

Money Money Money

Ross Welcome to Renegade Inc. Over the last few years, the subject of money has come into sharp focus. Increasingly, we want to know who creates it, who issues it, who controls it, and importantly, who decides who gets it. First, today's paradox is why with so much money now created, do we still have so much inequality and poverty? And should this contradiction lead us to ask, how much do we really know about the dynamics of money?

Ross Brett, welcome to Renegade Inc.

Brett Scott Great to be here.

Ross You say that big financiers know how to work with money, but they don't really know how money actually works. Can you explain that to us?

Brett Scott Yeah, maybe the metaphor I use is like an artist. So an artist might be able to paint with paint very beautifully, but not actually understand how the paint itself is created. So actually, many parts of finance involve doing sort of complex operations with money, but that doesn't actually require an understanding of the monetary system. So, for example, I used to work in exotic derivatives. There was no requirement for me to understand the monetary system to work in derivatives.

Ross Somebody else who ostensibly knows how money works is a man called Jerome Powell, Jay Powell to you and me. Here's a clip of him. Let's have a look.

Video clip (interviewer) Fair to say you simply flooded the system with money?

Video clip (Jerome Powell) Yes, we did. That's another way to think about it. We did.

Interviewer Where does it come from? Do you just print it?

Jerome Powell We print it digitally. So as a central bank, we have the ability to create money, digitally, and we do that by buying Treasury bills or bonds or other government guaranteed securities, and that actually increases the money supply. We also print actual currency and we distribute that to the Federal Reserve banks.

Ross So 10 years ago, we put a film together maybe a bit longer than we were telling people that banks create money, not only central banks, private banks, commercial banks, too. And a lot of people at that time were so sort of taken aback by that because they didn't think there was a magic money tree. Jump forward a decade or a little longer and suddenly this is becoming common knowledge. What does that mean to man and woman on the street? What does it mean that we now understand that mechanism?

Brett Scott Well, I think actually it's questionable whether people do understand it in its entirety. So it's one thing to learn that there are money issuers in society. So that's the sort of the first phase. People are learning that there is these different central banks and banks can create money, but it's a sort of a secondary thing to then try to actually understand that from

the perspective of those issuers. What many people try to do is they try to understand that from the perspective of somebody who is a user of the monetary system. And actually lots of the moral horror that comes around when people hear stuff about, oh, you know, banks create money or the state creates money, a lot of the moral horror comes from the feeling that they've never experienced what it's like to actually do that, because you spend your entire life basically as a person who's on the receiving end of the monetary system, using money issued by others.

Ross By flooding the economy with money, you can argue that a central bank destroys price discovery, which ultimately affects the consumer, affects people, everybody, in fact, who uses money. What's your view on that?

Brett Scott Well, I mean, the thing about monetary systems, the main orientation to start off with, the way that I would start off with is to see them as network structures. And most people are not trained to do this, right? You're born as a baby, right? The way that you initially experience money is these objects you just sort of see moving around. And that's the sort of the surface level of the monetary system. And most people sort of stay there. But to try and understand these dynamics, you've got to zoom out and see a whole, like, network structure. So imagine a kind of mesh that's like tied together, a kind of mesh structure. And from there, you can start to make the things about, you know, what would happen, for example, if a very large player in that mesh started pushing out more of those units - what would happen? For example, it could disrupt the pricing system. And absolutely a lot of the debates around monetary policy and the sort of politics of money are about who gets to issue those units and who it actually affects. And there's a lot of, like, complexity you can go into around what's going on there.

Ross Do you make a difference between credit and money?

