# The future of money

## *If we want a better game of economic life we'll have to change the scoring system*

James Robertson

James Robertson *argues for changes in the way we run the money system.*

Surprisingly few politicians, public officials, economists, sociologists, political scientists and other professionals have been interested in money as a system that might be made to work better as a whole. Perhaps it is even more surprising that few campaigners for good causes - social justice, ending poverty, dealing with climate change, a more peaceful and fairer international order, human rights and so on - seem to realise that the money system is a prime cause of the ills they oppose. The development of the money system over the years has been piecemeal - and largely in response to powerful interests - and this means that it is now not only incoherent and incomprehensible to most of the world's people, but also systematically perverse. It fails to make wealthier and more powerful people and organisations and nations pay for what they take from the common wealth, and it taxes the value of the rewards that less powerful people get from contributing to it.

The reason is simple. The main interest of the goldsmiths and bankers and government servants who in the past evolved the monetary, banking and financial system, and the main interest of those who manage it today, has been to make money for their customers, shareholders and other associates, and for themselves and their own organisations. There has never been anyone whose role has been to ensure that the monetary and financial system would work efficiently and fairly for all its users - that is not the purpose of the system.

The arrival of the Information Age should make it possible to work out a better way for the money system to evolve, so that it can be managed with the aim of making it perform efficiently and fairly the functions we require of it. In the context of sustainable development, the challenge for policy-makers is to make sure that the money system evolves as an accounting (or scoring) system that will operate to serve common interests, and the interests of all its users. [1]

It is now urgently necessary to face up to that challenge. More and more people are experiencing the existing money system as damaging, in terms of economic efficiency, social justice, environmental sustainability, physical and spiritual health, and peace and security. They see it as responsible:

- for the systematic transfer of 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 out of money and the rising values of existing assets, and away from productive activities that provide valuable goods and services,
- for systematic bias in favour of the people, organisations and nations who should be managing it on behalf of us all,
- for eroding the credibility of political democracy after 200 years of progress, and
- as a major source of opposition to globalisation in its present form, and thereby a threat to world peace and security.

The worldwide economy - at personal, household, local, regional, national,

1 . James Robertson, *The New Economics of Sustainable Development: A Briefing for Policy-Makers*, written for the European Commission in 1997 and published in 1999 by Kogan Page. The text can be downloaded from http://www.jamesrobertson.com/books.htm

international and global levels - is obviously much more important than a game. But it may be helpful to think of it as a game, and to think of money as its scoring system.[2] The scoring system for any game rewards some things and penalises others; and so, by motivating the players to play in some ways rather than others, it shapes what kind of game it is and what kind of outcomes it will have. Money's power in that respect is even greater than most other scoring systems; the scores serve as a means of survival and success as the game goes on. So how should we change the evident faults in today's money system, so that most of the world's people can have better economic lives?

## Lessons from the twentieth century

The twentieth century showed that a centralised socialist economy cannot work efficiently, justly or ecologically. But the idea of a free market economy based on objective prices is also sheer fantasy. In industrialised countries today tax takes at least a third of the total value of economic activity away from some activities, and public spending puts it back into others. Taxes add to the cost of what they tax, while public spending reduces the cost of what it supports. This skews the price structure of the whole economy against some things and in favour of others. It makes the proverbial 'level playing field' a mirage.

This means we not only have to go beyond the traditional conflict between a centralised socialist economy and 'free-market' capitalism, but also beyond ill-defined 'Third Way' and 'End-of-History' prescriptions. The democratic state must take on a crucially important role: to manage its own money dealings in ways that provide a framework of incentives for its citizens and their organisations to deal with *their* money in ways that, in serving their own interests, will automatically serve the interests of others too.

Another lesson is that Milton Friedman's teaching that there ain't no such thing as a free lunch is the reverse of the truth. By profiting from more than their fair share of the value of common resources (i.e. resources such as land sites and unextracted fossil energy, see pp124-5 for more details), powerful individuals and organisations and nations enjoy massive free lunches. The value

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2. Its rules are laws, regulations, treaties and other features of legal and judicial systems. Those are not the subject of this article, except insofar as they define how the money system should work.

of such resources should be shared as a main source of public revenue. The democratically elected government of the day would then decide how to use this new source of income: whether to increase public spending; or reduce existing taxes; or reduce government borrowing and the national debt; or all of those.[3]

This shift in the sources of public revenue would be a shift towards *pre*distribution and away from *re*distribution. By sharing the value of essential *inputs* to economic activity, predistribution will correct an underlying cause of economic incapacity, injustice, inequality, exclusion and poverty. It will be empowering, in contrast to redistributive taxes which, while aiming to correct the *outcomes* of economic activity, actually serve to generate economic inefficiency, stimulate tax evasion and reinforce dependency; and, moreover, they are very complicated and costly to administer.

