**New Monetary Spaces?**

*by*

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**Introduction**

It is generally believed that communication and information technology (CIT)

is eroding the power of nation states in a number of economic, social and cultural

spheres. This is said to be occurring from two directions simultaneously – globally

from the “outside”, and locally from the “inside”. Transnational economic, political

and cultural developments have begun to challenge the hegemony of all but the

most powerful of states; but localised and, largely, informal cultural and political

movements have also expanded. In the economic sphere, the advance of transnational

capitalism and global e-commerce has been paralleled by the revival of

local and “informal” economies. Both developments make use, in part, of new

forms of money, based on CIT. It widely thought that these could successfully

challenge the state’s monopoly and control of monetary production*.*

Two aspects of this debate need to be distinguished from the outset. First,

CIT is literally *transforming* money. After its commodity and paper incarnations,

money is now (it is widely thought) becoming “virtual” – as in, for example, the

electronic transmission of payments in the banking system, or in “electronic

purses” (see for example Solomon, 1997). This change in the mode of monetary

transmission has some important implications; but perhaps we should note at

this early stage that there is a great deal of rash hyperbole on the novelty of

“dematerialised” money. After all, the “book money” in 16th century Italian

banks was just as “virtual” when it was transported through time and space by

the stroke of the pen.

There are a number of issues here concerning fraud, money laundering, tax

evasion, and so on. It is not clear whether electronic forms of money will lead to an

increase or reduction of such activities. This is largely an empirical question and

until we move nearer to a cashless economy we cannot be confident about the

outcome. Other things being equal, however, no form of money can be as anonymous

and untraceable as hard cash, the foundation of the large “black” economies

in even the most economically advanced societies. However difficult it might be in

practice, electronically transmitted money is traceable.

Much more interesting issues are raised by a second, different set of arguments

that suggest this same technology makes it easier to create authentically

alternative new forms of money that might erode or even displace state money.

The development of the “global” and the “local” both imply the “denationalisation”

(Gilbert and Helleiner, 1999) or “deterritorialisation” of money (Cohen, 2001).

There are a number of disparate developments on both levels. At the globalised

upper level of capitalism, for example, large transnational corporations might

issue their own “scrip” as media of exchange on Internet transactions (Greenspan,

1997; Lietaer, 2001; Weatherford 1997; Kobrin, 1997). In a more extreme vein,

others argue that Internet barter-credit transactions might even bring about “the

end of money” and the redundancy of central banks. At the other end of the scale,

the informal sectors of many modern economies have developed into organised

local trading systems with their own local media of exchange. As the very essence

of the sovereignty of the state is based upon the *twin* monopolies of money and

coercive force, there are many possible consequences of such a leakage of money

from its control. Most obviously, denationalised and localised money could evade

monetary regulation and the reach of the tax authorities, with obvious consequences

for macroeconomic management and social welfare programmes.

Debates on money’s “future” are one element of more general economic liberal

and social communitarian hopes for the Internet as a potential force for human

emancipation from the state (Hart, 2000).

However, we need to be clear about what exactly money is before embarking

on an examination of the consequences of its new forms. Unfortunately, this question

has proved to be surprisingly difficult to answer (see the articles in Smithin,

2000). Indeed, it will be argued in this chapter that almost all of the recently

fashionable conjectures on e-money and “the end of money”, or the existence of

“virtual money”, are based upon a fundamental misunderstanding of the nature of

money. It is usual to define money in terms of its functions of medium of

exchange; means of payment (settlement); money of account; store of value.

Orthodox economic theory implies that *medium of exchange* is the most important

function, and that the others simply follow from it. Nearly all of the recent analyses

of e-money and its consequences are guided by these assumptions, but it is here

argued that they are mistaken. There is a tendency to confuse *specific forms* of

money – metal, paper, electronic impulses, etc. – with the *generic properties* of

money as *measure* and *bearer* of *abstract value.* As expressed in the opening lines of

Keynes’s *A Treatise on Money*: “Money-of-account, namely that in which debts and

prices and general purchasing power are *expressed*, is the primary concept in a theory

of money” (Keynes, 1930, p. 3, original emphasis; for further analysis of the fundamental

importance of money of account, see Ingham, 2000; Grierson, 1977; Hoover,

1996). These qualities are generated by the *social relation* between the issuer and

the user (Simmel, 1978 [1907]; Ingham, 2000; Aglietta and Orlean, 1998; Innes,

1913; Smithin, 2000; Wray, 1990, 1999; Schumpeter, 1994 [1954]). *Monetary spaces* are

created by social and political relations that exist independently of the exchanges

between transacting economic agents. The *form* of money and its *mode of transmission*

are of secondary importance.

The discussion that follows has two main parts. The first section will expand a

little on these conceptual problems, outlining the two basic theories of the nature

of money. The second part describes the different forms of money that have

recently emerged – from “above” and “below” – and that appear to challenge the

modern state’s monopoly of money. An attempt will be made to assess how far

these challenges might progress.

**1. Theories of money**

“There are only two theories of money which deserve the name”, Joseph

Schumpeter accurately observed almost a century ago, “… the commodity theory

and the claim theory. From their very nature they are incompatible” (quoted in

Ellis, 1934, p. 3). Each theory gives different answers to the basic questions about

money – that is to say, those concerned with the functions of money; its historical

origins; how it gets into society; and how it gets and maintains (or loses) its value.

