Part II - Freedom And The Monetary Ideal

The Etherealization of Money

As Mark Kinney so astutely points out, each civilizational phase is based on some new communications medium which brings with it a totally new pattern of thought and behavior. This is the meaning inherent in Marshall McLuhan's famous statement that "the medium is the message."

Kinney cites Arnold Toynbee's contention that humankind is ever "etherealizing" its methods so as to achieve more with less effort. This means that each succeeding communications medium outperforms its predecessor by accessing greater volumes of information of greater precision to more people over greater distances with less effort.

This is clearly the case when we consider developments in communications technologies over the past few centuries, and especially, the computerized telecommunications channels which have exploded upon the scene within the past decade. Our methods have clearly been etherealized, not only in form but also in content. Information is increasingly abstract and symbolic, and the means of transmission is increasingly ephemeral (transitory, energetic; not concrete). Thus we see a progression from physical objects carrying information, to handwritten and printed documentation being physically conveyed, to electrical and magnetic pulses being transmitted by wire and radio/TV.

From each new communications medium emerge new behavioral patterns which are largely exchange interactions. Each civilizational phase requires the development of an exchange medium appropriate to its other elements. The key element which is missing in the current transformational stage of civilization is that of an exchange medium appropriate to the situation. The exchange medium with which we are all familiar, and which, indeed, seems to dominate our lives, is money.

Money has, in fact, been progressively etherealized. From precious metal coins and bullion which carried value within themselves, to token coins and paper notes which were symbolic representations redeemable for real money (precious metal coin), to fiat, non- redeemable notes, to bank credit and computer accounts. The transfer process likewise has become more ethereal, from physical exchange of valuable metal and tokens, to symbolic exchange using checks and money orders, to electronic transfers. The process, however, is not yet complete. In this

current transitional stage, the exchange medium lags behind other aspects of the transformative process, causing the human struggle to be intensified and bringing civilization to the brink of disaster.

It is becoming more and more clear that the essential characteristic of money is (or has become) information. As Michael Linton has expressed it, "Money is information we use to deploy human effort." Ralph Haulk has added that "money validates knowledge." From these realizations, Kinney has postulated that there are two basic types of information, "*formulative* information, by which we can design and plan most any kind of project," and "*executive* information, which concerts the precise qualities and quantities of productive resources needed to put those plans into operation."

The difficulties we are facing in the present transitional stage stem from the situation that *formulative* information has become increasingly accessible to more and more people while *executive* information is still mostly monopolized. This impedes the vast majority of people from acting in ways which are consistent with their values and beliefs and their own best interests, and gives undue power to those who sit at the top of the financial and state hierarchies. The projects which get carried out are those which tend to maintain and consolidate the power of the hierarchies, which at the same time are wreaking havoc with the environment and causing vast amounts of human suffering.

The new media have brought the capability of efficient worldwide person-to-person communications, and as a consequence humankind now has the potential of realizing a condition of global, universal peace and prosperity. But this can only come about through the popularization of executive information and the devolution of power to the elemental social units.

The monopolization of executive information by governments and financial elites is embodied in their control over the process of issuing money. Governments are no longer dependent upon taxation for financing their operations. Through their collusive arrangements with the banking and financial cartel and their control over the exchange mechanisms, they are able to spend without limit and levy a hidden tax in the form of inflation. The personal income tax is not so much a mechanism of government finance as it is (1) a justification for collecting detailed information about each citizen, (2) a means of implementing social policy and (3) a control mechanism for regulating the rate of inflation of the currency.

Depoliticization of Money and Exchange

Those who control the present systems will argue that "money does not manage

itself," and, of course, strictly speaking, they are right. But the issue is *how* money is to be managed and whether the state and coercive authority should have any reasonable role to play in it. It has become patently clear, based upon their past performance, that they should not. As Friedrich Hayek has argued:

> "To the present day, money is that part of the market order that government has most suppressed. It is also the part of the market order that silly rulers and economists have most tinkered with. .. it will not be present knowledge but discoveries by free experimentation that can show us the best solutions. .. government jealously guarded its monopoly, for purposes quite different from those for which money had been introduced.
>
> "Today money is chiefly not an effective medium of exchange but a tool of government for fleecing us and for "managing" the economy.
>
> "If governments were deprived of their power over money, private firms would quickly begin to define new monetary units and to issue liabilities denominated in terms of these units. Competition among issuers would compel them to seek to define their units in ways most useful to the public and to make them available to the public at the most attractive feasible terms." ("The Future Monetary Unit of Value," in *Money In Crisis*, Barry Siegel, ed., Pacific Institute, San Francisco, 1984. pp. 324-327)

