A Critique of Alternative Money Theories

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Silvio Gesell was one of the few theorists of anarchism who dealt with economic issues. He was a kind of model for Keynes, who explicitly referred to him. Today, in view of the financial crisis, many people reflect back on him. This is reason enough to offer a critical assessment of him.

First of all, however, I will talk about what money is.

1. Exchange

The market is where commodities are exchanged. Whoever wants to buy something in the market — whether its a small, local one or the big world market or e-Bay — must simultaneously give something else for it. He also must have something that he can exchange. If he has nothing, he can also get nothing. He cannot satisfy what needs he always has.

At the same time, we have a system of property which excludes most people from any opportunity to produce something. Most people have no land on which they could grow anything. They do not have a workshop in which they could put something together. They do not even have a house or a hut in the woods where they could live. In order to access food, housing or consumer goods commercially, they must give something for it — nowadays it is money. However, it would not be any better if all kinds of exchange objects were admitted or asked for on the market because they also do not have them. Most people are simply excluded from any possibility of creating something useful.

There are many explanations for why there is starvation in the world. They are all wrong. Among other things, because they ignore this basic equation: in order to get something, you have to give something. They mention logistical and distribution problems, nature and its quirks, human greed and corrupt officials, or an unjust world order in which one side overeats and the other thus does not even get the bare minimum. If such reasons are accepted and acknowledged, exchange and the principle of ownership are politely left out: they can not be the reason. Often just a better exchange policy, a “fairer” access to this very global market is recommended for the food problems of humanity.

You no longer have to look at the the Third World, the countries of the periphery, to find hunger. There are, as you can see from the media, in the centers of our world order, even here in Berlin, lots of people who have difficulties feeding themselves properly. For example, schoolchildren who have nothing to eat at home and are supplied with food in school and by food banks. And these social conditions are not ignored, everyone knows them. But one can also bring up such truly outrageous conditions unperturbed because everyone who reads about this or sees it on television is convinced that exchange and ownership are necessary, and that nobody would produce if they were not then afterwards satisfied with an equivalent. The media can be sure that nobody starts to doubt our economic and social system, but only calls for initiatives to make this condition manageable.

So I attach great importance to the fact that exchange is a form of exclusion because today, in view of the fact that money has fallen somewhat into disrepute, many critics of our social system see the solution to all these problems in a return to a type of barter economy, or to a means of exchange which is not money, but some other useful object.

I will also point out that before colonialism there were many societies and economic forms which knew nothing of exchange, and where the people were somehow well fed and clothed.

Many of the indigenous movements in Latin America today, for example, have set a goal of getting back the land that has been robbed from them over the centuries and managing it communally. And they are brutally massacred by the respective governments — also in Venezuela, for example — because their desire signifies a fundamental criticism of property and exchange, and thus puts in question the foundation of the states in which they live.

However, the defenders of our social order never tire of pointing out that exchange is a good thing and it is best of all done with money. This is how they want to create propaganda for money. They point out with all kinds of examples that it is terribly impractical if people go to the market with potatoes and want to exchange them for shoes. And if someone wants to be sure to exchange without fail, this is indeed really impractical. Will someone want potatoes who also has shoes to give for them?

2. The universal equivalent: money

Therefore, so say the devotees of exchange, it is a fine thing that a universal means of exchange exists, one that all wish to have. Marx called it the universal equivalent to express that there is and must be a means of exchange that everyone accepts and everyone wants to have.

What does this mean for exchange? It means that everyone who wants to exchange wants to have this universal means of payment, so that they get it for what they want to get on the market. So they offer something and hope that there is a buyer. And then they want to obtain for their commodity what the other sellers recognize as an equal value. Everyone who goes to the market accepts and wants this universal equivalent because with it they are sure that they themselves, when they use it in this country, can also use it to buy.

Do not forget: everyone only goes to the market with his commodity because he wants to get rid of his stuff first, and secondly wants to get something that he himself does not have and is unable to produce himself. No matter whether it is food he wants to eat or raw materials he needs for the production of his commodities. Everyone wants this universally accepted medium of exchange.

