George points out how international trade does not depend on the existence of an international currency or the actions of national governments but rather on a system of commercial credits that those buying and selling overseas have confidence in.

CURRENT CONFUSIONS/ARRANGEMENTS

Under current arrangements it would seem to be impossible to distinguish between Bank-created money based on debt and legal tender money issued directly by government. They merge as one. If George's idea of government-issued money (legal tender) being strictly and directly under the control of government were to be implemented, a clear separation would be required. It is not too difficult to envisage a situation where bank created tokens of credit denominated in money units could be exchanged for legal tender at something other than a one-for-one basis. Most of us are already familiar with a working model—the daily use of both debit and credit cards and their associated accounts.

One could envisage a situation where all payments to and from the government would be permitted only in government issued money (coin, paper, plastic and digital) and how all this money would be registered, just as bank notes already have an ID code attached. Individual units could also have a limited life to ensure their circulation rather than storage.

HOW MUCH MONEY DOES A NATION NEED?

Maybe a nation would not need all that much of this sort of money to do its primary job. In the UK the value of the bank notes in circulation at present is, according to the Bank of England, around £50 billion. If, as seems likely, each note could be used at least twelve times a year (i.e. compatible with the normal monthly interval between payments of salaries and accounts) this would enable 50 x 12 = £600 billion worth of trade to be carried out using these notes. Since this represents around a third of the current GDP, would a mere tripling of government-issued money, which currently represents between 2% and 3% of the broad money supply, be sufficient to enable all genuine trade to be carried out? Would we then see more clearly what the remaining 90% plus money has been created for? Money used for speculative purposes or for gambling does not constitute trade or exchange - they are zero-sum games, i.e. with winners and losers. With genuine trade both parties and society win, i.e. a win/win/win situation arises.

MONETARY AND FISCAL UNION IN THE EUROZONE

The current Eurozone crisis has served to illustrate the link that necessarily exists between the monetary, fiscal and political policies of an economic community. Where the economic community consists of a sovereign state this is taken for granted, but in the EU this has not been the case and the dilemma members now face is

whether or not more fiscal and political union is a price they are prepared to pay to save the monetary union embodied in the euro.

A problem for producers in the least economically productive locations within the eurozone is that their ability to sell the wealth they produce to customers abroad is restricted by the high and inflexible value that attaches to the currency they are obliged to use (the euro). At the same time, producers in the more economically productive locations enjoy an advantage by being able to use a currency that, being determined by the overall economic performance of eurozone countries, is for them undervalued. A burden that all producers are obliged to bear is the contribution their governments demand of them for public revenue to fund public expenditure. If the taxes their governments levy do not take locational differences into account (e.g.VAT), the problem is made worse - marginal businesses become unviable and tax revenues decline, whilst demands for public expenditure to relieve distress due to unemployment increase. As governments realise they are unable to raise sufficient public revenue through their malign tax systems they are obliged to chose between borrowing or cutting public services as the current sovereign debt crisis illustrates.

Alternatively, if public revenue is raised with due regard to the locational advantages that some producers enjoy such problems may be remedied. This advantage arises in comparison with producers who operate at the margins of viability and is reflected in the locational rent producers would be able and willing to pay to go and/or stay there. The collection of this locational rent as public revenue would thus provide the remedy that is needed. Such an approach is sometimes called a tax on land values, or a land value tax (LVT) but this is misleading since it is not actually a tax (i.e. an additional cost of some economic good or service) but rather a way of ensuring that a value that is created and belongs to the whole community is collected for sharing with the whole community. Unlike a tax, it does not take from individuals or firms what they have produced by their own enterprise or effort.

As the UK continues to demonstrate, monetary and fiscal union does not provide for economic harmony if monetary and fiscal policies are wanting - even where the cultural differences between regions is small. The very real danger now for Europe, where the cultural differences are large, is that failure to implement viable monetary and fiscal policies could be catastrophic!

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HENRY GEORGE FOUNDATION

MONEY

Learning From Henry George

By
David Triggs

INTRODUCTION

Recent events in Europe and the world of government, money and banking have demonstrated an appalling ignorance regarding the management of the money supply. The economic problems are assumed to hinge around monetary and fiscal issues—but nobody now seems willing to be clear what money, in its various forms, actually is and how it is created, or what constitutes monetary and fiscal policies that are complementary and viable.

MONEY AS DEBT

Thirty-five years ago the renowned economist John Kenneth Galbraith, in his book 'Money—Whence it came, where it went' provided a possible explanation. He said: "The process by which banks create money is so simple that the mind is repelled. Where something so important is involved, a deeper mystery seems only decent." He was referring to the way that banks create money by lending money they do not have. When money is 'lent' in this way it becomes a deposit in the account of the person or firm that borrowed it and, Hey Presto!—it is regarded as a financial asset. This, the famous, but rarely mentioned, 'money as debt' issue is why the supply of money has got out of control, and why governments thought they could control the money supply by controlling the interest rate.

CLEARING THE DECKS

Nearly a hundred years before Galbraith, Henry George addressed the money issue and his findings should be studied by anyone attempting to deal with it today. First, he was clear about the primary function of money Next, he took the trouble to distinguish: (a) between money and wealth, (b) between money and credit, (c) between money-lending and credit, and (d) between money creation and money circulation. Having clarified these points, he was able to identify the duty and role of government with regard to money, and the legitimate business of banking.

THE PRIMARY FUNCTION OF MONEY

George held, as he said any five year old would tell us, that the purpose of money is to buy things i.e. it is a medium of exchange. Essentially the only value of money is 'in exchange'—it need have no value 'in use'. As money becomes the 'most exchanged' of all things it becomes the most common measure of 'value in exchange'. The value of all exchangeable or traded things may thus be measured in money units.

