Role Of Modern Money And The Central Bank; A Critical Perspective

Priyanka Khagta
Independent Researcher, M.Phil. Zoology, Himachal Pradesh University Shimla

Sumeet Thakur
Assistant Professor of Politics, GDC Drang at Narla, Mandi, H.P.

Abstract: Modern money and the central bank have been assumed as an indispensable part of the modern state and there are lots of arguments in their support. The present article is an effort to point towards the negative and exploitative nature of money and central bank. Is money the most just form of exchange, are their no alternative to it? Can allocation of money for any cause and remuneration for employees or professionals in monetary terms ensure their maximum commitment? Central bank as an institution creates an unending debt for which consumers rather citizens are not responsible but the benefit of this institution is concerned by wealthier sections. Depoliticization of monetary policy and functioning of the central bank is very harmful for the empowerment of the people. Even the role of modern money as the fiat currency is very questionable. Time has come for political theory to politicize this role.

Keywords: Money, mode of exchange, monetary policy, depoliticization

I. INTRODUCTION

Is everything alright with the present Central Bank led monetary system? Does money is the most efficient form of exchange; if it is then could it be called most just form of exchange? What are the implications of making money as the sole mode of exchange between the different aspects of life? These sorts of questions led the researchers to the present paper. Monetary policy is thought to help in functioning of the economy well and making an economy capable of facing inflation or recession.

II. FUNCTION OF THE PRESENT MONETARY SYSTEM

Money is simply created out as a debt by the central bank of a country which the government owes to return. This process of creating money out of thin air by simply printing a piece of paper and claiming it of worth does not stop, rather this leads to an unending process of printing money. This process ultimately creates more and more debt on state and individuals’ because every penny printed is loaned as debt to government and commercial banks. The individuals, companies and state which loan money, have to pay the interest on it which is determined by the central bank. The interest imposed by the central bank is above the operational charges of the commercial banks. While historically there were banks which used to offer interest free money to the people, only interest people had to pay was for the operational charges of the bank (including the interest payment of the depositors) and its profitability margin which were counter-checked by its competition with other banks. This form of decentralized banking saved the people from allowing any institution to regulate money supply and saved them from the monopoly on the determination of the interest rates.

The interest rates were rather negotiated in more participatory and competitive process. This was one of the major causes of American War of Independence according to Benjamin Franklin (Zeitgeist 2007). What gives this piece of paper (money) the real power is use of this paper as the mode of exchange. This attains the legitimacy due to its backing by the sovereign legal authority of state. Once the sovereign denominate rather accepts the money based values of different things like land, forest, commodities and services and supports this with its legal authority, money begins to gain
more and more power. That means when this piece of paper is accepted as valuable by state it becomes the basis of determining the prize of commodity and labor. This power of being accepted as a mode of exchange creates a system in which all the human needs especially its materialistic aspects becomes dependent on it. It becomes possible due to the fact that possessions of resources are skewed in the favor of few and those who are resource less have to possess money in order to fulfill their demand of resources. If Sovereign authority does not backs a particular currency or money as the money rather different banks are allowed to compete with their respective currencies with each other as the best money, which claims to stores the true value of different assets and reflect a more just mode of exchange, can help in the creation of a more just monetary system.

III. MONETARY POLICY AND ITS BIAS

The modern money functions on the basis of monetary policy which is run by a central bank. The fundamental aspect of the monetary policy like all the other systems lies in its continuity and sustainability. This requires regular increase and decrease of the monetary supply according to the demand of the economy. But the question arises what is the demand of the economy and who decides it. Common folk can at times get attention but major stake in the determination of what is demand of economy is of the larger economic entities which are owned by wealthy minorities. The creation of money out of thin air by the central bank as a debt benefits this wealthy minorities the most.

The fact that a bank or mint has always been able to generate a medium of exchange marked for more units than it is worth as a store of value, is the basis of banking. The central banking is based on the principle that no medium needs more than the guarantee of state that it can be redeemed for payments of debts as “legal tender” – thus all money equally backed by the state is good money, within that state. Critics of the prevailing system of fiat money argue that fiat money is free float and depending upon its supply market finds or sets a value to it that continues to change as the supply of money is changed with respect to the economy’s demand. Increasing free floating money supply with respect to the needs of the economy reduces the quantity of basket of the goods and services to which it is linked by the market and that provides it the purchasing power. Thus it is not a unit or standard measure of wealth and its manipulation impedes the market mechanism by that it sets/determine just prices (Wikipedia, 2015). There is a justification that the fiat money is an advantage in the fiscal stimulus during the time of recession. But this commonly accepted assumption can also be challenged following are the few examples. The Federal Reserve System was created by an act of Congress only in 1913. It then presided over a great wartime inflation followed by a major depression in 1920–1921. The Fed’s performance in the Great Depression was disastrous a judgment shared by its current chairman, Ben Bernanke. More recently the Fed’s first round of quantitative easing (printing money) was in response to the liquidity crisis of autumn 2008, which occurred in the wake of the September 15 Lehman Brothers bankruptcy. It is not clear if QE was still needed by the time it was implemented at the end of 2008. It was likely too large and went for too long. The Fed also forgot Bagehot’s dictum that a central bank should land only on good assets at penalty interest rates. The latter principle was to ensure that emergency lending did not become a subsidy program. At that time there was no liquidity crunch rather the real problem was that due to the large unrecognized losses on bank’s balance sheets associated with housing collapse and other lending. These losses meant that such institutions are in reality undercapitalized, not short of liquidity.