One further twentieth century lesson is important. Centralised control of the money system at the national level (and of the currency at the Eurozone level) causes local and global inefficiencies and injustices. In many countries local monetary and financial initiatives - like LETSystems, time banks and community development banks - are beginning to support local economic activity and trading.[4] I discuss later the need for a genuinely global currency, global taxes and global public spending, to support fairer international trading and fairer sharing of the value of global resources. But first, what changes are needed in the money system at the national level?

## The monetary and financial responsibilities of the national state

The state has three operational monetary and financial responsibilities:

- to arrange for the *money supply* of official currency (pound, euro, dollar, etc) to circulate efficiently and fairly;
- to collect *public revenue* for spending on public purposes;
- to administer *public spending* programmes.[5]

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3. My own view is that at least some of it should be distributed to all citizens as a Citizen's Income.
4. See *The New Economics of Sustainable Developement* (note 1 above), chapter 4.
5. The state also has the function of regulating non-state financial institutions. Reforming the operational functions will indirectly help that function too.

## The money supply

Whoever puts new money into circulation profits from its value minus the cost of producing it, and also decides who will have first use of the money for what purposes. If almost all the money in circulation starts as debt which has to pay interest and eventually has to be repaid in full, additions to the money supply will automatically be accompanied by increased indebtedness in society, and money transactions will cost more than if all money circulated debt-free.

In a democratic society, therefore, one would expect that all money created as additions to the national money supply backed by the state would be created by an agency of the state and spent into circulation on public purposes. In this sense the national money supply should be seen as a common resource. One would expect it not to be created as debt. One would expect the government to decide what first use should be made of it. In particular, one would be astonished if commercial banks were allowed to create new money specifically to lend to the government, and then to receive taxpayers' money as interest on the loans.

Those reasonable expectations are contradicted by what actually happens.[6] In the UK, for example, less than 5 per cent of today's national money supply is created debt-free by the Bank of England and the Royal Mint as banknotes and coins. Over 95 per cent is created by commercial banks out of thin air, by writing it into their customers' bank accounts as profit-making loans. It has been estimated that UK commercial banks make over £20 billion a year in interest from creating this bank-account money, whereas public revenue from the issue of banknotes and coins is less than £3bn a year. It has also been estimated that additional public revenue of about £45bn a year could be collected:

- if the commercial banks were prohibited from creating new money,
- if the Bank of England took over responsibility for creating it all,

6. For the facts and figures in this and the two following paragraphs see Monetary *Reform - Making it Happen, International Simultaneous Policy Organisation*, 2004; and *Creating New Money: A Monetary Reform for the Information Age*, New Economics Foundation, 2000. Both texts can be downloaded from http://www.jamesrobertson.com/books.htm

- and if the Bank gave the money as debt-free public revenue to the government to spend into circulation.

Treasury ministers have so far refused to ask the Treasury or the Bank whether they accept those estimates as broadly correct.

In fairness, Gordon Brown did take a significant preliminary step towards a more professional and democratically accountable method of monetary control when, in his first act as Chancellor in 1997, he gave the Bank of England operational independence to manage monetary policy in accordance with the government's published policy objectives. But the Bank can still only still influence indirectly how much new money the commercial banks continue to create, by regulating interest rates and thus the price of borrowing for bank customers.

One argument still trotted out against such a reform is that money in current bank accounts isn't really money, it's only 'credit'. But official monetary statistics and policy-makers in fact recognise it as constituting most of today's money supply. In the nineteenth century when paper banknotes were recognised to be money, the Bank of England became the only bank in England allowed to issue them. Its banknotes may still say 'I promise to pay …'. But that is just a historical survival. Everyone knows that banknotes now are not just credit notes, but cash. Similarly now, almost everyone recognises that electronic money in current bank accounts is money immediately available for spending. The continuing creation of this state-backed money for private-sector profit is a glaring anachronism.

## National 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 in order to attract and keep 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 already becoming increasingly damaging. The Tax Justice Movement estimates that tax havens now cost £255bn annually to governments worldwide, and hold assets of $11.5 trillion ($11,500bn), causing serious distortion of economic priorities and encouraging criminal money laundering. [7]

Shifting a large part of the tax burden on to the value of land (which cannot move elsewhere) will probably be the most effective response to these problems.

