Chapter 4
The Moneyed Society

§4.1 Majoring on Money
In the olden days money was peripheral to most people’s lives. Custom, law, feudal allegiance and religion constituted the basis on which they cooperated. Things are different now. We live in a moneyed society, in which the cash nexus predominates. It is a natural development, for money, as we have seen,\(^1\) enables us to cooperate with a far wider range of other agents than would be possible otherwise. It encourages us to specialise, and specialisation leads to an economy in which most people make their living by earning, money, and provide for most of their wants by spending it. It enables them to concentrate their efforts and be more productive, and widen the range of choices in using what they have gainfully got.

The moneyed society is often described as capitalist. This is a misnomer. It conjures up a picture of mill owners and mill workers, which could be found in parts of Victorian Britain, but does not correspond to the economic life of the ancient world or modern Britain or America. True, there are some capitalists to be found, and some employees who work in large factories. But rather few people can be said to own the means of production, and many who sell their labour are not noticeably poor. Most factories are owned by public limited companies with many shares held by pension

\(^1\) See above, §§3.3.
funds, investment funds, and unit trusts. The people who actually run the factories are paid employees, who may own some shares but are primarily remunerated by a salary. The footballer, the film star and the chief executive officer seem implausible members of a down-trodden proletariat, just as the doctor, the solicitor and the small shopkeeper do not look like the capitalists of Marxist theory, even though owning their surgeries, offices and shop premises. The skilled craftsmen of the ancient world, sold their wares for money, and the many markets were entirely money based, ut do not fit into any Marxist analysis, which is inaccurate, inadequate and darkens counsel. The important thing about the moneyed society is not that there are some large economic entities, but that there are many. It is not so much a capitalist as a decentralised society, with many relatively independent centres of decision-making. That in itself, as we have seen,\(^2\) constitutes a defence against tyranny. It also enhances each individual’s sense of his own individuality, through being often able to make some choices all of his own, which is not only good for him, but also good for society. Although many people make bad choices, some make good ones, which can be copied, and come to be generally adopted by society. Progress, both economic and social, will be facilitated. Inventors and entrepreneurs bring prosperity. Prosperous societies nurture artists, poets and thinkers. Genius is idiosyncratic, and idiosyncrasy is less hampered and frustrated when each individual has some measure of choice. It was in a moneyed society that Spinoza could find a livelihood.\(^3\)

The downside of money is manifested in the Moneyed Society. When money plays a dominant part in peoples’ lives, they tend to concentrate on it alone, and to ignore the social setting in which monetary transactions take place.

\[\text{In the Moneyed Society}\]
\[\text{we ignore everything except money}\]
\[\text{the tin in the pocket breeds tin in the ears}.\]

\(^2\) See above, §3.3 p.55.
\(^3\) See above §3.3.
We fashion ourselves on Economic Man, and construct a world where everyone has perfect information, buys in the cheapest, and sells in the dearest, market, and any departure from equilibrium is immediately rectified. Such assumptions are plausible, if we confine our attention to high finance. Financiers dealing with millions of pounds take time to carry out careful research and are very largely guided by the profit motive so that equilibrium is rapidly achieved. When we think about the Moneyed Society, we Think Big—but Too Big for adequate analysis. Time and time again we shall have occasion to notice that it is the Micro-, not the Macro-, economic world that wears the trousers.

One of the virtues of money is that it enables us to do business at arms length with people with whom we do not have much in common. From this it is easy to infer that business takes place between parties that share no values. That is a mistake. What is true is that business can take place without both parties having to have much in common. Business is “non-tuistic”. But it is ‘can’ not ‘must’. Those engaged in business can do so, even though they do not address each other as tu, du, thou, in the intimate second person singular; but they still need to recognise that they are doing business with a person, and use the normal second person mode of address, vous Sie, you. The fact that business is possible between parties with little in common does not establish that all business must eschew shared values, nor that business could take place in the absence of any common ground.