Brett Scott Well, it depends. There's different layers of credit in a system. So when you talk to a person and you ask them, you know, what do you think about when you hear the term credit, what they're often imagining is monetary debt. So they're imagining, for example, I borrowed X amount of money and I have to pay back X amount of money. But in the the first form of debt, as it were, if you looking at like a monetary system, is actually credit that's demarcated in goods and services. So this is this is where you get into the dark arts of money. When people say things like money is created out of debt or money is debt, what they're saying actually is that money is a claim upon real goods and services. This is quite a complex topic. But there's sort of these different layers of debt in a system. So the bottom layer is actually these contracts that are locked into real goods and services and then you can build new layers of debt on top of that. So when I was working in the derivative markets, if you're looking at derivative markets, they're often sitting, I'd probably place them about like layer eight of the financial system. And they've built on all these simpler layers. And your deepest layer, if you're looking at it, is actually the global ecology. It's like trees and farmland and people working in those and then the monetary systems locked into that. And then you can build more complex instruments on top of that. And derivatives are these very high level abstract things built in the very top layers. So, yes, monetary systems are credit systems, but that doesn't necessarily mean what people think it means. When you're looking at these these multilayered structures, which is what finance is, it's sort of these multilayered sort of contractual structures. The higher up you go, the more abstract and large scale they become.

So if you're looking at a large scale derivative, it's often plugged into lots of underlying systems below it, right? So if you have a whole layer of bets on a layer of credit, which is to say what credit derivatives are, and then if something goes wrong in the bets, they're going to have huge disruptive influences down the chain. So like when I'm building up those models, what I'm trying to do is to show the sort of simplest elements of a system to the most complex. And the most complex elements are built on the simpler ones, but then they can feed back on each other. So when you're looking at the analysis of the financial crisis, you have these very abstract financial instruments which those going down brings down all the layers below it.

Ross All I heard was dominoes.

Brett Scott Yeah, I would sort of tend to think like one of the problems people have when thinking about finance, is they sometimes think it's disconnected from the underlying things in the world. You know, they see like high finance and they're like, it's not related to my everyday life. All financial instruments, in the final analysis, are connected back into actual things happening on the ground. But the problem is, the further away you get from those things, the more out of kilter there can become. You can easily, intuitively understand this if you hang out in a small scale hunter gatherer society, for example. There's a kind of like a limit to the delusion that you can find in a very small scale economic situation. They're not going to believe things which will lead to their demise very easily. Whereas if you are in a super large scale system with very abstract financial instruments, those can go out of kilter for 10 years before the system kind of like pulls them back into reality. So with a financial crisis, that's what's going on. You've got these extremely large scale instruments tied into millions of underlying things, and it can go for a decade before people realise that it's out of kilter and that's what the big problems are often about.

Ross One of the things that we often hear and see bandied around social media is how Bitcoin and other so-called crypto currencies are going to supplant, no less, the global financial system. They are renegade type instruments that are going to usurp masters of the universe. How likely do you think that that is?

Brett Scott Very unlikely, I'd say. I mean I have done a lot of analysis of Bitcoin. I've actually been involved in Bitcoin since about 2011, so I've had quite a lot of experience with the dynamics of Bitcoin and what it is, what it isn't. And the structure of Bitcoin is interesting. Basically, it's a system for issuing out tokens and moving them around without a central party. I mean, that's basically what the system is. But those tokens are not monetary tokens. They're just tokens that can be bought and sold. So the interesting element of Bitcoin is the underlying infrastructure, right? So it's the decentralised infrastructure. It's the fact that a whole group of strangers can get together and coordinate action between themselves without there being some central party. That's politically fascinating for many people across the political spectrum. Actually, you find people on the left and the right who find that property or that system extremely interesting. What's a lot less interesting in Bitcoin is the type of so-called monetary system that they will then use to implement on that. And what's actually happening in Bitcoin, the best way to describe it, as they've used that system to issue out blank objects that can be moved between people. So think about them as being kind of like digital collectables, but then they've carved monetary branding into them. So they're money branded digital collectables that you can move around. And in reality, they are just

another object in the monetary system. So much like this bottle of water can be bought and sold, Bitcoin tokens are objects that could be bought and sold. The key difference is they are branded with monetary imagery.

