

Christian Felber

Money - The New Rules of the Game

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Money will determine the fate of mankind.
Jacques Rueff¹

The real price we pay for our money is that our thinking about it is narrowed with regard to what is possible—money builds a prison for our imaginative power.
YES! A journal of positive futures²

On the face of it, the growth spiral of the economy is a so-called snowball system, which is based on the fact that payouts for previous investors come from the deposits of new investors.

Hans Christoph Binswanger (2013, p. 29)

Products were once turned into money in order to make the acquisition of new products possible, now money is turned into goods and the only aim is to turn these into more money.

Christina von Braun (2012, p. 188)

¹In “The Age of Inflation”, Chicago, 1967. Cited in Lietaer (2002, p. 360).

²Special Edition on Money: print your own, No. 2, Spring 1997, p. 12.

A bank is not an institution for accepting or lending money, it is an institution for creating credit.

Henry Dunning Macleod (1889)³

The majority of citizens are of the opinion that they belong to the winners in the interest system.

Helmut Creutz (2008, p. 15)

The total debt in the G20 countries, the 20 most important economies in the world is 30% higher than in 2007, before the onset of the financial crisis.

William White⁴

The situation cannot continue as it is.

Lucas Zeise (2012, p. 7)

It is inevitable that the system will collapse and the question is not whether the system will collapse but rather when.

Dirk Müller (2009, p.105)

The worst crisis since the Great Depression in the 1930s has to date not resulted in science, the trade press and political world being guided towards taking a fundamental look at basic monetary questions and making a reform of the monetary system, a basic component of current financial reforms.

Joseph Huber (2013, p. 34)

The privilege of creating and issuing money is not only a right reserved for the

³From "The Theory of Credit" (London, 1889), cited in Huber (2010, p. 51).

⁴Head of the OECD Economic Committee in *Welt am Sonntag*, 22 September 2013.

government but can become one of their most creative instruments.

Abraham Lincoln (Cited in Huber and Robertson (2008, p. 13))

Money could only be lent if there is money available to be lent. The banks could no longer over-lend by producing money out of nothing and in doing so creating inflation and booms.

Irving Fisher (2007, p. 19)

Wealth is evidently not the good we are seeking (...) The source of the confusion is the near connection between the two kinds of wealth-getting [“oikonomia” vs. “chrematistike”]; in either, the instrument is the same, although the use is different (...) accumulation is the end in one case, but there is a further end in the other. Hence, some persons are to believe that getting wealth is the object of household management, and the whole idea of their lives is that they ought to increase their money without limit.

Aristotle (1985, 1096a, p. 6) and (2007, 1257b, 31–1258a, p. 5)

Money is in the meantime not the end, but a means to an end.

Friedrich Wilhelm Raiffeisen (Cited in Klein (2008, p. 79))

Economics is just a means to an end.

Thomas Jorberg (Dohmen 2011, p. 203)

Property entails obligations and the use thereof should all serve the common good.

Deutsches Grundgesetz, Art. 14

All economic activity serves the common good.

Bayerische Verfassung, Art. 151

Private institutes and those listed on the stock exchange are not obliged to foster and promote the common good.

Alexander Dibelius⁵

Those who have money make the rules.

Frank Stronach

Free financial markets are the most effective control instances of government activity (....) If you like, the financial markets so to speak as “the fifth power” alongside the media have taken over an important watchdog function. If politics in the 21st century in this sense were in the slipstream of the financial markets, this perhaps might not be such a bad thing

Rolf-E. Breuer⁶

The free financial market paradigm should be replaced by a financial market as infrastructure of the real economy (public service).

Philippe Mastronardi (2013, p. 80)

I am very satisfied with what we have achieved with the banking union.

Wolfgang Schäuble⁷

⁵German CEO of Goldman Sachs, cited in Von Braun (2012, p. 120).

⁶Die fünfte Gewalt in *Die Zeit*, 18/2000.

⁷*Frankfurter Allgemeine Sonntagszeitung*, 22 December 2013.

Preface: Money and democracy – an Overdue Wedding

Are you satisfied with the current monetary system? Do you consider it to be fair, democratic, understandable and sustainable?

