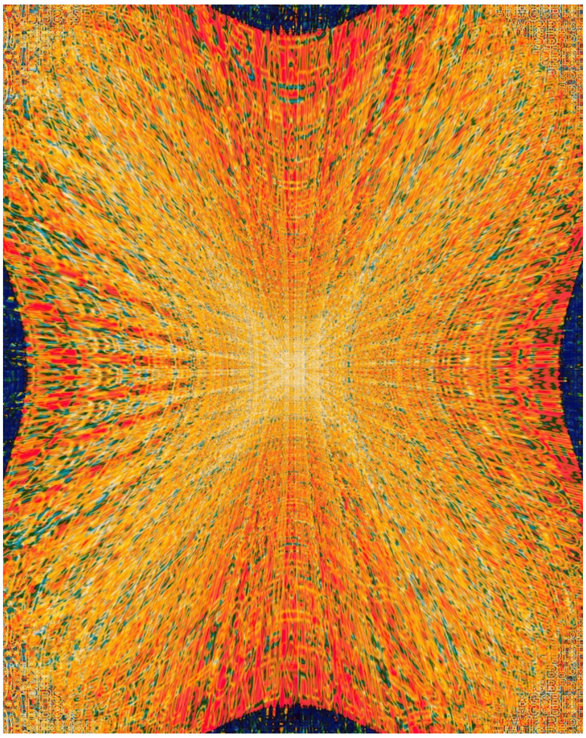
What If Money Expired?

A long-forgotten German economist argued that society and the economy would be better off if money was a perishable good. Was he an anarchist crank or the prophet of a better world?



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Feature Future of Capitalism

By Jacob Baynham

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A few weeks ago, my nine-year-old son Theo invented a fiat currency to facilitate trade in his living room fort. Bourgeoning capitalist that he is, he had opened a fort gift shop and offered for sale an inventory of bookmarks hastily made from folded paper and liberal applications of tape. Inscribed on them were slogans like “Love,” “I Rule” and “Loot, Money, Moolah, Cash.”

Theo’s six-year-old brother Julian was interested in the bookmarks, which Theo was happy to sell him for $1 per unit.

“Hang on,” I shouted from the other room. “You’re not going to sell them for actual money.” (State intervention, I know.)

Reluctantly, Theo agreed. After some thought, he implemented a new scheme whereby his brother could print his own money with a marker and paper. Each bill would become legal tender once Julian had written “I CAN WRITE” three times on a piece of paper. Misspellings rendered the money void.

“It has to have some value,” Theo explained. “Otherwise, you could just print millions of dollars.”

Julian grumbled but soon redeemed his new wealth for a bookmark. Theo deposited the money in his pocket, and thus the fort’s commerce commenced.

What Is Money, Anyway?

The history of money is replete with equally imaginative mandates and whimsical logic, as Jacob Goldstein writes in his engaging book, “Money: The True Story of a Made-Up Thing.” Before money, people relied on bartering — an inconvenient system because it requires a “double coincidence of wants.” If I have wheat and you have meat, for us to make a deal I have to want your meat at the same time you want my wheat. Highly inefficient.

Many cultures developed ritual ways to exchange items of value — in marriage, for example, or to pay penance for killing someone, or in sacrifices. Items used for these exchanges varied from cowry shells to cattle, sperm whale teeth and long-tusked pigs. These commodities helped fulfill two central functions of money:

1. They served as a unit of account (offering a standardized way to measure worth).
2. They acted as a store of value (things you can accumulate now and use later).

Due to the flaws of the barter system, these goods didn’t serve the third function of money, which is:

3. To act as a medium of exchange (a neutral resource that can easily be transferred for goods).

Money that served all three of these functions wasn't created until around 600 B.C.E. when Lydia, a kingdom in modern-day Turkey, created what many historians consider the first coins: lumps of blended gold and silver stamped with a lion. The idea spread to Greece, where people started exchanging their goods for coins in public spaces called agoras. Money soon created alternatives to traditional labor systems. Now, instead of working on a wealthy landowner's farm for a year in return for food, lodging and clothes, a person could be paid for short-term work. This gave people the freedom to leave a bad job, but also the insecurity of finding employment when they needed it.

Aristotle, for one, wasn't convinced. He worried that Greeks were losing something important in their pursuit of coins. Suddenly, a person's wealth wasn't determined by their labor and ideas but also by their cunning.