Ross The other thing that we hear about money is the incessant threat of a cashless society, the war on cash. How much water does this argument hold, bearing in mind that when we think of it in a Western context, yes, the Netherlands and Sweden have pushed hard down this road to be cashless. But when we look at a global level, there are 86 percent of people in the world who still use cash, whereas 14 percent in the developed world aren't. Is it the case that, again, from a scale point of view, the idea of a cashless society globally for control or whatever it might be, is, well, conspiratorial?

Brett Scott I mean, I use the term the war on cash precisely because the traditional narrative around so-called cashless society is that it's a bottom up process. This is organically happening that ordinary people around the world are just sort of opting to leave the cash system. Whereas when you start to look at it, you start to see a lot of institutional companies, banks, payment industry, governments who have overtly had a top down push against the cash system. And it's been going on for a very long time. In the U.K., for example. It's very, very explicit how it works. And that's hypothetically as a war on cash goes on, it leads to this thing called cashless society, which basically refers to a society where you have to use the banking system for all economic interactions or basically all payments. And if you want to zoom out and put it into political terms, what it basically means is that the state money system, which is the system under the central bank, loses power relative to the bank money system, which is the system whereby banks are issuing out money. And so it's a relative shift of power from the state part of the monetary system to the banking part of the monetary system. Because there's these two layers of money in a society. There's the sort of the state money. And then there's these bank chips which are issued out which is all that stuff you see in your bank account. So the politics of this issue is do you want to maintain the state money system or do you want to cede control to the banking sector in entirety? Now, there's a whole bunch of stuff you can say about that, but the banking sector is definitely winning right now. But it's creating a whole bunch of imbalances in the system. So it is definitely true, especially since the pandemic has accelerated this a lot, that a lot of people are falling into the arms of the banking sector in the sense that they are all opting into the digital payment structures which are run by the banks. But a lot of states are now realising the problems that come from that. The question of whether there will be a future cashless society is partly going to be decided by whether central bankers and authorities will act to protect the state money system or not.

Ross Right, in that first off, it was quite technical insofar as we're getting your views on how this system works, how this monetary system works. I just want to ask you a couple of personal questions, because I know that you were running a hippie lodge, as you called it, and then you arrived in your home land in South Africa. You arrived in gleaming, shiny London, wanting to get under the skin of the derivatives market and infiltrate the financial sector, as you put it. Why did you want to do that?

Brett Scott Well, I wasn't running the hippie lodge. I was working at the hippie lodge. But yeah, I mean, in basic terms, I come from an alternative kind of left wing kind of background. So it's quite different to what you might imagine is the mainstream of finance. But at the

same time, I was very politically engaged and involved in various types of, whatever you want to call it, like economic justice type of campaigns. But I realised that there's a huge sort of structural limit to your ability to act unless you actually have some kind of intuitive feeling for how these structures work. A lot of activists have like a kind of moral horror when approaching finance and actually that they often don't even approach it. They'll sort of like kind of throw stones at it from the outside, but often have these strawman accounts of what's happening. But if you're interested in actually reforming structures, it doesn't help very much necessarily to only have that type of experience. So the adventurous part of me was very interested in like, what is it like to actually immerse yourself in these structures and start to understand them in a deeper way? So that's what sort of my work in the financial sector was about - throwing myself into what would seemingly be something very counterintuitive. I mean, I actually find it extremely fascinating. It was extremely useful to me to do it. And it's partially what's enabled me to then work with lots of activist groups after that and to try and bring a more human side to teaching about finance and money and these kind of things. So that's where I've come from in this journey.

Ross Is the financial sector in the UK, post-big bang, is it a cost centre or is it a value add?

Brett Scott Well, I mean, to the overall economy, probably a cost centre, but to the people within the system, I mean, fine, you extract quite a lot. Many people have done this type of analysis. Nick Shaxson, for example, did that book on the Finance Curse, I think it was called. Actually, on net, the UK ends up losing due to the financial sector because there's lots of, for example, talent that's drained into that sector that could be doing a lot more useful stuff rather than, you know, designing some algorithm, some system, to price a credit derivative. You could actually be using that engineering degree for something a lot more useful, that could actually have some future potential. But there's large amounts of sunk effort that doesn't really effectively produce much, although it does on a GDP sheet, look kind of impressive.