The Fed’s critics increasingly see it acting as an unelected fiscal authority. Its lending to selected institutions constitutes credit allocation and surreptitious bailout of large banks. Its policy of low interest rates is part of its bank support program. Meanwhile, the banking suffers because none of the Fed’s policies will fix the banking system. The failure to fix the banks, not a non-existent deflationary threat, is what calls in to mind Japan’s lost decade of the 1990’s. Banks with large unrecognized losses will not make new loans while losses from old ones will grow. Regulators should be consistent in calling for banks to write down asset and recapitalize themselves (Driscoll 2010).

The larger chunk of this money is allocated by the commercial banks to large corporate houses, promoters of companies and investment banks by mode of cheap and bulk lending. The great ingenuity of this system is that all this money is noted as debt by the central bank on the sovereign which in this case is the government. Brazenness of this system is that although it is the government which is the backer of money even then it has to loan money from this Central bank which will be counted as fiscal deficit. While the corporates and promoters of big projects will be get large scale restructuring of their debt under the garb of recession, but government will be under surveillance of investors if it reneges its debt. Government which is a public authority by backing a currency is helping more resource full then the impoverished people. People when they accept this money as the mode of exchange are indirectly indebted by this system because the currency in which they save their wealth is already siphoned off its true value by the act of printing money as the debt and subsequently offering this money in larger chunk to large corporate as lending by commercial banks on the pretext of giving an impetus to the economy and generating employment. If printing of money is negatively affecting people should not they be privy to any decision which impacts their wealth even if that decision is taken on the pretext of welfare of the people. Rather they should be given different choice which is presently not possible in the centralized banking system.

This process of printing and lending goes on and on but innocent people are indebted for no fault of their own. That means as more the money penetrates in to the different aspects of human life the more and more people become indebted in this system. Situation becomes worse once their education, health, transportation, social security or other essential needs of life are valued in monetary terms. Because the system of lending large sum of money to companies and investment banks is always fraught with danger of excess speculation and once this system fails the price is also paid by the middle and
lower middle classes for no fault of their own, their only crime is that they have accepted money as the source of exchange and became passive member of the monetary system. Financial crisis of modern times as witnessed in Greece, Spain and other countries may illustrate this phenomenon. There is the long history of austerity measures imposed by the IMF and the creditor countries on the developing countries and how mostly the weaker sections of society had to foot the bill of the expanses made by their elites (policy decisions) in terms of cuts in their health, education, pensions and housing facilities (Stiglitz 2006).

IV. DEMYSTIFYING OF THE MYTH OF ECONOMY – SERVING ALL

Reserve bank and commercial banks functions according to the market principles which may seem to be fair to many a people. But in praxis this system is run in a manner which prioritizes specific actors and this ingrained into the very construction of this system. Claus Offe in his work Contradiction of the Welfare State depicts a four sectoral model of capitalist system. The general understanding of this division can help us in understanding how money is distributed in the economy. According to Offe four sectors are – monopoly sector, competitive sector, state sector and residual labour power.

According to Claus Offe the first sector monopoly sector is characterized by a high degree of organization of the retail and capital markets. Price competition plays at least in national markets a subordinate role. The organic composition of capital is high, i.e., labor costs account for a relatively small share of the total costs. As a rule, the labor power within this sector is represented by strong trade unions with a high degree of organization. The fact that wage levels in the monopoly sector are relatively high is the combined result of this sector’s structural ability to pass on higher labor costs through price increases, the degree of trade union organization and the small share of its costs accounted for by the labor costs. Within the second sector the competitive sector price competition plays a significant role. Labor power is organized to a lesser extent in trade unions, and the likelihood of companies yielding to the wage demands is therefore smaller. The competitive sector is dependent on the monopoly sector; this relationship of dependency is determined not by competition but rather by administrative power relationships. Only superficially can this relationship as one be described as one between markets partners enjoying equal rights, because the room for maneuvers of small and medium sized business is determined, both qualitatively and quantitatively, by the degree which they are able to function as suppliers and distributors for the large corporations, for whose patronage they can only compete. The characteristic feature of such a ‘dual’ economic structure is the fact that the small – and medium-sized businesses operating on a competitive – capitalist basis are limited to an area the large capital blocs let them have for technical and organizational reasons. Accordingly, the cost structure and profitability of firms in the competitive sector are predetermined by the administratively enforced decisions of the banks and big capital. Moreover, the strategic variable upon which the economic survival of small –sized businesses (including agriculture) depends is not the innovation behavior of the ‘creative business enterprise’ (Schumpeter); rather, it is the mobilization of political –administrative protection.

