

## **What About Money - Bernard Lietaer interviewed by Lars Schall**

*Lars Schall has met Bernard Lietaer in Germany in order to talk with him about the great mystery in everybody's life – money.*

**Lars Schall: Mr. Lietaer, ‘Ex Scientia pecuniae libertas’ - which means ‘From the knowledge of money comes liberty’. Is this true?**

Bernard Lietaer: Yes, I think it could be. It certainly isn't today. However, I think that we need to understand about money more than the current system. If you just learn about the current system, you're remaining within a loop where I don't believe there is freedom at the end.

**LS: Yes.**

BL: We're stuck there. We have been stuck there for quite a while.

**LS: Why is it important to think about money? I mean, most of the time, we take it for granted.**

BL: Yes, that's part of the problem. What you don't bring up to consciousness, you live with as fate. You're condemned to live it and that's what's happened with money. We are considering it a given and in fact it is manipulating us in directions that the majority of the people wouldn't want if they understood what's going on.

**LS: So, can you tell us a little bit about the origins and the nature of money? It seems that money has something to do with a kind of agreement and maybe therefore with perception?**

BL: Well, let me first point out what money is not. All economic textbooks define money in terms of its functions; a medium of exchange, standard of value, store of value. That doesn't tell you what money is. It tells you only what money does. But by defining it in terms of its functions, you believe that's a given, okay. If someone had defined transport as horses that there was no word for transport, nobody would ever have invented the car or the bicycle. You would have perfected horses forever, and that's what we're doing. My definition, my working definition for money is that it's an agreement within a specific community to use something standardized as a medium of exchange. That's my definition and that covers a much broader spectrum than what conventional money usually assumes.

**LS: But if now the majority of people have no knowledge whatsoever about money, who has agreed upon this?**

BL: It's a few centuries ago. We've gotten used to it. We take it for granted. In fact, the kind of money at the most general level that we're currently considering normal is the idea of a single currency.

**LS: You see the connection between the money system and the development of patriarchal societies. Why's there this connection?**

BL: If you put in one box all patriarchal societies in history; Sumer, Babylon, most of the history of China, the Romans, the Greeks, and since the Renaissance in Western Europe, today us – all of these societies take a single currency as a given and with positive interest rates, i.e. it's a concentration device. It actually makes sense in a patriarchal world view that you need to bring the resources to the top, and that's what it does.

Now, if you put in another box matrifocal societies, societies which honor feminine values, what's interesting there is that you have two types of currencies. You have one currency identical to the patriarchal one but that's to pay the people you don't know, far distance, long distance trading. They have a second type of currency whose rules are exactly the opposite of the patriarchal one which is then used for the local exchanges.

The rules that are different are that in the patriarchal system, the money is issued from the top, there is interest in focusing resources to the top as well. In the matrifocal currency, you have a currency where you don't have interest and the most sophisticated have a negative interest rate so they only used for a medium of exchange in order to restore a value, and you do have people who use the currency themselves at the bottom up, so it's exactly the opposite of the other one. But by having these two currencies in parallel, it creates a completely different society.

**LS: Would you say the way money works is rather insane, for example, that you have money as debt? You have something that should be a positive but it's actually something, right from the beginning, a negative, right?**

BL: Well, yes, every euro, every dollar, every yen is someone's debt. It was created typically through that either for government, for a corporation, or for an individual, so yes. I would say calling it crazy, I don't think that defines it. I think it is so extraordinarily limiting, that's where the danger is. I have actually no problems with the existence of this current system. I do have an enormous problem with its monopoly. That's where the issue is. For me, there are limits in every currency, whatever design you have, every type of idea as a medium of exchange will have its limits, but having a monopoly of this kind of currency, that is not only... I wouldn't call it crazy but dangerous actually because of the limits that it puts on what we can do.

**LS: Is the magic of compound interest a problem that you see as such?**

BL: It is one of the features of the existing system. Again, if you use it for making it a competitive society, a competitive game, it has a justification within limits but if you impose it as a single currency, there it actually doesn't make any sense because we are having exponential growth by

definition which will blow up the lid in a finite world, okay, and that's what we're living repeatedly. The system cannot survive the long term because, by definition, it accumulates forever faster and faster.

**LS: Is fractional reserve banking a problem?**

BL: I repeat myself; it's not a problem per se in my viewpoint at the condition that it's not a single currency, it's not the only currency allowed. Fractional reserve has proven possible, actually has given, in my view, the fuel necessary for the industrial age. The industrial age would not have occurred if we didn't have this kind of money system. However, we're now after, beyond the industrial age and we're still using that same system and now it is dangerously limiting us.

