



## Money, Money, Money!

we can't eat it, so why do we need it?



I've been thinking very seriously about money recently. I know that might sound Irish, considering the number of articles I've already written on the subject; but faced as we are with yet another global financial crisis, I am trying to comprehend how we, as supposedly-intelligent creatures, could let ourselves become so utterly reliant and controlled by a concept that started out as a convenient substitute. It really is nothing more than that - a few pieces of paper and a handful of impressed metal coins that represent the value of tradable goods. We can't eat or drink it; neither can it be farmed, grown or driven; but empires have been built on it and similarly destroyed by its fickle nature. Even having an abundance of the stuff means nothing when the country which prints and mints it has gone bankrupt. Why is that?

I seem to recall being told once that a currency was based on the gold reserves of its nation, so the amount of money produced, paper or otherwise, could not exceed the value of however much gold it held in the coffers. The original idea, I gather, was endorsed by a few words on each banknote, a promise to pay the bearer the sum equivalent to its printed value, but in a quantity of the actual precious metal. Thus, if everyone holding these notes decided to cash in at the same time and the bank had insufficient gold to pay up, someone was going to miss out. In effect, that particular currency was over-valued because there wasn't enough of what it was supposed to represent. Some canny investors realised this as a possibility, so when things started to look a bit rocky, they decided to forget the paper and began hoarding gold instead. Unfortunately, this meant there wasn't as much of it going round, certainly less finding its way back to the treasury, and it just made matters worse. Then, for some reason I haven't been able to fathom, it was declared that the fluctuating value of gold had become too unreliable and wasn't a true reflection of a country's wealth. Consequently, those who had been collecting it were no longer as rich as they thought, the majority who had none at all were put off buying any because it was worth less than the amount printed on their promissory note; and, presumably, the financial moguls would have been scratching their heads as they tried to come up with an alternative. What next - diamonds, pearls, kryptonite...? Let's face it, the makers of money and the guardians of it have shot themselves in the foot and we're the ones who are limping!

As members of the general populace, we aren't expected to comprehend big money and fiscal policies; but even if we were able, the experts would decline to explain what has really gone wrong because they don't know themselves. If you disbelieve me, look at the evening news: listen to the politicians talking round in circles and saying nothing; try to understand the gobbledygook as financial reporters hide behind meaningless growth-comparison charts; find any comment, I challenge you, that makes commonsense and will show us a way out of this nightmare we've been plunged into. But, is it really so hard? Might we not discover an answer if we go back to how it began and follow through to the point where it started to founder?

Trade used to be simple once, when a surplus could be swapped for goods that couldn't be home-produced. In those days, even simple folk understood the value of a goat or a sack of corn. It did work well for neighbours or the odd caravan that passed through; but as soon as the same concept was applied to tribes and nations, politics reared its ugly head and day-to-day business went pear-shaped! Here's where the fog began to intensify, an ideal cover for the chicanery and money-shuffling to come.

If politics truly muddied reason, how did it happen? I understand the international exchange of a token such as money, especially as civilisations progressed. A deal between two countries might work without, as long as each was in need of whatever the other had to offer; but bring a third or fourth into the equation and matters become more complex. A requires something from B, but doesn't have what B wants. C has an abundance of this, however, it isn't interested in what A has to offer. D, on the other hand, produces something that C has been trying to get for ages, but they aren't talking. So, A finds out what D wants, swaps it for the product C is after, trades it in exchange for B's requirement and everyone's happy. If this is complicated from an on-looker's point of view, imagine how it would have been for the participants. What with all the transport problems, this cross-bartering takes time and would cost each of them in terms of labour and associated resources, not to mention organisation. Would the introduction of money make it any easier? In this simplified example, probably not, because each has something that one of the others has an item of value to trade for. Money comes into its own as a purchasing power when business has to be transacted quickly and one or more in the loop have no goods of interest to trade. The substitute token solution, however, has a glitch: if just one party can't afford the asking price and desperately needs the goods, what are they to do? Borrow, of course; and there, I believe, is where we've gone so terribly wrong. My Grandfather used to say: "Neither a borrower nor a lender be," and he wasn't a bad judge.