Do you know how the current monetary system works: how money is created, how the links between the commercial and central banks operate, how a loan is transformed into a bond, what exactly a shadow bank is and in what way a 100 million euro is transferred to a tax haven?

Do you know who has designed the present monetary system? Which body develops it, which commission discusses it, which parliament or sovereign has determined it?

The perplexity which usually occurs when addressing such questions is neither worthy of a living democracy nor of free and empowered citizens. This book would like to end the “reign of money” (Brodbeck 2012) by initiating a public discussion about the reigning monetary system, by recommending concrete and understandable alternatives for all important elements of the reigning monetary and financial system and by outlining a democratic process as to how we could get away from the current plutocracy and financial dictatorship to reach a democratic monetary system.

The author of the book is of the opinion that the current monetary system is not only multi-dysfunctional but that it is also quintessentially undemocratic, which is at the same time the most important cause of the dysfunctionality. The political decisions which have led to the current monetary system do not meet the needs and values of the sovereign. According to a representative survey, between 80% and 90% of the population in Germany and Austria would like a different economic system to the present one (Bertelsmann Foundation (2010, p. 1) and (2012, p. 7)). If there were various alternatives available to choose from, people would definitely opt against the present-day monetary system. If there was for example a democratic vote about whether:

- commercial banks should create money,
- money should be lent to speculators,
- systemically important banks should come into existence,

- these banks should be bailed out with taxpayer's money,
- shadow banks should exist,
- states should go into debt on financial markets,
- movement of capital to tax havens should be free,
- food speculation should be permitted,
- the US dollar should be the commodity currency....

A democratic majority for even one of these present-day applicable rules would probably not be found in any country in the world. However this unspeakable monetary system legally exists within the framework of democratic constitutional states and makes life difficult for us and takes some people's lives. Unfortunately "your money or your life" is often true.

Part of the problem is that the democratically voted representatives are so much under the influence of the most powerful interests, which have evolved from the neo-feudal capitalistic monetary system, that they are not interested in making any decisive changes to the present-day game rules of the monetary system. The government and parliaments also do not have the slightest inclination to question the reigning monetary system, let alone to rewrite the rules of the game. Although a series of reform projects and financial regulation measures are instigated from the G20 and Basel Committee via EU institutions to as far as national states, none of these projects represents a thorough solution and none of these will create an alternative monetary system. This is not at all the objective in these official processes!

Consequently the author is of the opinion that every free, rational-thinking and democratically minded person has no alternative but to disengage himself or herself from the comfortable passivity and shrugging acceptance of a multi-dysfunctional monetary system and independently and cooperatively to tackle the creation of a new monetary system from the grass-roots citizen level.

There are good reasons to motivate us to do so: we are facing the decision: "change by design or change by disaster." It is better to consciously shape and create rather than staggering into the next crisis. We not only owe ourselves, our self-respect and our dignity this "system shift" but also the future generations who we should not passively leave this present "un-system" to.

We should at least make the attempt to develop a fairer, more stable and sustainable monetary system.

A system change or rather a democratic advancement of the monetary system can only be engineered by many people together and decided on by the highest democratic instance, the sovereign. Indirect democracy has fallen victim to the monetary system and its tendency to be corruptly engrossed with blind monetary growth, with finance alchemical self-referentiality to the "revaluation of all values"⁸ and to the unrestricted concentration of economic and political power.

This book therefore recommends the discussion of the new games rules for the monetary system in a participative and decentralized process, to finalize these in delegated or directly elected national conventions and to embed them in the

⁸Nietzsche in *Also sprach Zarathustra*.

constitutions via binding referendums. Specifically speaking, a section in the constitutions could be amended, whereby the game rules of the monetary system are firmly embedded, thereby providing parliaments with a clear basis for monetary legislation. The monetary constitution is binding for the legislator but not “cast in stone” forever. It can be amended, however only again by the sovereign, which is the same instance which enforced it. A democratic monetary system can and should be intermittently revised, improved and enhanced by the parliamentary authority.