MONEY AND WEALTH - THE DIFFERENCES

He was clear about the need to distinguish between money and wealth. Money is not wealth, although it may be exchanged for wealth. Wealth has physical existence - the material world modified by human labour. In contrast, money exists essentially in thought as an idea; it is immaterial; its true nature is abstract. Over the ages money has taken many material forms e.g. shells, metals, coins, paper notes and tokens of debt etc. It is in essence, however, distinct from any and all the forms it may take.

Money also differs from wealth in that its value has a quite different source. The source of value that people attribute to items of wealth derives from the difficulty (i.e. labour) associated with producing the like again. The value of money, on the other hand depends not on any difficulty associated with producing it (which can be negligible) but on the difficulty of acquiring it. Such difficulty is thus associated with its scarcity and hence the control of its supply. Thus George makes clear that, whilst the value of wealth comes from production, the value of money does, not but rather from the fact that a person is obliged to render value if they wish to avail themselves of it. Monopolies of all sorts (including land ownership) give rise to such 'value from obligation' whilst some rare items of wealth (e.g. an artistic masterpiece) may derive their value from both production and obligation.

CREDIT

Simple credit arises when one individual (or group) agrees to postpone collection of payment from another individual (or group) to bridge the time gap between the commencement of a productive venture and the completion of a saleable product. The most common examples are where employees give credit to their employers by agreeing to be paid in arrears and where suppliers allow for a settlement period. Such credit requires knowledge of, and confidence in, the other party: it does not generally work between

strangers. An important difference between transactions undertaken using money and those involving credit is that a credit transaction is not complete, since a debt remains, whilst where money is used transactions are complete and no debt remains.

Although employees and suppliers are the most common providers of credit, they are not the most widely recognised as such—banks are. Banks specialise in credit and may provide it to a producer if they believe the debt will be redeemed from new wealth that the producer is thereby enabled to produce. In this, credit becomes an alternative means of accessing real capital i.e. wealth used to produce more wealth. We are not referring here to 'consumer credit' which is merely designed to 'take the waiting out of wanting'.

MONEY - A STORE OF WEALTH OR VALUE?

If money is not wealth it cannot be capital or a store of wealth. Unfortunately, however, it is commonly regarded as a store of value. Clearly if, and when, money is stored, it is taken out of circulation and cannot perform its primary function as a medium of exchange. It is rather like taking certain valuable words or parts of speech out of use in a language. In the same way that making some part of a nation's language unavailable would restrict its ability to function as a medium of communication and thus limit communication within the nation, making some part of a nation's money supply unavailable for exchange reduces its ability as a medium of exchange and thus limits exchange and trade within the nation. Here we may see the importance of distinguishing between credit and money. Clearly credit and debt <u>can</u> accumulate and thus become a means by which claims on wealth may be stored without inhibiting trade. Wealth itself may also be stored (e.g. as commodities, grain, gold, diamonds, works of art, artefacts or buildings, etc.) without inhibiting trade.

MONEY-LENDING

The mortgage provider and the pawnbroker are the two examples of money-lending that most people will be aware of. Here money is lent against a lien on property - no credit is involved. If the borrower defaults, the property (or part of it) is forfeit. For the pawnbroker or the building society the money lent will be money that is already in circulation. A mortgage from a bank, however, may be quite a different matter, and is the most well-known example of the 'money as debt' system referred to earlier. Banks have a massive usurious incentive to exploit the licence they have been given to create money in this way. Such money is not created in response to a prospect of enabling more production (including trade) but merely to enable land (which nobody produces) to be bought and sold. The more this money becomes available, the higher the price of landed property and the more debt there is in society. Where the wealth must come from to fund the so-called interest payments is another story.

WHERE THE VALUE OF MONEY COMES FROM

Unlike a token of credit, where its value derives from a confidence in future production, the value of money does not come from production but rather from a confidence that such money will generally be accepted in exchange for goods and services or redeem any obligation or debt. Ultimately, the confidence has to be in the honesty and integrity of the body that issues and controls the amount of money in circulation.

Henry George points out how… "These obvious considerations have everywhere, as society became well organised, led to the recognition of the coinage of money as an exclusive function of government." In this he does not ignore the fact that such power has been abused in times past as monarchs and governments (through personal ambition or their failure to collect legitimate public revenue) have sought to enrich their exchequers by such practices as clipping and debasing their nation's currency. Rather he regards the transparent risks involved in governmental abuse, where they have direct responsibility for the issue of currency, to be less than those that attend the more obscure regulation of private individuals and groups, who are granted such a privilege. The motive for such abuse by an honest government would of course be eliminated where public revenue was sufficient because it had been raised without recourse to taxes that inhibit trade and production i.e. by the collection of community-created value only.

CREATING MONEY

George considered it wrong and dangerous to permit individuals and associations (i.e. private banks with a pecuniary interest) to issue money. He argued that doing so had a corrupting influence on government (due to the need for regulation) and occasioned a substantial financial loss to the general population. No doubt recent events concerning the regulation of banks and financial institutions by government agencies would have reinforced his concerns and provide much evidence to support this view.

George's key conclusions were that:
The issue of national currency money (legal tender) and the control of its supply is the exclusive business of Government.

The legitimate business of commercial banking is limited to the safe-keeping and loaning of such money, and the making and exchange of credits on their own account (i.e. not backed by Government).

In this context it may be noted that in England a debtor cannot be successfully sued for non-payment if he pays into the court in legal tender i.e. coins issued by the Royal Mint or Bank of England Notes. Where the parties to a transaction agree, however, they are free to accept any form of payment whether legal tender or otherwise.