Money enables us to do business with those with whom we share few values;

but

it does not require us to share only a few values with those we do business with.

Money comes to dominate our thinking, both individually as earners and spenders, and corporately, when we come to reflect on the nature of society. We naturally think about money from our

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4 See above, §3.4, p.63. It is a great pity that modern English has lost this distinction, which is crucial for not misunderstanding the nature of economics.

5 See above, §2.6, p.36, §2.8, pp.43ff., and below, §4.2, p.76.
own limited point of view. Money is something we need to have, and have to earn. It is that which we want more of, and which, if we had more of it, would enable us to do more things. We would like to be “better resourced”, and come to think generally that if all good enterprises were better resourced, the world would be a better place. Instead of being an oil that lubricates cooperation, money is seen as a fuel that drives effective action. But in thinking in these partial terms we lose the context in which money operates, and which really gives it value. We are tempted to forget the *ceteris paribus* clauses that qualify the value of money, and to think that it, and it alone, is worth having, and enslave ourselves to the false idol of having as much money as possible, and live our lives according to the cruel paradigm whereby He devotes his entire life to making money that She, deprived of His counsel and company, spends on retail therapy, in order to make up for Her loneliness and boredom.

But money, again as we have seen, has disadvantages too. These are exacerbated in the Moneyed Society. Concentrating on money, we disattend to everything else;

### §4.2 Families and Firms

Families and firms are entities in the moneyed world that have economic relations with one another, but an internal structure not primarily economic. They can be distinguished crudely as those that primarily spend money—families—and those that primarily make money—firms. The distinction is neither rigid nor complete: there are extended families, networks of friends, trade associations and global conglomerates; and it is difficult, without distortion, to fit in churches, charities, museums, or universities. And, of course, there are many workers living on their own and some one-person businesses, but it is convenient to count them as special cases, in the first place of single-member family, and in the second of a single-member firm; a few—bachelor watch-menders—fall into both classes.

Families consist of people who share many genes—parents and children, brothers and sisters—or many values—husbands and wives—and so find it natural to engage in shared activities and work towards shared goals. Firms survive because the fruits of their cooperative activities are of economic value to other parties. This sharing provides the basis on which members cooperate without

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6 See above, §§3.3-3.5.
money changing hands—not that no money ever changes hands: children get pocket money, and employees wages—but within the structure of the family or firm members do what is necessary without further payment; the bread-winner does not pay the housewife extra to go shopping, (though she would naturally pay her bus fare or petrol out of the house-keeping); the employee, in return for his wages, identifies with some of the values of the firm, doing what his job requires, without further payment.\footnote{See further below, \S6.1, pp.119f.}

Families and firms are entities that last, sometimes over many generations. Like biological entities they survive because they are homeostatic. They respond and adapt themselves to the outside world in order to secure some constancy within. They adjust their activity in the light of economic conditions. In the moneyed society money is the feedback factor. If the family does not practise housekeeping prudence, the money runs out: if the firm fails to satisfy customers, the profits dry up. The adjustment may be slow, and typically is influenced by many other, non-economic considerations. A firm may not sack a workman immediately upon a downturn of trade, and may instead increase unsold stocks in the hope of better times, not wanting to throw a loyal workman out of work, and putting up with a lower profit than might have been obtained with a more ruthless policy. Similarly, instead of splurging out on receipt of a higher pay-packet, a family may put it by for a better holiday next year. But economic pressures are over time effective. Firms cannot indefinitely trade at a loss, and money earned invites being spent.