Both theories have long and complex pedigrees; but the following subsections

simply summarise those points that are important for the discussion of the

substantive issues of the new kinds or money – or rather, “monetary spaces”.

***i) Money as a medium of exchange***

In the most general sense, the understanding of money in orthodox economic

analysis remains based on the analytical structure of the commodity-exchange

theory of money. Here money is seen either as a tradable commodity, or the direct

symbol of commodities, that functions as a medium of exchange. In mainstream

economic theory, only the “real” properties of the economy – “capital” and “commodities”

– are of fundamental importance. There is no analytical difference

between barter exchange and monetary exchange.1 Money, in J.S. Mill’s view,

merely enables us to do more easily that which we can do without it. It is in this

sense that money is a neutral veil over transactions. In classical and neoclassical

economic analysis, the existence of money is explained as a spontaneous evolution

that resolves the problem of the inefficiencies of barter. The market,

comprising rational economic agents, is capable of solving its own problems; it is

self-equilibrating and self-correcting. Consequently, money originated as the most

tradable (liquid) commodity that would be held by traders in order to maximise

their exchange options (Menger, 1892; see also the more recent literature in this

tradition that is cited in Klein and Selgin in Smithin, 2000). It is primarily, and in

some cases exclusively, seen as a *medium of exchange*. From an analytical standpoint,

there is no essential difference in terms of money between, say, the “cashless”

euro and the use of cigarettes as a medium of exchange in prisons.

The progressive “dematerialisation” of money in the modern world has created

difficulties for this theory which, as we shall see, continue in the recent confusions

in discussions of the end of money and virtual e-money. Over the last two

centuries, there has been a seemingly interminable dispute in economic theory

over the role of “paper” and “credit” as symbols or representations of the “real”

value of commodity money, or of the “real” value of the other commodities in market

exchange. As a result of its intellectual origins in commodity theory, this

conceptual framework has resulted in a preoccupation with the actual *form* taken

by the “money stuff” referred to above. Consequently, orthodox economic theories

have, in general, maintained that the value of money is determined by the

ratio of the *quantities* of money and goods. Perhaps the last complete incarnation of

the theory was seen in the “monetarism” of the late 20th century. But the economic

mainstream continues to conceptualise money and its qualities as “things”

that constitute “stocks” or that “flow” or “circulate” at variable “velocity”. The

current debates on e-money are a continuation of this difficulty in understanding

so-called dematerialised money.

There are, however, a number of problems with this theory, which relate in

one way or another to its concept of money as a “thing”. The question of the significance

and the origins or basis of a *money of account* is the most important. As

Keynes noted, money of account is all that is necessary to establish the essentials

of complex economic activity, *i.e.* price lists and debt contracts. However,

the commodity-exchange theory of money cannot provide an explanation of

money of account – that is, of the *concept of abstract value* (Grierson, 1977; Ingham,

2000). It is exceedingly difficult for barter exchange to extend beyond establishing

bilateral exchange ratios; for example, one hundred goods could yield

4 950 exchange ratios (Davies, 1994). Without making implausible assumptions,

it is difficult to see how an agreed money of account could *spontaneously* emerge

from barter. As the numismatist Grierson explained (1977), tobacco was used as

a medium of exchange in 16th century Virginia, but it only became money when

its price was *fixed* at three shillings a pound. Money is a commodity, but it has to

be constituted as money, according to an abstract money of account, *before* it

becomes a commodity.

Secondly, the identification of the quality of “moneyness” with the “money

stuff” of the medium of exchange – rather than in the abstract quality of money of

account – constitutes a “category error” that has led to hasty and mistaken conclu

sions when the form of money evolves. Money, as we shall see in the next section,

consists in a “promise to pay” – that is, in a “social relation”. This has taken myriad

technologically determined forms over the centuries – clay tablets, coins, paper,

book entries, plastic cards, electronic messages. All these forms of money, including

precious metals, only become money when they are *expressed* in abstract

money of account.

Third, the analytical primacy given to money as a *medium* for the exchange of

existing value diverts attention from its obvious role in the capitalist system. Like

all money, bank credit money is created in a complex set of social relations of

credit and debt. But the social relations that constitute money are most clearly

apparent in modern capitalism. As post-Keynesian economists argue, loans make

deposits of money – that is to say, money-*capital*.

Finally, we should note that the hypothetical evolution from barter to commodity

money to “dematerialisation” and forms of credit money is not borne out

by the historical record (Innes, 1913, 1914; Aglietta and Orlean, 1998; Wray, 1999;

Ingham, 2000).

Almost all of the most recent conjectures about new forms of money are to

some extent informed by this commodity-exchange theory. It is assumed that economic

agents in global or local markets are themselves able to create their own,

possibly more “efficient” forms of money – as Hayek, the “free banking school”

and economic liberals have always maintained. Communication and information

technology has made this easier to achieve by overcoming the technical and information

problems that hitherto have necessitated the “public goods” role of the

monetary authority.