Barter and the Role of Money

It is important to understand the distinction between barter and mediated exchange. In a barter transaction, or what E. C. Riegel calls "whole barter," two people exchange value in reciprocal fashion. For example, Mr. A might receive a pair of shoes from Mr. B who in return receives from Mr. A six chickens. If the value of the shoes is considered by both parties to be equal to the value of the chickens, then the transaction is complete. This is shown pictorially in Figure 5a.

Suppose, however, that Mr. A wants the shoes but Mr. B doesn't need any chickens. In that case there will probably be no trade. This is the problem with whole barter, each trader must have something the other wants, or at least can use for further trading with someone else. It was probably this latter realization that led to the development of money, and the reason why the first exchange media tended to be useful commodities. Such exchange media, however, do not change the nature of the transaction; it is still barter, or what has been called, "indirect barter." In an indirect barter transaction, one person accepts something which is not immediately useful to him but which has inherent value and can be

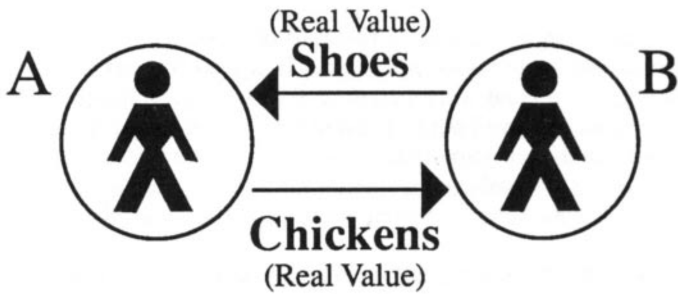

Figure 5a.

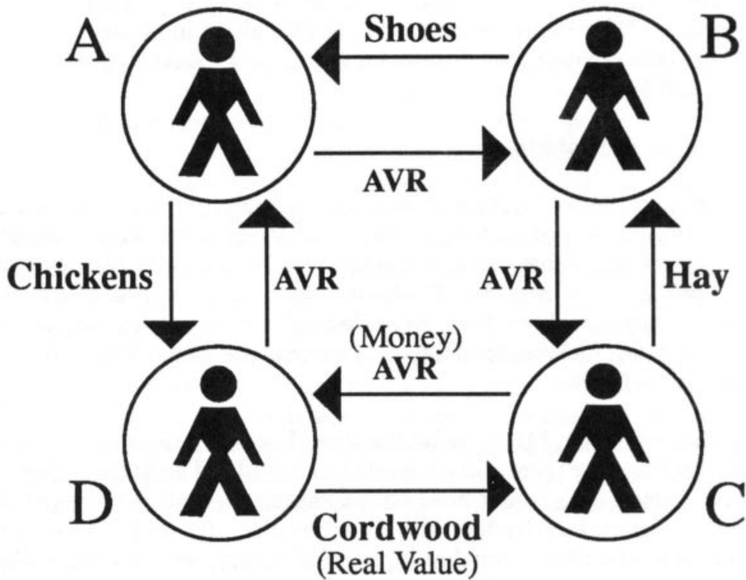

Figure 5b.

traded to someone else. Precious metals have historically been most commonly used for this purpose.

The inconveniences of indirect barter, in turn led to the adoption of "symbolic exchange," i.e. the use of tokens which represent items of real value, or, in other words, the transfer of claims to real value. These have taken the form of warehouse receipts, bank notes and drafts. The adoption of symbolic exchange media brought tremendous gains in convenience and efficiency. Unfortunately it also opened the door for tremendous abuses since manipulation and outright fraud were more difficult for the ordinary person to detect. Such abuses have proliferated and become the norm of official currency systems worldwide resulting in the present global monetary confusion.