One summer, the philosopher Thales (who coined the phrase: "Know thyself") predicted Greece would have a good crop of olives. Before they ripened, he rented all the presses on the islands and then grew rich when, come harvest, everyone went to him to press their olives. Today we might call this good business sense. Aristotle called it "unnatural."

He wasn't alone in his distrust of commerce. In mythology, Hermes is both the god of merchants and of thieves. Meanwhile, the Bible tells the story of Jesus overturning the tables of moneychangers and merchants in a Jerusalem temple. In the early days, as is true today, commerce implied exploitation — of natural resources and of other people. (The Incans, on the other hand, built an entire civilization with no money at all, just a complex system of tributes and structured specialization of work.)

"The history of money is replete with imaginative mandates and whimsical logic."

Nevertheless, the concept of money spread. In 995, paper money was introduced in Sichuan, China, when a merchant in Chengdu gave people fancy receipts in exchange for their iron coins. Paper bills spared people the physical burden of their wealth, which helped facilitate trade over longer distances.

As it evolved, money became increasingly symbolic. Early paper money acted as an IOU and could always be exchanged for metallic coins of various values.

In the late 13th century, however, the Mongol emperor Kublai Khan invented paper money that was not backed by anything. It was money because the emperor said it was money. People agreed. In the intervening centuries, money has conjured more fantastic leaps of faith with the invention of the stock market, centralized banking and, recently, cryptocurrencies.

Today, there is about $2.34 trillion of physical U.S. currency in circulation, and as much as half of it is held abroad. That accounts for just 10% of the country's gross domestic product (the total monetary value of all the goods and services produced). Total U.S. bank deposits are around $17 trillion. Meanwhile, total wealth in this country, including nonmonetary assets, is around $149 trillion, more than 63 times the total available cash. The gaps between these numbers are like dark matter in the universe — we don't have a way to empirically account for it, and yet without it our understanding of the universe, or the economy, would collapse.

For most people in the developed world, money is lines of data on a bank's computer. Money is abstract, absurd. It's a belief system, a language, a social contract. Money is trust. But the rules aren't fixed in stone.

"Here's a thing that always happens with money," Goldstein wrote. "Whatever money is at a given moment comes to seem like the natural form money should take, and everything else seems like irresponsible craziness."

The Problem, As One German Saw It

More than a century ago, a wild-eyed, vegetarian, free love-promoting German entrepreneur and self-taught economist named Silvio Gesell proposed a radical reformation of the monetary system as we know it. He wanted to make money that decays over time. Our present money, he explained, is an insufficient means of exchange. A man with a pocketful of money does not possess equivalent wealth as a man with a sack of produce, even if the market agrees the produce is worth the money.

"Only money that goes out of date like a newspaper, rots like potatoes, rusts like iron, evaporates like ether," Gesell wrote in his seminal work, "The Natural Economic Order," published in 1915, "is capable of standing the test as an instrument for the exchange of potatoes, newspapers, iron and ether."

Gesell was born in 1862 in what is now Belgium, the seventh of nine children. He dropped out of high school because his parents couldn't afford it, got a job with the postal service and then, at 20, went to Spain to work in a business house. Four years later, he emigrated to Argentina, where he set up a company importing medical equipment and a plant to produce cardboard boxes.

Argentina was booming in the 1880s. Using capital loaned from Europe, the country invested in railroads and other infrastructure aimed at opening its resources to international trade. The dividends on those projects were slow in coming, however, and the country struggled to service its debt. Meanwhile, inflation was devaluing the currency and the real wages of workers were declining. In 1890, Argentina defaulted on nearly £48 million of national debt, most of which was underwritten by a British merchant bank. Argentina's GDP dropped 11% in a year and the country fell into a deep recession and political upheaval.

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In 1898, the Argentine government embarked on a deflationary policy to try to treat its economic ills. As a result, unemployment rose and uncertainty made people hoard their money. The economy ground to a halt. There was plenty of money to go around, Gesell realized. The problem was, it wasn't going around. He argued that the properties of money — its durability and hoardability — impede its circulation: "When confidence exists, there is money in the market; when confidence is wanting, money withdraws."

