THE END OF ECONOMICS

From Economics to Meta-economics

In August 1971 classical economics died, killed by President Nixon's decision to close the "gold window" which entitled any government holding US dollars to exchange them for gold. Henceforth, though economic theorizing continued, the real debate was to be about metaeconomics: that is to say, it was to examine assumptions it had previously taken for granted and address the most basic issue of all, "What is the purpose of economic activity?" This is the first of two questions that are implied in the ambiguity of the word "end" in the title – what is economic theory aiming to achieve? The other question is whether classical economic theory now at an end. The term "classical" includes all those theories which have sprung from Adam Smith's paradigmatic work *The Wealth of Nations* and which take his understanding of "wealth" and "nation" for granted. As this book hopes to demonstrate, however, on a planet being overwhelmed by population increase, with much of its mineral resources approaching exhaustion and with nuclear war threatened between continental-sized nations, these key economic concepts are urgently in need of examination.

This is a vast historical and technically complex subject and consequently treatment has had to be selective, compressed and simplified. In one sense it is impressionistic, with isolated items of information eventually building up to form a gestalt, but the overarching theme is human evolution and under that three subthemes, namely the evolution of money, of banking and of the joint stock company. Money is the foundation of all economic theory and practice, but something changes radically in that foundation when money goes from gold and silver to paper and then to blips on a computer screen. A bank is, in the most literal sense, an institution which has been granted the licence to print money. The joint stock, or limited, company is a relatively new form of human grouping, whose effects on shaping human nature are only now starting to be appreciated. Associations on the small scale dedicated to profit making are not new, but when they become transnational, they change qualitatively as well as quantitatively, taking on political powers that sway the decisions of elected governments. The conclusion which the book reaches is that economic reform must ultimately hinge on making the not-for-profit community the end of economics or rather, perhaps, the start of a new economic paradigm. If all individuals are products of socio-economic communities, the future of the human species is critically dependent on getting the theory of the economic community right.

Economics and Ethics

Economics has an ethical dimension that is rarely recognized by mainstream economists, and those, like Fritz Schumacher, who do recognize it are generally regarded as interesting but marginal. The tacit religion of most of humanity, whatever religion is ostensibly professed, is in effect the pursuit of material goods with greater or lesser dedication. The balance between spiritual and material today is more difficult to find than in the past, because simple survival in many business situations forces one into competition which is at odds with natural humanism. An advert some years ago recruiting officers for the Volunteer Reserve Forces offered as an inducement the benefits that businessmen would gain from its training - "Whether you are talking of unarmed combat or the cut and thrust of business life, we live in a competitive world." The message was illustrated with a photo of two grappling men, one attempting to gouge out the eyes of the other, who was attempting to stab him. Increasingly even small business concerns are forced into a hyper-competitive attitude which corrodes natural idealism, for it need hardly be said that one cannot treat one's fellows as either competitors or consumers during working hours and then switch into spiritual mode when one has locked up the shop for the night. The pursuit of financial wealth at whatever cost to our human ideals, is sometimes justified on the grounds that by compromising our ideals we can more effectively make the money that is required to hand it out in charitable work. This was the Thatcherite solution, claiming scriptural justification from the fact that no one asked the good Samaritan how he had made his money. That is true, but there was a hidden twist in her logic, for if he had made his money by exploiting his fellow man, he was unlikely to have suddenly changed his attitude at the sight of one of them in distress, and there is a very thin line between maximizing profit and exploitation.

Organised religion in the West is in dramatic decline, and one partial reason may be that for nearly eighteen centuries Christianity was able to live comfortably with economic systems that functioned only because one class of people were kept in serfdom, either as a whole social class at the bottom of a feudal hierarchy or as personal slaves after feudalism had collapsed. In many ways the chattel slavery which returned was a more inhumane kind of social structure, for feudalism did entail recognized obligations as well as privilege. I have sat many times in the great wooden cathedral in Georgetown, Guyana, taking respite from the tropical heat, and wondered how generations of plantation owners could have worshipped there alongside the human beings whom they sincerely believed were their personal possessions. Many voices were, in fact, raised in protest at various times against chattel slavery, but they had no lasting effect until the Abolition Movement succeeded in outlawing slavery in Britain and the colonies. But the spirit of slavery lives on and a main theme of the book is that economic developments of the past half century have resulted in a silent enslavement of the society at large by the banks. This is not and exaggerated of over-dramatic assertion, but the literal truth. That ordinary citizens are unaware that they spend a half of their working hours for the benefit of the banking system does not make it less true. Despite the mounting evidence of dehumanizing poverty in the West, we cling to industrial capitalism because there now seems to be no hope of an alternative to communism. The manifest dysfunctionality of capitalism no longer brings protest but bewilderment and apathy.

