Currencies, the creation of money and the redistribution of wealth

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Knowing about money is a key element to understanding the current economies, and a necessary basis in order to be able to analise the existing inequalities, as much on a local scale as on a global one.

Within this arguement, a crucial aspect is how money is created. To create money involves the distribution of it, money cannot be said to be created if it cannot enter into circulation and for it to circulate it has to be in the hands of individuals or groups who have the possibility of spending it.

Depending on how the value is represented, the money may have a cost or not, as in the different cases which will be considered later. The most important thing as a starting point is, given that the so·called democracies are supposedly societies with rights, and given that the way money is structured affects social and economic rights, and that how this money is created and whom it benefits, means that this is an issue that affects all human beings no matter how often we have been told this is a technical issue which has to remain in the hands of specialists.

Introduction to the three types of currency and brief trajectory

Fiat currencies, are issued by the central banks and the private banks under the legal coverage of the States to which they belong. From 1973 onwards, when the gold standard was left behind, the value does not rely on something material, but only on the price payed for it in the currency market and obviously the trust in all that it permits you to purchase.

The social currencies are the means of multi·reciprocal exchange, that is, a logical evolution of barter and a communitarian base. These currencies have been propelled by organizations and social collectives, which have been implementing their different means for more than 30 years now, although earlier examples can be found.

This article will be focusing on those social currencies where the creation power of a currency leads directly to the same participants through economic exchanges, as might be the case with "lets" and the banks in previous times. Its value tends to be linked with the money in circulation in the country of origin, and is neither purchased nor sold in the financial markets.

The Criptocurrencies are decentralized digital currencies. They are implemented when the promoter group uploads to the internet and makes public the software tool that explains all the necessary information. Because from the moment of its use, from the different computers converted into nodes, it starts to circulate and at the same time it starts verifying the different economic transactions. The channel of that verification is the blockchain (which can be accessed from any of these computers and at same time makes it accessible to everybody through the internet).

The first Criptocurrency was the bitcoin uploaded on the web at the beginning of 2009 by an anomynous person or group under the pseudonym of Satoshi. After this the so·called Satoshi dissapeared demonstrating that a central node is not essential for the criptocurrency to go ahead. The value of these criptocurrencies relies on the amount payable in the monetary markets where they coexist with other borrowed currencies (eg. the Euro or Dollar).

How is money created in each of these cases?

Fiat Money

An extract from an innitial summery provided by the Bank of England in a recent document explains:

« In the modern economy, most money takes the form of bank deposits. But how those bank deposits are created is often misunderstood. The principal way in which they are created is through commercial banks making loans: whenever a bank makes a loan, it creates a deposit in the borrower¨s bank account, thereby creating new money.»

This description of how money is created differs from the explanation found in some economics textbooks. Thereby, all creation of legal money accessable to the population is issued from a private bank and is under their authority. The greater part of this money creation, which could be up to 97%, is through credit operations, whilst the rest, is by means of payments made by the same banks, from interest from deposit, from property purchases, payment of services or even their own employees.

As we can see the, the banks have at their disposal an enormous priviledge because they concentrate the capacity to create money through their own interests. It is also worth noticing that this mechanism for the creation of money has never been part of any democratic decision, nor debated in any political agenda. Instead of lending the customers' savings, the deposits are created via credit, these deposits being a creation of new money.

In normal times, the central bank does not determine the quantity of money in circulation, neither is the money from the central bank that which reproduces itself via more loans and deposits. In previous decades the whole banking system and economic powers made every possible effort to conceal this information from the population and made sure that only mechanisms, such as the money multiplier, would be taught at University. This information was merely a smokescreen in order to guard their unquestionable privileges regarding the private creation of money.

Likewise, we need to take into account, ·even though they may be too big to fit into our imagination, all the personal, social, ecologic and political consequences that this system has had all these years and still continues to have.

Criptocurrencies

In this case, the creation of a new currency functions according to two main tendencies. With the bitcoin and most criptocurrencies, it functions as a "proof of work", and is asociated with what it is known as "mining": a process which consists of machines which need to be more and more powerful in order to solve the mathematic formulas which allow the creation of new "blocks" as quickly as possible. To make this possible, companies and private businesses must invest increasing amounts in new technologies that might be obsolete within months. The "miners" earn the bitcoins they have produced and they put them on the market, it is, therefore, a coin which is created through a private initiative, in just the same way that central banks create money; but in a more decentralized way, meaning that no-one can decide who has access to the creation of new money and who has not.