Biological entities exist in a context of other biological entities, and just as one cell coexists with many others, one organism with some others, one territorial tribe with its neighbours, one species with some others, so economic units operate in a variety of contexts—customers, employers, competitors, colleagues, teachers, adjudicators, and many others. But cells, organisms, populations, species, and organisms, though not isolated, are insulated, and have membranes, skins, territorial boundaries, ecological niches, which separate them and protect their interior from the rest of the world; and families and firms similarly need an internal environment shielded from the harsh winds outside. But shielding cannot be total if it is to be effective and long lasting. The danger for institutions is to seek internal security by complete insulation,
not accepting the correlative requirement of openness to negative feedback. The mother defends her children from hostile criticism from the shop-keeper, but has failed to insist that they refrain from helping themselves from the shop-keeper’s trays. The Chief Executive Officer stands by his underlings, but fails to instil in them the importance of telling the truth, the Minister says that all the correct procedures were followed, but had never tried to persuade his officials that service to the public, not box-ticking should be their primary aim. Many institutions have public relations officers who issue self-congratulatory handouts telling people how high the aspirations of the institution are and how well it has done, but are impervious to complaints and criticisms. The mark of a good administrator is that his priorities are reversed. He leaves it to others to say how well he has done, and himself looks out for unwelcome feedback to alert him to where his institution is falling down. Many complaints, of course, are fractious or factitious. But they should be listened to, and not automatically filtered out—else the serious ones may also fail to get through. Frederick the Great once saw a fly-posted notice, criticizing him, high up on a wall; he ordered a ladder to be brought, so that his subjects all could read what was said, thus showing that he deserved his title “the Great”.

The fact that families and firms flourish shows that not all beneficial activity is economic activity, and not all economic activity is beneficial. Within a family or a firm different members cooperate because they share common objectives, and can trust one another to do whatever is necessary to achieve them. I do not have to pay my brother for doing his part in preparing for our camping expedition, or for helping me put the tent up, because we both want to make a success of it; and I do not pay the secretary for each letter she types for me—she is paid a salary as a member of the firm, and then reliably does, for no extra pay, whatever is needed. What is done in either case is clearly beneficial, and is the reason why families and firms thrive: but it is based on trust and common objectives, not payment for each task performed. Of course, firms can out-source; sometimes it pays them to have contracts for having letters typed and telephone calls answered; but often they find it better to employ people to do the necessary work in house. Less money changes hands, but business efficiency is enhanced.8

8 See further below, §5.4, pp.106f.
§4.3 Macro- and Micro-Economics

The moneyed society makes it possible to carry out large-scale transactions. Banks have at their disposal millions of pounds. Stockbrokers buy and sell thousands of stocks and shares on the stock exchange. Financiers organize take-overs of companies worth hundreds of millions. Macro-economics deals with these large-scale questions: the bank rate, currency fluctuations, the trade cycle, quantitative easing. Micro-economics deals with small-scale operations, a housewife shopping, a family deciding whether to go on holiday, a businessman asking his bank manager for an overdraft. Clearly they are different, clearly they interact with each other. Unfortunately each often distorts the understanding of the other.

In the micro-economic world information is characteristically imperfect, prices and wages are “sticky”, and considerations other than economic are often paramount. In the macro-economic world, information is generally available, and economic considerations are often paramount. In the currency markets one dollar is as good as another, and one dealer is as reliable as another. Whereas the housewife may not shop around, and may go the butcher she always goes to, and trusts him to sell her good meat, the trader in currency does shop around, and feels no loyalty to one particular dealer, if another offers dollars at a cheaper price.

This much is obvious. But many economists assimilate the micro- to the macro- in claiming that the market always clears, and that a state of equilibrium will rapidly be reached. But if the lady does not like the hat the milliner in Bath has on offer, she does not buy it, and the hat may remain unsold. The lady may think she might do better in Windsor, and may resolve to stop off there next time she is going to Ascot, but she does not entertain the idea of finding an exactly similar hat but at a lower price. Hats are not like shares or dollars. Buying a hat is not like buying some stocks or bonds. Although constrained by economic factors, it is primarily an emotional experience, an exercise in self-expression or self-creation. And although some women enjoy shopping around, and are delighted to find a real bargain in a charity shop, there are occasions when cheapness is not a recommendation, but the reverse. During the First World War a paper manufacturer prospered, but, believing that profiteering was unpatriotic, held his prices down, only to find that his sales were falling. A marketing consultant was called in, and advised that because the paper was now cheaper than other brands, it was being supposed to be
inferior, and that the manufacturer should simply raise its price; which it did, and its sales recovered. Modern instances abound. Boxes of chocolates, which are commonly given as presents, have needlessly fancy wrappings, to advertise the fact that they are expensive, and so show how much the giver values the person to whom the gift is given. Likewise flowers, likewise greetings cards. Similarly politicians boast about how much money they are spending on various projects, without considering whether they could do more good with less money. To spend less, even though more effectively, would send out the message that they were less committed to the project in question.

