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The Place of Money in an Earth Restored

Paul Krumm and David Ciscel

The following dialog resulted from a response by Paul Krumm to the continuing Circle of Discernment (CoD) of the *Quaker Eco-Bulletin* editorial team along with David Ciscel. —Editors

On Money, Natural Capital, Right Relationship, and Deep Ecology

Paul Krumm

The discussion of natural capital[1] and deep ecology[2] cannot be approached without a discussion of another issue. This one is not the "Over-Popul-Umption Elephant" in the room brought up by Louis Cox.[3] It is an even more Invisible Elephant, money.

The issue is how money itself works, and its fallout in the economy, including how we relate to property and the natural world.

We often talk about what money does, but don't look deeper into what money is. Bernard Lietaer, the money theorist behind the transition to the Euro currency, has defined money as follows: "Money is an agreement within a community to use something as a medium of exchange."[4] Recognition that money is an agreement allows two things to happen. First, it allows us to discuss what the agreement is, and second, it allows us to consider the results of that agreement, and possible results of adopting different agreements.

What is the present agreement? The answer to this question is simpler than might be guessed. Our present agreement about money is to use an accounting system of pure numbers to represent value. Our money is not stuff in the ordinary sense. It is simply numbers on paper or in a computer, and on another level, Universal Executive Information. If a person can access this Executive Information, they have a right to execute their wants.

How is money created?

In our money system only two percent of the money exists as coins and paper money. The rest is created out of nothing by banks in the borrowing process when a customer needs money and borrows it into existence. The bank takes provisional ownership of collateral (for instance a car) put up for the loan, in the form of a lien which the bank enters on its books as an asset, and balances that entry with an entry showing an equal money liability to the customer. On the customer's account an entry is made as a money asset which can be utilized by the customer to purchase the car. Balancing this entry is a liability to the bank for the principal of the loan, which must be repaid. This is how double entry accounting works. For every asset (credit), there has to be a corresponding liability (debit).

One interesting corollary to this money creation process is that when the principal is repaid, the money is extinguished. It no longer exists. It is for this reason that money is thought of as a zero sum game. For every positive entry, there has to be a negative entry.

However, in the present accounting system there is also interest, which is added as a liability of the customer to the bank. Yet there is no asset pledged against its payment, and no money is created with which to pay it. As a result, at the end of the year (or any period of time) there is insufficient money available in the system to pay all of the debt accrued as of that time, as more money is due than was created. This feature makes our money system into a negative sum game for members of the productive sector (Main Street) and a positive sum game for the banking and financial industries (Wall Street), and for savers.

We all gain as well as lose in the operation of the current money system. Gains from interest by members of the middle class buy us into the system, even though it has been shown that only the top 10 percent of the population receives more in interest than they pay.[5]

A most apt metaphor for the way the money system works is to liken it to a casino. The person who lives partly on credit and the small businessperson who utilizes credit are players who lose at the rate of interest in borrowing, and win at a smaller rate of interest if they are able to save. The profits of small businesses must accumulate to the level that will cover both the amount of borrowed money and the interest charged or they will be forced out of business.

Like the casino, this is a "rigged" situation. Some businesses and individuals must go bankrupt because, in the competition for money, there is a structural gap between the amount of money in circulation that is available to Main Street, and the amount that is required to pay interest on credit. This situation, like the casino, systematically creates losers.

Historical examples of cultures which have used interest-bearing money show that after a period of from three hundred to six hundred years, ownership of the whole economy becomes concentrated in the hands of the elite that control the money system, and the society breaks down. Major examples are the Greek and the Roman empires.

"When ancient Egypt fell, only four percent of the population held all the wealth. When the Babylonian civilization collapsed, only three percent of the people owned all the wealth. When ancient Persia was destroyed, two percent of the people owned all the wealth. When ancient Greece sank into ruin, only

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The vision of **Quaker Earthcare Witness (QEW)** includes integrating into the beliefs and practices of the Society of Friends the Truths that God's Creation is to be held in reverence in its own right, and that human aspirations for peace and justice depend upon restoring the Earth's ecological integrity. As a member organization of Friends Committee on National Legislation, QEW seeks to strengthen Friends' support for FCNL's witness in Washington DC for peace, justice, and an Earth restored.