As well as becoming less viable, existing patterns of taxation are 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);
- By taxing the value added by the majority of people's positive contributions to society (VAT), and failing to tax the value subtracted by the rich and powerful minority who profit most from the use of common resources (no VST!), they systematically skew the overall burden of tax in favour of the rich minority.

These facts all point to the need for a shift towards collecting the value of common resources as sources of public revenue. 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. Land is the most obvious example. The value of a particular

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7. To 'understand how tax havens, capital flight and tax evasion are harming global society and economic wellbeing' see 'Tax us if you can' - summary and free download at http://www.taxjustice.net/cms/front_content.php?idcat=30

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, 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. As a result of a public policy decision and then the investment of public money, the owners of those properties received 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 auction by the Treasury in 2000 of twenty-year licences to use the radio spectrum for the third generation of mobile phones raised £22.5bn for UK taxpayers. The governments of other European countries also raised very significant sums from the value of that common resource.

In addition to the common resources already mentioned - land-sites, the electro-magnetic spectrum and the national money supply - other important common resources include the value of unextracted fossil-fuel energy, the environment's capacity to absorb pollution and waste, the limited space available for road traffic, airport landing slots, etc, and water for extraction and use or for waterborne transport. The annual value of these and other common resources is very great. It rises along with the world's economic growth. Collecting it as public revenue would reduce the need for more damaging existing taxes.

### National 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. 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.[8] Systematic national and international measures to reduce them year by year are needed.

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8. Norman Myers, *Perverse Subsidies: Tax $s Undercutting Our Economies and Environments Alike*, IISD, Winnipeg, Canada, 1998.

Second, support for a *basic income* (or Citizen's Income) continues to grow, especially in Europe but elsewhere too.[9] This 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 public service organisations, to provide citizens with public services. Much of that public money could be distributed directly to citizens to spend for themselves in a market economy that had become more responsive to their needs than it is today.

### 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 that arise from providing useful goods and services. This will create a framework of incentives which encourages the market economy, freely responding to money values, to deliver 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 today. At the personal level too, citizens will experience greater freedom. A Citizen's Income will allow people, 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 could further reduce their need for money if they wanted to.

## A different approach to common resources

Through adopting new approaches to common resources, the UK government could improve its ability to safeguard the environment and sustain

9. Valuable sources of information about basic income include: Basic Income Earth Network (BIEN), Prof. Philippe Van Parijs http://www.etes.ucl.ac.be/BIEN/Index.html; Citizen's Income Trust, Malcolm Torry http://www.citizensincome.org/

infrastructure. Climate change and other environmental problems are one set of issues where rethinking policy about how we value and share common resources could be fruitful. Other current problems in UK politics - including the financing of affordable houses, transport developments and other public infrastructure like schools and hospitals - would benefit from solutions based on approaching land value as a common resource. For example, there are a number of organisations and individuals putting forward proposals that the state should capture growing land values through Land Value Taxation (LVT); and that it should directly control the creation of new money.

In March 2004 the final report to Gordon Brown of Kate Barker's Review of Housing Supply drew attention to the relevance of LVT, though it did not come down in favour of it. Local government, 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. On 20 September 2004 in the *New Statesman*, Dave Wetzel, Vice Chair of Transport for London and Chair of the Labour Land Campaign, wrote:

> 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.

Meanwhile, recent House of Commons Early Day Motions have been urging the Treasury Select Committee to commission independent reviews on how to increase the proportion of publicly created money in the economy, and on the benefits of doing so. The aims would include improved financing of public services and substantially cutting the costs of public investment.

Two important books on these topics were published in 2005: Fred Harrison's *Boom/Bust: House Prices, Banking and the Depression of 2010*; and Richard A. Werner's *New Paradigm in Macroeconomics: Solving the Riddle of*

*Japanese Economic Performance*.[10] Harrison's book is about the pathology of a tax system which encourages fluctuating land values and house prices, thereby causing booms and busts. Werner writes about the pathology of a way of creating new money which, by encouraging lending for the purchase of existing assets like land and housing instead of investment in productive activities, also contributes to booms and busts (and explains Japan's long drawn out economic stagnation). Each writer gives examples of the astonishing effects on house and land prices. For example, there is the case of a house in Chelsea in London that cost £1000 in 1910 and was worth £4.5 million ninety years later - an increase nearly 37 times greater than the increase in the price of a basket of basic items like bread and potatoes over the same period. Equally, in Japan's 34-year asset boom of 1955-1989 land prices rose by over 5000 per cent, ten times the rise in the consumer price index. These two books taken together clearly illustrate the arguments for, and complementarity between, replacing existing taxes with LVT and having stronger state control over the creation of new money.