Those who live by their labor suffer from this imbalance. If I go to the market to sell a bushel of cucumbers when the cost of food is falling, a shopper may not buy them, preferring to buy them next week at a lower price. My cucumbers will not last the week, so I am forced to drop my price. A deflationary spiral may ensue.

The French economist Pierre-Joseph Proudhon put it this way: "Money, you imagine, is the key that opens the gates of the market. That is not true — money is the bolt that bars them."

The faults of money go further, Gesell wrote. When small businesses take out loans from banks, they must pay the banks interest on those loans, which means they must raise prices or cut wages. Thus, interest is a private gain at a public cost. In practice, those with money grow richer and those without grow poorer. Our economy is full of examples of this, where those with money make more ($100,000 minimum investments in high-yield hedge funds, for example) and those without pay higher costs (like high-interest predatory lending).

"The merchant, the workman, the stockbroker have the same aim, namely to exploit the state of the market, that is, the public at large," Gesell wrote. "Perhaps the sole difference between usury and commerce is that the professional usurer directs his exploitation more against specific persons."

Gesell believed that the most-rewarded impulse in our present economy is to give as little as possible and to receive as much as possible, in every transaction. In doing so, he thought, we grow materially, morally and socially poorer. "The exploitation of our neighbor's need, mutual plundering conducted with all the wiles of salesmanship, is the foundation of our economic life," he lamented.

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To correct these economic and social ills, Gesell recommended we change the nature of money so it better reflects the goods for which it is exchanged. "We must make money worse as a commodity if we wish to make it better as a medium of exchange," he wrote.

To achieve this, he invented a form of expiring money called Freigeld, or Free Money. (Free because it would be freed from hoarding and interest.) The theory worked like this: A $100 bill of Freigeld would have 52 dated boxes on the back, where the holder must affix a 10-cent stamp every week for the bill to still be worth $100. If you kept the bill for an entire year, you would have to affix 52 stamps to the back of it — at a cost of $5.20 — for the bill to still be worth $100. Thus, the bill would depreciate 5.2% annually at the expense of its holder(s). (The value of and rate at which to apply the stamps could be fine-tuned if necessary.)

This system would work the opposite way ours does today, where money held over time increases in value as it gathers interest. In Gesell's system, the stamps would be an individual cost and the revenue they created would be a public gain, reducing the amount of additional taxes a government would need to collect and enabling it to support those unable to work.

Money could be deposited in a bank, whereby it would retain its value because the bank would be responsible for the stamps. To avoid paying for the stamps, the bank would be incentivized to loan the money, passing on the holding expense to others. In Gesell's vision, banks would loan so freely that their interest rates would eventually fall to zero, and they would collect only a small risk premium and an administration fee.

With the use of this stamp scrip currency, the full productive power of the economy would be unleashed. Capital would be accessible to everyone. A Currency Office, meanwhile, would maintain price stability by monitoring the amount of money in circulation. If prices go up, the office would destroy money. When prices fall, it would print more.

In this economy, money would circulate with all the velocity of a game of hot potato. There would be no more "unearned income" of money lenders getting rich on interest. Instead, an individual's economic success would be tied directly to the quality of their work and the strength of their ideas. Gesell imagined this would create a Darwinian natural selection in the economy: "Free competition would favor the efficient and lead to their increased propagation."

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This new "natural economic order" would be accompanied by a reformation of land ownership — Free Land — whereby land was no longer privately owned. Current landowners would be compensated by the government in land bonds over 20 years. Then they would pay rent to the government, which, Gesell imagined, would be used for government expenses and to create annuities for mothers to help women achieve economic independence from men and be free to leave a relationship if they wanted.

Gesell's ideas salvaged the spirit of private, competitive entrepreneurialism from what he considered the systemic defects of capitalism. Gesell could be described as an anti-Marxian socialist. He was committed to social justice but also agreed with Adam Smith that self-interest was the natural foundation of any economy.

While Marx advocated for the political supremacy of the dispossessed through organization, Gesell argued that we need only remove economic obstacles to realize our true productive capacity. The pie can be grown and more justly shared through systemic changes, he maintained, not redistributed through revolution. "We shall leave to our heirs no perpetually welling source of income," he wrote, "but is it not provision enough to bequeath economic conditions that will secure them the full proceeds of their labor?"