It is now possible to transcend this confusion by taking the next step into an abstract monetary system. In such an ideal exchange system, all that is necessary is for traders to cooperate with one another in agreeing to accept an abstract form of payment in the form of credits issued by other traders as acknowledgment of value received. For example, suppose Mr. A buys a pair of shoes from Mr. B. He gives to B in return an "acknowledgment of value received" (AVR) or token money. B then buys some hay from C and passes on to him the AVR; C uses the AVR to buy some cordwood from D, and D in turn uses it to buy some chickens from A. Figure 5b shows this pictorially. Actually, there might be any number of trades in this circle before the AVR gets back to Mr. A. Each of the transactions in this example is called a "split- barter" because it is split into two parts with one person receiving value while the other has deferred receiving equal value to a later time and receives it from a different trader. In practice, the token can be dispensed with and replaced with an account ledger in which each transaction would result in a credit to the seller and a debit to the buyer. It is this kind of pure information medium of exchange which constitutes the ideal money.

Desiderata

The single most important feature of any potential monetary system is that the unit used to measure value be relatively invariant over time in terms of real goods and services. This is necessary mainly in order to preserve the integrity of contracts. There are essentially three reasons why an unstable monetary unit should be avoided: (1) As far as current transactions are concerned, it would appear that, if there is a general doubling of all prices, it matters not; each commodity still bears the same value in relation to other commodities, including, presumably, labor. However, confusion results when the value concept must be changed. Not all people react to changing conditions at the same pace, and some have less bargaining power than others. Labor rates typically lag behind prices of goods.

Those with less accurate and timely information and those who are not so quick witted in business will suffer. (2) An even more severe problem of a changing price level is with transactions which are time dependent - claims expressed in monetary terms - debts, investment claims, insurance, etc. These presume a stable unit of measure, and fairness demands it if the intent of the contracts is to be fulfilled. It is the value of claims denominated in terms of the current value unit that can change drastically over the term of a contract. Thus, people's savings can be destroyed, totally or in part, by inflation (dilution or devaluation of the currency). Many a sad tale is to be told of investors who put their money into "safe" investments, the monetary return of which was obtained according to contract, but the purchasing power of which amounted to nil. (3) The worst of the matter is the cause - currency depreciation is due to actions which are taken by governments and banking authorities. Such actions literally rob the people of their substance resulting in economic hardship, and loss of confidence in government and diminished respect for authority.

I think that, given a choice of currencies, people will prefer to use the one(s) which maintains a stable value over time.

As Friedrich Hayek has expressed it,

> "…if people were wholly free to choose which moneys they wished to use in their daily transactions, those would do best who preferred a money with a stable purchasing power." (ibid p. 325)
>
> "…justice requires all debts to be paid in terms of units of value which the contracting parties intended, and not in what government decrees made a substitute for them." (ibid p. 334)

I think the natural tendency in an "honest" money system would be for the general price level to fall slowly reflecting technological advances and increasing productivity.

Measurement

The problems attendant to money and exchange are to a large extent derived from confusion about the nature of measurement and standards. Fairness in exchange requires accurate and precise measurement. That is why we have defined units of length, weight, volume and time, for example. We commonly use inches, pounds, gallons and hours in our agreements because they are well established and objective, and allow precise measurement. We could just as easily use hand widths, rockweights, handfuls and afternoons but these would be subjective and

ill defined. We wouldn't really know what was meant or intended and equal exchange would be difficult to establish.

In order to facilitate exchange, it has become customary to use a mediating device called money. The intention of using money is to provide the seller with some evidence of the amount of value surrendered to the buyer. In measuring value, accuracy and precision are just as important as they are in measuring physical quantities such as length, weight, volume and time; indeed, value and physical quantity are inseparably linked.

In order for exchange to be fair it must be voluntary and the terms of exchange freely determined between the buyer and the seller. Further, unless it is a whole barter transaction, it is essential that there be some means of measuring value with accuracy and precision and that the unit of account remain constant over time.

To better grasp the issue, let us begin with some definitions. The American Heritage Dictionary (1973), under the entry "measurement," has this to say:

> "Measurement of a quantity implies that a number is assigned to represent its magnitude. Usually, the assignment can be made by a simple comparison. The magnitude of the quantity is compared to a "standard" quantity, the magnitude of which is arbitrarily chosen to have the measure 1."
>
> "There is an important distinction between a "unit of measurement" and a "standard of measurement.
>
> "A *unit of measurement* is a precisely defined quantity in terms of which the magnitudes of all other quantities of the same kind can be stated.
>
> "A *standard of measurement* is an *object* which, under specified conditions, serves to define, represent or record the magnitude of a unit."