***ii) Money as credit – a “claim” on goods***

In this conception, money, *regardless of its specific form or substance,* is always a

“token” claim to goods. It is a socially constructed abstract value – that is to say,

purchasing power denominated in a money of account, as Keynes emphasised.

For example, the values in Charlemagne’s money of account were never minted

(Einaudi, 1953 [1936]); it was the first “cashless” euro! Money of account may be

linked to some material standard of value – but this is always first established

*authoritatively*, not by the market.2 In this theory, it is the social and political *relationship*

between the issuers and users of money that is of central importance in the

creation of money. Issuers establish both the “description” (money of account)

and what form of money “answers” the description (Keynes, 1930, pp. 3-4).

All money is created and maintained by the social relation of credit-debt

(Innes, 1914; Ingham, 1996, 2000; Aglietta and Orlean, 1998; Simmel, 1978 [1907]).

Issuers of money issue “claims” or “credits” and holders of money are “owed”

goods. These relations create the monetary *space* – that is, a *social* sphere in which

*impersonal* exchange takes place. This theory argues that such spaces are social and

political, in that they cannot be constituted *exclusively* by the exchange relations of

economic agents. This socially constructed space is logically anterior and historically

prior to the market. Without money there can be no market, whereas orthodox

economic theory sees money as a convenient medium of exchange that

enables a pre-existing – primordial – market to function more efficiently. A genuinely

competitive issue of money would entail a competition of nominal moneys

of account; anarchy would follow (Hoover, 1996; Ingham, 2000; Issing, 1999).

Historical evidence supports Knapp’s state theory’s focus on taxation (debts

to state) as the basis for creation of monetary spaces (Knapp, 1973 [1924]; Wray,

1999). States issue money in order to get it back in taxes. Tax debts to the state

can only be paid by acquiring, through economic activity, the money that will be

accepted (Wray, 1999). In this regard, it is important to bear in mind Knapp’s

important but widely misunderstood distinction between *valuableness* and *value,*

*valuableness* being the quality conferred by authority and *value* being actual purchasing

power. In other words, *all money is, in a very important sense, “fiat” money*.

“Private” or “market” money exists; but two important points must be borne

in mind. First, there is no known case where entirely private money has been able

successfully to maintain its own unit of account over the long term. Secondly, early

capitalist bank money or market money was chronically unstable until it “hybridised”

with the public banks of the early modern states (Boyer-Xambeu, 1994;

Ingham, 1999).

A further important feature of the credit theory of money is that abstract value

in the form of the social relation of money is value *sui generis*.3 A specific feature of

money is not so much the utility of medium of exchange in “spot” exchanges, but

rather the projection of *abstract* value through *time*. Without this quality, the

“endogenous” creation of money through the creation of debt and capitalist

financing would not be possible (for a survey of post-Keynesian and “monetary

circuit” theory, see Parguez and Seccareccia in Smithin, 2000).

**2. New monetary spaces**

New electronic and digital forms of money and new media for transmission

appear to promise the actualisation of the economic model in which money is

defined by its role as a medium of exchange. This underlying conception of money

is shared by two quite diverse and opposed ideological positions, both of which

hold to the possibility that a “spontaneous order” could exist without the state. In

short, communication and information technology has revitalised those two old

19th century visions: the liberal conception of a global market “cosmopolitanism”,

and local “communitarianism”.

***i) Electronic globalisation, market capitalism, and national currencies***

Leading academics and figures in the monetary world have argued that CIT

will remedy the information and communication deficiencies that have, hitherto,

impaired the perfect functioning of the market mechanism (Cohen, 2001; Kobrin,

1997; Greenspan, 1997). Some, as we shall see, have a vision of a truly transcendental

global order: a vast “moneyless” market, made a reality by a vast bartercredit

clearing system based on a fabulously more powerful successor to the

Internet (King, 1999*a*, *b*). Others believe that “with the arrival of electronic money,

money creation will become increasingly privatised. Hayek’s vision of a world of

unrestricted currency competition could, for better or for worse, soon become a

reality” (Cohen, 2001, p. 21). These possibilities are questioned by a second group

of writers on the grounds that states will have both the will and the capability

successfully to challenge any technologically-based threat to their monopolies, if

it is in their interests to do so (Helleiner, 1999).

The author broadly agrees with this second assessment, but his scepticism is

also based on a slightly different argument. As suggested earlier, the possibility of

*viable* “denationalised” electronic or cyber money that emerges in the course of

e-commerce is based on a misunderstanding of the nature of money. In order to

become more than a “convenient medium of exchange” in e-commerce, money

needs authoritative foundations – that is to say, some autonomous social and

political bases. Narrowly “market money”, whether a 16th century bill of exchange

or today’s e-money, remains embedded in and restricted by its economic network

and is, consequently, only as viable as the network itself.