Video clip (Nick Shaxson) Up to a certain point, finance helps. Beyond that point, it starts to turn negative. And Britain passed that point a long time ago. So the bigger your financial sector, the more growth you have now in the financial sector in general terms, the lower your economic growth will be and all these other harms that will happen. So if you're asking, if you're calling, for a more competitive financial sector, you're calling for a bigger city of London, and it doesn't take a genius to see that that is going to damage the economy, it's going to be more finance, lower growth. There was a study done by Gerald Epstein, who's one of the best known US finance professors and a couple of others which tried to estimate the damage that has been caused to Britain by an oversized financial sector. And they used all the standard research from the IMF and others to build this kind of model. And they estimated that because finance had grown beyond its optimal size and, you know, its traditional useful roles, had cost Britain four and a half trillion over from 1995 to 2015. If you were to divide that by the British population, that's 170,000 pounds per household in terms of lost economic output. Now that's an absolutely massive number. But this is the closest estimate I think we have to how much oversized finance - and I stress oversized - has damaged Britain.

Ross We hear at the moment that innovation is everything. And the next word that comes up is Fintech. And the word that immediately follows Fintech is ecosystem. So these Fintech

companies have started. They want an ecosystem. They're going to innovate and they're going to disrupt the incumbents. It's the jargon that you hear all the time. How can Fintech - and maybe this is similar to Bitcoin in a way - disrupt the incumbents if it's predicated on the system that the incumbents already use?

Brett Scott It doesn't disrupt the system. I mean, the best way to think about this, as a metaphor, is imagine the Apple IOS eco system. So on an Apple phone, there'll be all these apps that you can get on the App Store, right? And those apps all run on the same underlying operating system and the app developers depend on that. Very similarly, the Fintech ecosystem is predicated upon the underlying operating system of finance, as it were, which is run by the banking sector, and many of them plug in. So actually, the question you want to ask yourself, for example, is does say an app on an iPhone, like a gym, a gym training app disrupt the IOS system of Apple? No, it doesn't. It actually strengthens it. So many Fintech's are similar. They actually are plugging into the underlying banking sector and are pasting new layers on top of it and doing interesting little things. But on net, the banking sector doesn't lose power. What can happen, though, is that by pasting a layer between us and the banking sector, Fintech's can sort of change the user experience feeling of it. And they might sort of psychologically alter the dynamics a bit. But that's a different thing to bypassing and disrupting the banking sector.

Ross We come back to issuance, don't we, of fiat currency. We come back to who issues money, because if you're talking to activist groups they will say that there is an inherent inequality that arises - I'd argue, a structural inequality - when it comes to who gets the money first, who gets money last, and the purchasing power of that money.

Brett Scott Yeah, absolutely. Well, I mean, look, if you're analysing the Fintech big tech kind of thing, that is the realm of bank issued money. I mean, the entire digital money ecosystem is built upon these chips that banks issue out. I use the term chips. I mean, you know, in money jargon, they'll call it something else, you know, like bank deposits or like M1, these types of things. But basically what it's referring to is promises issued out by the banking sector that you see in your account, alright. And they are able to issue out those promises far in excess of the actual state money they hold. And that's what's sometimes referred to as fractional reserve banking or however you want to call it. But the basic point is that the banks issue out a secondary layer of chips that's far bigger than the state money system. And that is where all the companies like Square and Google and Uber with its money app, that's what they're using. So the shift towards automated finance and Fintech and all this kind of stuff, is empowering that system. Now, if you look at other movements, for example, like MMT and these types of things, they're targeting the sort of state money system. And my work on the war on cash is about can you protect the physical form of state money against this banking form of digital money? And I mean, this doesn't resolve all the politics of money. You still have to have a lot of other stuff going on. But the rise of the bank money system under the guise of technological innovation is often not picked up by many sort of monetary campaigners. They often don't really see that.

Ross If we agree, and I think thematically we do, that whoever issues money or credit ultimately drives inequality within a society, when you speak to activists about this, what advice do you give them to say, look, if you want to address inequality or poverty, these are the areas that you should be looking at?

