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Stephen Zarlenga and Robert Poteat

"The Nature of Money in Modern Economy – Implications and Consequences"

Ahamed Kameel Mydin Meera

Former Professor and Dean of Institute of Islamic Banking and Finance
International Islamic University Malaysia

The paper touches upon one of the most important issues of modern economics and finance, i.e. the nature of money. It is clear from the observations of global events and the frequent economic and monetary crises that are plaguing modern economies, that money has a lot to do with those events. I totally agree with the writers' observation that the nature of money is among the most neglected and misunderstood concepts when it is so fundamental to the working of a just, stable and sustainable economy. Lietaer (2012) clearly illustrates the link between money and sustainability – both economic and ecosystem sustainability. In other words, money is so fundamental that we cannot take it for granted. If it is flawed or messed, then the society would be messed too. John Maynard Keynes is reported to have said, "I know of only three people who really understand money. A professor at another university; one of my students; and a rather junior clerk at the Bank of England" (quoted in Lietaer, 2001, 33).

The paper is not a very academic paper but nonetheless puts forth with historical facts that money should be issued by the government instead of predominantly being issued by the banking sector, which is mostly privately owned.

Many great minds of the past, like Aristotle, seem to have recognized money as being an abstract thing while wealth being tangible. Indeed, money has both the characteristics of being an abstract and a tangible. In its physical form, like gold coins of past, it is a tangible wealth but when it is used for measuring the value of things, like in credit sales, it is abstract.

Money is indeed needed to lubricate the running of the economy. That is, it provides the needed *liquidity*. The true fundamental purpose of money is to solve the two problems associated with barter trades, i.e. (i) double coincidence of wants and (ii) indivisibility of items of exchange. The introduction of money into society solves these two problems but however, also allows specialization to take place. Accordingly, money increased productivity and made exchange a lot easier, thereby increasing the standard of living of people. Money, therefore, can be anything society chooses, that can solve the barter problems. Indeed, mankind has used many things as money – cowry shells, salt, grains, gold and silver for example. The present paper, however, seems to stress the point that money is what the law determines, by accepting that thing for payment of taxes etc.

A very important point brought forth by the authors is that how a society defines money determines who controls it, i.e. the power to issue, withdraw and determine who gets it first. This power indeed has tremendous implications for the economy, including even the ecosystem. If money is precious metals like gold and silver, then the wealthy will control it, including the monetary mechanism. They can indeed use this power to their advantage. If money is mostly credit, like in the present global system, then the bankers would control it since they dominate the credit market. Accordingly, they can also use it to their advantage. Those who control money could easily also control the domains of political economy, i.e. wealth and power, without much productive work on their part. In this context, it's obvious that the benefits of money creation should accrue to the entire society, and not just the bankers or the rich. Hence the suggestion that the power of money creation should be vested in the government. Historically, governments have controlled money since with it comes power and wealth. Government control of money is much more acceptable with the condition that the government is a just government and not a corrupted one. In this regard, the Public Banking Institute based in California is working towards legislating for the establishment of state-owned banks so that state governments need not borrow money at interest when funds are needed(1). Therefore, the idea embedded in the Chicago Plan to nationalize the privately owned Federal Reserve System and its 12 privately-owned Federal Reserve banks is a noble initiative indeed. So are the initiatives of the N.E.E.D. Act. However, there is a catch here. If the government issues too much money relative to the real economy, then that would be inflationary and affect the people accordingly, particularly their savings and purchasing power.

The authors' distinction between money and credit is noteworthy. In today's system, most money is indeed credit created by means of debt, particularly through the fractional reserve banking system. This has bestowed tremendous power on bankers who have become very wealthy and powerful in the society, with least real contributions to the economy. It is this fiat nature of bank-created credit money that is significantly behind the cause of inflation, bubbles, widening income and wealth distribution gaps (during money creation period) and recessions, unemployment, foreclosures etc. (during bust period, or money destruction period). This imbalance is also shown to be a cause of destruction to ecosystems, global warming, conflicts and wars (and mass migrations). Indeed, one author even showed that it is a cause for the shrinking population faced by many nations, particularly the economically-advanced countries like Japan, Europe, Singapore, etc. (Meera, 2016). Therefore, admittedly, the private creation of money by bankers, as in the present global financial system, is indeed a very serious problem.

The authors wrote in the article:

> Under the old "gold standard" system new money could come into existence by bringing new gold from mining operations or from external transfers, into the mint or the Treasury. However, it was never really feasible to use gold for money, because aside from being at odds with the abstract nature of money, gold supplies have almost never kept pace with population growth and commercial development, making any true gold standard system a formula for deflation – i.e. not enough gold money. This periodically caused bank crises and crashes" (61).