**LS: What does our money system promote or enhance?**

BL: Competition, short term thinking, the reduction of social capital, the possibility of more. Our current system has been created under the duress of war and every one of the 'improvements' have been done typically within an environment of a war, and it has also been at the source of many wars. War provides an environment where it could wipe the slate clean when things are impossible, and we're putting ourselves in that situation now. Historically, we've resolved it every time with a war. I believe it's time to look for other tools, for other ways of resolving the issues that we're dealing with, structural issues. That's what I'm advocating.

**LS: Yeah. Is our monetary structure a systemic cause for the financial instability?**

BL: Sure. The combination of the different features... well, first of all, the fact that it is a monoculture. We know from network theory, complex flow networks, that any complex flow network in order to be stable needs to have diversity in this medium that actually is being used in the process. If you have a monoculture, by definition, it will be unstable and that's what we do with our current money.

What I mean by that is like all the 'national' currencies today, all the conventional currencies are created the same way through bank debt. The yen, dollar or euro are not better or worse than the other; they're all the same type of currency created in the same way, generating the same kind of behaviour patterns, and in addition given that major institutions that are involved in the process, the banks, and the biggest banks are global, they're doing the same thing everywhere at the same time, so that is a further reason for instability.

**LS: Once our money was backed by gold. Is it a problem that it isn't backed by gold anymore?**

BL: To me, you can project a money system on just about anything, okay, as an agreement. If you

agree that gold is 'real money' and only gold, which some people believe, okay. I mean, some people have assumed that and therefore then it is true that gold is the medium of exchange. It's still a monoculture. It's still a single currency. I'm not against the use of gold as a medium of exchange as long as it's, again, one part of it and not the whole thing, not the whole range. We need different tools for different purposes and the gold standard had its advantages and its limitations. It basically put positions in the government that they couldn't affect anything in the economy. They were just sitting there waiting for things to happen.

**LS: How did the abandoning of the gold standard changed the way central banks work?**

BL: From a central bank viewpoint, if you look at their real, their fundamental role, it hasn't changed anything. In fact, what I find ironic is there are two stories about governments that are more affected by this in fact than central banks. Typically, the story we hear is that governments are like a family, you know, you need to earn the money to cover your expenses, and if you don't then you need to borrow the money from people who have it. That's the storyline that we do for our family.

In fact, that was true in the gold standard days; nobody could create gold and if you didn't have the capacity to raise the income in terms of taxes then you needed to borrow it. Now, we've been using the same concept however in Fiat world - we're currently in a Fiat currency world – Fiat comes from Latin and means the first word that God said in the bible in Genesis - letlight be and light was, and he saw it was good. So, in other words, to have the capacity to create something out of nothing, and that is what Fiat money is, and that's what currently happens all over the world. All national currencies are created out of thin air by the banking system at the moment they're making loans.

Now, in that environment, the story of the family, the government being similar to the family, isn't true. Basically, governments can decide what they accept in terms of payment of taxes and it could be different things or it could be just one thing, and whatever that is that they decide to accept or require in payment of taxes, that is what everybody will accept in terms of payment of currencies. It will be their money.

**LS: Are central banks necessary, or is it the case that the fact that there are so many central banks (I think there are only three countries in the world without a central bank), is this an expression of this monoculture?**

BL: The purpose of the central banks is to maintain the paradigm of a single currency in favor of the banks. Their real role is to protect the interests of the banking system. Some major central banks like the Federal Reserve are actually private companies. The same thing is true for five other countries even today. So, it is part of the smokescreen that central banks are actually public

institutions doing things for the public good. Their fundamental purpose is to protect the monopoly of the currency in favor of the banking system and having one single currency. That is, they're basically in charge of the orthodoxy of, you know, the correct process of thinking and they're positioned as being a public institution for the public good while in fact that's their real role.

Now, you need a central bank in the modern money system if you're going to have fractional reserve money systems with banks, you'd better have a central bank because it will be unstable and therefore you have a fire department needed to take care of those issues with that kind of currency, yes, but you don't need it for every single other currency that you would design. It's only for certain types of currencies that are inherently unstable that you need that.

**LS: What are your thoughts related to the fact that gold re-emerges in the monetary system?**

BL: Well, I don't think we'll go back to the gold standard if that's what you're thinking. I have no problems personally with gold being one other currency being used in parallel, okay. In fact, in the gold standard days, it was a lie. Even in its heyday, in the 'good period', the real cover of paper money was only a fraction of the gold that was there. The Bank of England considered it a state secret how much gold they had. There was a very funny episode with one of the governors of the central bank of Britain, the Bank of England, being interviewed in Parliament in London. They were asking, "Would you please say as governor how much gold there is in the Bank of England?" He said, "An ample sufficiency, sir", "Would you be more precise?" "No, sir". Okay? (laughs.)

