Money is changing and so should we – *Part Two*

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Creditors have better memories than debtors

– Benjamin Franklin

Part 2 takes us through the birth of central banks to the virtual-money society we have today.

Centuries later, Ming China operated a paper currency system but the temptation to overuse it led to chronic inflation which forced the empire to revert to silver.[1] Having ambitiously over-expanded the fiat system, the return to silver wasn't easy and soon there just wasn't enough of the metal in China. The dynastic government bought it from heavily indebted Spanish conquistadors who had acquired precious metals colonising The Americas.[2]

For long periods of history physical money was only exchanged between governments and bankers – everyday transactions were still undertaken on what was effectively a credit system with regular reckoning up.[3]

Reinhart & Rogoff's excellent *This time is different: Eight Centuries of Financial Folly*[4] covers much of the last 800 years of money and debt, from 13th century Britain's travails onwards. These persisted, as debt crises tend to do, on and off for centuries. By 1694, King William of England needed money to pay off war debts incurred during the 30-years war with France and hence made a deal with a group of private bankers: in exchange for paying off his dues, they could have a banking monopoly. This monopoly became the Bank of England -the world's first central bank – and its currency was government debt.[5] That's why modern nation states are generally run by deficit finance and maintain a national debt. Today's currency is essentially one form of government debt.

It took a while but slowly village credit systems died out as governments started to create millions of coins, so that everyday transactions could be made, more immediately and perhaps conveniently in cash. As money came to be

[1] Peter Bernholz, Monetary Regimes and Inflation: History, Economic and Political Relationships, Edward Elgar Publishing, 2015

[2] http://www.bbc.co.uk/programmes/b054zdp6/episodes/player

[3] *idem*

[4] Carmen M Reinhart & Kenneth S Rogoff, *This Time is Different: Eight Centuries of Financial Folly*, Princeton University Press, 2011

[5] http://www.bankofengland.co.uk/about/Pages/history/default.aspx#2

seen as a physical thing, the idea that debts could be written off became a thing of the past and debtors could even find themselves in prison if they didn't pay up – what had been basis of society came to be treated as a crime.[6]

Gold and silver (and/or in some cases base metal) standards dominated before dying a slow death spread over the period from the 1920s to the final abandonment of the gold standard by Richard Nixon's administration, faced with the spiralling costs of the Vietnam-American war.[7]

Once again money became more of a virtual commodity than a physical thing. Not only were new-fangled plastic cards starting to become popular for everyday transactions but the constraints on commercial banks' ability to create broad money out of thin air were being removed one at a time. As another IDEAeconomics colleague, economist Ann Pettifor puts it, there'd become two ways of making money: invest in a project and labour; or simply speculate.[8]

Fast forward to today: Bank loans, plastic cards, online payment systems, digital wallets, block chain currencies and mobile payments are defining this latest period of dominance virtual credit money. Even local community credit is making a comeback: for example, in the Yorkshire city of Kingston-Upon-Hull, where local government and other organisations collaborate to reward community work with a local crypto-currency called HullCoin. Several local retailers have agreed to accept this as payment for or a discount on goods, meaning that the budget-slashed public sector can pay for services and indebted people can still buy the essentials.

As civilizations evolved over time, they developed mechanisms to protect society as a whole and its individual members from being trapped in debt slavery – the both constructive and humane practical recognition that has been best encapsulated by Michael Hudson, who famously declared "Debts that can't be repaid, won't be repaid."[9]

However, the demise of civilizations has often been linked to their abandonment of this self-evident, fundamental truth. In the present day, we need to be cognisant of the dangers of societies that place greater emphasis on protecting creditors from non-paying debtors. Many feel that the repeal of legislation, such as The Glass-Steagall Act, is symptomatic of this – tearing up regulations that had specifically been designed to prevent another 1929-style banking crisis.

[6] http://www.bbc.co.uk/programmes/b054zdp6/episodes/player

[7] *idem*

[8] http://www.bbc.co.uk/programmes/b054zdp6/episodes/player

[9] http://www.ideaeconomics.org/a-modern-jubilee/

In truth, even if it hadn't been repealed, Glass-Steagall almost certainly wouldn't have prevented the 2008 Global Financial Crisis. But a more contemporary successor, drafted for purpose in the twenty-first century, would have been a better indication that both lawmakers and society generally, still understood the dangers.[10]

Once again we are in a period dominated by virtual money – not physical currency – and therefore, once again, we should be looking to provide ample protection for debtors and for society against creditors and not the other way round.

If nothing else, the protracted failure of central banks' attempts to boost the economy surely highlights the need to rethink our attitude towards private debt.

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[10] https://www.law.cornell.edu/uscode/text/15/chapter-94/subchapter-I