Support for both of these reforms has been growing. They have much in common.

- Both will help to smooth out the peaks and troughs of economic cycles due to house price booms and busts, and banking booms and busts. When land values are taxed, continual rises in the capital value of land - that now encourage banks to pump ever more money into land and houses - will be reduced; and when banks are no longer allowed to create new money, money will no longer be specially created for speculation in rising land and house prices.
- Both will allow existing taxes that now damage the economy to be reduced and replaced with public revenue from the society-created value of land and value of the money supply.
- By distributing more fairly the publicly created value of resources that should be shared in common, both will help to reduce the 'free lunches' now enjoyed by landowners and banks, business corporations and rich individuals, and the associates of all these; and

10. For fuller details and comment see http://www.jamesrobertson.com/news.htm.

- Both will help to open up opportunities for enterprise and work to people now excluded from them.

## The global dimension

The international institutions that deal with world monetary management, public revenue and public spending also need to be more effective. They too should be based on sharing the value of common resources more fairly.

Ten years ago the Independent International Commission on Global Governance recognised the urgent need for international monetary reform in a globalised world economy.[11] Since then there has been growing criticism of the present 'dollar hegemony' of the United States. For the privilege of 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 has 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.[12] To build up their reserves, poor countries have to borrow dollars from the US at interest rates as high as 18 per cent and then lend the money back to the US in the form of Treasury Bonds at 3 per cent.[13] 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'.[14]

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 be a source of revenue to the world community, as national monetary reform would provide a source of revenue for nation states.

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11. Commission on Global Governance, *Our Global Neighbourhood*, Oxford University Press, 1995.
12. Richard Douthwaite, *Defense and the Dollar*, 2002; and FEASTA, *Climate and Currency: Proposals for Global Monetary Reform*, 2002. Details of both from The Foundation for the Economics of Sustainability, e-mail: feasta@anu.ie; web: www.feasta.org.
13. Romilly Greenhill and Ann Pettifor, *The United States as a HIPC (heavily indebted prosperous country) - how the poor are financing the rich*, New Economics Foundation, London, 2002; www.neweconomics.org.
14. Henry C K Liu, 'US Dollar Hegemony Has Got To Go', *Asia Times Online Co Ltd*, 2002.

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

## So what sort of game will we get?

The changes in the money system I have outlined would help to create a new direction of economic development.

Attention would 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 economic order would evolve into a multi-level one-world system, with more democratic structures of governance at every level. The fairer sharing of the value of common resources would 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 institutions would automatically harness self-interest to common interest within and between nations.

This approach accords with the themes of many contributions to recent issues of *Soundings*. These include Jonathan Rutherford's critical analysis of New Labour's policy of channelling costly private profit-making investment finance into public infrastructure and services (No 24); Edward Fulbrook's support for transforming economics into an enterprise that contributes to, rather than subverts, democratic processes (No 29); Hetan Shah's vision of a way of life in which people enjoy better quality of life and spend less time chasing money (30); Andrea Westall's support for strong economic frameworks and incentives that recognise environmental resource impacts alongside social justice (30); Molly Scott Cato's possible solutions to the problems of work, over-work and workplaces (30); Michael Rustin's proposal for a new model of a democratic state, working on both national and international planes, which can address, negotiate and manage the destructive consequences of global market forces according to the values of democratic citizenship (30); and much of what David Purdy says in *Human Happiness and the Stationary State* in this issue - though personally I find a new direction of progress a more inspiring prospect than a stationary state.

The aim of this article has been to offer the prospect of:

(1) the democratic national state performing its monetary and financial functions more purposefully and effectively.

This would:

(2) allow the market economy to operate more freely,
(3) enable people to liberate themselves from their present degree of dependence on goods and services and jobs provided by big corporations and the state, and
(4) reward people and organisations financially if they act in ways that conserve, not squander, natural resources.

The article has also offered the prospect of

(5) a new stage in the evolution of international political economy, similarly based on fairly sharing the value of common resources.

Various of these five points would be acceptable to socialists, free-market capitalists, liberals and greens. If people hitherto committed to the traditional left/right conflict were to explore their relevance to policy modernisation for both socialism and capitalism, the political impact could be significant.