**LS: Do you think there is competition going on between the money that, for example, the Federal Reserve and the Treasury of the US issues, the dollar, and gold?**

BL: Well, what happens if you have a gold increase, a price increase, it is interpreted as being a sign of the weakness of the dollar, so in that sense, as gold gets more cover or more importance, the US feels threatened that it actually would undermine the credibility of the dollar. In that sense, there is not really generally competition because nobody walks around with lots of gold to buy things. That's not the way it works anymore for quite a while now, I would say two centuries minimum. So, there is actually that competition if you want but I wouldn't call it competition, it's more a concern or a signal that people would interpret as undermining the dollar. The dollar will get in trouble not because of gold but because of other reasons because basically people are not trusting the dollar anymore.

**LS: Would you say there are then some incentives for central banks to cap the price?**

BL: I would say particularly for the US dollar, for the U.S., yes, there is and there has been signs of some manipulation, yes.

**LS: Will the US dollar fail?**

BL: It's only a question of when, not whether unfortunately because it's going to be a very big mess because we have absolutely no plan B. There is no alternative that has been set up – and actually no alternative has been allowed to be set up, and therefore it's going to be a hard landing when that happens.

**LS: Mm. Was the euro a good idea?**

BL: I think that if the euro did not exist, the European Union would have fallen apart back in the late 90's, so the euro is a good idea. However, the governance of the euro is another question, okay. I was actually involved in the phase of the ECU (European Currency Unit) which was the convergent system to the euro, which actually was successful, and we were told then, "The whole governance part, don't worry. It's not part of your need to deal with. We'll do that later". They didn't do anything for 35 years. So trying to deal with it in the middle of a crisis is not going to be fun.

**LS: Do you give the euro much future?**

BL: In its current form and in its current way of being managed, there is a very low chance that it will survive as it is. I think there will be something left of it, okay. I think it will evolve but it won't be in the current structure as it is today.

**LS: Is the European Monetary Union something democratic?**

BL: There has never been a monetary democracy really and I would say part of it is not necessary but there is a part that needs to be and that's what we're hungering for right now. You need other kinds of currencies which actually can reflect a democratic input and that are currently not given a chance.

**LS: What are complimentary currencies? Can you explain the concept behind them?**

BL: To be a complimentary currency is any standardized medium of exchange that people choose to use that is not the national money. There are commercial applications that everybody knows; things like miles which are pretty old now, 35 years. There are systems that are small scale, most of them are small scale but they don't have to be, so it's basically anything that is not 'legal tender' and that people use as a standardized medium of exchange. Now, my solution to the current monetary instability is what I call a monetary ecosystem. In other words, diversity of currencies of different scales for different functions, and not everybody will use every one of them - it doesn't make any sense. You choose the ones that are relevant for you and it will be different for a business person, for a mother of a family, and so they may each have their own types of medium of exchange other than national money that makes sense for what they are trying to do.

**LS: Yes. You are interested in a global currency called ‘Terra’; what is this?**

BL: The Terra is a currency, a global currency that is nobody’s national currency. It would provide a medium of exchange that is actually unattached to any nation state but that will be more stable than any of the national currencies. I would have it fully backed by a basket of commodities which are the most important commodities for global trade; things like copper, oil obviously, whatever the major elements of global trade in terms of commodities are. So, by having a fully backed currency, you would have a currency capable of resisting any shock including a dollar crisis, for example, or a euro crisis.

In addition, my main reason for proposing it is it’s a currency that is designed to make it profitable to think long term which I believe is going to be essential if you want to give humanity a chance. The people, the organizations that decide our future are the major businesses in the world and that is what is. Whether you like it or not, that’s a fact, and I have actually no problems with that per se except if these corporations are optimizing return only for the next two or three quarters then we are going to walk straight into a wall. So, the Terra would actually make it profitable to think long term and the reason is that it has a negative interest rate. The storage costs of the basket of commodities is actually paid by the bearer of the currency.

**LS: In 1900, Georg Simmel published his book ‘The Philosophy of Money’, and in it, he stated that basically money is today’s God. What is your opinion about this? Is he right on the money on this?**

BL: I’m afraid he’s right. It is a God of Shadows. It is a God that drives the negative aspects of humanity, too; greed, short term thinking, competition. Again, I have no problem that some of it is there but I have a problem when it’s the only tool that we have to make changes in ourselves is actually pushing all of us in the same direction which is not going to make possible sustainability.

**LS: Money and the equation of power, it’s pretty much the same, right?**

BL: Well, money probably is the main tool for power. Money has the capacity to make people do things for you in specific ways, people or organizations, so by controlling money, you can actually control almost everybody. It certainly controls governments and the governments in turn control everybody, so that has been what’s going on.