Here's where more flies land in the ointment. Aside from credit, which is bad enough for you, but worse for governments, there are other factors to complicate the situation. Gold used to be good because it was the same in any language; but paper money...? When every country had its own type - rupee, pound, yen, etc - and its value was based not only on gold reserves, but also the state of the economy, a one-for-one exchange rate would be impractical and unfair. No problem - just invent the money-market. Figure out which country is doing best and its currency becomes the benchmark. All others are then valued as a percentage of the leading currency. It sounds pretty straightforward - an American might pay ten dollars for a barrel of molasses, whereas it could cost a Greek five times that in drachma simply because his country is going through a bad patch and its currency isn't considered reliable. If, however, he had a wad of US dollars it would be a different story. He simply has to buy some in order to get a better deal but, of course, he would prefer a good exchange rate. To achieve this he watches the market fluctuations of his currency against the dollar. He's disappointed - the value of his drachma continues to remain low because nobody trusts or wants it; except perhaps the Russians who, for reasons only known to themselves, are giving a much better rate. It would also seem that America holds their economy in much higher esteem, so he would get more dollars if he first traded drachma for roubles, then used them to buy greenbacks. Uh-oh! We're back to the ABCD barter system!

The difference is that, when money is involved, nothing of use changes hands. Instead of paper buying gold as it used to, it is now buying more paper, understandable in a way because metal is heavy to cart around; but then so is paper, particularly in the sums we are talking about here which are enormous. There would have to be a better way of exchanging money than ferrying packets of banknotes back and forth - how about something representing them, something smaller and lighter? After all, it isn't going to stay in one place long enough to get to know it personally. Surely a single sheet of paper, a kind-of promissory note would be far more sensible? Let's use the letter of credit. Yes, let's! Having come full circle, there we have it, the root of the

problem; or at least the beginning of it. We still import and export material goods, but we pay for them with an IOU. Unfortunately, this is merely a promised amount, and if we haven't the ready to cover what we owe, we are in big trouble when settlement is due. That day of reckoning, it seems, has arrived and all of us are found wanting.

We've not only used credit to buy what we need to survive: but, we've seen it as a way to increase our wealth simply by trading something we don't actually possess, not in its physical form, anyway. As ordinary people, we've taken out loans to invest in entities that subsequently went bust. Local councils risked ratepayer's money in schemes and overseas banks that crumbled, losing the lot. Countries were far from immune: Greece fell to its knees, Spain hasn't fared much better, and France is in such deep financial trouble that no-one can possibly afford to bail her out! What a sad world we have allowed to be created that the bastions of proud cultures and traditions should be so denigrated. The one saving grace might have been the United States of America. She was supposed to be the leader of nations, the one to turn to for help and protection, the righter of wrongs, the ultimate defender. But now we learn she is, once again, on the verge of financial collapse. How is it possible that the country every other one owes can't call in her debts and achieve solvency? I just don't understand it.

The past has brought us to where we are now, but it can only take us successfully into the future if we learn by it. We have been gifted with a New Year. Why can't we all just use it to start again? Reciprocal debts could be written off. Next, we pay what we owe and balance the books. Then we'll discover who has been living beyond their means and do something positive to help them get back on their feet. Okay, they might have made a complete dog's breakfast of the country's finances; but, really and truly, who's counting? It isn't the end of their world, and giving them a leg up certainly wouldn't be the end of ours - it's only money! A stumbling block might be the shortage created by the fat-cats, those who have made their fortunes, trillions which is no longer in the system but in their pockets. Perhaps, if they could be encouraged to put some back there would be less of a shortfall. A few with a conscience have already started doing just that, and good on them - there is still hope. With a few more following their example, the fog might begin to clear. And what might we be able to see then? Maybe that being rich or poor is irrelevant; and that money is a mere convenience, but not a way of life.

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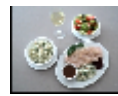
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