However, I would beg to differ that gold was never feasible to be used as money. Firstly, this greatly contradicts historical observation that gold did play the role of money significantly throughout human history, in one form or another, until the collapse of Bretton Woods in 1971. Money, being a *measure of value*, has to relate itself to something real and valued by society that would play the role of an *anchor* between the monetary sector and the real economy. The measure of value, therefore, got to be a commodity (like gold, silver, wheat, barley, salt, etc.) or some standardized service (like air-time in M-Pesa in Kenya). The chosen commodity measure of value becomes a *reference point* for all transactions. Gold's limited supply is indeed a positive thing because this gives a small quantity a relatively large value. Hence, a small gold coin that is easy to bring around carried a large purchasing power. Also, due to the velocity of money circulation (where a coin is used again and again in many transactions), a large amount of gold

(1) North Dakota, which has public banking, is the only state in the U.S. that was not hit by the financial and economic meltdown triggered by the 2007 sub-prime mortgage crisis.

was not necessary. Also, historically gold output had grown around 2.5% annually matching the annual growth rate of global population. Gold is also not a formula for deflation as has been proven by a number of studies, particularly that of Prof. Roy Jastram. Jastram (1977) showed, with more than 400-years data, that when the prices of commodities were measured relative to gold, they were amazingly constant, hence the title of his book, *The Golden Constant*. When things are priced using gold, gold is money and price becomes relatively constant. However, when things are priced using fiat money gold becomes a commodity (and therefore can be an item of investment) whose value can fluctuate according to the fluctuation of the value of the fiat money that prices it. Hence, like in today's market when the gold price in dollar rises, that does not necessarily indicate that the value of gold has gone up but rather that the value of dollar has declined. Hence, gold as money is indeed stable. However, the prerequisite is that pricing of goods and services must be made in gold. This is kind of a barter system, but it does not face the earlier-mentioned barter problems since here gold plays the role of money. This is indeed desirable since every transaction, from the first one, is *fair*. In a fiat money system, even if it is under the control of the government, the first transaction is *not fair* due to the seigniorage of the fiat money. This can also open the door to manipulation by unscrupulous politicians. Creation of money by the government is also not fair since it would be inflationary and eat into the purchasing power of existing money, affecting the savings of everyone including the poor.

Notwithstanding the good intentions of monetary reports and legislations, like the Chicago Plan, Glass-Steagall and the N.E.E.D. Act, in my opinion, the best form of money for today's world is *gold-based interest-free electronic credit, in a netting setup*. In a way, this is Aristotelian because in this method money is abstract since it is more of an accounting system as in mutual credit clearance arrangements. The benefits of being interest-free are quite understood and does not need elaboration but being gold-based is to provide the system with an anchor to the real economy. This indeed would make the system inflation-free and eliminate foreign exchange risk faced in international trade and dealings. Nobel Laureate Robert A. Mundell remarked that the volatility in today's forex markets is the greatest threat to human prosperity. As mentioned earlier, gold's stable value against commodities has been proven for long periods, even using about 800-year data (Abdullah, 2013). The authors' assertion that gold's value was volatile in the immediate aftermath of the establishment of the Federal Reserve needs further analysis. Even then, the authors did not give any suggestion that the value of fiat money issued by the government would be stable relative to gold.

Electronic credit bestows the power to create money on neither the rich nor the bankers nor the government but on every entity (individual, firms and government), checked by the entity's ability to bring forth goods and services into the economy. In this way, enough liquidity will be always there and guaranteed. There would be no shortage of money and hence no recessions, meltdowns, etc. The control of money creation will be in the hands of everyone. Being electronic, it is modern, extremely mobile and efficient, lending itself to real-time audits anytime. Based on its expectation of tax and other revenues, the government can spend that much of credit into the economy, on infrastructure and other fiscal expenditures.

Overall, the paper is a timely one, addressing a fundamental problem in economics and finance that needs urgent attention and remedy before we destroy the global economy and ecosystems. The authors' recommendations that money creation be bestowed entirely on the government, that the fractional reserve system be stopped and newly created money be pushed into the economy particularly through infrastructure spending is much appreciated but nonetheless we view it as an intermediate solution towards a more comprehensive solution like a gold-based interest-free electronic credit system.

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Ahamed Kameel Mydin Meera is Former Professor and Dean of Institute of Islamic Banking and Finance, International Islamic University Malaysia. Currently the Managing Director of Z Consulting Group (ZCG), Petaling Jaya, Malaysia. ZCG is an independent provider of multidisciplinary research, analysis and consultancy in inclusive wealth and sustainable socio-economic development**.**

E-mail: akameel@gmail.com