Money – Monopoly of the State
and the Solution to the Crisis

Despite all the attempts of economists to reduce its importance, money is not neutral. It has systematically refused to allow itself to be categorized or boxed into a rule that such school of thought or such theory of economics has assigned it. One this is for sure – it is absolutely essential during periods of great weakness as shown by the expansionist policies and other cash injections implemented in the United States and China furthering the current crisis. The latest example being the massive emergency stimulus put in place in January 2013 by the new Japanese government. In the same way we may note, implicitly, the devastating European effects caused by the absence (and fear) of exploiting the benefits of money. Money effectively absorbs the cash crisis that paralyses the economy and avoids deflation that slowly kills it. Karl Marx (1818-1883) and John Maynard Keynes (1883-1946) agreed that money is the goal of all production and all services rendered. Production begins and ends with money. Did Keynes get it wrong with the “monetary theory of production”? Even Milton Friedman (1912-2006), champion of the monetarist school, ardent defender of ultra-liberalism and Winner of the Nobel Economy Prize, joined Mark and Keynes in their appreciation of the crucial role of money. It was not just that he believed money is the source of inflation and depressions given that it allows it to be manipulated by the state who assumes the monopoly and who prints too much of it. According to Friedman, the state acting as printer en masse of notes, puts into questions the efficiency of companies and markets are supposedly regulate themselves. In fact, the success of the monetary theory and its laissez-faire policy should have been accompanied from the end of the seventies with a loss of power for the central banks, which were asked to do no more than monitor and maintain the inflationary threat by using one weapon only – that of the monetary policy consisting in raising or lowering their interest rates in a humdrum way. These trends (and monetarists) likewise managed to demand from the state, and actually get it to control its lifestyle, in order to balance its accounts. This restriction of public power was, at the same time, compensated by a hyperbolic expansion of the financial sector that would be able to regulate itself as the excesses and embezzlements were by no
means in its interest, according to the very same theorists. Financial
stability would naturally be the meeting point, together with its prize of
financial prosperity and its generalized material comfort, in which the
most deserving of citizens could have a slice of this “deregulation cake”.
This inevitable logic was further hindered within the framework of the
European Union set-up. Strict quotas on public spending were effective-
ly halted, thus furthering Member States from any possibility and from
any temptation of making use of money’s virtues. To do this, the Central
European Bank was implemented according to a model of total discon-
nection with the budgetary and fiscal policies of the Members. With
accomplished, and one could say, statutory, autism, the CEB would also
ensure the monetary supply of EU Member nations without getting
involved in their public accounts. The founders of this ultra-liberal
Europe considered (further to Friedman) that money is so suspect that its
use must be strictly monitored by a body in which the States have no
special authority. Money was this box of matches snatched away by a
child, but not without being punished. This European counter-example
is today particularly eloquent as we realize that, in doing this, all the
ingredients of an even worse conflagration than the Great Depression
were voluntarily put in place.

Money, however, is not to be taken lightly. It is not some type of
food or dough that can be molded according to our needs at that time.
Nor is it a lubricant. Money is very likely the most decisive institution
of our capitalist system. Being the only measuring instrument for work
carried out, for anything produced or exchanged, it is at the heart of our
social machine. As is normal for such a monetary policy to be in the
hands of the state – a sign of the good operation of public affairs – all
the separation attempts between the creation of money and the real
economy are doomed to failure. Indeed, it is impossible to separate
economic life from political life because the transmission belt between
these two worlds is money, itself exclusive to the state, and thus to
politics. The only definition of an objective or of an inflation channel by
a central bank is, in itself, a political act, in the sense that it responds to
the demands, or serves the interests of a group. It is, at the same time,
natural and legitimate that the state uses money as a lever in relation to
economic activity, to fulfill the needs of certain social groups, to make
others pay (or contribute) or to monopolize resources. This important
and fundamental act for “monetization” is thus omnipresent in the
expression of the state. It is effectively in terms of money that social
contributions and government subsidies are set or that the fines and even
the sentences are formulated. As it is the state that benefits from the
monopoly of printing money, it is likewise the state that sets the game
rules and the conditions it agrees to be assigned it. Furthermore, our
companies have fully assimilated this power that they recognize as
exclusive to the jurisdiction of the state, accepting to pay taxes, running into debt, or agreeing to loans – as much actions expressed in one sole unit of account, the creation of which is the responsibility of the state. Even so, the very serious sentences inflicted in France to counterfeiters – scalding in the Middle Ages and the guillotine up until 1832 – correctly reflects the way in which those who got in the way of this absolute privilege of the state were punished. A crime of lèse-majesté back then and against the Republic today, is still punishable by death in 2012 in certain countries!