Even when our purchases are not meant to carry messages, we do not regularly aim for the cheapest. We mostly buy our groceries at the shop where we always buy them, go to the same garage, the same newsagent, the same doctor, the same dentist, without checking their prices, so much so that Which?, the Consumers’ magazine has to advise consumers to shop around and compare prices. It is not only that time is precious. We go to our customary shops because we know the shopkeeper; it may be that we feel some loyalty to him; it may be only that we want to get the latest gossip. And once in a shop we are moved to make purchases by all sorts of factors other than economic ones: we buy organic food, although it is tasteless, because we disapprove of artificial fertilizers and pesticides; we buy fair-trade goods, although they are more expensive, because we think we ought to give third-world farmers a proper price for their produce.

Economists find such behaviour perverse. They forget that actions are not only causes of events, but manifestations of attitudes, and that in the micro world, economic considerations are often less important than extraneous ones. When it comes to being paid, although money talks, it does not always talk very loudly. Many teachers and clergy, many nurses and health visitors, earn little, and are willing to be worth much more than they are paid. Even when selling a house, vendors sometimes sell at a lower price to someone who will continue to live in it as a family house than to a builder who would replace it with a block of flats. It is only when we move away from the petty considerations of ordinary life, that we achieve the purity of motive economists value. In the stock exchange, the clearing house, the futures’ market, the hedge funds, we have operators motivated solely by profit, who are always seeking out the best bargains, and who can be relied on to buy at
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the cheapest, and sell at the dearest, price. Their activities are tractable to economic theory, and economists like to think they are typical—Keynes was a speculator throughout his life, but, so far as is known, never bought a lady’s hat. In fact, many micro-economic transactions could not take place under the the conditions postulated by macro-economists. It is only because information is imperfect, markets do not clear, and equilibrium is not reached, that it is worth taking risks and starting new enterprises. If I see an opportunity—say, of starting a pizza delivery service in my neighbourhood—I may risk my savings in starting it up, hoping to make a tidy profit. But I should not make a tidy profit, if the local super-store had perfect information, and could start a competing pizza delivery service as soon as my enterprise proved profitable. It is only because there is some imperfection, slowing down the progress of economic tendencies, that new enterprises can get off the ground and enjoy sole occupancy of the niches they have discovered for some time before having to face well-heeled competitors. Without this breathing space, innovation would be suffocated.\(^9\)

\begin{quote}
The macro world behaves as economists think it should, but is parasitic on the micro world: the micro world is real, but does not behave as economists think it should.
\end{quote}

Macro-economic transactions are not the engines of economic activity, although they impinge, sometimes beneficently sometimes grievously, on ordinary life. Micro-economic transactions are what make the economy tick. Long before there were banks and shares, simple economies worked reasonably well, and enabled different people to cooperate to their mutual advantage. Bankers and financiers made feasible new forms of cooperation, and facilitated sophisticated transactions, which encourage the growth of profitable enterprises. But by themselves financial activities are a zero-sum game. As stocks and shares go up and down, some people gain at the expense of others who lose. The only real gains come from firms that do well, by providing wanted goods and services at

\(^9\) I owe this point to Dr G.B. Richardson, formerly Fellow and Tutor in Economics of St John's College, Oxford.
Money talks . . . . but not deafeningly:

We do not always buy in the cheapest market. We are price-sensitive up to a point, but often go for:
1. convenience—Amazon;
2. old time’s sake—the village shop;
3. ethical reasons—fair trade;
4. individuality,
   (a) tailor-made suits,
   (b) the dress that nobody else has,
   (c) T-shirt with my name on it,
   (d) earthenware specially cast for me,
   (e) my own tobacco mixture;
the decoration in a house we have just bought is often perfectly clean and adequate. But we spend money on redecorating it, to make it ours, not theirs.