While explaining how bitcoins are created, it is possible to see it as a concept resembling gold, as a rare and valuable coin, uncorruptible, and gaining value with the passage of time, as long as demand keeps growing and the market remains scarce.

The second mechanism, which nowadays is growing in acceptance, is the "proof of shake". In this case, only the people who already have the currency can access more currency, if their node of operation is in proportion to the currency they already have. Thus, the characteristic of this currency is that it is a good currency to save. This one does not generate a techno-industrial race, consumes less energy resources and it is the savers themselves who produce the currency.

Logically, this mechanism does not apply to the creation of the first monetary units. In the initial phase there is usually, at first, either a combination of work effort, or a purchase of part of the currency, or a sharing out according to certian rules between the people who are first to ask for the currency at the outset. In all cases, the nodes play a determining role in maintaining the chain of blocks, because they are the elements within the network which assume the role of creating new blocks and validating the transactions which are taking place.

We cannot say that the process of criptocurrency is fair or equitable; not even in those rare cases in which they have been distributed without initial cost. 75% of mining nodes are concentrated in the 10 richest countries, and nodes in disadvantaged countries are nearly non-existent.

Besides, in Northern economies, there is a digital breach which allows only a small section of the population access to the creation of money in this way. So, even though it is a more spontaneous and diverse way of creating money, the criptominer wealth continues the trend of the concentration of wealth and power within the current system.

Local currencies.

A system of local currency uses credit without interest as a means of money creation: when two accounts make their first movement, one receives a positive balance and the other a negative balance as a result. The negative balance is not considered a debt, but a necessary condition in order to be able to create money in a decentralized way as social currency.

For example, a participant in such an economic system develops an activity as a baby-sitter, a job which is recompensed, thus generating a positive balance in her/his account. Once the participant is able make use of this balance, he/she can spend it to pay for the carpentry services of another participant, who will be paid with this positive balance. The balances in each account act as currency. All the economic transactions are registered within an Internet location accessible to all the participants, which ensures transparency. This monetary system can be considered a mutualist system, as the benefits of the network go to the participants themselves.

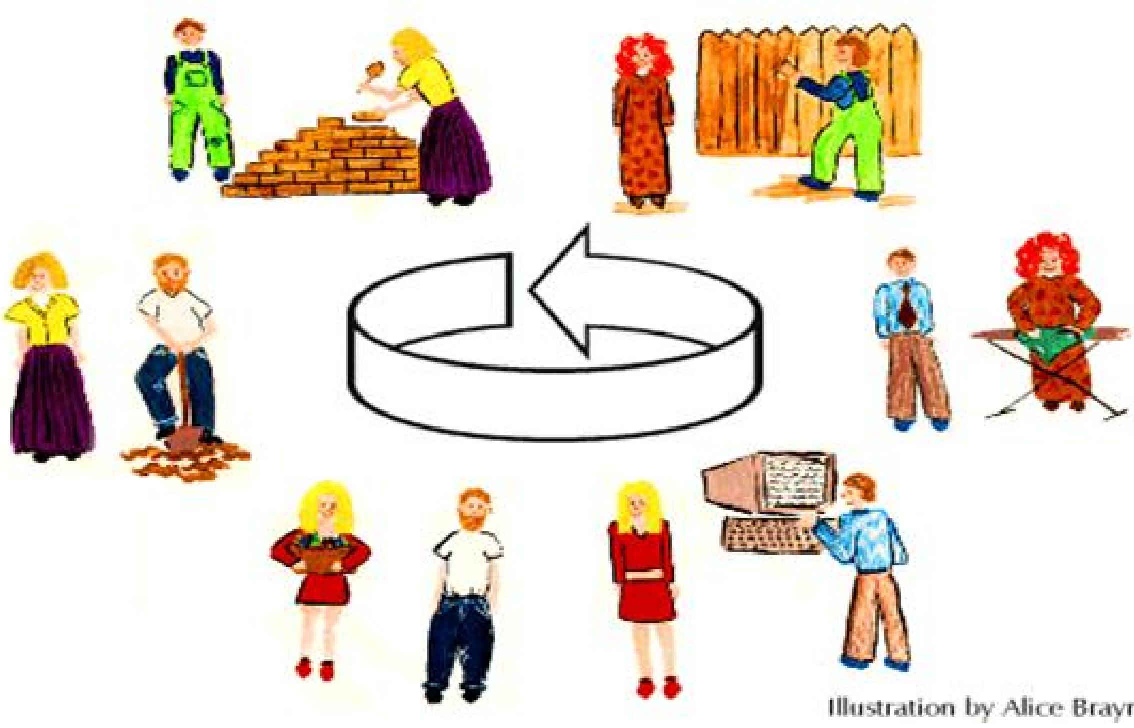

Illustration by Alice Brayne

A variation of this system would be the creation of currency through credits without interest for productive projects.