Thus, in order to have a unit of account which can be agreed upon and used for fair exchange, it must be defined in terms of some standard. And what is a standard according to the above definition? It is an object. To reinforce this idea, let us further consider the established standards of physical measurement. The Dictionary continues with the following:

> “The fundamental units of the Metric System are the meter and the kilogram. The meter was defined...to be equal to 1,650,763.73 wavelengths of the orange-red radiation in vacuum of Krypton 86. The kilogram is defined as the mass of a platinum-iridium standard, the International Prototype Kilogram, kept at the International Bureau of Weights and Measures in Sevres, France.

Now recall from the definition of measurement earlier stated that measurement involves comparison. Thus, when we measure the length of something, we compare it with a rod or tape of known length, usually one having marks showing the number of multiples of the unit which is derived from some standard . Of course, there are in practice any number of measuring devices which are constructed or calibrated using these standards as a basis. Thus we have any number of yardsticks, tape measures, scales, etc. against which comparisons may be made.

Valuing

Value itself is not an objective quantity like weight or length; it is subjective. Each person, in each situation, values each thing differently. One might go so far as to say that “value” should be used only as a verb, not as a noun. When I consider a price in the market place, I always make a comparison of that price to (1) the price of the same or similar item last week, last year, and on back in time, (2) the prices of other items which I might need or want, (3) my earning capacity per unit of time, given my range of skills, the conditions of the labor market and my present inclinations as to how I wish to spend my time and energy. Thus, my hour of labor, or more appropriately, what Don Werkheiser calls a “stress-hour,” is my de facto standard. I do not think in terms of gold, nor do I care anything about gold. If the government, or someone else were to declare gold to be a “standard of value,” it would not change my thinking at all, except to the extent that gold might stabilize the price level expressed in terms of the prevailing monetary unit.

The fact is that people in this country have become accustomed to valuing things in terms of “dollars.” It is important to distinguish between the “dollar” we use as a value concept, and the dollar currency units provided to us by the Federal Reserve System and the government. We all have a sense of what things are worth relative to each other and over time in dollar terms. Thus, the dollar as a value concept, must be taken as given, at least for the time being. Because it is the concept we are accustomed to using, it must provide the starting point for any innovation in money and exchange.

If value is subjective and not objective, then what is it that we quantify when we

speak of something being "worth" so many dollars (or franks, or pounds)? It is "price." For every transaction, a price can be recorded. The statistical compilation of prices forms the basis for stating that a certain thing is "worth" so many dollars. What we commonly take as the "value" of something is typically its "market price," however imperfect the market may be in relation to an "ideal" or "free" market. And that "market price" is actually a summary of statistical information, perhaps an average, of prices of transactions considered over a given period of time, in a given market. It is the result of the innumerable forces which influence the valuing process; the "infinite calculus of the marketplace," as Mark Kinney puts it, and it is transitory.

In sum, then, even though value is subjective and situational, it is possible to agree upon a relatively objective "standard of value" which is really a standard of prices given the existence of relatively free markets and free flow of information. We will then henceforth speak not of a "standard of value" but of a "price standard."

Standards

Efficiency in any widespread human endeavor requires the establishment of standards. Thus we have standards for the weights and measures which we use; there are standards for the recording and transmission of information (e.g. phonograph records, audio and video tapes, radio and television, etc.) and there are standards of practice in areas such as accountancy and engineering. There may be good reasons for choosing one particular standard over another, but quite often established standards seem to be quite arbitrary; the important thing is the agreement as to what the standard should be. Standards may be established by formal agreement, or they may be de facto standards derived from use and custom.

An international price standard would have obvious benefits in facilitating trade worldwide. The definition of such a standard would allow any currency, whether issued privately or by a government or central bank, to be evaluated relative to the standard and to other currencies. Adherence to such a standard would not require that issuance of currency be centrally controlled. Any issuer could maintain the value of his currency by following proper rules and procedures in its issuance. The distinction between a price standard and a currency will be taken up in detail in Part III.

Probably the best, most stable price standard would be one which derives from specified quantities of a broad assortment of basic commodities. This would be most likely to assure stability in the value of the unit of account. Thus, the

"standard of value" would be defined as the price of a "market basket" containing specified amounts of specified basic commodities.

Whatever name might be chosen for the new standard accounting unit, it would be most convenient to define it to be at par with, or some round multiple or fraction of, the U.S. dollar, at the time of its creation, since that is the value concept we have established in our minds and the dollar is the closest thing there is to an international currency.