The old labels of "socialist" and "capitalist" are losing their meanings as the welfare state based on capitalist politics blurs distinctions, and two deeper principles now come into view. We see two human types emerging more clearly, with quite opposite motivations, namely those who are motivated by profit alone, which reduces to exploiting their fellow humans, and those who see economic activity in terms of cooperation for mutual benefit. The former is a zero sum game, for when one has taken all resources from one competitors and customers, economics is at an end. Cooperation, by contrast, is a win-win situation. Based on this logic, it can be seen that profit-making, which has driven economic advance since the industrial revolution at least, must now give way to systems and structures based on mutual regard based on a genuine sense of community. This is, in fact, a very old understanding of economics, which until quite recently has been classified as a part of moral philosophy..

Economics and Science

Economics is commonly called "the dismal science," though no one seems to know what the term means. Whether or not it qualifies to be a science is, in fact, doubtful, for though it seeks scientific rigour, human unpredictability too often results in exact mathematised theory which bears no significant relation to economic facts, and has no predictive power. As one financial commentator has said, "Economics is not a science at all. It is more like marriage counselling or homeopathy; if it works at all, it is probably just an accident. It attracts more impostors than an Elvis convention."[1] Economic quantities are susceptible to mathematical treatment, but not the idealism, fear or greed of the so-called *Homo economicus*, and once we try to quantify these to give predictiveness, we are liable to end up manipulating the equations and forgetting that "the map is not the territory."

Economic models today are essentially theories of machines that balance growth, inflation and unemployment, sometimes as complex weighing scales, sometimes as hydraulic systems with the taps, valves and pumps of taxation, bank base rate, public spending, etc. by which the pressures are controlled. The breakdown of the machine model in economic practice is an underlying factor in the world's economic malaise. It would be easy to get lost in a forest of economic theory at this point, but all that needs to be said to indicate the inadequacy of current theory is to point to the practical contradictions to which it leads. When a country like Britain can lose £1,800,000,000 in one week of currency speculation, as it did before it was forced out of the European Monetary System, yet plead inability for lack of money to keep open some of the finest teaching hospitals in the country or to provide textbooks for schools, we are surely living in the realm of economic lunacy - the detachment between theory and reality has become complete.

Overarching the details is the fact that the definition of human welfare has started to diverge dramatically from that which economic theory has traditionally assumed - and hence that which economic practice has pursued. Initially, the goal of economic theory and practice was quite simple, the increase of social and individual wealth, a wealth that was measured in terms of material goods. The ultimate measure of success in economic theory and governmental policy was, and continues to be, increase in Gross Domestic Product, but GDP, as every first year economics student knows, is a very crude indicator: it includes the wealth made from selling tobacco, alcohol and advertising space along with bread and education, for it has no way of distinguishing their social value. The increased activity in addiction clinics that comes from increased trade in alcohol is a double plus in standard economic theory. This illogic is defended by economists on the grounds that it is not within their brief as scientists to make value judgements and distinguish beneficial from harmful economic activity. GDP is an economic constant which can be compared in its importance to Newton's assumption that the speed of light is infinite. Once the speed of light was shown to be finite, a new science of physics was born. In a comparable way, once GDP is replaced as an absolute measure of economic achievement, we shall have a new science of economics. We need a sustainable economics, a call which has long been made, but all our existing structures and ways of thinking are geared for growth and profit. Professional economists are, almost without exception, facing in the wrong direction.

How the Definition and Function of Money have Evolved

When we look more closely at what money actually is and what it does today, rather than what classical textbooks tell us it used to do forty years ago, we find a difference that will start to explain why our economic systems are not working, and thus give us a chance to create something appropriate to our needs. Economic theories which begin with different definitions of money will end up with quite different results. Introductory textbooks give a threefold definition: money is a medium of exchange, a store of value and a measure of value. What they rarely, if ever, draw attention to is that money is a means of social coordination. The universal use of money to buy social coordination is so taken for granted today that it will be useful to look back at a time when matters were otherwise.

In 1970 the Aswan Dam was completed in Egypt. It was a complex operation which was initiated by money from the World Bank and coordinated by money paid to every one of its workers, from the chief architect to the humblest labourer. This assertion may not seem worth mention until we compare the Aswan Dam project with the construction of the Pyramids, some three thousand years before, a project which rivalled it in scale and surpassed it in some aspects of technical achievement. The building of the Pyramids, however, was neither initiated nor coordinated with money. It originated in the Pharaoh's desire for eternal life in the next world and eternal remembrance, and it was achieved through the rulers' ability to kill or punish anyone who obstructed the project. No doubt other motives, such as national pride and religious hopes, were involved, but coordination of the whole project was achieved partly by willing submission and partly by the implicit threat of punishment.