Although many dismissed Gesell as an anarchistic heretic, his ideas were embraced by major economists of the day. In his book "The General Theory of Employment, Interest and Money," John Maynard Keynes devoted five pages to Gesell, calling him a "strange and unduly neglected prophet." He argued the idea behind a stamp scrip was sound. "I believe that the future will learn more from the spirit of Gesell than from that of Marx," Keynes wrote.

In 1900, Gesell retired and took up farming in Switzerland, where he published pamphlets, books and a magazine on monetary reform. In 1911 he moved to Eden, a single-tax, vegetarian commune outside Berlin, where he criticized monogamy and advocated free love. In 1919, when pacifist poets and playwrights launched the Bavarian Soviet Republic in Munich, they offered Gesell the position of finance minister. Gesell drew up plans for land reform, basic income and Freigeld. The republic lasted all of a week before being overthrown by the Communist Party and then the German army, who detained Gesell and charged him with treason.

He gave an impassioned defense. "I do not attack capital with force, with strikes and paralization of business and plant, with sabotage," he told the tribunal. "I attack it with the only weapon which is inherent with the proletariat — work. By recommending to the masses untrammeled, relentless work, I lay low the idol of interest."

Gesell was acquitted and returned to writing. He died of pneumonia in 1930, in Eden, at the age of 67.

And Then It Actually Happened

That very year, the owner of a dormant coal mine near the Bavarian town of Schwanenkirchen tried in vain to get a loan from a bank to begin mining again. Stymied by the representatives of traditional finance, he went to the Wära Exchange Association, a group that was created to put Gesell's ideas into practice. The group agreed to give the mine owner 50,000 Wära, a depreciating currency equivalent to 50,000 Reichsmarks.

The mine owner then gathered the unemployed miners and asked if they would go back to work, not for legal tender, but for this new currency. They agreed that any money was better than no money. The mine owner purchased food, clothing and household goods from warehouses that were already using the Wära currency. The miners, now back digging coal, used their wages to buy these goods from the mine owner. Soon, other businesses in town wanted to use the currency to benefit from the sudden influx of cash. Because the currency depreciated at 1% per month, everyone was eager to part with it and it circulated rapidly throughout the economy. Soon, in whole districts, the Wära currency replaced the Reichsmark, which alarmed the bigger banks and the government. Finally, the Reichsbank ended the experiment by banning the currency.

Two years later, in the Austrian town of Wörgl, Gesell's ideas came to life again. In 1932, Wörgl's mayor, a socialist locomotive engineer, desperately wanted to get his constituents back to work. A supporter of Gesell's ideas, he devised a plan where Austrian schillings would be replaced with Work Certificates that depreciated at 1% per month.

The mayor hired townspeople, paid in Work Certificates, to improve roads, install streetlights and build a concrete bridge. Work Certificates circulated rapidly from merchants to tenants, to landlords, to saving accounts. People paid their taxes early to avoid paying for stamps. In one year, the Work Certificates traded hands 463 times, creating goods and services worth almost 15 million schillings. By contrast, the ordinary schilling was exchanged only 21 times.

The experiment was called the Miracle of Wörgl. Vienna newspapers took notice. The government of France expressed interest. Two hundred mayors in Austria devised similar programs in their communities. Again, however, the financial authorities grew uneasy, arguing that these local stamp scrips undermined the currency-issuing power of the national bank. By the fall of 1933, the Austrian Supreme Court had prohibited their circulation.

Gesellian experiments happened in the U.S. and Canada too, inspired by the Great Depression. In 1932, in Hawarden, Iowa, a limited amount of stamp scrip was put into circulation to pay for public works. The same year, a similar program was deployed in Anaheim, California. In 1933, Oregon attempted to print $80 million in stamp scrip, but the U.S. Treasury stopped it. The government of Premier William "Bible Bill" Aberhart in Alberta, Canada, introduced depreciating "prosperity certificates" (which people quickly renamed "velocity dollars") in 1936.

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—John Maynard Keynes

That decade in the U.S., 37 cities, eight counties and some business groups attempted to issue almost 100 different types of stamp scrip. All these experiments were local, small in scope and short-lived. In 1933, the economist Irving Fisher, who called himself "a humble student of Silvio Gesell," tried to persuade President Franklin Delano Roosevelt to adopt a national stamp scrip, and even convinced an Alabama senator to introduce a bill that would have issued up to $1 billion in depreciating currency. It never came to a vote. Roosevelt, who was preparing to take the country off the gold standard, worried that any further economic innovations would be too destabilizing.

