Practical Distributism
Economics as though families matter

Distributism and Money: Toward a Banking System Without Usury or Debt

Part 1

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At the outset let me state a very general, but nevertheless exceedingly important principle which applies not just to economic activity but to everything. This is the principle that every thing, in particular every activity, has an inherent purpose, a proper end. To the extent that things are subordinated to their proper end they function well. When they become divorced from their ends, things go awry, and problems, difficulties and evils arise. This principle might seem very abstract and remote from everyday life, but it is both extremely important and relevant. Just one example which I will discuss more fully later: If we forget that the end or purpose of the economy is the production or provision of real goods to satisfy genuine human needs, then we might start thinking that institutions such as the stock market are more important than actual productive activities and that bailing out a failing bank or investment house becomes an imperative in face of which real economic goods are to be sacrificed.

With this as the foundation for all sound thinking about any human activity, let us now look at the fundamental principles upon which not only a monetary system must rest, but indeed the economy itself. And the first is that economics is concerned with real goods. With food, clothing, shelter, medical care, books, musical instruments, tools, machines and so on. And primarily with the production and provision for use or consumption of these real goods. Trade in these real goods is frequently necessary, of course, but it must always be regarded as subordinate to their actual production and use.

Exchange or trade is necessary because rarely does every person or every family produce all that it needs for a healthy and truly human life, a life lived at a level which allows for the actualization of our specifically human potentialities. And if every family could provide for its immediate needs, probably this would mean a rather low cultural level, with little time for the development of our intellectual or artistic abilities or talents. But exchange is always exchange of real goods, if not immediately, then in principle. The early nineteenth-century English economist, David Ricardo, wrote truly enough, "Productions are always bought by productions, or by services; money is only the medium by which the exchange is effected."[1]

Because barter is an awkward method of conducting trade, some medium of exchange is necessary. If a shoemaker needs wheat and the farmer happens to need shoes at the same time, then an exchange is

1 *The Principles of Political Economy and Taxation*, (London: J. M. Dent, [1817] 1933), p. 194.

easy. But it surely must happen that the shoemaker needs wheat at a time when the farmer does not need shoes. Because of this it is highly useful, necessary actually for any developed society, to make use of money. But we must never forget that money simply allows for the exchange of real goods, however complex the actual exchanges may be. One can deduce from this that since money is a surrogate for real economic goods, the quantity of money available at any time should bear some relation to the amount of economic activity. I will discuss this later in detail.

Because genuine economic exchange is always of real goods or services, then barter must always be looked upon as the paradigm of all economic exchange. Not that I advocate a return to barter. No, but that whenever we forget that in the process of exchange, money or other tokens for wealth are merely a means for facilitating the exchange of one real good or real service for another, our understanding of exchange and money is apt to be skewed. We should always have at the back of our minds the idea that money is merely that which facilitates what is in effect a complex system of delayed and indirect barter.

Money is a medium of exchange, then, but what else is it? Along with this, it serves as a measure of value. How many chickens are equal to one haircut? How many eggs should one exchange to procure a saw - or a smartphone? Although a rough and ready measure of the relative value of primary economic goods has probably been worked out in all simple, barter-based societies, such comparisons rarely could be exact. Money allows for exact quantitative comparisons of the value of one thing or service for some other unlike thing or service. But we should remember that while money allows for this exact comparison, unless we already had some rough idea of the relative worth of different items or services, money would be of no help in establishing that ratio. Money merely permits us to specify an exact quantitative relationship of value, but it does not create the underlying relationship of value.

Lastly, money serves as a store of value. That is, it allows one to accumulate a claim on economic goods that one postpones making use of. This is what we call savings. Obviously it is easier to keep one's savings in money than in some actual economic good, which usually would take up a lot of space, although some people do in effect place some of their savings in actual objects, such as rare paintings or coins and so on.