The most extreme interpretation of the monetary potential of CIT finds

expression in the “New Monetary Economics”, which surmises that the modern

generation of computers could make the Walras’s economic model of barter-credit

equilibrium a reality (Smithin, 2000). Their ideas were recently popularised by the

Deputy Governor of the Bank of England, Mervyn King, in his contemplation of the

“end of money” (King, 1999*a*, *b*). The 20th century, he argued, has seen the inexorable

rise of central banks; but he wondered, as a result of the “impact of technological

innovation”, whether they would exist at all by the 22nd century. Central

banks’ control of their monetary systems could disappear if individuals or, more

pertinently, capitalist firms were able to settle their exchanges by the direct transfer

of wealth – in the form of, say, financial assets – from one electronic account to

the another. Pre-agreed logarithms would determine, according to the value of the

transaction, which financial assets were sold by a purchaser. “The key to any such

development is the ability of computers to communicate in real time to permit

*instantaneous* verification of the creditworthiness of counterparties” (emphasis

added). The realisation of this possibility would make money’s unique role as the

means of final settlement redundant.4 If final settlement could be made without

recourse to the central bank’s money, the bank itself would cease to exist. Present

monetary policy preoccupation with the need to limit money creation would give

way to the more “technically neutral regulation” of the integrity of the computer

systems that verify the creditworthiness of the counterparties’ assets.5 King

concluded that societies have managed without central banks (their monopoly of

the supply of money) in the past and “may well do so again in the future”.

Standing aside from the dazzle of information technology, it is possible to

see that the *underlying structure* of the kind of scenario described by King has

existed for some time at the upper reaches of world capitalism (Ascheim and Park,

1976). Moreover, there are numerous historical examples of “moneyless” systems

of complex multilateral settlement with payment in kind – for example,

18th century Massachusetts and present-day Russia. In essence, these are no different

to King’s conjecture. The quite complex economy of mid-18th century

Boston had no issued currency. Farmers’ and traders’ debts were recorded in a

*money of account* based on the English currency, which of course did not circulate.

The means of payment were heterogeneous goods priced in an agreed unit of

abstract value (money of account). In strict terms, such systems, including King’s

scenario, are not moneyless but cashless. In order to function at all, these monetary

systems only require an abstract money of account.

King understands this point and, consequently, that the liquid financial

assets for settlement of debt would need to be priced according to a money of

account. But in his focus on medium of exchange as money’s *essential* property, he

appears to consider the question of money of account to be unproblematic. However,

it is not. Following economic orthodoxy, King simply asserts that a *commodity*

*standard*, based on the prices of a “basket of commodities”, could produce both a

unit of account and a benchmark standard of value. The construction of a money of

account, he suggests, would simply be a “matter of public choice”, and its regulation

would be no more difficult than existing weights and measures inspection.

But this reduction of the problem of producing a measure of abstract value to a

technical question misunderstands the essential quality of money as “the value of

commodities without commodities” (Simmel, 1978 [1907]).

The “New Monetary Economics” position, outlined by the Deputy Governor,

rests on two basic errors. In the first place, economic value is not “natural” like the

relatively constant properties of, say, distance and weight. Indeed, it fluctuates in

response to the distribution of social and economic power, and this is precisely

why money of account is logically anterior to and historically prior to market

exchange and market value. Second, the standardisation of the unit of account in

relation to any standard of value has to be established by an authority. Monetary

promises to pay are abstract, and they function because the question of their

value is partly *removed from the free market process*. Space does not permit a thorough

examination of this question, but in the era of precious coinage, monetary policy

involved manipulation to maintain parity between market value and the abstract

money of account. By buying gold at a fixed price, central banks’ promises to pay

were in fact fixing and manipulating the so-called market in order to provide the

stability which, left to itself, the market could not provide (Innes, 1914).6 “End of

money” futurology is no more than a re-description of the 19th century liberals’

misunderstanding of their monetary system and, perhaps, a repetition of their

vain hope of a world without politics.

Doubts about the theoretical underpinnings of this extreme case do not

mean, however, that we need not consider the possible effects of the appearance

of new and varied media of exchange and changes in the means of monetary transmission.

There are two possible developments that could fragment and erode

national monetary spaces. First, it is suggested that the proliferation of limitedpurpose

media of exchange that appeared in the late 1980s – such as prepaid

“smart cards” for rail or air travel, mobile phone calls, cable TV, and so on – could

go beyond the credit card limitations. [For a regularly updated guide to e-money

see *www.ex.ac.uk/~Rdavies/arian/emoney*; also Godschalk and Krueger, 2000 on

*www.durham.ac.uk/economics/krueger*.] At present, like credit card debt, smart card

accounts must be paid for by transfers from conventional bank balances. However,

the technological possibility exists for balances of the different limited-purpose

media to become readily exchangeable in payment for an ever widening range of

goods. The next generation of PCs will have the necessary smart card slot. For

example, a mobile phone company might accept unused rail card balances as

payment (Boyle, 1999). Indeed, it is in the interest of companies to encourage the

formation of such multilateral payment networks. It is argued that as e-commerce

became more extensive, these limited media of exchange would begin to take on

the function of means of payment and final settlement, and would approach the

status of private money (Lietaer, 2001). The award of “loyalty credit” for purchases

of a range of goods whose suppliers comprise a linked trading network might also

operate in a similar way in the production of limited media of exchange. The Internet

has enabled these media of exchange to extend their scope, and in the late

1990s a number of so-called cyber currencies emerged – for example,

*www.beenz.com; www.ipoints.co.uk*; and, more recently, PayPal (“Dreams of a Cashless

Society”, *Economist*, 5 May 2001; Solomon, 1997).