Other Gesell evangelists included Frank Lloyd Wright and the poet Ezra Pound, the son of an assayer at the U.S. Mint in Philadelphia. As a child, Pound visited his father at work; in a basement vault, he saw sweating, shirtless men with giant shovels scooping millions of dollars' worth of silver coins into counting machines "like it was litter." Later he wrote that it was unnatural when a financier made money out of nothing by harvesting interest on a loan. The poet believed our current economic order disincentivizes actual work and creation while incentivizing market manipulation and shrewd, sometimes dishonest, schemes of profit. To Pound, the concept of money was so pervasive and unexamined that money had become an end in itself, not the vehicle it was intended to be.

In 1935, he wrote an essay, "What is Money For?" in which he promoted Gesell's expiring money with ardent emphasis. "The AIM of a sane and decent economic system," Pound wrote, "is to fix things so that decent people can eat, have clothes and houses up to the limit of available goods."

Pound called Gesell's idea "vegetable money" and argued it was a necessary equalizing force so that one person doesn't have money wealth that accumulates in a bank while others have potato wealth that rots in their root cellar. In Pound's view, the wealth of a nation ought to not be measured in its amount of money but by the flourishing of its creative and productive arts. "When the total nation hasn't or cannot obtain enough food for its people, that nation is poor," he wrote. "When enough food exists and people cannot get it by honest labor, the state is rotten."

To Pound, money that is organic, subject to birth and decay, that flows freely between people and facilitates generosity, is more likely to bind a society together rather than isolate us. An expiring money would enrich the whole, not the select few. Usury — which we can take to mean unfettered capitalism — was responsible for the death of culture in the post-Reformation age.

Pound eventually moved to Italy and embraced the fascism of Benito Mussolini, advocating for a strong state to enforce these ideas. In doing so, he ceded his artistic idealism to autocratic fiat. Pound was strident in his economic convictions but also a realist on human nature. "Set up a perfect and just money system and in three days rascals, the bastards with mercantilist and monopolist mentality, will start thinking up some wheeze to cheat the people," he wrote.

What It Means Today

Gesell's idea for depreciating money "runs counter to anything we've ever learned about the desirable properties of money," David Andolfatto, a former senior vice president of the Federal Reserve Bank of St. Louis and the chair of the economics department at the University of Miami, told me recently. "Why on Earth would you ever want money to have that property?"

But during the economic downturn that followed the Covid pandemic, Andolfatto recognized the potential value of an expiring money in times of crisis. The relief checks that the government sent out to U.S. households didn't immediately have their desired effect of stimulating the economy because many people saved the money rather than spend it. This is the paradox of thrift, Andolfatto explained. What's good for the individual is bad for the whole.

"Well, what if we gave them the money with a time fuse?" Andolfatto remembers wondering. "You're giving them the money and saying look, if you don't spend it in a period of time, it's going to evaporate."

In a paper he wrote for the Fed in 2020, Andolfatto called this concept "hot money credits." He pointed out that when the economy goes into a funk, there is a "coordination failure" where people stop spending and others stop earning. Withholding money in times of fear creates a self-fulfilling prophecy by further stifling the economy. So, could Gesell's idea of expiring money be the cure?

"The desirability depends on the diagnosis," Andolfatto told me. "It's like a doctor administering a drug to a healthy person and a sick person. You administer the drug, and it has some side effects. If the person is healthy, you're not going to make them any better. You might make them even worse. If they're sick, it might make them better."

The problem, Andolfatto said, is that issuing pandemic checks with an expiration date would hurt those with little savings. People with money in the bank would use their expiring money just like normal money. People with no savings, on the other hand, might find that expiring money forced them to spend and did little to stabilize their financial situations.

Since he wrote the paper, Andolfatto went on, the U.S. economy recovered remarkably well under policies that didn't include Gesell's radical reforms. "I admit to being intrigued by the idea," Andolfatto said. "You can do it on a local level. I wonder, as a practical matter, if one can do it on a large scale."