QEB's purpose is to advance Friends' witness on public and institutional policies that affect the Earth's capacity to support life. QEB articles aim to inform Friends about public and corporate policies that have an impact on society's relationship to Earth, and to provide analysis and critique of societal trends and institutions that threaten the health of the planet.

Friends are invited to contact us about writing an article for ***QEB.*** Submissions are subject to editing and should:
- Explain why the issue is a Friends' concern.
- Provide accurate, documented background information that reflects the complexity of the issue and is respectful toward other points of view.
- Relate the issue to legislation or corporate policy.
- List what Friends can do.
- Provide references and sources for additional information.

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0.5 percent of the people held all the wealth. When the Roman Empire collapsed into ruin, only about two thousand people owned all the wealth in the known civilized world and this debacle ushered in the period of history known as the Dark Ages."[6]

Such community breakdown is not necessary under different rules of money creation, as has been shown by the recent work of some moral economists[7], the practice of those involved in complimentary currencies[8], a number of money theorists[9] and the historical record in ancient Egypt, the Middle Ages, and the last seventy years in Switzerland.[10]

One implication of the present system is its effect on community. The payment of interest creates an economy of scarcity. Money is always scarce in the productive sector of the economy as a result of the continual siphoning off of money to the financial sector. Everyone in the productive community knows in their gut that money is scarce, and that if they aren't lucky, or gain advantage in their dealings with others, they will be the one who ends up having to declare bankruptcy and lose everything they have. This is a form of structural violence, which breaks down community by making a competitive atmosphere in which everyone is competing to get scarce money with which to pay off their loans with interest.

Members of the cohort whose productive life centered from the late 1950s through the 1980s were brought into the financial/investment system with the expectation of realizing retirement income, and now feel that the system can work this way for everyone. But not everyone can benefit as they have, and now their benefits may be disappearing as well. The House has to have its cut, no matter what, and that cut has to come from somewhere. The greatest part of that cut comes from those who can least afford it.

Another implication of the present structure leads to the necessity for privatizing, commoditizing, and monetizing (borrowing money against) ever-increasing amounts of the earth's resources, in order to back the ever-increasing need for exponential growth in the money supply. David Ciscel[1] distinguishes between resources that are "simply a part of the natural ecosystem" and "natural capital." The difference is that the things that he terms "natural capital" are part of the natural ecosystem that some individual or group has gained control over, commoditized, monetized, and expects to be paid to do so.

The concept of private property, with unlimited power over that property, was necessary to make this monetization of natural resources possible. In other words, replacement of the commons by private ownership was necessary for the present money system to work. The place of Quakers in this process is documented by Douglas Gwyn.[11]

Continuous exponential growth is simply not sustainable. On that ground alone, the charging and payment of interest must be questioned. Under the present ground rules, our federal government cannot balance its budget over the long term. When the economy falters in the down side of the business cycle, and private borrowers aren't borrowing enough, fast enough, to feed the exponential growth need of the money system, the government is expected to come in as borrower of last resort to borrow enough to keep the economy afloat. Again, this is not sustainable for the government or the economy.

All of these effects exist because of the way we define and create money, not because of any fundamental economic principles.

It has been claimed that the problem is in one or more sectors of the economy, that a few bad apples in the finance industry took advantage of the system, that the system itself is fine. This is not so. It is true that people in the financial services have taken advantage of the system, and hastened its demise. However, the issue is much deeper than a few bad apples. Others will say that we can regulate the present system and make it work. But why try to regulate an unsustainable, unjust structure when replacing it with a just and sustainable one would make regulation unnecessary?

So where do we go from here?

The inclusion of interest in our monetary system causes two distinct kinds of problems: practical and moral.

The practical problem is that no money is created in the system with which to pay interest. This causes a vacuum in the market in which one or more of a number of things have to happen. 1) the economy grows exponentially forever, 2) some members of the productive sector go bankrupt and cede their work and assets to creditors, 3) the taxpayers bail out the banks, and/or 4) the money becomes worth less so more money represents the same real assets. The common name for the fourth effect is inflation.