Brett Scott I'm sorry if this sounds a bit complex, but if you go back to that sort of network imagery of meshes. So, if you're trying to see these systems and you're looking at interventions into a system, you can start to think about where the interventions would be empower corporations versus empowering ordinary people. So, for example, things like people's QE and these types of proposals about saying, hey, you know, you can create new money, but make sure the recipients are ordinary people, don't create it in the form of just pumping reserves into the banking sector or doing bailouts for big corporations. So you can easily see, for example, what's happening when these interventions are happening. So like a conservative government's thinking to itself, I don't want the banking sector to go down. Protect the landlords because that will protect the mortgages to protect the banks. You know, these kind of things. Or like protect the big corporations because they've big nodes in the system. So we don't want them to go down. So it hit them first and save them first. And often the people who are very last in these types of things are that the average person on the ground. So the stuff like where you're looking at giving stimulus to actual individuals, that's often the last point of call for sort of your average conservative government. And so if you're thinking about like, hey, I want to do a more progressive type of interventions, you could you could say, okay, let's hit that part first - stop protecting the banking sector and this this kind of stuff.

Ross Not many people are saying, look, we should stop shoring up the monopolies, the monopoly to create and issue money. Land monopoly is another one. I'd argue they go hand in glove. How important is it to address the monopoly of issuance of money itself?

Brett Scott Well, I mean, I've worked a lot on sort of alternative currency systems. So people who work in alternative currencies tend to implicitly be doing this to say, OK, well, we have an existing monetary structure and there's these different issuers within that structure who have power. There's, like the state and then there's the banking sector. They're all part of this whole overall issuance system. And there's a bunch of battles that are occurring in that system. And then there are people who are saying, well, look, what we can do is rather than try to fix that, we're going to build systems around that. So if you're looking at your local currency movements, you look at, you know, mutual credit systems, there's a whole bunch of different styles of alternative currency who are trying to decentralise the issuance of currency. And when I use that term decentralised, I mean it in a different way to how cryptocurrency people will talk about it. So in the cryptocurrency world, the meaning of decentralisation is create one very large infrastructure that nobody controls. Whereas a lot of the traditional alternative economy movements are saying break down one very large infrastructure into smaller pieces that are controlled locally. Okay, that's the original meaning of decentralisation. So a lot of these types of local banking movements, local currency movements, these types of regional networks, are all about that. So that's one approach. But in terms of like actual policy approaches, you know, putting limits on the banking sector, saying, OK, if you're going to create money, you've got to push it into actual productive parts of the economy, not just speculation, that kind of thing. So it depends on where you're looking at in the system to what intervention you're going to do.

Ross Finally, if we continue, as we have been doing, which is creating money and using it for speculative use, making money out of money, what does society look like five, 10, 15 years from now?

Brett Scott Well, there's one dominant trajectory, which is that there's increasing centralisation of power in the finance tech complex. The sort of like meter trend is towards massive platform corporations like Amazon becoming colossally powerful and having alliances with the banking sector. OK. That, of course, goes directly against things like trying to have regional banking systems that are trying to help local regions rather than a distant mega corporation. OK. So that's the overarching trend is towards this ever more automated, ever more centralised systems which actually go beyond the individual states that are part of the monetary system. It actually starts to become a sort of global structure. OK. A lot of these sort of alternative movements are trying to pull against that. So if we don't want to go down to this future, which is about gigantic oligopolies of mega corporations in alliance with each other across states, you're going to have to try and build these counter-movement. Things like the crypto world or the block chain world is one type of alternative intervention, that's sort of trying to build an alternative structure, albeit often failing. But there is some potentiality in that world to create some more horizontal types of structures.

Ross Brett Scott, I know you're working on a book at the moment, Cloud Money: Cash, Crypto and the War For Our Wallets When it's out, please come back on. Thank you very much for your time. It's fascinating.

Brett Scott Thanks so much, Ross. It's been great.