Viewed from this perspective, the social function of money, other than as a means of trade, can be readily appreciated. For many centuries society could not organize itself efficiently because money as we know it did not exist. Money, in gold, silver and bronze form was in use in Sumer as long ago as 3,000 BC, their unit being the shekel, a word which meant literally a basket of wheat. With the decay of the highly sophisticated Sumerian empire, however, there appears to have come an economic dark age, when what passed for money was the most easily tradeable commodity of the time. Usually this was livestock, and the Latin word *pecus* (allied to our word *pig*) gives us the word *pecuniary* as a linguistic clue to the nature of economic activity until the time of the Greeks. After this period came an enormous improvement in trade when gold became accepted as a uniquely valuable medium of exchange, for gold is not only desirable for its ornamental use, it is virtually indestructible, compact and thus portable - and hideable. It is also in limited supply, a geological coincidence that was to have critical effects on economics and society. Were gold as plentiful as iron, its usefulness as money would be about the same as that of iron. We entered the early modern age of economics with the invention of coinage by the ancient Greeks (and possibly earlier by the Chinese). Coins gave an immediately measurable value to a piece of gold, and with this fact the slow and clumsy process of bartering was transformed. Silver, though neither so desirable nor so scarce as gold, extended the range of coin-mediated trade. For the first part of his life my father received his wages in gold and silver coins and, as a young man, I received mine in notes and silver, but today, with the exception of parts of Africa that still use the old Hapsburg silver dollar in trade all money is in paper or base metal coinage.

With the use of coinage, trade took on an extra dimension of time and economics proper was made possible. With coinage one could exchange not only present goods but anticipate future transactions, and make them possible. Simple barter is a crude and very restricted process of trade, and enormously wasteful of time. I can only swap my ten geese for the chair you have made if you just happen to want ten geese at the present moment. Coinage not only enables the exchange to take place more efficiently, it enables me to save and wait until I have another ten geese for sale, which widens my trading horizons, eventually enabling me to accumulate enough to buy a house, without accumulating thousands of geese. It also enables people with exchangeable goods to act in harmony on social projects, to build a road or aqueduct, for instance. Of equal importance, it vastly increases the power of central government because it makes raising taxes much easier. Coinage created a skeleton and musculature for the body politic. Before it was invented there was no civilisation, nor was civilisation in any meaningful sense possible.

The limited availability of gold, however, meant that even with a coin-based economy efficient trading was constrained. If the supply of gold and silver was smaller than the supply of goods, the shortfall resulted in a reversion to old style, inefficient bartering. For perhaps two thousand years after the invention of coinage, supply and demand of gold and silver were in rough balance, with new sources of gold broadly matching increases in production, both being very slow. That was, however, merely a historical accident, and the consequences of having a bad imbalance showed up dramatically with the discovery of the New World and vast new sources of precious metals. Within a couple of decades the Spanish had shipped to Europe gold and silver in quantities that were probably several times greater than what was already in circulation. Production of tradeable goods could not increase to match this new supply of money, and so ensued a virulent price inflation that lasted for over a century until money and goods came into a rough balance again.

Soon afterwards the opposite problem started to appear. As the industrial revolution got under way, new inventions, manufacture and commerce increased by leaps and bounds, and there was a shortage of coinage to enable trade to expand. For the next two centuries, lack of liquidity acted as a constraint upon economic expansion, but a constraint which was considerably reduced by the invention of banking as we know it. Banking is, quite simply, a system for providing liquidity on demand or, if one prefers, creating money for trade at the stroke of a pen, thus dispensing with the need for new gold mines to be discovered. If this sounds like magic, it is because it is magic, the magic of the professional illusionist. Lord Stamp, one time Director of the Bank of England, expressed it succinctly, "The modern banking system manufactures money out of nothing. The process is perhaps the most astonishing sleight of hand that was ever invented …. If you want to be slaves to the bankers, and pay the costs of your own slavery, then let the banks create money."

The Magic of Banking

The way in which this magical method arose is interesting, for like many other aspects of social evolution, it was stumbled upon by accident. When goldsmiths, who lent money for clients against the valuables left for safekeeping in their vaults, realized that they could issue phoney credit notes against the same valuables (thus earning interest for themselves, not the depositor of the valuables), they proceeded to do so, and thus banking in the modern sense was born. What began as a scam has become institutionalised. A bank is a confidence trick of such huge proportions that it is hard to believe, partly because it is so huge, partly because there is nothing secret about it, and partly because the average intelligent but financially untrained person has no idea of how the national and global monetary system works. It is a peculiar conspiracy of the few that keeps the mass of people in a form of relatively benign slavery that is rapidly changing into a malign form of tyranny. As banks have become "too big to fail" because financial collapse on this scale would bring the economy of a whole country to an end, their welfare, rather than that of the country's citizens, has become the whole object of government.