In these cases, the productive projects would be allowed to generate a negative balance in proportion to their needs in order to complete the economic cycle, so that each time a customer paid for a completed job, the balance would return to 0, giving the possibility of beginning a new cycle.

In every case, the guarantee of the currency falls on the community of users, which usually decide, through a participative process, the basic working rules of the economic system.

Within these ruels there is also the possibility of a certain degree of creation of currency from the community, which may be generated to remunerate some of those tasks or services needed by the community. The positive balances in other accounts would be created due to a negative balance, collectively accepted, within the common account.

More reflections and some conclusions

It is obvious that the monetary system is not sufficient to allow everybody access to basic resources (another fundamental element is to ensure those resources are accessible, produced, distributed and not wasted). But nowadays a monetary system is a necessary condition, meaning that without a balanced monetary system which favours access to real needs, other efforts which might be made will not be successful.

In order to build up monetary systems which will contribute to the generation of equity instead of inequality there is a long way to go. Firstly, official money, which will last as long as the States exist, would have to be radically transformed in order to stop it from being a banking privilege and become a common wealth; being created without interest in a similar way to which local currencies are produced. In the short term, this transformation is almost impossible within the stablished order, as the elites controlling and guarding the privilege of money-production will not allow it. Therefore, within the framework of the hollistic revolution, as other collectives and communities around the world are doing, our option is to build alternative monetary systems which start by being an strategic element for new social models and which would incorporate a just management of the wealth produced by our society.

Nevertheless, we must continue to spread awareness of the highly unfair functioning model of our current monetary system; the only way that, some day, the winds of change might blow so strongly that they cannot be stopped. A monetary system which is really public in a sense of common good (wealth), must be equitable in the sharing and facilitate the flow of money change in order to meet the needs of its participants. Thus, if there are tasks within the community which are seen as necessary but nobody volunteers for them, the currency must facilitate they are assumed by somebody. If the concern of the covering of everybodys needs arises, mechanisms for a minimal income might be established to make that possible.

If there must be a creation of money to cover basic needs, then it must be created; and if prizes must be fixed to avoid the risk of rising prizes because of money creation, then they must be fixed. Another possibility is to collect more money in order to redistribute it and make it disappear from the wealthy economic areas.

This approach is obviously opposed to that of the European Central Bank (ECB), which states rules such as: the sovereign states themselves must pay the central and private banks all the credit they have accessed with interest; moreover, when, due to their excesses, those same private banks enter bankruptcy, states are made responsible and must fill in the gaps left with public money from taxes. Even if those gaps are only balances which central banks can readjust by many other means not related with using public services, the ECB forces with its rules to put the weight of private bank bankruptcy on state economies.

The interest of the ECB in intervening so fiercely on state budgets must be adressed maybe in another ocasion; but, anyway, for many readers is not a secret, as they are already familiar with other such actors around the world, like the International Monetary Fund (IMF). It is no other thing that the so-called neoliberal agenda which allows maximum privatization for the maximum benefit [of the few]; and the power of corporations over the common folk.

Meanwhile, it is important in my opinion to recognize, within the multidimensional monetary systems we are building up, the role of criptocurrencies in contributing to free us up from the control of the world economic powers. Even though they have limitations, and not being resource-distributing friendly (at least up to the present), they might prove very useful for long-distance economic relations, and, in general terms, for transactions the local currencies do not reach.

In other words, we can generate a good complementarity between criptocurrencies and local currencies for the revolutionary transition we are carrying on. While criptocurrencies allow us to escape the national and supranational control, social and local currencies generate better practices in the production and redistribuiton of resources.

Although it has many other functions, the primary goal of a monetary system must be to facilitate that products (either goods, services or public tasks) can be paid in a way that the needs of participants are met, and, at the same time, the productive activity is rewarded.

When people are starving and tones of food are thrown away; when thousands of houses are empty and thousands of people are homeless; when some can live on the revenues of the money and others must work non-stop to barely pay their bills... then, the monetary system is not fulfilling the purpose it should.

My opinion is that all human beings supporting integral revolution (or any other propposal for social transformation which strives for a reconstruction of fair economic relations in the planet), must be aware of the key role of the monetary system in our lives, and assume the responsability to rise awareness, reconstruct it and put it back into the role it should be accomplishing: to facilitate the relations amongst ourselves.

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