Business cycles are a result of this conundrum. For a period, the economy expands, with exponential growth, followed by a period in which the economy contracts, with large numbers of bankruptcies, and transfer of assets from the productive sector to the financial sector, a separate problem that will be dealt with as a moral issue. This agreement on how to create money is simply not sustainable, and must be replaced. We don't want to go the way of the Greek and Roman empires. Without interest, immense amounts of money will be freed for other uses by the population outside of the financial sector.

The moral problem raises a number of basic questions:

- What should be the function of money?
- Is it appropriate for the money creation process to be a for-profit private enterprise?
- To what extent are money and interest responsible for economic growth that is ecologically unsustainable and socially unjust?
- What are the moral implications of exponential economic growth?
- How do we deal with structural violence and community degradation that result from the transfer of money from the productive sector to the financial sector?
- How do we deal with the ethic of right relationship in an economy that creates artificial scarcity and hyper-competition by systematically transferring money from the productive sector to the financial sector?
- What changes in our money and economic systems are necessary to make a dynamically stable economy possible?
- How could money and interest function differently to serve the goals of ecological sustainability and a more equitable distribution of wealth?
- What is, and should be, the relationship between work and income to promote justice and right relationship?
- How do we design retirement systems to replace income based upon interest that is currently received and expected in the future by members of the middle and upper classes?
- What should be our relationship with property, the earth, and its natural resources, including that which has been designated as natural capital?
- The earth and its resources are best seen as a gift of God. What characteristics would a money system have that respects the earth and its resources as a Gift of God?
- How would a money system operate that respects the usefulness of earth's resources for both humans and for the other members of the earth's ecosystems, both plant and animal, and also preserves the earth's unity and beauty?

These questions bring up disturbing issues of how we deal with savings, investments, loans, and taxes, as well as how we relate to money and property generally. However, getting them out in the open and discussing them is the only way to move toward right relationship and a sustainable and just economy.

The Function of Interest

David Ciscel

Paul Krumm's essay puts the emphasis in the wrong place for moving toward an earth restored. Money and interest, while critical to the operation of a market system, are distractions when it comes to bringing an earth restored. It is not money or a monetized economy that is the problem. Our problem is that we burn too many fossil-based fuels, destroying the climate with greenhouse gases. Our problem is that relative prices encourage producers and consumers to produce and consume products that eat up large amounts of natural resources.

Our problem is our market regulatory institutions do not stop us from squandering goods that have no price—water, air, and the ecosystems that purify them. Because we trade goods with money rather than through tribute, brute force, or gifts, there is a lot of money around when we buy and sell. But money is not at the root of growth. It is profitable enterprises, employable resources (often not paid for), and technological opportunities that create the demand for more money and more capital. Whether we use private property to produce goods and services or the commons to benefit us collectively, it is the rules and regulations enforced to their use that will determine the quality of the natural ecosystems that living beings need for their existences.

The importance of interest to dynamic business activity can be better understood with an example of a farmer who wishes to expand the number of pigs he brings to market. The farmer borrows money from a bank to purchase more pigs. That is, the farmer leverages his investment with borrowed money. But the farmer has to decide how much bank money and how much personal money to use. If the farmer borrows all the money for the purchase, he is little better than the financiers of today who use borrowing leverage to get themselves into a lot of trouble. Paying back money is always difficult when it is someone else's money. But let's assume he actually used his own wealth to buy 200 pigs and bank loans to buy 100 pigs. Then he is at least partially a responsible businessman/farmer.

The farmer may be counting on several things: 1) that the price of bacon will rise when consumers get an increased desire for bacon after a report that bacon is good for your heart, 2) acorns are plentiful so nature feeds the pigs and the production costs fall, or 3) the fertility of the pigs increases the herd to 400 before the interest on the bank loan is due. If all that comes true, then he has 400 pigs, but since they are worth more in the market and cost less to raise, they are actually worth the equivalent of 600 pigs at the time he took the loan. So he sells the pigs. He pays back the bank 100 (old value) pigs plus 15 pigs in interest. He now has 485 pigs (in value). That is a profit of 285 pigs. But, of course, he took the big risk.