Earlier, in societies with simpler exchange structures, in the Middle Ages in Europe, this universal equivalent was a precious metal: gold or silver, and copper as coin. And there was the one who empowered this universal equivalent: the state power. Gold and silver mining, even if they were pursued privately, were put under state control, and the right to mint coins was a state monopoly.

If someone has control over this universal means of exchange, he has a power of control over society: this authority can determine the conditions of exchange and force them on others. This authority has the ability to determine what something is worth and what it is not. Therefore, the feudal rulers — kings, emperors, princes — secured the monopoly on the extraction of precious metals and the right to mint coins.

All those who go to the market to get rid of something want to get for it this universal means of exchange, money. And so of course they accept that their commodity is measured in this value, this coin. That means that they recognize a universal measure of value, which their product, their commodity, must be subordinate to, because that's the only way to get a universally recognized value. And their product, their commodity can be converted into cash only if it can obtain this value, if it actually has value, thus is sold.

Insofar as one day a “measure of value” (also an expression of Marx for one of the functions of money) is established and everyone strives to receive it in their hands, metallic money then has its shortcomings: its availability is limited, its production is complicated and expensive, and it wears out in use, in changing hands. The time is ripe for its replacement by more suitable substances.

3. State paper money

The states, the sovereigns, as guarantors of the universal equivalent, eventually decided to produce this themselves, and to use their pure power to do this. This was a protracted process.

Paper notes as money substitutes led the way. Merchants put down bills of exchange and banks printed banknotes. These private value-substitute slips had their validity as representatives of commodities or coins. They were reliable in reference to commodities to be sold or through promises of coins. The state learned from this, and from the demand for its own coin money, that this was replaceable: through the state’s promises of payment, which it guaranteed, thanks to its power. The state paper money, which itself has no value — or as much as other paper products, napkins, toilet paper — gets its special value as a universal equivalent from the fact that the state guarantees its value and says: this note is 50, that one 100 marks or today euros; the two notes are of course the same in their substance. The difference in their value comes only from the outside, from the state, which prints a different value on it.

Today, the value of commodities, thus all wealth, is measured *only* in state paper money. It also does not go any differently. The circulation of money as precious metals is unfeasible. The exchange economy and the circulation of money are not abolished, but increasingly called into question, and indeed not from a distrust of exchange, but of value: if I have something on the market and receive a universal equivalent for it — do I generally have the value of my commodity? Can I buy something with it of commensurable value to my commodity? The exchange relation is generally questioned, but not according to its substance, but its manageability.

And with this Silvio Gesell becomes topical once again.

4. Gesell’s criticism of money, property and interest

What pertains to the preoccupation with Gesell is similar to that of his admirer Keynes: he is referred to, but hardly read. So a few points where Gesell has followers, even if they maybe do not know his theories and hence do not at all know that they are in agreement with him.

4. 1. The backing of money

A criticism of modern state paper money is that it is unprotected and can therefore suddenly lose value at any time. My main objection against such a criticism is that money and value production are things in themselves to be fought and abolished. But Gesell’s criticism also has its internal contradictions.

a) Money should be backed up by commodities

How should this go? If a nominal value is printed on bank notes and a pile of money is confronted with a pile of commodities, how should “backing” appear here? How much money a product is worth is something that first ordinarily shows up on the market. In order to realize the targeted “backing” or correspondence between commodities and money notes, one must decree the value of every single commodity in money and make price changes punishable. Then, however, there is no more market and we are in real socialism, and it also ends private production.

b) Money should be backed by precious metals

Silver or gold are stored in national depositories which should guarantee the value of the paper money put into circulation. Only: as soon as confidence is lost in the paper money and the citizens want to exchange the paper notes for the money commodity, there is of course too little of it there, and the parity has to be repealed. Because every amount of gold which is stored in the bank is a horde of dead capital, it is always held low and represents only a fraction of the money in circulation.