Credit - The Genie in the Economic Bottle

It can be appreciated from the above that modern economics concerns not strictly the theory of money but the theory of credit, and modern economic systems are a result of credit creation that has continually attempted to escape the restraints of gold supply and asset backing. Money has now become backed by credibility of a very tenuous kind, for ultimately the value of a national currency is measured by the future productive capacity of that country's industry. The continually changing difference between currencies without gold backing has created a vast international market in money as a commodity, but a commodity so tenuous as to be hardly more than a concept. Most money today is a surreal creation of electronic screens on which bartering, in the form of gambling against the future, goes on in a world almost totally detached from the world of mines and forests and factories where real people create real wealth. World trade in money now far outweighs trading in goods. Each day over two trillion dollars of currency is exchanged, and it is estimated that less than 3% of this money that changes hands is related to actual goods or services: the rest is spent on buying money with money and on complex derivatives which buy the opportunity to buy money at some future date on the gamble of profiting from a different exchange rate. It is gambling pure and simple. What once was a system of trade has become a global casino.

A trillion is a very large sum, a thousand thousand million and, in advance of deeper analysis of the world financial system, it may be noted that the American government's deficit, mostly from borrowing to pay for war, is currently eight trillion dollars, and rising at a monthly rate of roughly twenty billion dollars per week. Given a working population of Americans at roughly a hundred and twenty million, earning an average wage of $39,500 per year, and annual interest of, say, 5% accruing on this debt, it is not difficult to see that even the enormous industrial power of the United States will not be sufficient to save the country from eventual bankruptcy. Almost everyone in America and outside is sleepwalking into an unprecedented collapse, which spells the end of economics as we have known it. As one commentator put it, "We are witnessing a train wreck in slow motion."

Without doubt the most explosive factor in the world's monetary situation is the emergence of the derivatives market, just mentioned. The legendary investor Warren Buffett, who has made billions backing his hunches, has described derivatives as "weapons of mass destruction", for it is certain that many of the institutions (hedge funds and investment banks) which are acting as bookmakers in this vast gambling frenzy will not be able to pay up when the bets are called. It is customary to view currency speculators as social parasites, but the reality is that each one of us is a dealer in this market by proxy, for the money we have placed in banks and insurance and pension companies is traded there daily for our benefit. We would feel aggrieved if our pension fund manager were to pass up a chance of making several million pounds merely by pressing a few keys on his computer to buy yen and sell pounds when the pound was falling. The alternative he has is to lose money on our behalf by not anticipating market movements and keeping his - i.e. our - funds in depreciating currencies. Our present and future welfare depends, then, on this global wheeler-dealing in a commodity which is called money but which has little real value, and what little value it has is virtually untraceable to its asset backing. How long can this money market, detached from the real world of goods and services, continue to operate?

The Genie Escapes from the Bottle

When President Nixon severed the connection between the American dollar and gold in 1971, he gave the American government and most other governments the opportunity to print money in unlimited quantities if they so wished. In theory a currency thus inflated would find its true value by "floating" in a free market, but in retrospect it became clear that if no currency had the absolute value which gold had previously given it through the dollar, then international currency relationships were inherently unstable. What, in fact, happened was that the US dollar, the deutschmark (at the time) and yen took on the role of benchmark currencies, partly because these countries' economies were the most powerful and partly because they had inflation under control. In effect, the value of these national currencies was being defined in terms of their countries' industrial output for some years to come. If anything were to go seriously wrong with these expectations, then global financial instability would ensue, and so it seems to be happening.

The Alice in Wonderland consequences of valuing money by the methods just sketched out are illustrated in the change of wording on British bank notes. Where once, a generation ago, a five pound note had inscribed upon it a legal promise by the Bank of England to redeem it for five pounds value in sterling silver, the present note promises "to pay the bearer on demand five pounds". In other words, the Bank's legal obligation is only to exchange it for another fiver, or five one pound coins, or "brass sovereigns" as they have been humorously but accurately dubbed. A similar deception exists in other currencies. In the United States, for instance, a twenty dollar bill, carries no promise of any kind, just the words "Federal Reserve Note", where until the 1920's it said quite clearly that it would be exchanged for an ounce of gold.

The End of Money

In effect, the money which has been created since the gold standard was abandoned has been fairy gold, but indistinguishable from the real thing. The wide open market in credit which the changed definition of money created has allowed both governments and individuals to use this mostly spurious money in a historically unique way. Where coinage allowed the immediacy of barter to be extended into the future, and credit created money out of a promise to pay, the new freedom to create credit changed future barter not only quantitively but qualitatively. The mortgaging of the future which credit brings about is now entering into a phase where the time horizon is becoming unreal. Whole nations are now working to pay for the past, insofar as much of the public and private debt arises from delayed payments for goods which are depreciating, especially the motor car (which will call for special attention below) or have disappeared altogether - e.g., food, drink and holidays.