How a New Money Might Become Established

We must not be naive about the likely responses of established power to possible attempts to liberate the exchange process. As Hayek puts it:

> .".any hope for a voluntary abdication by governments of their present monopolies of the issue of circulating currency is utopian. Governments have become dependent on their power to create money for financing their own activities, since it allows them to spend in excess of the revenue they can obtain from honest taxation. They also regard their control over money as so essential a weapon of their economic policy that they will probably defend to the last not merely all the explicit powers the law has conferred, but also any others they can obtain." (ibid p. 330)

But there is a limit to the extent to which governments can control, either morally, legally or practically, the accounting practices and trading conventions of private enterprisers. Herein lies the key to the liberation of exchange. As Hayek puts it:

> "**The exclusive right to issue the tokens that serve as legal tender for the discharge of obligations contracted in terms of them does not preclude the use of credit accounts in other units as a general means of exchange.** … The difference would be that the accounts would be denominated in terms of monetary units over which governments had no control and which, therefore, would be likely to maintain a constant value." (ibid p. 330) (emphasis added)
>
> "…once credit accounts in a stable unit are provided by some institutions, governments could hardly prevent the development of credit cards that, with the consent of both parties, instantly converted the amount due in a local currency into its equivalent, at the current rate, of a stable unit. Debtor and creditor would know that a certain amount of purchasing power would be due by or to them within a fixed period. Although

> governments would probably long resist the use within their territory of any hand-to-hand money other than their own, they could hardly long prevent such use of credit cards. I have little doubt that as soon as such stable private units were available, the issuers of credit cards would be well advised to use them. Indeed, I believe that it will be through the credit card rather than through any kind of circulating token money that the government monopoly of the issue of money will ultimately be broken. It is a money governments cannot confiscate when it is carried across frontiers and scarcely even when claims in terms of it are held by the recipient." (ibid p. 333)

Recognizing now that money is merely information, it becomes clear that a private alternative monetary unit could easily be defined at any time. All it would take is for an individual or group to publish its definition. The next step in the use of such money would simply amount to keeping accounts in terms of the new unit. This would pose little difficulty since the value of any existing currency could be converted according to the definition, just as foreign currencies are equated to one another now. Traders agreeing to keep their accounts and draw contracts in terms of the new unit could also agree to settle their accounts periodically using established legal tender money, the value of which would probably be declining over time relative to the new stable monetary unit. For this reason, they would probably eventually find some better means of settling their accounts, one which does not require them to go into the market for official currency, the value of which is beyond their control.

Ideal Money

Of all the monetary theorists of which I am aware, the one who seemed to have the greatest insights as to the real nature and function of money was E. C. Riegel. Out of these insights, Riegel conceived a "natural monetary system." Riegel refused to get entangled in the orthodox debates stating, "Only by turning our backs on the muddle of past monetary economics can we fully understand the subject of money... Error has labyrinths; truth is an obelisk" (E. C. Riegel, *Flight From Inflation: The Monetary Alternative*, The Heather Foundation, P.O. Box 48, San Pedro, CA, 1978).

Riegel's descriptions of (ideal) money cut through the armor of orthodox obfuscation and provide the basis for a rational and honest monetary system. Most pertinent are the following:

> ."..money is an accounting system"

.”..money is but a medium of evidencing barter balances.”

“The pure monetary medium...will be...intrinsically valueless.”

.”..money springs from mutual interest and cooperative action among traders, and not from authority.”

.”..[the issuer] must be a personal enterpriser, i.e. one who is obliged to go into the market to bid for money.”

.”..it is apparent that the buyer who issued the money instrument to the seller has made a commitment to the community...Thus money is actually backed by the value surrendered by the seller and potentially backed by a value in the possession of the next seller.”

Definition of (Ideal) Money

Riegel’s formal definition of money is as follows:

a. Money is a receipt for value
b. Expressed in terms of a value unit, and is
c. A transferable claim
d. For an equivalent value
e. To be determined by competitive exchange
f. In which the issuer is an active vendor
g. Whose issue conforms to the customs of a convention of participants in the Monetary System. (ibid p. 23)

Issuance Requirements

The kind of monetary system which Riegel envisioned can be described as a “mutual credit” or “community credit” monetary system, since the money, which is basically an I.O.U., is backed by all participants in the exchange system but identified with no particular issuer. It satisfies the conditions which I see as necessary for an honest and equitable system, i.e. it should be “convivial” (open to all qualified participants) and “reciprocal” (inherently providing equality of value exchanged).