It is argued that these could spread to a point where they challenge existing

state moneys. Cohen (2001), for example, believes that Internet money can exist

in “new circuits of spending, based on alternative media of exchange, that make

no use at all of a country’s traditional settlement system – ‘rootless’ money circling

in cyberspace” (Solomon, 1997, p. 75). It is acknowledged that the development of

trust is a problem. However, it is assumed that trust in cyberspace money will

grow simply as a direct function of the volume of electronic commerce. In Cohen’s

view, this would be no different to the way in which cigarettes in prisons or chew

ing gum in postwar Europe became “money”. In general, then, this range of

views is based on the belief that money is fundamentally a commodity that functions

as a medium of exchange and is produced by a market process.7

Secondly, is it really only “a matter of time”, as Alan Greenspan has suggested

(1997), before the largest global corporations, whose assets far exceed those of

many states, issue their own promises to pay? As a recent commentator explains,

the “real goods and services of companies” would back the private issue (Lietaer,

2001).8 However, in addition to the overwhelming historical evidence that money

is indeed a “creation of the state” (Keynes, 1930), there are good reasons to doubt

that private corporate money could ever become more than a minor adjunct to

legal tender. Quite simply, the structure and mode of operation of what

Fernand Braudel called the “capitalist jungle” is inimical to the creation of corporations

with the necessary longevity and trustworthiness to produce money that

could successfully compete with states’ issue. Capitalism, as Schumpeter

stressed, prospers through “creative destruction” in which even the most powerful

firms eventually fail or are swallowed up by their competitors. If the pattern of the

20th century continues, only one in three of the largest US corporations will survive

the next twenty-five years (*Financial Times,* 12 April 2001). Finally, it has not

been convincingly demonstrated that it would actually be in the economic interest

of corporations to issue money. As the 20th century has shown, the dominant

states whose money has been used globally have, at times, found this to be a

costly burden (Ingham, 1994).

One must guard against exaggerating the actual extent, scope and novelty of

these developments (Godschalk and Krueger, 2000). But it is more important to

be aware that, in order to be fungible, the new forms of money would have to be

part of a monetary space that is circumscribed by a *dominant money of account*.

Charlemagne grasped the point over a thousand years ago in his attempt to bring

order to the monetary anarchy created by myriad competing currencies across

Europe. In fact, e-money is *structurally* no different from the multiplicity of local

media of exchange, corporate and government scrip and private bank money that

existed in all advanced capitalist societies in the 19th century (Davies, 1994). For

example, in “… the 1830s… Britons could at different times and at different places

have understood gold sovereigns, banknotes, or bills of exchange as the privileged

local representatives of the pound… the pound as an abstraction was

constituted precisely by its capacity to assume these heterogeneous forms, since

its existence as a national currency was determined by the mediations between

them” (Rowlinson, 1999, pp. 64-65). These media were displaced not by technological

innovation, but by the political interests of states in tax collection, and

stabilisation of their currency by participation in the international gold standard.

It is to misunderstand the nature of money to argue that “[j]ust as early forms

of paper monies eventually *took on a life of their own*, delinked from their specie base,

so too might electronic money one day be able to dispense with all such formal

guarantees…” (Cohen, 2001, p. 6 – emphasis added).9 No money can simply take

on a “life of its own”, or have a “rootless” existence. To think that this is possible is

the result of the preoccupation with the *form of money* and economic transactions

rather than the *social and political relations* between the issuers and the users. Money

is essentially “rooted” in the money of account and the final means of settlement

that is, of necessity, established by an authority.

Fundamentally, then, the question of new monetary spaces based on CIT is

not technological or even economic – it is political. Aside from the essential role of

an “authority” in maintaining a money of account and means of final settlement,

the extent of any developments in even very limited purpose media of exchange

depends on the state (Helleiner, 1999). The European Central Bank, for example,

has taken a strong stance with regard to competing private e-money. In addition to

requiring that e-money must conform to existing banking supervision, including

the reserve requirement, the issuers of e-money are, if requested, to be legally

obliged to redeem it at par against central bank euros (European Central Bank

Report, quoted in Lietaer, 2001, p. 216). In other words, it is the ECB’s intention that

any new issuers of private e-money become part of the existing banking system. Out

of concern for the United States’ lead in e-commerce, the Federal Reserve is, as yet,

more tolerant of e-money. However, the US Internal Revenue Service has opposed the

part payment of income in “frequent flier miles” that were potentially negotiable.

There is one final consideration that we should examine. It receives little or

no attention in the literature, largely because orthodox approaches assume that

money – whatever its form – is “neutral” in its effects. It is just conceivable that

e-money might become a *transmission mechanism* for currency substitution on an

extensive scale for a global financial elite. The Internet might produce a more

extensive and promiscuous circulation of national currencies, as occurred in

Europe before the consolidation state system of the 18th century. Or, could there

be, for example, a non-bank version of the 1960s Eurodollar market?10 The amount

of globalised private investment is large, and growing at a fast rate – from

$1 trillion in 1981 to $4.5 trillion in 1993 (Thygesen, 1995). Rather than being

merely offshore, as they were forty years ago, the new markets would be in cyberspace.

Currency X could be exchanged into e-money and thence into currency Y

and other liquid financial assets. The existence of such offshore – or rather, cyberspace

– wealth would lead to a further shrinkage of sovereign states’ tax bases,

affect welfare and exacerbate existing trends towards increasing inequality.