There are so many different and interconnected factors here that it is difficult to discern a process at work and even more difficult to defend inferences which are not quantifiable. One statistical fact does, however, stand out as significant, namely, that the return on shares, measured conventionally as the price-earning ration (or P/E), has noticeably decreased over the past twenty years in the world's major stock markets. Typically, thirty years ago a firm with good prospects for expansion might have had a P/E of perhaps 8, indicating roughly a gross profit of about 12% on capital employed, of which perhaps 5% might be returned to the shareholders in dividends, and the rest deployed by the company in various ways - developing new product lines, opening new factories or stores, etc. Typically today a well regarded share might have a P/E of 20, with a return to shareholders of 3%. [Note: these figures are some fifteen years old and critically worse at 2017]. The changes in these figures represents a perception, often no more than a hope, that the high cost of the shares, relative to present returns, will be justified by a doubling of profits and returns in the near future. Nippon Telecom at one point some years back had a P/E of over 250, and a dividend of less than 0.5%. What this represented was ultimately blind faith that the company's profits would multiply thirtyfold, to pay the shareholders a little more interest than a bank deposit account. This simple fact was obscured by the more obvious fact that if the price was going up, one could always buy and hope to make a greater profit by selling than would make in dividend from holding the shares. This is now the most common attitude of financial advisers, subtly but fundamentally altering the whole philosophy of investing in shares, for they are no longer seen as, literally, a share in the business, a sort of sleeping partnership. In effect, stock market investment has become a "pass the parcel" operation before the game ends in the next great crash. Those who run the game, and government itself, obviously have a vested interest in making sure that it goes on as long as possible.

It can hardly be stressed too much that modern credit-based economies have an inherent instability because though they start by mortgaging the future, the future eventually becomes the present, and the present becomes the past. Hence, if the future is not fully paid for when it arrives in the present, there is less and less cash to spend for what is needed here and now, let alone for the investment that is needed in a properly run economy. The fact that this process happens slowly and unevenly conceals its effects, but we can hardly ignore the fact that the social fabric of Britain, and to a different extent of other countries, is breaking down for lack of money to maintain its infrastructure, its schools, railways and hospitals and pay for teachers, nurses and policemen. A permanent mortgage to the past is the deadly impasse towards which capitalism is tending. We see the signposts flash by as we move towards it, in the form of dwindling resources for social needs, and central government's attempts to conceal the fiscal crisis by placing the burden on indirect taxation and on local government.

In the Belly of the Dream Machine

The subheading is taken from the title of an old article in *The Guardian*, the dream machine being the motor car and the belly a biblical reference to the way in which the car culture has swallowed up western economies like some apocalyptic beast. The specific economic factor of the car is worth adding to the generalities of monetary evolution because the economic consequences of the car culture provide an exemplary case of the hidden socio-economic problems that face the western world today. The million or so cars which are junked in Britain every year would cover an area stretching up the M1 from London to Birmingham and completely covering its six lanes - a rough measure which gives some idea of the problem. The economic issues will be reduced to two, leaving the very serious matter of air pollution out of the picture.

The first is that when all the expenses of owning and running a car are totalled up - depreciation, insurance, petrol, repairs, licensing, garaging, etc. - and added to the wasted hours spent in traffic jams, the average driver can be seen to expend no less than thirty hours labour a week of his or her time for the luxury, convenience or necessity of owning a car. That is an economically very significant figure. Some of the expended time would otherwise need to be spent on public transport, walking or cycling, but the remnant is still very substantial. To put it in the context of social need, one need only ask the question, what improvement would there be if half our expenditure on the automobile were spent on schools, hospitals and public transport, etc. If the average family spends, conservatively, £80 per week on its car and were to give this sum to the government as tax revenue, the national community would have a staggering £2 billion per month at its disposal to do something about the quality of life.

The second point is that some 20% of all steel, 10% of aluminium, 60% of rubber and up to 60% of oil consumption in the British economy was in the recent past used up by the automobile, and while the majority of cars are now imported, the ramifying economic consequences of the car industry exemplify a principle which will run right through any economic planning that takes the welfare of human beings as its aim. The central issue is that a modern economy cannot be radically reformed with great speed, because the parts are so interconnected. Were one able to abolish cars at the wave of a wand, the effect would have devastating effects on the country's economy and, more generally, on the global economy. It would create poverty and chaos on a scale to far outrival the existing evil. Because of this, the realisation of green, pacifist and humanitarianism principles is likely to be dependent on restraint in applying them. We shall have to live with many evils that we wish to eradicate for as long as it takes to wind them down at a safe rate.