But farmers don't always have good times. If bacon turns out to be bad for health, if feed actually costs money, and if a drought causes 100 of the pigs to die, the farmer is in big trouble. The original 300 pigs are now 200 pigs and the decrease in value means that you have only 150 pigs in value terms. The bank gets 115 pigs. The farmer has 35 pigs left, down 165 pigs from the beginning and will probably go bankrupt.

If the farmer had leveraged (through a bank loan) all the pigs, he would go bankrupt. If the bank had loaned to many pig farms that ended up in the same situation, the bank would go bankrupt as well. Welcome to the 2008 credit crisis. That year was just one more episode in the hundreds since market capitalism invented itself. Sometimes times are good; sometimes times are bad. There is no moral meaning to any of it. But there would have not been a commercial pig operation without interest.

All of this is important to saving the natural ecosystems. If pigs are an analogy for mountain-top removal of the farmer's land for coal, then we are in trouble. If the rules for the economy are shifted so that the farmer is investing in wind power, solar power, or geothermal power, then society had better make sure that those forms of power can be sold profitably. Otherwise, the banks loans required to build these real investments will be worthless, even though a real wind turbine may exist. To make non-carbon-based energy pay, it must be productive, the market must demand it, and society must put some of its common resources into financing it. And, of course, it is better not be too highly leveraged, or it will crash in a burst bubble just like our current high-carbon economy.

Money and interest do not cause growth, though they certainly facilitate it. Paul Krum's essay builds a picture of interest and money in a static world. But money creation finances development in a dynamic world. Without the kind of money and interest system that finances development, there will be no green technology, no transition to a sustainable world, and no conversion of the agricultural/resources/water sectors. It is money and interest that facilitate the potential for a green economy, once we decide politically that we should have a green economy.

Interest provides very important services. Interest pays for the time value of money and the risk of the loan. It is paid out of the productivity of capital. Paul Krumm ignores these issues in his essay. Just as no labor enters the market unless it is paid (unless we go back to slavery), no capital will enter the market unless it is paid. That payment is called interest. If you agree to borrow money and pay interest, and the use to which you put the money is unproductive, then you go bankrupt. But the idea is that you use the capital in productive ways. Then the return is sufficient to pay for the use of the capital. If interest is not paid, then no business will occur anywhere. All wheels of commerce will stop; locally, nationally, and globally.

The idea for creating a new economy is to shift the incentives for investment away from ecologically destructive production toward ecologically sound production. That can be done by rebuilding the rules of risk and making shorter the time required to earn back an investment in green technology.

***Paul Krumm** is a semi-retired inventor and contractor, who has been interested in the study of money for 30 years. He lives off the electrical grid in an earth-sheltered home with his wife Micki in central Kansas. Since there is no Friends Meeting where they live, they attend the Unitarian Fellowship in Salina, Kansas. They always look forward to the Missouri Valley Conference, their main contact with Quakers.*

***David Ciscel** is a member of Memphis Friends Meeting, a QEW Steering Committee member from SAYMA, and professor emeritus of economics from the University of Memphis.*

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We encourage any of our readers who are so led to contribute to this continuing dialog. Paul Krumm sees systemic design flaws in the current monetary system that prevent us from achieving an ecologically sound and socially equitable economy. David Ciscel sees the current monetary system as critically important for sustaining any economic activity. He sees it working just fine if we move to full cost accounting of natural capital, and infuse the business cycle and finance with a high standard of ecological and social ethics as well as appropriate regulation.

The question is whether ethical and moral change, in addition to being necessary, is also sufficient for an Earth restored? Or are structural changes in key economic institutions—like the monetary system—also required? This is a real dialogue! Its development will shed helpful light on the larger theme of our Circle of Discernment, "natural capital, deep ecology and the commons." We welcome your responses. The next *QEB* on this subject is planned for the July-August issue with a deadline of May 15, 2010. Responses can be sent to <judylumb@yahoo.com> —Editors