THE NEUTRAL MONEY NETWORK:

A critical analysis of traditional money and the financial innovation ‘Neutral Money’

Dieter Suhr

Neutral money is a financial innovation that annihilates the imperfections of traditional money and advances not only the economical efficiency of the market system, but also social justice. Dieter Suhr starts from a profound theoretical analysis of traditional money to demonstrate the actual possibilities of an alternative.

Traditional money economy

The efficiency of the present money system springs from economizing on the costs of information and transactions that are connected with the difficult barter of one product for another; Buying and selling through the medium of money is much more practical. It saves on search costs, costs of negotiation or storage costs for goods one doesn’t want to consume immediately. Without money many transactions wouldn’t take place because they would not be profitable compared to the cost of producing it oneself. Money enables a widening of production, because of division of labour and of consumption, because of dispersion in time.

Money is a ‘social relations’ good. It has no value of its own, but represents a kind of claim of the money-owner on the stock of goods of others. It is an entry ticket to specialised product markets in the money economy. Money is the condition for production and consumption in the modern economy because the physical use of goods and services implies a preliminary money transaction. Lack of money or the retention of money prevents transactions and thus the course of the economy. This forces the money economy to take into account a new potential hampering of transactions, because of the possibility that certain individuals do not spend their money, which hinders a series of other transactors in their economical activities.

Interest as transaction cost

The difficulty in obtaining money is promoted by the interest cost of loans. Interest is a new transaction cost that did not exist in a barter economy. It hinders transactions that would be profitable without this cost.

According to Suhr, interest is not a reward for capital at all, because consumption credit is also subject to interest. Interest is the ‘seigniorage’, the so called mintage of the establishment that issues money. This implies that not only banks, but also every private lender ‘creates’ and ‘destroys’ money as a quasi-bank bank by investing (spending) money or saving (holding) it. The cost of lending out money which has only little marginal use for the owner does not counterbalance the proceeds from interest, which form an artificial stimulus to postpone expenses and sacrifice present consumption for greater consumption in the future.

The interest is then the private profit the money-owner gathers from the need for transactions of other individuals who bear as a result a private cost. But in fact, the advantages of money as a means of carrying out transactions are a collective good: he who lends a certain sum turns on the chain of transactions, from which other individuals also profit. The liquidity value of the money is similarly not the merit of the issuer or lender, but of all users. Consequently costs and profits are not equitably distributed.

Non-neutral money

Traditional money is not neutral. It allows money-owners, who don’t have to spend their money because they are already supplied with what is necessary, to profit from the blocking of the chain of transactions and to impose new transaction costs on those who do need money. Those who lend out money and those who borrow are asymmetrically related to each other. The money-owner weighs the ‘opportunity cost’ of additional consumption. He decides freely. The borrower, however, is not free, but is coerced by genuine need and he also has to bear a real cost. Our traditional money-system, through the levying of interest, makes the poorer and more active pay for the profligacy of the rich and passive.

So interest does not only create a chronic inefficiency due to a surplus of the transaction cost, but it also involves injustice. The rich enjoy the freedom to decide when, with whom and on what they want to spend their money. But with this they create uncertainty for the outlet of other transactors. Their freedom to time (to be able to lend instead of spending) is at the expense of others who bear added risks and costs (having to lend instead of receiving).

The Neutral Money Network: interest free money

The valuable services of money as a means of transaction are free. But these services prompt the owners to obtain profit from their power to block the chain of transaction and lend out money for interest instead of spending this money. For this reason, money does not function as well as it could. To neutralise the distribution effects of the money circuit, Suhr proposes to form a counterbalance for the advantages of liquidity of money, which causes it to be retained, by imposing a ‘supply cost’ on it (a ‘carrying cost’ in Keynes’ terms).

According to Suhr a money-circuit based on liquidity cost, i.e. a kind of negative interest on the retention of money, will be able to win the competition with the traditional money-circuit, when a sufficient amount of people are prepared to open an N-account. Traditional and neutral money can exist next to each other, but neutral money is more efficient because it allows more transactions and enlarges the possibilities of production and consumption.

The N-money could take the shape of a special account on which dues are credited without interest costs (except for a risk premium in case of default of payment which serves to limit applications for credit) but with a liquidity cost paid to the bank. This should be paid on positive as well as negative balances, because these also create uncertainty. This liquidity cost will stimulate individuals to dispose of surplus money by purchasing or by according loans without interest, and shortages through selling or lending.

Will there be sufficient savings, will there be sufficient capital without interest available? According to Suhr there will be. Interest also falsifies the price of goods by subsidising the rich and limiting the poor in their transactions. This implies that a price system without interest will function in a much more accurate manner.