Redefining Money

The economic transition now facing the world will be as incomprehensible and unthinkable to most people as the challenge which faced the starving hunters of the late Stone Age, when a whole new way of living, based on the unknown techniques of agriculture, was forced into being. Existing economic skills, the prestige of our leaders, the shape of our social institutions, the very sense of our worth as individuals, are all bound up with the familiar world of profit-driven capitalism. It is not going too far to say that the identities of the individual, the state and the global community are all bound up with an implicit definition of money that is now calling for change, but the nature of what is to replace it is obscure and unproven on a large scale. [2]

We are talking here of a type of money different from the credit-based money on which the world now depends and which it takes totally for granted, despite the manifestly bad social consequences that have ensued since the world adopted a means of exchange which had no asset backing (or the ten per cent backing just noted.) Inventing a new kind of money is no New Age dream, but a conclusion that follows from the hard logic of history. One of the finest theoretical and practical economists of the last generation was Jacques Rueff, formerly finance minister in the de Gaulle government. He was categorical in saying, "Money will decide the fate of mankind." He is one of the few who could see how closely the economic catastrophe of the 1930's was an inevitable consequence of a credit-based monetary system. In his words, "Future students of history will be shocked and angered by the fact that in 1945 the same monetary system that had driven the world to despair and disaster [after the stock market crash in 1929] and had almost destroyed the civilization it was supposed to stand for, was revived on a much wider scope." The reasons for his pessimism will be amplified in later pages, but his summary statement is worth including here, because it puts the case for the End of Economics in a nutshell.

Alternative currencies have a long and fascinating history, but state-supported credit-based money has come to dominate for various practical reasons, and because printing money into circulation is a jealously guarded monopoly, and powerful political and commercial forces collaborate to protect it. Token or scrip based currencies have been tried successfully on a limited scale, but are unproven on a large scale. The earliest of these initiatives appears to have been that which took place in Guernsey between 1815 and 1836 after the Napoleonic Wars, when shortage of money prompted the island to issue its own interest-free notes in order to provide a medium for economic activity. The significant points to be noted from this twenty year episode are that (1) in twenty years the economy went from stagnation and unemployment to prosperity, (2) Guernsey was an anomaly within the British Isles by having historical powers to issue its own currency, (3) the monetary domain was clearly defined, because Guernsey was an island, (4) control over the new "money" was carefully maintained to avoid excess of money over available goods. Two things of general interest are worth particular notice, namely that what was created as money was not money in the usual sense, because it paid no interest - by current definition it was anti-money - and the scheme was bitterly opposed by banking interests in London, which eventually succeeded in bringing it to an end. This opposition recurs continually, and successfully, when a viable alternative currency threatens the interests of conventional banking system.

Few economists of note have been interested in alternative theories of money. Of these few Silvio Gesell stands out, for he was instrumental in starting small scale experiments in Germany and Switzerland during the Great Depression. The best known is probably that which took place between 1929 and 1933 in Wörgl, a small town in Austria, when the town council issued "labour certificates" which could be used as currency within the town. Local workers were paid in the local currency and spent it in local shops, boosting the previously moribund economy to the extent of enabling the town to acquire a new reservoir, street lighting and drainage system. This was a living, and rapid, proof that a properly designed token exchange system could transform the potential of individual labour into goods and services for the whole community. The "labour certificate" was doing for Wörgl what credit-money created by the banks ought to do but which it does only erratically or not at all. Wörgl's quasi-money not only bore no interest but actually depreciated in value by one per cent per month, which motivated people to use it as rapidly as possible in order to create economic activity.

The success of the experiment was so manifest that it attracted attention in other countries whose economies were equally paralyzed in the Great Depression, and over 200 Austrian local authorities met and decided to set up the same kind of mini-economy as Wörgl. At this point, the Austrian banks challenged the legality of the scheme, and the Supreme Court banned it on their appeal in 1933. One might wonder why the government should kill off a scheme which was potentially so beneficial to the whole country, and the question leads ultimately to the realisation that the conventional banking system is protected by vested interests with strong links to government. We do not normally suspect these links in a democracy, but without exception when the interests of the people and those of the banking system come into conflict, the government sides with the banks. This is hardly a secret, for one can find it said by an endless list of authorities. Thus, Reginald McKenna, Chancellor of the Exchequer in 1913, "Those who create and issue the money and credit direct the policies of government and hold in their hands the destiny of the people."

Another well known alternative economist, inspired by Gesell, was Scottish engineer, Major C. H. Douglas, whose theory of "Social Credit" was actually taken as the name for political parties in Canada and New Zealand. The former came to power in Alberta, in the 1930's, and issued "prosperity Certificates" very much like Wörgl's "labour certificates" to be used as money. It had limited success, and was largely dismissed as "funny money." As in Austria, the Canadian federal government declared this illegal, thus neutering the political policy of the Social Credit party, and its reason for existence. This did not prevent it staying in power for some years. These and other experiments illustrate two important facts about radical monetary reform. Firstly, no theory has yet been worked out which will enable local currencies to be integrated with national, let alone international currencies and, secondly, any such future theory could hardly be separated from reform of national democratic politics.