Again, the outcome will depend upon any common interest that states might

have and their willingness to regulate and control, such as in the current European

initiative on private offshore banking. Some states permit domestic use of foreign

currency in order to discourage their wealthy elite from exporting their financial

assets (Helleiner, 1999, p. 150). Anything that enhances the fungibility of a global

plutocracy’s assets will tend to force national governments and their monetary

authorities to act defensively in this way. Could this be another path to an insidious

global “dollarisation”?11

In addition to further economic polarisation and reduction of national tax

bases, the existence of global economic elite networks would probably reinforce

another trend that has a less obvious but possibly deeper significance. In the

19th and early 20th century, the limitations of information and communication

technology and the relative immobility of labour in the tertiary and secondary sectors

of the economy tied the economically dominant classes more closely to their

particular locale. They had a stake in its economic, political and social health.

Today these links are becoming increasingly tenuous. It has been argued that this

retreat has led to the general degeneration of local communities. But, in an ironic

twist, could local community action based on local media of exchange fill the

void? The very same technological possibilities are invoked as the foundation for

a recovery of the “real wealth” of the “community” by the “community” (Hart, 2000;

Lietaer, 2001).

***ii) Community exchange systems and local monetary spaces***

Two periods of global economic recession in the 20th century have given rise

to local self-help schemes and local moneys. In the deflation and monetary

contraction during the 1920s and 30s, local media were used to enable basic economic

exchange to take place. Some vestiges remain, but the vast majority were

unable to withstand the assault from their respective banking systems or the

effects of the Second World War. The second wave of local moneys that emerged

in the 1980s appears to be more robust and, significantly, their growth has continued

into a period of economic prosperity. From fewer than 200 in the early 1980s,

local money systems have grown to over 2 500 worldwide (Lietaer, 2001, p. 159

for a list of websites). Many believe that these are not simply the response to

economic deprivation but represent the other dialectically opposed side of the

globalisation “coin”.

The advocacy of community money, controlled by users rather than by the

banking system and monetary authority, is prominent in populist, guild socialist

and communitarian writing (Hart, 2000, pp. 280-281). It is thought that it could

unlock the “real” human and social capital of the people that is rendered impotent

by the lack of money-income from the formal capitalist economy and its banking

system. Despite belonging to a very different ideological tradition, this

conception of money is very close to the idea of the “neutral veil” in liberal economic

thinking. Here also, it is maintained that real capital and wealth resides

only in the actual physical, material and technical resources of an economy. Lacking

a medium of exchange that unemployment and the loss of income bring about,

these lie idle in times of recession. Like analyses of global e-money, the crucially

important questions concerning money of account and money as a store of *pure*

*abstract value* that could constitute final unilateral payment are not dealt with by

these theories. Money is seen to be nothing more than a symbol of the goods and

services of the “real” economy. Secondly, the communitarian vision is essentially

the same as the Hayekian liberal belief that money emerges “spontaneously” –

that is to say, without any need of an authority or state.

There are two main forms of alternative and complementary money that

occupy a marginal position in relation to the mainstream of legal tender money.

First, there are local exchange trading systems/*systèmes d’échange local* (LETS/SEL).

Second, authentic local currencies – most notably “Time Dollars” in the United

States – have emerged (Bowring, 1998; Williams, 1996; Leitaer, 2001; Hart, 2000).

Third, local mutual credit associations have grown in number. For some writers,

the capability of CIT raises the possibility that local cells might become connected

into strong networks that define economic spaces outside those of national moneys

and currency blocs. The Internet, they argue, has the potential to transform

the local into the global (Hart, 2000).

*LETS/SEL*

The original local exchange trading scheme/*système d’échange local* (LETS/SEL)

was founded in Vancouver in 1983, and such schemes have now begun to spread

throughout advanced capitalist societies. In the United Kingdom, for example,

the first appeared at Norwich in 1985 and the number had reached only five by

1992; but in 1999 there were 450 schemes in operation. However, with about

30 000 participants and an annual turnover of only £2.2 million, these schemes

remain, at present, very marginal to the UK economy, and the situation is not

significantly different elsewhere.

Strictly speaking, LETS/SEL are barter-credit networks in which offers and

wants of goods and services are matched. The schemes occupy a position

between simple bilateral barter and a fully developed money economy. Media of

exchange credits are usually issued to participants in the form of paper chits that

shadow their national currency but sometimes signal the locality, as in “Bobbins”

in Manchester and “Tales” in Canterbury, England. [In France, “*les grains de sel”*

evoke the era of authentic commodity in Menger’s fanciful account of the transition

from barter to money (1892).]