This type of backing only applies as long as it is believed. You can not guarantee money value. I say this because there are now again proposals to introduce a gold standard. But how should that go? As soon as a state says: 200 dirham are as much as an ounce of gold — who believes this? And the gold, in order to be able to be exchanged for any amount of paper money, has no state, and there is also not at all so much of it in the world.

4. 2. Against ground rent, interest and income without labor

First, images of the kind: someone who does not work should also get nothing to eat, are unpleasant from the outset: one thinks of work camps and euthanasia. Somehow, they make up a society in which there are only those healthy and able to work, and all the others fall through the cracks.

But I also have economic objections: Gesell’s free economy opposes developed capitalism with a precapitalist ideal: in opposition to the separation of the producers from the means of production it advocates a return to a state where the producers are at the same time farmers and craftsmen and sell their commodities themselves on the market. It is also popular with dropouts who seek their salvation in agricultural communes.

What is first and most important to say against this free economy is that it is adverse to reality. This model (and that it is backward is the slightest objection to it) pretends as if our economic system is based only on errors and one should just invent a better one in order to make everyone happy. Why it is about money, money acquisition and profit, and who has an interest in maintaining it — that is of no interest, so a brave new world is painted.

Constructing models and model thinking also has its use in modern economics: there it is always done in such a way as if, nevertheless, the economy exists here for all of us, and one only needs the right model. And if one already exists, and it is good for nothing, then one goes on to construct the next one. The interests which rule the world, and their executors, are nicely left aside with such castles in the air.

How Gesell’s free economy eliminates ground rent and interest is also very elegant: he considers not how they come into the world, thus why they both exist, but explains them to be undesirable elements in a construction kit that one can simply eliminate — while retaining others, the better ones, like commodities or money. Which brings us to his ideal economy.

4. 3. Commodity production: a fundamental human right

Labor, provided that it is honest and one's own, gets a fat praise. Only someone who works should also eat. It is possible that Gesell did not think so, but this is the implication in any case.

Secondly, it is just like with the avowed defenders of the market economy, as if all needs are satisfiable by the market. Everybody produces what he can and wants, and you will find a buyer for everything. Unless one can offer an equivalent, one's need is negated, as in capitalism.

Maybe something about how the planned economy contrasts to the market economy: planned economy means first of all only that the need should be raised first and afterwards the production is established. A plan will ensure that what is produced is exactly what is needed. Today, with the internet, this would really not be a problem, that everyone declares his wishes, and production possibilities are ascertained, and then the two are somehow brought together.

Against the planned economy, a caricature of a commission is always sketched, one which decrees the needs, designs them; and on the other hand, this holds private initiative high as the realm of individual freedom. And in this way the absurd fact is endorsed that one produces first and then see whether one finds a buyer who puts down money for one's product. As a result, if you think through the idea consistently, this accepts that needs are not met — because they are not able to pay — and poverty and misery are explained as necessities of nature.

4. 4. Money as cash, intermediary for commodity exchange

It is often said that Silvio Gesell wanted to abolish money. From what I have learned and read about him, this is a mistake. No, he was a merchant and thought like a businessman: he wanted to make money functional for commodity exchange. And he had his theories about what stands in the way of the management of money. He especially wanted to prevent money from disappearing from circulation, being hoarded, and becoming a separate commodity which is then used for speculation and lent again for interest. He wanted to keep it in circulation, therefore his shrinking money theory: hoard formation should be punished by the depreciation of money. So because he did want to renounce a universal equivalent, money should always remain in circulation and serve the mediation of commodity exchange. His shrinking money teaching draws from the fact that he was an unconditional defender of the commodity and exchange.

Often when the issue of local money as a solution to the problems of money circulation is brought up, Gesell's theories are to support this. I have selected two examples to show why such an emergency money — because such moneys invariably arise in emergency situations and are therefore only tolerated for short amounts of time — appears and what it does.