How Feasible is a local Token-based Economy

There are at the present time a good many local token economy schemes in existence which operate similarly to the ones just outlined – i.e., using some alternative to bank-created money. They generally go under the name of LETS - Local Exchange Trading Systems - which was given to a scheme started in 1983 in Courtenay, British Columbia. This particular one has been operating with limited success and ambition, the limitations being self-imposed by the fact that it is local. The difficulties are partly legal, partly fiscal and are very real. It is one thing to organize a town economically so that I can exchange my labour as a car mechanic for your labour as a house painter without money changing hands, but something far more sophisticated is called for when the town needs a new library or bus service.

There is also the chronic problem not only of resistance from the banking establishment but of the fiscal authorities, for there are great tax advantages to the individual in bartering, and equally disadvantages to central government. Taxation, whether directly on income or indirectly as a value added tax, happens only when a transaction involving money takes place. By contrast, if I exchange my house for your house plus car, neither of us pays tax. Hence, whatever social benefits may accrue from a barter system of any kind, there is an inbuilt loss of tax to central government and, insofar as we all suffer when government revenue is decreased, there will be a hidden disadvantage to the individuals who are doing the bartering. If one considers in imagination the effect of half the trade in Britain being done through

LETS, one can appreciate that we would lose half the financing for schools, roads, hospitals, etc., which comes out of taxation revenue. Experience on the small scale suggests that no large scale initiative could succeed without provision being made to provide for the community at large the sort of amenities which are now financed from national and local tax revenue. Without a worked out method of extracting tax revenue, alienation between a self-sustaining alternative economy and the community at large will arise very easily. Indeed, it is to be hoped that a large scale LETS-type economy would generate a more sensitive than normal social conscience, and thus make provision for putting more into society than simple justice would call for.

There are about two hundred LETSystems in the UK, precise figures being difficult to obtain because some are very small scale and new ones come into existence as old ones are wound up. Some work with paper or plastic tokens, some with LETS cheque books, which allows for overdrafts. Some have the support of the local authority, some are hardly more than work-swapping clubs. Some business owners in the locality pay their staff's wages partly in LETS tokens, which can be exchanged for goods and services offered by another member, and this particular point highlights two major problems. Firstly, payment in tokens clearly defines them as quasi-money, and thus a taxable benefit, and secondly, the more universal any scheme becomes, the more it generates a bureaucratic structure to control things and keep records.

Most of the schemes have a computerized system at their heart, keeping track of credits, debits, defaults and membership numbers. One issue of *Permaculture* carried a daunting account of how the Totnes LETSystem struggled to computerize itself, on the assumption that "if LETSystems were to spread, then the software had to work." I think a case might be made for the contrary assumption, namely that universal usefulness could be defined as "workable without computerized administration." The real challenge will be how to simplify, rather than how to shape a system in order to harness computer power. Without going into this particular issue further, it can at least be said that one should seek to find the optimum balance between simplicity and complexity.

The most critical problem, as already indicated, will be the interface between any new kind of token economy and the existing monetary economy and, for that reason, logic seems to demand that whatever is used as a medium of exchange should not be denominated in orthodox currency. That may at first seem counter-intuitive, but as soon as token or scrip of some kind is denominated in pounds, dollars, euros or some other currency, it takes on their problems, most obviously the problem of inflation.
.
It is worth considering that the best way to avoid the paperwork and bureaucracy that existing LETS systems rapidly generate may be to wind back the economic clock and return to the principle of barter by redeemable metal tokens or notes which have backing of hard value. The invention of plastic banknotes, which are virtually indestructible and impossible to counterfeit adds some weight to this possibility. Our normal economy is moving in quite the other direction, towards a so-called cashless society, but there is no particular advantage in using a card and PIN number over paying cash, and a very definite advantage in countering the credit card fraud, which most in our society have encountered, if not personally, at least through one or more friends who have suffered it. There is a great deal to be said for instant money.

A Not-for-Profit World

Of all the economic structures which have come into being since the dawn of civilization, none has had such a profound effect upon our species as the emergence of the joint stock company in the nineteenth century. In Britain it is called the limited liability company, in the US it is the incorporated business, and in France the *Société Anonyme*, each term representing an important aspect of its revolutionary nature. Its birth in Britain was relatively easy because such joint enterprises had existed for two centuries in the Merchant Venturers of Bristol, the Hudson Bay and the East India Companies and similar associations in Holland. Few, however, are aware of the constitutional struggle which ensued in the United States before the joint stock company was given legal status as a fictive person, with an identity separate from any of its members. Unlike an individual, the limited company did not need to accept liability to its creditors beyond any financial amount it chose, it was impersonal (anonymous, as the French put it), and it was a recognized social body, with all the properties, tacit or explicit, that went with this status. As a cricket club is founded for playing cricket and a church for promoting religion, the joint stock company was founded for the single purpose of making profit. Free from normal moral restraint by its impersonality, its sole moral principle became in theory and in practice "Business is business". Like any other social organism, it shapes its members and its social environment, and always towards defining the individual as either a consumer or a unit of corporate profit-making. In a small family business, this trend to dehumanisation is not usually visible, but in the extreme, especially in transnational corporations, it is very visible indeed. Further, because the joint stock company has a responsibility to its shareholders to maximize the returns on their investment, it cannot give anything but lip service to environmental concerns. Its human and ecological depredations are treated in more detail elsewhere on the website.