After a transaction, the media are placed in local collection boxes or posted to

the clearing house where members’ accounts are debited or credited. LETS go

some way towards overcoming the well-known impediments to barter trade that

occur in the absence of a “double coincidence of wants”. A level of multilateral

exchange and separation of transactions in time is achieved, but LETS demonstrate

the limitations of “special purpose” forms of money that are restricted to the role of

simple medium. LETS chits or notes are “a convenient medium of exchange” (Keynes,

1930); that is to say, they do not function beyond the direct representation of the

actual goods and services to be exchanged. The successful operation of LETS

requires frequent, regular trades and a very high level of velocity of the chits. To discourage

hoarding, “demurrage” – that is, a type of negative interest or deliberate

depreciation – is often employed; and there must be a constant readiness to trade

(Lietaer, 2001; Bowring, 1998). In other words, LETS media are not stores of abstract

value and means of unilateral settlement, like full money. This has two significant

effects. First, there are not the price-lists that result from the use of purely abstract

money. The terms of trade in each transaction are almost always bilateral – like pure

barter. Second, as the LETS chits cannot store value, there is less incentive to drive

a hard bargain which in turn further inhibits the production of stable prices. Consequently,

this reinforces the “localisation” of LETS to closed circuits and casts doubt

on their ability to grow into wider networks of truly alternative monetary space. Of

course, these characteristics are precisely those that are valued by some of their

proponents; LETS are as much concerned with the intentional creation of co-operative

behaviour and communal reciprocity as they are with producing economic welfare

(Lietaer, 2001; *www.transaction.net/money.com*).

The *actual* benefits of LETS are yet to be thoroughly assessed; but it is clear that

they can help to combat economic disadvantage and foster social solidarity. The

unemployed are disproportionately represented, but a large percentage of LETS

members are from the self-employed middle class who follow an environmental and

“alternative lifestyle” ethos (Williams, 1996). However, there is evidence to suggest

that the effects of LETS might not be as unequivocally beneficial to the disadvantaged,

as is generally argued. In unintended ways, they might even *increase* levels of

inequality. For example, middle class resources like tools and equipment and

scarce skills and knowledge earn media of exchange credits with very little expenditure

of time. Conversely, the lower classes typically offer time-consuming, labourintensive

services. Moreover, if – as some have advocated – LETS schemes were to

expand and penetrate the mainstream economy as a complementary currency, then

this would almost certainly be to the advantage of the middle class possessors of

legal tender. The possessors of legal tender would only participate in LETS if it were

to their advantage and, for example, the middle classes could accumulate LETS

credits at a very favourable rate of exchange with which to hire female domestic servants

(Bowring, 1998, p. 104). Unless LETS remain relatively closed and marginal to

the wider economy, they could perversely intensify inequality.

*Local currencies*

Local currencies are closer in structure and operation to proper monetary systems

than LETS/SEL. The idea of an alternative value standard has, of course, long

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been a part of socialist egalitarian writing; but the modern version of Time Dollars

was devised by the Washington law professor Edgar Cahn in 1986 (Boyle, 1999).

The essential idea is that the Time Dollars circulate freely, as opposed to the

matched offers and wants of a LETS/SEL. Most local currencies are to be found in

the United States, but there are signs that these are now spreading (Boyle, 1999;

Lietaer, 2001). The best known local currency, Ithaca Hours, was launched in 1991.

It is estimated that this currency is used by over 2% of the population of Ithaca

(27 000), including 300 businesses, and by 1996 had financed $1.5 billion transactions

(*The Wall Street Journal*, 27 June 1996). The system is organised by a group of

community activists who meet twice monthly to make decisions about the supply

of the Ithaca Hours notes and to draft the newspaper that lists those businesses

that will accept them in full or part payment.

Some rather confused claims have been made for the time standard of value.

Some argued that this unit of currency does not reproduce inequality in the formal

economy “since every hour worked… is equivalent in value” (Bowring, 1998,

p. 109). But of course this would only be true if an authority had forged a *monetary*

*space* by the imposition of a money of account and standard of value – by consensus,

coercion or a mixture of both. Moreover, unless the possessors of marketable

skills and commodities are willing to accept such an egalitarian non-market standard,

the systems tend to reproduce the pattern of inequality of the social structure

in which they are found. In fact, Ithaca Hours are a “shadow” currency in so

much as each unit has a value of $10, which is around the hourly average minimum

wage in the area. In some of the smaller local currency systems, where an attempt

is made to maintain a genuine time standard, there is evidence that non-market

exchange norms might develop. But, as in Montpelier (the state capital of Vermont),

lawyers charge five Hours per hour and babysitters half an Hour per hour (*Economist*,

28 June 1997, p. 65).

As with LETS/SEL, the relatively narrow range of goods and services on offer

reduces the liquidity of local currencies. In the words of a participant of the

Montpelier scheme: “You can only have so many massages and aromatherapies in

your lifetime” (*Economist*, 28 June 1997, p. 65). Where local currencies are authentically

complementary and expand, they will, at some stage or other, attract the

attention of the state’s tax authorities.

In any event, unless they can be used to form a basis for a shadow banking

system, local currencies also are limited to a medium of exchange function, and

restrict their holders to a relatively passive role in the capitalist economy. Like

their close relation LETS/SEL, whatever advantages local currencies confer, they

do so precisely because they are local. They are embedded in local trading networks

in which money is a “neutral veil”, as in conventional economic theory. But,

local currencies do not give rise to the creation of pure abstract value in the form

of the social relation of credit-debt; consequently, no money in this sense is created

“endogenously” through the extension of bank lending. Only in a very small

minority of atypical cases – as in Harvey, North Dakota (population 2 300) – have

local banks accepted deposits of local money (*The Wall Street Journal*, 27 June 1996).