A key aspect of Riegel’s system is the recognition that only producers are qualified to issue money since only they have the wherewithal to redeem it in the marketplace. Thus Riegel prescribed free competition as the requirement for equitably regulating the value of money, i.e. its price in terms of things

being traded.

He recognized that maintaining the fidelity of the monetary issue requires a formally structured monetary system and authority. The authority is necessary, not to issue the money instruments, but to (1) establish the monetary unit, (2) prescribe the issuing process and set its limits, and (3) prescribe "the implements to be used and such mutually acceptable rules as will give dependability to the unit and to the system."

Riegel did not try to spell out these details and left much to be determined by experimentation and the free play of competing monetary systems which he hoped would someday emerge. He also did not seem to consider another question which to me seems crucial to the success of an alternative monetary system, i.e. how to insulate a new system from the existing political monetary system and to distinguish the new unit of account from the official unit. I would like to consider some of these details and express my ideas on how they might be dealt with.

UNRESOLVED ISSUES

I see these as the major details which need to be worked out in implementing a new convivial and reciprocal monetary system:

1. Definition of the new unit of account in such a way as to keep it distinct from other competing monetary units and to keep its price in terms of all goods and services relatively stable.

2. Criteria for qualification of money issuers.

3. Establishing Credit limits.

4. Maintaining Overall system integrity.

5. Qualification of money bases (kinds of purchases for which new money may be issued).

6. Clearing/settling accounts so as to keep money a pure medium of exchange and not a store of value.

Perhaps Riegel's greatest omission was his failure to recognize that, although the exchange medium itself can, and should be abstract, the unit of account must be defined in concrete terms in order for it to have any reliable meaning over time. I

believe that the best approach would be to define the new accounting unit in terms of some standard quantity and assortment of basic physical commodities. This would "ground" the new unit in reality and keep it distinct from any other value units or currencies in use. Given that the commodity assortment is sufficiently broad, it would provide a value unit of great stability. Once defined, any currency or credit unit could be measured against this standard. A cooperative association of producers and enterprisers could agree to keep accounts in terms of the new accounting unit and formulate agreed procedures for issuance of credits which would keep member transactions separate from and uncontaminated by established monetary and banking practice.

Considering items 2,3 and 4, Riegel points out that the primary qualification for the issuance of money is that the issuer be willing and able to deliver goods and services to the market in exchange for money which s/he previously issued by his/her purchases. Only established producers, therefore, should be allowed to issue money and their issuing limits (maximum debit balance) should be based upon their level of trading activity within the system. This by itself may not be entirely adequate in maintaining the integrity of the system. So long as there are competing systems of exchange, there is always the possibility that a participant may choose to not honor his/her commitment, opting out of the system and refusing to deliver value equivalent to that received.

There are three possible ways, which occur to me, of handling that risk. The first possibility is to use a "funded" exchange in which each participant surrenders or pledges particular assets as security against his/her commitment. The disadvantages of this option are that it would be an impediment to trade and would tend to perpetuate present individualistic and untrusting modes of operation. A second possibility, is to maintain an "insurance" pool, funded by fees levied on all transactions, to cover any possible losses. A third possibility, which is more consistent with "fraternitarian" values and avoids the need for a coercive state authority for enforcement or confiscation of wealth, is reliance upon group co-responsibility, i.e. having each participant within an affinity group bear responsibility for the debits of the others. These groups could likewise be co-responsible with other similar groups. There might be any number of levels of co-responsibility. This is essentially the idea behind Mark Kinney's "nested node" system. The advantage is that of having peer support and concerned relationships at each level. (See "Frater Market Colonies" and "Guide to Barterbuying and Barterselling," from Mark Kinney, 950 Martinsburg Road, Mt. Vernon, OH 43050).

Next, the bases upon which new money would be issued should be limited, at least initially, to purchases which will manifest as necessity products in the market

within a relatively short period of time, say 3 or 4 months. This would include basic raw materials and the labor to produce these goods. This is necessary, I believe, to prevent depreciation of the currency, relative to the value standard, which would probably result from the monetization of assets which are not actually being offered on the market within the near-term. As the nested-node system is organized and the new standards become established, these limitations might be relaxed or dispensed with.

Finally, I favor the periodic and frequent clearing of trading accounts to capital or equity accounts. In either case, a positive balance represents a claim against wealth, but in the former case it is a fixed amount against current wealth and in the latter it is a share claim against future wealth.