In this sector, an adequate economic existence depends upon such non-market means as subsidies, preferential tariffs and tax measures. Thus, for both the self – employed businessmen and the entrepreneurs of the ‘independent’ middle class, as well as for the wage - earners working for them, not all material conditions of life are determined by bodies and organizations defined by exchange relationships. In fact, in this sector the conditions of production and the exchange of labour power are to an increasing extent determined through direct economic and political power relationship (i.e., relationships which are no longer exchange relationships.) The state sector is related with state’s administrative machinery and PSUs. This sector serves as regulatory framework makers for the two previously mentioned sectors besides performing the welfare functions. The last sector is Residual labour power which includes all the partially, under employed members (unorganized sector) in the workforce which includes the largest number of people. This workforce is not able to survive on its own rather capitalist state provides them transfer payments for their survival in terms of subsidies. Above depiction of four sectoral model of capitalist system (capitalist economy) given by Claus Offe may have some shortcoming or further increase in the pace of globalization may demand some new adjustments into it, nonetheless majority of national economies functions on these lines. Which means the largest chunk of the money supply is captured by the large capital blocs (promoters of large corporate) as compared to the small companies, cooperatives and common individuals on the flimsy ground of boosting the economy and creation of employment which is not possible due to the modern technological expertise (Offe 2007).

The recent tightening of noose on top 10 bank loan defaulters which includes Winsome Diamonds and Jewellery Ltd causing Non-Performing Asset (NPA) of worth 6800 crore and Zoom Developers Ltd accused of 3003 core NPA on the balance sheets of a dozen of state owned banks. There is long list and action started after the RBI governor Raghuram Rajan wrote a list of top ten bank defaulters to the Prime Minister Office (Narayan2015) India is the country where very large chunks of population do not get formal credit from any bank.

V. HEGEMONY OF MONEY AND MONETIZATION OF THINKING EDUCATION AND MONEY

Should educational process be made dependent on money predominantly? The ever increasing privatization of educational system in different countries of the world is example of this. The more important question is does education is something which can be valued and judged from monetary aspect only. If it could then what can be the potential pros and cons of that. Does a handsome salary package to a teacher ensure the commitment equivalent to the likes of Phule, Henry Vivian Derozio and A. P. J. Kalam? Does education is concerned with providing material
infrastructures and providing secures employment opportunities or igniting a spark in an individual which will transform his and subsequently the social lives of many?

Can input provided by the money in any field may be in the education for example - the recruitment of a teacher itself insures a good education? Do presence of physical infrastructure - building, books, campus and teacher as syllabus recting machine insures quality education? Until teachers and students involve in a dialogue process about their topics and teacher has a sense of their mission education process cannot be successful.

VI. SIMPLIFICATION OF PERSON

Does the allocation of grants for forest plantation itself insure a better implementation of the desired goals? Chances are that money which has been assigned for this purpose will be siphoned off or used in a very haphazard manner. Money is a common denominator of all the goods and therefore chances are high that it can be used for the purpose for which it was not allocated. Moreover the entire chains of the staff or people who are involved do not necessarily share the sense of the purpose and this allows them influence the allocation and use of the resources which are allocated to them. Therefore to view everything from the prism of monetary value is not right, what is the value that humans or persons attached to it are equally important rather more important. Humans are not simply utility maximizing machines rather they are complex bundle of social, cultural and economic needs which at times forces them to do things which cannot justified or understood from any particular angle.

VII. HEALTH AND MONEY

Should possession of good health be made predominantly dependent on money only, which will simply focus on generation of medicines and their supplies giving less attention to the preventive aspect of health care? Besides privatization of majority of medical colleges is further fueling the monetization of health because those who have invested more than forty to fifty lakhs on their education will favor monetization of health services (Raman, 2013).