From this function of money as a means of saving, we can get some grasp on what it actually is. Money is a claim, a sort of IOU, for any good or service on offer or for an amount otherwise due that is valid within a particular community, whether that community be a continent-wide federation such as the European Union or a small and isolated island using sea shells as currency. Its value depends on its acceptance within that community, whether enforced by the machinery of modern law and banking, or simply by custom and social pressure. But money as such is not wealth, it has no intrinsic value. We could use paper currency as fuel to make a fire, but otherwise it is useless unless it is accepted within our community as tokens for real economic goods or services.

Hence the fallacy of those who think that money must be "backed" by some commodity, usually gold or silver. Gold, silver and copper were frequently used as money in the past because of their durability. But they are not really valuable in themselves. They have a limited industrial or ornamental value, of course, but they are not actually useful for most of us, most of the time. Commodity money is as much fiat money, as the term goes, as is any paper currency. Someone in danger of starvation would hardly exchange whatever food he happened to possess for any amount of gold - unless he thought that within a short period of time he would be able to exchange that gold for more food than he already had. It is

real goods or services that we need and economics deals primarily with such real goods. In fact, frequently those who advocate for gold as money are confused in that they appear to believe that the medium of exchange should have some value independent of the real economic goods that are exchanged, instead of being merely the means to make these exchanges possible and easy.

Although any complex economy must make use of tokens for real wealth, the more an economy works by means of the exchange of such surrogates, the more there is an opportunity for manipulation, for various kinds of chicanery, or even just for complications that arise from no one's fault but from the complexity of the system of exchange. Therefore it is to society's interest to control the use of money and other tokens for real wealth, to keep them as close as possible to their primary functions, as much as that is consistent with having a developed society with an appropriately high level of intellectual, artistic and material culture. For it is a curious fact that the monetary system, and other aggregates of token wealth, are apt to assume a life of their own, sometimes having very deleterious effects on social life. Most people are aware of the extreme hyper-inflation which afflicted Germany in the early 1920s. The value of the German mark fell to fantastically low levels. Yet the intrinsic value of real economic goods remained the same, and in principle they could be exchanged for one another. The Irish Dominican, Fr. Vincent McNabb, quoting a newspaper report from October 1924, relates that at Frankfurt-am-Main farmers would not sell their potatoes, "the chief article of food of the working classes, because they do not consider it worth the trouble to burden themselves with more paper marks. The authorities propose to offer them ammonia from the gas-works in exchange for potatoes."[2] In other words, here are two real economic goods, potatoes, and ammonia gas. Both are needed and both can be exchanged. But a currency that has somehow taken on a life of its own stands between these two real goods and makes exchange nearly impossible. By a temporary return to barter, however, the German authorities had by-passed the financial system and made real economic life possible.

During the Great Depression of 1929 in the United States, real wealth, e.g., crops or farm animals, was sometimes destroyed because they could not be sold, while millions lacked enough to eat.[3] Yet these millions were capable of working, and until very recently had been producing goods which producers of crops and livestock were happy to buy. What had happened? The stock market, a notorious haven for economic manipulators, had fallen, and this somehow was seen as a sign that the actual real economy had collapsed. Today still, the rise and fall of a market for buying and selling what purport to be small bits of corporations is regarded as an important indicator of the health of the economy. However, when we realize that it is things rather than surrogates that matter, then we will take whatever steps are necessary to subordinate money and financial markets to the provision of real goods, rather than subject the production of real wealth to the power of those who spend their days buying and selling tokens.

It is odd indeed that when the actual amount of real wealth in a nation, and the number of its workers or potential workers, remain approximately the same, something like inflation, the fall in the value of money, should be able to become such an important factor in an economy. This shows how something which is secondary and derivative, namely the monetary system, can, if we are not careful, take on a life of its own and inflict considerable damage on the real economy and on the lives of citizens. We will see later that in a distributist economy and society the entire spirit of life will foster an attitude that supports a sane use of money.

2 *The Church and the Land* (Norfolk: IHS Press [1925] 2003), p. 160.
3 Herbert Feis, *1933: Characters in Crisis*, (Boston: Little, Brown, 1966) pp. 10-11.



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