people to develop their capability, rather than reinforcing their dependency; and to conserving the Earth, rather than transforming its resources as rapidly as possible into money. The fairer sharing of the value of common resources will help to decentralise power and wealth - both by giving a fairer deal to people in their own places and by requiring rich and powerful people and corporations and nations to bear their full share of the environmental and social costs of centralisation. The new framework of monetary and financial incentives will automatically harness self-interest to common interest within and between nations.

Reducing the present mismatch between money values and ethical values will reduce the need to swim against the financial tide in order to act in accordance with ethical values. Increasing numbers of business leaders and other business people may, therefore, decide that the proposed reforms of the money system deserve their support.

Supporting them need not imply a commitment to any particular ideology. They offer the prospect of

1) the democratic state performing its monetary and financial functions more purposefully and effectively, thereby being able
2) to allow the market economy to operate more freely.

They will also make it financially easier

3) for people to reduce their present degree of dependence on goods and services and jobs provided by big corporations and the state, and
4) for both people and organisations to act in ways that conserve, not squander, natural resources.

Those interested in ideologies could interpret the first item as part of a socialist programme, the second as part of a capitalist programme, and the third and fourth as parts of a programme for people and Earth that helps to modernise both socialism and capitalism.

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