I would like to direct a personal appeal to those people, who are equipped with exceptional creativity, intelligence and intellectuality—talents which nature has given us. We can use these talents to our personal advantage and we can give these talents back to the community by contributing and playing a part in the development of fairer and more democratic games rules. How many highly talented people today learn the craft of investment banker, asset broker or funds manager? How much creativity is invested today in product innovations within the system? And how much is invested in system innovation? An economic system can only function well, when the rules of the game are fair and accepted. When the “rules of the game” in a company, in a house, in an organization are not consistent, then the whole organization suffers. The present-day monetary system burdens all of society with its multi-dysfunctional rules.

This book advocates a democratic monetary system, which increases freedom for all by (a) having equal opportunities to help shape the rules of the game, (b) the egalitarian impact of these games rules and (c) their tendency towards system stability, distributive justice and sustainability. The more democratic they come about, the more they will be in accordance with the basic values of society, namely human dignity, freedom, solidarity, justice and sustainability. The vision of this book is that money can neither be the objective of economic activity nor can it be a private good, but rather a resource of economic activities and a public good. Money should go from being a weapon to a tool and should serve life, the common good.

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Biographies

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Chapter 1

Introduction: A Coercitive and Intransparent Financial System

Abstract This chapter describes how the monetary system evolved over time and did not follow a master plan. The result is an incoherent, nonsensical complex monetary and financial system which causes wide-ranging collateral damage in society. Although money plays a crucial role in our everyday life today, there is little scientific clarification of the monetary system, with some economists even recommending not to pay too much attention to the phenomenon money. The result is a dense “fog” around money and a high lack of clarity about its various functions. As a consequence of its senseless design and lack of interest in the understanding of its functioning, the current money system is consequently unstable, inefficient, morally corrupting and a threat to democracy and liberty. It is a power structure. Part of its dysfunctionality is that it contributes to the corruption of the political system to a large extent so that re-regulation is not or hardly possible within the current form of democracy.

The fact that people neither foresee or completely understand their cultural achievements is one of the fascinating characteristics of mankind.

Ulrike Herrmann (2013, p. 247)

1.1 The Non-Holistic Evolution of the Monetary System

It is difficult to allege that our present-day monetary system has been created by a mastermind or according to a master plan. In fact, the monetary system has developed gradually over the centuries or even millennia and has grown into an extremely complex monster.¹ The final result of this development is neither attractive nor good and possesses no democratic structure, no drawn-up ethos and no grounding vision of the system as a whole. The monetary system was never consciously created and set up as a tool for mankind. Each individual step and each additional

¹German Federal President in *Stern*, 14 May 2008.

element would appear to make sense and be advantageous for particular groups; however the system in its entirety does not serve everybody equally and definitely does not serve the common good. This is however not the definition of a public good or a democratic infrastructure, where all are treated equally and all are served.

Of course the current monetary system is far from being completely bad and money brings about a lot of good and makes our daily lives easier with a series of basic functions creating general public advantages, ranging from legal tender to individual bank accounts and to the possibility of taking out a loan. Yet it is precisely these advantages which are worth positioning, identifying, meaningfully designing and democratically determining, and those aspects which are really good will meet wide approval.

However, the present-day monetary system is in too many aspects a source of enrichment for a small group, a casino and a self-service shop for insiders, speculators and gamblers and at times a dangerous weapon. This weapon was also not intentionally designed and planned, but evolved through a gradual joining together of the ever increasing new functions, legislative acts and technical innovations.

The development of the monetary system can be divided into the following phases:

- As we know today from anthropological and historical research (Graeber 2012), prior to money as a medium of payment or exchange, there was credit and debt.
- It was only after this that mediums of exchange with use value came into being, for example, wood and frequently cattle. The “double crossing out sign” on the dollar, pound and yen signs stems from cattle horns (Von Braun 2012, p. 50).
- This was followed by a means of exchange with symbolic value: mussels, bones or certain types of stones. In order for something to act as money and be accepted as such within the community, it had to be rare and uncommon.
- Bit by bit precious metals such as copper, silver and gold caught on and these were quickly taken to the goldsmiths for safekeeping and storage. The goldsmiths became the inspiration for the first deposit banks, which exclusively functioned as storage institutions and not as a money lending business.
- The deposit banks issued a receipt for gold deposits in the form of banknotes or bills of exchange, which were the first precursors of paper money as a means of payment.
- Goldsmiths and deposit banks began to lend the same pieces of gold or gold coins several times—the start of the fractional reserve banking system.
- Legal fractional banking arose from “spontaneous” fractional banking and this resulted in the emergence of commercial banks in Central Europe in the 14th century.
- Private commercial banks established central banks from the 17th century onwards.
- These central banks initially backed national currencies with gold, the gold standard.
- The gold reserve was eliminated in 1971 and the central banks printed paper money without backing, fiat money.
- Computerization has caused the largest revolution to date, namely electronic book or bank money. Money can be created without printing it and with this

book money all money backing has been eliminated. In Europe the base money supply M1 (cash plus current account balances) today consists of, depending on the country, between 5% and 20% of central bank notes and coins and up to 80–95% of book money (Huber 2013, p. 43).

- As a result of double-entry accounting banks can create book money themselves. The so-called “creation of bank money” extends the money supply and leads to inflation—either on the goods markets or on the finance markets—asset price inflations (from the Latin word “inflare” meaning to swell or bloat).
- Securities such as shares, bonds and loans as well as raw materials and currencies are not only traded on the stock exchanges and financial markets, but bets on their future price development are made, these are known as derivatives.
- Along with simple bets (put and call options, futures) a complete universe of new financial innovation has emerged with investment banking, ranging from securitization of loans of variable quality (Collateralized Debt Obligations—CDOs) to insurance against the default of loans or government bonds (Credit Default Swaps) culminating in Partial Return Swaps, Partial Return Reverse Swaps and Total Return Swaps. The globalized financial casino is becoming continually more complex, opaque and unfathomable. In the USA the value of assets of the financial sector was about 450% of economic performance until the 1980s, in 2007 this value had increased to 1000%.²
- Banks only disclose a portion of their credit transactions in their balance sheets. A more significant part of these transactions are implemented outside balance sheets via so-called shadow banks, whereby particular legal constructs and tax havens play a central role. In the USA only half of all bank transactions are documented within the realms of balance sheets, 23 trillion US dollars remain in the shadows, where they are brewing the next financial time bombs (Financial stability board 2012, p. 4).
- Computerized securities trading (high frequency trading) drives the turnover volumes to staggering heights, shares and other securities are bought and then resold in milliseconds. According to insider information, high frequency trading accounts for over 50% of the stock trading capacity in New York and Frankfurt.³
- Derivatives turnover must be measured in million billions, namely in quadrillions, with such figures being beyond the imaginable, being disassociated from real economy indicators—global goods and services trade amounted to 22 trillion US dollars in 2011 (World Trade Organization 2012), global GDP was 70 trillion US dollars,⁴ which was between 1% and 2% of the statistically recorded derivatives volume.

In the course of this “development,” money has been loaded with ever increasing functions. Money is no longer only a *measure of value* (for the prices of

²*Trader's Narrative*, 7 November 2009; *The Economist*, 22 March 2008. Cited in HUBER (2013), 40.

³*Financial Times Deutschland*, 14 January 2010. www.ftd.de/finanzen/maerkte/marktberichte/wall-streeter-unter-ausschluss-der-oeffentlichkeit/50060624.html

⁴World Bank.

product and services) and a means of exchange or better still a *means of payment* in order to simplify exchanges and handling of purchases. Money also has a credit function, is a storage of value (saving, pension provision), is a means of production (companies), is an insurance (crop failure insurance, currency fluctuation or interest rate change), is a status symbol (recognition, a measure of self-esteem and sense of belonging) or it is an instrument of power (intimidation, corruption, bribery, blackmail). Money is also a taxation instrument for the financing of government tasks and functions. There is by no means consensus with regard to everything that money is and which functions it has and this could be the task of a systematic academic study of money, which as far as is known does not exist. Although individual professorships and lecture courses use this title, there are indeed more professorships and courses for banking studies than money studies. The scant regard for money pertains to prominent economists: “There cannot, in short, be intrinsically a more insignificant thing, in the economy of society, than money ...” according to, for example, John Stuart Mill (Mill 1909, Volume III. 7. 8). In his standard textbook, Paul A. Samuelson also warns scholars against dealing with the subject of money: “It is only monetary problems that have driven more people out of their minds than love” (Creutz 2008, p. 65).