Keynes believed Gesell's expiring money amounted to "half a theory" — it failed, Keynes argued, to account for people's preference for liquid assets, of which money is just one example. "Money as a medium of exchange has to also be a store of value," Willem Buiter, a former global chief economist at Citigroup, told me. In a Gesellian economy, he continued, the affluent would simply store their wealth in another form — gold bars, perhaps, or boats — which could be converted into money when they wanted to transact.

Buiter doesn't believe Gesellian money can really address serious social inequality, but he did note times when it was advantageous for a central bank to drop interest rates below zero, like when inflation and market interest rates are low and should go lower to maintain full employment and utilization of resources. Positive or negative interest rates could easily be applied to digital money in a cashless economy, for which Buiter and others have advocated. But it's hard to imagine how a government today could practically implement a Gesellian tax on hard currency. "You'd have to be able to go out and confiscate money if it's not stamped," Buiter said. "It would be rather brutal."

In 1938, the psychologist Abraham Maslow — who later became famous for his "hierarchy of needs," which ranked human necessities from the physiological (air, water, food) to the transcendent — spent six weeks with the Siksika (Blackfoot) people in southern Alberta. He discovered a community where wealth was not measured in money or in property. "The wealthiest man in their eyes is one who has almost nothing," he wrote, "because he has given it all away."

For most of us today, money is assurance. We live in a culture in which the pursuit of security is paramount. Save money, we are told — for a health crisis, for our kids to go to college, for retirement. But is it possible to have any guarantee, through money or anything else, of our safety in life?

In her new book “The Age of Insecurity,” the activist Astra Taylor writes: “Today, many of the ways we try to make ourselves and our societies more secure — money, property, possessions, police, the military — have paradoxical effects, undermining the very security we seek and accelerating the harm done to the economy, the climate and people’s lives, including our own.”

The negative consequences of the unimpeded accumulation of wealth are plain for all to see. Human rights abuses, corruption and the devastation of the planet have all been justified in its pursuit. It’s possible to imagine many reincarnations of money that serve different values. Putting a price on carbon emissions is one way to offset the environmental damage incurred by economic growth. A universal basic income and free higher education would help redistribute and equalize financial and social capital.

“Gesell argued for an engaged, probing curiosity of our economic institutions so that we may reimagine them to better serve the societies we want to create.”

There are more radical questions being asked: What if the money you accumulated in life died with you? What if actuaries determined the amount of money people need to live a comfortable life, and earnings were capped there? What would a world look like in which the ardor of one’s work — not just luck and geography and privilege — determined a person’s wealth?

In “The Man Who Quit Money,” Mark Sundeen writes about a man in Utah who deposited his life savings in a phone booth, opting out of the institution altogether. It’s an age-old tradition among the pious and iconoclasts the world over — becoming a recluse in order to attune oneself with rhythms beyond social conventions. Many of the most charismatic people are animated by passions that don’t earn them money but add a richness to their lives that money can’t buy. When we find those things that sustain us — art, hobbies, service — the worth of those activities transcends money to fulfill us on a deeper, spiritual level.

Money may be a language, a way to translate value in terms we all understand, but money is not the sum of what we have to say. The more money one has, the less meaning work has to that person. At the same time, life’s most meaningful work, like raising children or cooking a meal for others, often goes unpaid. And yet this is the substance of life, the stuff that determines who we are and how we will be remembered.

Gesell believed that capitalism had beaten communism, but he recognized the flaws of our current economic order. “The choice lies between progress or ruin,” he wrote. “We must push on through the slough of capitalism to the firm ground beyond.”

Is his idea of an expiring currency any more absurd than the status quo we inherited? Perhaps his greatest contribution is to remind us that the rules of money can be reinvented, as indeed they always have. Money is a construct of our collective imagination, subject to our complacency, yes, but also to our inquiry, values and highest ambitions. Gesell argued for an engaged, probing curiosity of our economic institutions so that we may reimagine them to better serve the societies we want to create. “The economic order under which men thrive,” he wrote, “is the most natural economic order.” To that end, ours may still be a work in progress.

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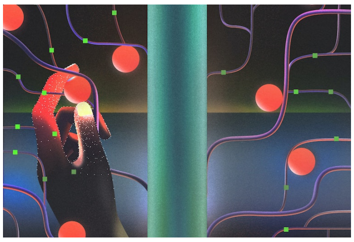

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