The fundamental problems of our companies in relation to money are, at the heart of it, due to the lack of money, that is, default payments. Monetarists, such as Friedman and his peers, have further been embarrassed by the function they attributed to money because they have systematically dismissed – or forgot about – the only assumption of bankruptcy of a financial establishment, and even more, of a sovereign country. However, a crisis is still accompanied by a rush towards the most secure assets, the first of them being money, knowing that this intensive search for money increases its subjective value while it (mechanically) decreases the other assets. In times of crisis, only the state therefore can swim against the current while sticking up several defense lines. Its central bank may also remember the unlimited loans to financial establishments that suffer a devaluing of their investments and heavy withdrawals of their deposits. Additionally, the central bank acts on another level consisting in buying up assets at risk and those which nobody wants anymore, until then held by banks and companies. The goal being to avoid the absolute evil that is the “debt deflation” described by Irving Fisher (1867-1947). The use by the central bank of its money anticipates the general sale of assets, equity and other securities from the operators short on cash. Sales which could lead to a downward spiral affecting all sort of investments. The central bank may well provide the Government with the money to ensure the reflation of the aggregated demand, with a beneficial impact on growth. Only this “dance of the dollar” to recall the important expression of Fisher, would be the only way to ensure economic recovery.

Within the framework of the current crisis, the central banks are not, however, rising to the occasion as they, like the governments, have let the recession take place and let unemployment get worse. As regards countries like the United States, who have implemented stimuli, they have failed due to a lack of ambition because these measures were not as consequential or sufficiently generous to become decisive in guaranteeing a long-lasting revival of economic activity. Whatever they were before the crisis or brought about by the same crisis, public deficits have been powerful impediment having significantly curbed public policy.
The States having been persuaded by the economists and experts that they can no longer allow themselves to spend more. The founders of this ultra-liberal Europe considered (further to Friedman) that money is so suspect that its use must be strictly monitored by a body in which the States have no special authority. While the economies where weakening and the governments were handcuffed by their deficits, against all expectation and despite common sense, the interventions of central banks were limited therefore to their strictest expression (except in the United States). That is why, in the context of depressive episodes where the private sector is forced to repay its debts (the famous “deleveraging”), the central bank needs to flood the economy for which it is responsible with cash. Faced with a situation where finance must digest its excesses, and businesses such as the private ones are reluctant to invest and spend, the central bank has indeed no other choice but this expansionist policy. Even if it drops bundles of banknotes by helicopter, to use the famous phrase of Milton Friedman when he spoke about Japanese deflation. These stimuli can certainly not be properly calibrated, and appropriately targeted, it remains that spending – even seemingly less useful – are likely to enjoy the workings of the economy. In a depressed context in the presence of a notorious slowdown, monetary officials must be deflected exclusively toward this economic resurrection and should therefore not skimp on resources. Since a too timid and stingy stimulus would have almost no effect, and would amount to “a sword slicing water”. Caution is certainly a virtue, but in the presence of such fundamentals, it can be a real vice for economic actors in the private sector that must be rescued by the central bank. A state that refuses to call on its central bank cannot therefore call upon any legitimate pretext preventing it from straightening out its economic activity and improving the unemployment situation. This is why it is crucial to understand how this monopoly of money-creation operates and how it can – and must – serve the general interest.

The existential questions on the powers of the state and the reports of exhausting its fire power taking place nowadays – with equal amounts of concerns never even taking place – in actuality mask a substantial debate on its role in our economic life. A state that avails it citizens and businesses of its monetary system considers money as an instrument that favors its prosperity. Without this determination, the State’s action is useless or nothing more than a minority. This deteriorates into “poverty in the midst of plenty”, to use the words of Keynes, which perfectly illustrates its aim by describing a context “a condition where there is a shortage of houses, but where nevertheless no one can afford to live in the houses that there are”! The state must therefore avail its nation of all of its resources and possibilities – including monetary ones! In doing so, public deficits must not run into any obstacle or any limit (although isn’t
this the very raison d’être of any state?) in the restoration of full employment and price stability. A system exists allowing the restoration and reconciliation of these two, on the surface antimonial, fundamental components of our economic life. On the other hand, it lacks the political willpower and ardor to implement it.