The two related points being made here are that the joint stock company was a radically new form of the human community and has unintentionally set a destructive course for human evolution. As its structure and its aims have become a norm for business activity, profit-making for its own sake has become a disease which infects us all and a mind-set which determines the way in which we view the world and our fellow humans. When profit-making itself becomes the aim of life, it is not long before common morality is corroded. Profit as an unquestioned principle soon corrupts into the anti-morality of "Greed is good", as one American businessman notoriously expressed it (shortly before he was indicted and jailed for fraud) and "Love your neighbour" becomes a questionable moral maxim, at best an option, rather than an imperative. Standards of individual, national and international integrity are lowered as "spin" becomes an ever more important tactic in making money, until it morphs into outright deceit, and lying to the electorate becomes an unacknowledged strategy.

The joint stock company sets – indeed, has already set – a new kind of social ethic which is replacing what, in the West, was once called Christian values, although the same principles can be found in other religious cultures, even if not always practised. It is naive to think that overwhelming reliance on marketing, presentation and image in business leaves our habitual code of conduct unaffected. Deception becomes ultimately a part of normal life because the business corporation is not a person and has no conscience, and deception on a cultural level ultimately becomes self-deception. Not only do we cease to resent being manipulated for other people's gain - commercially and politically - in some strange and quite frightening way we come to expect it, subconsciously at least, as an unspoken norm in business. This is without doubt because we are part of a manipulative system and have a vested interest in it. The next stage is that the individual starts to fool himself or herself as a way of coping with reality.

This is a hidden cancer in business that is metastasizing into all aspects of society. The extent to which dishonesty and greed are corroding society is yet to be fully recognized, but one marker can be found in newspaper and television reporting of malpractice in mutual building societies in Britain. These societies are non-profit making and ostensibly run for the benefit of their members but are now being operated in many cases for the benefit of the directors and as though the members and the public exist to be preyed upon. One article, exposing the disinformation that some routinely give to their members, asks, "Are building societies wolves in sheep's clothing?" [3] It is also significant that although text book economics tells us that the joint stock company is run for the benefit of the shareholders, it has often become in reality a legal vehicle for directors to pay themselves exorbitant salaries and bonuses regardless of what good or damage they may have done to the shareholders' interests, in effect legally looting shareholders' funds.

Since there is no hope of returning to the past (and we should resist the temptation to idealise it), we must now either accept the systematized pursuit of profit as the main purpose of life or remake the world on the basis of new socio-economic principles. The most fundamental of these new principles is at first too obvious to notice and then when attention is drawn to it, seems too impractical to be worth considering. It is the principle of a not-for-profit community. Since we live in a society which is not only driven by the profit motive but structured in response to it, such a proposal will seem unrealistic in extreme, but the key word here is "community," for the community can be of any size, shape or structure that we choose to make it. If a reasonably self-sustaining micro-community can be created, then the possibility of meso- or macro-communities can be addressed as a matter of scaling up the logistics. The single issue here is the brute fact that a dehumanizing society will create dehumanized individuals and thus we must do something to reverse the regressive spiral now developing with frightening speed, as what was considered an ethical aberration of selfishness and deceit in one generation becomes an acceptable norm of behaviour in the next. A start must be made on this task without at this point having answers to a dozen fundamental questions, the first step being to recognize that it is not only an economic problem but a human problem on the widest scale. Though we have no charts for the future, we do have partial answers and suggestions from economic history and from the theory of organizations, and these will be deployed in the following paper to take the initial debate to the next level.

REFERENCES

1. Bill Bonner, co-author with Addison Wiggin of *Financial Reckoning Day* and *Empire of Debt.*

2. The need for an alternative currency to bank debt, of which I write here as a social-philosopher, is supported by Bernard Lietaer, Professor of International Finance at Louvain University and a senior executive of the Belgian Central Bank. In *The Future*

of Money: Creating New Wealth, Work and a Wiser World (Random House, 2001) he asserts that "the vision for this movement toward complementary currencies lies in human values that reach across national boundaries." Thomas H. Greco's *Money: Understanding and Creating Alternative to Legal Tender* (Chelsea Green: White River VT, 2001) covers much of the same ground but also gives practical advice.

3. "Survey Unmasks Mutuals' True Colours", *Sunday Times,* 1. 7. 2001