Significantly, these are lent interest free in order not to compete with the formal

banking system. However, it is argued that LETS/SEL and local currencies would

provide more effective self-help if they were to be integrated with existing credit

unions.

*Credit unions and micro-finance*

Credit unions are mutual savings and lending associations; they are usually

non-profit-making. They are commonplace in Anglo-American-type economies – apart

from the United Kingdom. One in four Australians belongs to a credit union, but in

the United Kingdom the figure is only 1 in 300. However, credit unions are expanding

everywhere (Lietaer, 2001). Since their first appearance in the modern era during

the 1930s, they have been subjected to regulation that is designed to minimise

any encroachment on the formal banking system’s right to create credit money. In

general terms, regulative controls require that credit unions be embedded in

some social collectivity with a “common bond” or “bond of association” – such as a

local community or occupational group.

On first inspection, credit unions would appear to be unequivocal examples

of mutual communitarian self-help; but, to an even greater extent than other forms

of local money and finance, they have contradictory effects. Obviously, if loans are

to be provided from savings, credit unions cannot be composed entirely of the

dispossessed and financially “excluded”; and this feature has a perverse consequence.

In the formal financial system, higher income groups have excess savings

over debt, whereas the converse is the case in lower income groups. However, it

has been found that this relation is often reversed in credit unions where, in order

to take advantage of the low interest rates, the higher income groups have excess

borrowing over saving; and lower income groups save more than they borrow. As

they stand, then, many credit unions are sources of inequality as they effect transfers

from the poor to the rich. In almost every country, any serious attempt to relax

the constraining “bond of association” is resisted by the banking system and, if

the local exchange systems were to join forces with the banks, the opposition

would be that much more vigorous.12

**Conclusions**

The extent to which CIT has produced and could produce alternative or

complementary money has been exaggerated. However, there are now clear

indications that the early euphoria has been tempered. E-money has not grown

as expected, and there have been some recent failures of leading “moneys”

(*The Industry Standard: The News Magazine of the Internet Economy*, 5 February 2001;

*www.thestandard.com.au/artcile\_print/0,1454,12508,00*). The viability of these new forms

of money is usually discussed with reference, first, to their efficiency considered in

relation to user costs and benefits (Godschalk and Krueger, 2000) and secondly, in

relation to the reaction of states to any encroachment on their monopoly of issue.

However, it has been argued here that much of the conjecture and almost all the

hyperbole of the early work on e-money has been the result of its conceptualisation

of money *exclusively* in terms of the function of medium of exchange. Many of

the debates are strikingly similar in their confusion to those that arose with the

acceleration of the transition from metal to paper during the 19th century.

However, strong doubts about the revival of these 19th century hopes should

not lead us to overlook the consequences of any possible small-scale erosion of

legal tender. Monetary fragmentation into localised media of exchange networks is

made easier by CIT. However, these would most certainly not be neutral or as

benign as is generally assumed; rather, they are more likely to increase inequalities

of the kind outlined above. Furthermore, even the development of the extensive

electronic transmission of money in the established payments system would

not be without similar consequences. Obviously, to use electronically stored and

transmitted money one must have the appropriate hard- and software and be part

of a network. If, as seems to be the case, these systems prove to be more costefficient,

the gap between the privileged global elite and the excluded monetary

circuits will widen further. Moreover, governments wishing to strengthen monetary

networks for those excluded from the mainstream will face strong opposition from

the banking system – as occurred in the 1930s. Established banks are reluctant

both to participate in such schemes and to permit such potential competition. For

example, the British New Labour Government has had to dilute its proposal to set

up a “universal bank” and electronic giro network for low-income groups (*Financial*

*Times*, 2 May 2001).

Circuits of economic exchange obviously have been able to create their own

*media of exchange* that are based, to some extent, on *interpersonal trust and confidence*.

But if the base for the confidence has no foundation beyond the economic

exchanges themselves, then the media of exchange will remain what anthropologists

refer to as “limited purpose money”. The Internet is seen by some as the

means for a limitless extension of such networks (Hart, 2000). The creation of

extensive monetary spaces requires social and political relations that necessarily

exist independently of any networks of exchange transactions. The extension of

monetary relations across time and space requires *impersonal trust and legitimacy*.

Historically, this has been the work of states. However, it must not be forgotten

that, before the money of the realm came to be the trusted and beloved symbol

of national sovereignty, states were compelled to maim and execute those who

would not use it. Monetary space is circumscribed by the authoritative money of account that defines the abstract value that constitutes the legal means of payment

for the unilateral settlement of debt. There are compelling theoretical,

empirical and historical grounds for rejecting both the Hayekian conjectures on

the advent of truly competitive money and also the Walrasian “end of money” scenario.

The romantic communitarian and socialist vision of the expression of the

peoples’ “real” wealth in their own money is equally flawed (Hart, 2000, p. 311).

Narrowly economic relations between people cannot form the basis for monetary

space that enables the extension of these relations across time and space.

Although the Internet extends the *technical capacity* to expand the economic

exchanges to an almost infinite extent, it cannot provide the *monetary space* that

would enable this to happen. The world cannot be “run on Windows” (Hawthorn,

2000).