Helmut Creutz writes: “Even in academic studies responsible for the study of money, money as a theme is still dealt with as a puzzle or copiously avoided” (Creutz 2008, p. 15). Is it a coincidence that there is only very limited academic interest in the functionality of the monetary system, although this is 100% man-made and has such extensive effects on all aspects of life? Is the “fog around money” (Senf 2009) and its game rules part of the power and reign of money? It certainly stands to reason that money can only satisfactorily function for mankind and serve the economy, if we (a) thoroughly understand it and (b) consciously design and shape it—or is this not the case?

1.2 The Multi-Dysfunctionality of Our Current Monetary System

The outcome of the “nonsensical” and “dark” monetary system is a multi-dysfunctionality of the current monetary system, from the economic, ecological, ethical and democratic viewpoint. The current monetary system is:

- Incomprehensible—Try getting an “expert” to explain to you in a comprehensible way and in two minutes how money is created by private banks. In at least nine out of 10 cases he/she will fail to do so. One of the better known money journalists and commentators Helmut Creutz, does not believe in money creation by private banks and says, “If the banks did indeed create loans without deposits, this would be a case of fraud and a matter to be looked into by the public prosecutor’s office” (Creutz 2008, p. 175). Dirk Müller, known as “Mr. Dax,” did not completely succeed in depicting this in his bestseller

“Crash Course.”⁵ In his documentary “Capitalism—a love story,” Michael Moore jokingly asked investment and national bankers for a definition of a derivative. The outcome was entertainment without education. Joseph Huber writes, “Sometimes you have the impression that the present-day statistics and terminology relating to money have been especially invented to conceal the true functionality of the monetary system” (Huber and Robertson 2008, p. 11).

- Inefficient—Those who do good and make real-world investments with social and ecological added value are not those who obtain cheap loans, these loans are given to those who promise the highest financial returns, with money flowing into financial bubbles and tax havens instead of jobs and state coffers.
- Unfair—Those who perform the most valuable tasks (e.g. childcare, health or geriatric care) do not receive the highest income, this income goes to those who increase money in the riskiest and fastest way and who already have the most and too much money in any case (hedge fund managers).
- Non-transparent—As the saying goes “one does not talk about money,” although it would appear to be the most important thing. Banking secrecy, anonymous trusts, tax havens and the wall of silence of constitutions concerning the question of book money creation all fit to monetary occultism.
- Volatile—There is a systemic tendency towards volatility and crisis due to the fact that private profit interests are given priority over the common good and systemic stability. Short selling, speculative currency attacks, betting on state bankruptcies and increasing food prices, computer-steered high frequency trade, leveraged speculation (leveraging) and the creation of money by commercial banks are allowed.
- Unsustainable—Due to the fact that money comes into circulation as debt, constant growth is necessary in order to be able to repay the interest on loans. The interest system and the general view that capital has a right to multiplication compels it to limitless growth.
- Unethical—Ethical criteria do not play a role in bank lending. Basel I, II and III are all equally ecologically, socially and humanely sightless.
- Ruthless—The current monetary system is virtually an invitation to get rich at the expense of others, to commit fraud by using information asymmetries (insider trading) and to get rich as a result of damage to others (betting on losses). There is a kernel of truth in the saying that “money ruins character.”
- Criminal—Ranging from the Goldman Sachs Greece deal to subprime fraud, to Libor scandal and to raw material price manipulation, one criminal case follows the next. JP Morgan paid 13 billion US dollars for a settlement and in the same week paid a further 4 billion US dollars in damages to customers who were cheated. UBS, Royal Bank of Scotland, Barclays and Rabobank together paid a 2.5 billion euro fine for Libor manipulation. At the time of printing of this book,

⁵He describes that the *same* 10,000 euro which a bank customer brings to the bank can be spent by two bank customers. This is not correct. Müller (2009), 68.