5. Token money — local money as "the answer"

a. Worgl

In the 1930s, the Austrian town of Wörgl was bankrupted by the global economic crisis and it could no longer pay its employees. So the mayor, a supporter of Gesell's free economy, decided in 1932 to issue a local currency which, through various maneuvers, should be recognized as a money substitute. This was guaranteed by the local priest and the local credit union. The salaries of municipal employees were paid in this local money and in fact succeeded in creating a regional solvency and thus animating commodity circulation in Wörgl and its surroundings. Three other villages in the surrounding region also wanted to issue local money. The regional money of Wörgl created solvency in an area at a time when insolvency had previously prevailed. The Austrian National Bank fought the regional money of Wörgl from the beginning — it was a challenge to the state monopoly on bank notes — and it was ended in 1933 under threat of military action, thus was prohibited by state intervention.

b. Argentina

In 1991, Argentina negotiated with the IMF a parity of dollars to pesos to stop the runaway inflation in the country and to stabilize the currency. One of the conditions for it was that the Argentine state had to refrain from issuing money. The IMF controlled the monetary policy in Argentina.

One consequence was that Argentine exports were more expensive and the country lost its export markets. But also in the domestic market Argentine products were no longer competitive in comparison with cheaper imports. The IMF urged the Argentine government — which wanted to hold to the dollar parity — to privatize unprofitable companies. They could not be subsidized by the state. The privatization had in most cases the same effect as closure.

In this manner, from 1991 to 2000 Argentina liquidated a good part of its industry which originated from the times of the Peron government. This included the railroad network, the aircraft, automobile and military industries, the energy sector and the consumer goods industries. Argentina became a net importer. It had to import more and more of everything that it no longer produced in its own country. So its trade deficit grew. Argentina had ever bigger problems placing its bonds on the world market, had to offer higher interest rates and the state debt rose while the economy shrank continuously. All this has led to the national bankruptcy of the years 2001–2002.

But already in the 90s, the economics of scarce money had its consequences. In the provinces of the north, there was no money. Whatever industry there had once been was gone. The only employer was the state. Besides agricultural production, partially a subsistence operation, there were salary recipients: teachers, civil servants, doctors. They often received no salary for months.

To generally maintain some money circulation, the provinces issued their own money — the money tokens were called Bonos — which were recognized only within the province. The IMF turned a blind eye on this and this money was not included in the money creation policy of the Argentinean state. However, it was not enough to create a frictionless economy, and there were in the 90s hunger riots in these provinces, which were suppressed by the police and the military.

In 1995 even a nation-wide alternative currency, the Credito, originated in flea markets and unemployed exchange markets. This parallel currency was also tolerated because it prevented the collapse of the economy. This regional creation of purchasing ability of course also led to abuse. Those who issued these tokens took something for themselves. In the end, these money tokens were no longer recognized. Today the peso is worth just as little as the local currencies, which no longer exist. One consequence of the state's bankruptcy in 2001 was the end of the local moneys.

What service did they have?

1. To generally hold together the cohesion of the state. If we all do not get salaries as state employees: teachers, civil servants, doctors — for what do we still work? These people were kept on staff with “bonos,” local money. These people with “Bono” regional money, when the rod held.

2. To maintain the infrastructure. Buses had to travel between provincial towns, and between the capital and the provinces.

Now I don’t want to bore anybody further with details about the Tyrol in the 30s and Argentina in the 90s. I have only given these examples because such local moneys are referred to as illustrations of Gesell’s theories. The local moneys are created in times and regions in which capitalism has failed as value production, but where nevertheless the principle of value production and commodity exchange should be retained. They are necessarily temporary: because money is just the general equivalent that should represent value.

If one sees the issuing of local money as a way out of the crisis, one does not understand what money is: first, a general equivalent that everyone recognizes, thus accepts as a representative of value. Secondly, and just therefore an expression of value, a means of business: the attempt to introduce money in a regional context and to preserve it as a means of circulation is nothing else than the attempt to survive the crisis of capitalism so that it can rise again later in full bloom: as the exclusion of the needy, those without property, from the goods of the world, or the use of the poor for the business of the propertied.

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