If access to nutritious food and shelter is made dependent on the possession of money, then what is the guarantee the money given in the account of the poor will be spend on the purchase of the appropriate nutritious articles. Food security cannot be seen in terms of monetary power to purchase only perhaps it can be but in short run. But in the long term it is concerned with the way food grains are produced and the proper knowledge of human nutrition system. Question of what to eat and for which vitamin or mineral and the method of eating are equally important. In a country like India which is very huge and full of diversity any plan which envisage homogenous food grains procurement system for the food security of entire country is going to be full of flaws. Such kind of planning is possible only because of excessive reliance on the monetary aspect or rather from the perspective which values money (everything) as the most important component of the planning. Money is one of the good servants but it is one of the worst masters for mankind. Once any plan is build on this premise that money is the main component then subsequently money begets more money, this demand comes in terms of strengthening the planning further or plugging the loopholes. What if India could have gone for a predominately localized food security system which would have involved local self government units and local community, it could have provided much more diversity and organic touch to its functioning. Framers could have been motivated to produce crops which suits to their climate and local needs with the use of organic manure.

It could have served the twin purpose of food production for population and second the livelihood of the peasants could have been secured at least to lesser extent on the local level only the surplus could have been allowed to go to the market, but this task should not be performed by the bureaucrat rather the local assembly of the villager could be the deciding body.

VIII. RIGHT TO SHELTER AND MONEY

The right to shelter is still elusive to the majority of poor in the Indian cities and the one fundamental flaw in housing is the predominantly money centric approach towards this. Real estate market as the popular term which is used for the way housing is analyzed by the educated section of the society and state is clear indication of it. When housing is viewed predominantly in terms of market involving customers and sellers then it would have no place for people with no purchasing capacity. Defining of housing in terms of markets will transforms it into an asset creation opportunity, which is monetarily purchasable therefore liable for speculation and profit earning. When housing is defined as the need and the fundamental right of any human being, not bound by the logic of any inhuman market only then the poor will be able to get their right to shelter. Although the preachers of this creed thị scores tries to put a human face to the market by claiming it rational as human are, but market rationality can never be humane, because market don’t understand responsibility, justice, love and compassion. These are innate values of human beings. The truth is that the market is created rather concocted on the non-market relations who are explicit in the builders, politicians and municipal authorities’ nexus in India. Way politicians – municipalities of the metropolitan regions connive with the builders to appropriate common or public land or to purchase land from the peasants on cheaper prices to make super profits is nothing but the glaring symptom of defining housing as the market.

IX. POLITICIZATION OF THE DEPOLITICIZED- THE CHALLENGE

Perhaps we should search for an alternative mode of exchanges or rather a set of exchanges which will also include the money; this is the need of the hour if we want to establish a more just society. Because an exchange does not take place in the vacuum therefore it is essential to understand the
background of the any exchange if its efficiency and justness is to be measure.

It cannot be denied that money has made exchange between different people very smooth and it has helped in diversification of professions. But this progress comes with the price for those who are below the certain income level, for them this became indirect slavery (because cannot give up the job). People from Bihar, Madhya Pradesh, Uttar Pradesh and Bengal are coming to Mumbai or other big cities to earn the money so that they can make the two ends meet for their family at homes or which comes with them. They work under pathetic conditions with minimum facilities despite that they cannot refuse to work because they have no option left. While large corporate will get money from commercial banks for investment with nominal interest rates which is not very difficult for most of them to pay back. Large companies on the name of their employment generation capacities get many a times subsidies and loan waivers despite the fact that their employment structure is tilted in the favor of those who comes at the top of the corporate hierarchy. Commercial banks are conduit of credit for the large conglomerates and corporate houses this relationship is not based on the free market principles which is usually preached in a market economy, the nature of this relationship is inherently political (distribution of resources which is money in this case takes place not because it is the only efficient way to do it rather belief system of the distributor). Real deftness of this process is that this process is presented as a depoliticized rather a zone for the expert economists.

This depoliticization is what allows this system to wield real power over the real lives of people because people are supposed to left this task to the knowledgeable experts and this confirms Foucault’s dictum knowledge is power. Those who are really wielding this ‘power of knowledge’ are responsible for none except for those who are part of this governing apparatus. Although it does not mean there is no limitation to their authority but more often than not this limitation or legitimacy crisis comes late and till those at the receiving end of this system had paid the price (Habermas1973). Those who wield the power of specialized knowledge have always no dearth of excuses this allows them to save their skins.

More often than not efforts to solve the problems are palliatives rather than searching for the genuine solutions. Does money can genuinely be defined as a good substitute for human needs? Especially when it is not equally distributed among the peoples and this unequal distribution really hurts those who cannot fulfill their basic needs. Basic need means that capability of fulfilling food, shelter, and health besides bring of their progeny. There is another kind of deprivation which is very intense among humans; it can be called relative deprivation. Feeling of being left behind especially in term of consumption and enjoyment of consumerist goods and life styles. Lagging behind on this aspect may not kill anyone but those who are left behind very often have their confidence and social esteemed shattered. Time has come to rethink on the way we are becoming dependent on money besides the way money functions? The first thing is to politicize this topic from its disguise of technocratic depoliticization.

REFERENCES