Nor do we always sell in the dearest market. Again, we are price-sensitive up to a point, but often do not maximise our price:
1. many do not gazump—their word is their bond;
2. pre-NHS doctors charged poor patients only a token fee;
3. garages charge only the standard price, even to a motorist who has run out;
4. nurses, teachers and clergymen accept salaries far below what they could earn in other jobs;
in selling our services, job satisfaction, pleasant conditions and congenial colleagues loom large; but even with selling goods, considerations other than pecuniary may weigh—some people will sell a house to a family they like rather than to the highest bidder.

an affordable price. Chemists, motor manufacturers and computer nerds have created the enterprises whose profits financiers trade.

Important consequences follow. Although the macro realm of action is easier to understand, it is not the paradigm. Economics is not an autonomous discipline based on a few intelligible axioms, but is just one aspect—although an important one—of social life. The typical economic agent is not *homo economicus*, who trades on the stock exchange, but *femina domestica*, who spends in the
supermarket. She and her husband, who earns their bread, have many other concerns than buying in the cheapest and selling in the dearest market, though they are not indifferent to prices and rates of pay. Although not indifferent to prices and rates of pay, it is these other concerns that chiefly guide their behaviour, and continue to do so even when macro-economics are in bad shape. Micro-economic transactions are relatively robust. Belts may be tightened, but even in straitened times, food is sold and bought, telephone calls are made, boys buy bikes and girls blouses. Unless the currency completely collapses, as in Germany between the wars, people go on cooperating for their mutual benefit, and money changes hands to enable the benefit to accrue to both parties.

4.4 Banks

Money is not just cash. In time past artisans and tradesmen who were owed money by the Big House, preferred to keep it that way: if the money were actually paid them, they would spend it; if it was simply owed, it was not in the pocket, liable to be spent, but it was still there, available if needed. Higher up the social scale or more modernly, we are happy to be owed money by the bank. We deposit money with the bank, and have money paid into our account, which is really a tally of what the bank owes us. Very rarely do we take all the money the bank owes us, and spend it. Rather, being owed money by the bank is part of our way of life, enabling us to organize our financial affairs sensibly, and make long-term plans for achieving the goals we really value. Economic transactions can take place with IOU notes just as well as with coins. In England treasury notes are IOUs, signed by the chief cashier of the Bank of England, promising to pay the bearer on demand the sum of five, ten, twenty, or fifty, pounds. But unlike cash, IOUs are no inherently limited in supply, but do constitute wealth. If the artisan is owed £50 by the Big House and has two halfcrowns in his pocket, he would answer the question “How much money do you have?” by saying “Fifty pounds and five shillings.” Wealth is not purely pecuniary.

Monetarists make many trenchant criticisms of Keynesian economics, but put forward no coherent positive view, because of unclarity in what “the quantity of money” is a quantity of. Although it was once possible to attach a meaning to the amount of the gold, silver and bronze coins in circulation (M0), and talk about the quantity of money constituted by them, it makes little sense
these days, and monetarists now talk of M3, M4, “broad money” and the like. But not being substances, they are not quantifiable.

Banks have become a dominant feature of the moneyed society, and until recently an entirely accepted one. Misbehaviour by some has called their various functions into question, and it is now necessary to distinguish their three different functions, as a facility for transferring money (like the Knights Templar in the Middle Ages and Western Union in the United States), as a safe depository, and as a matchmaker between lenders and borrowers. The three functions have been bundled together by reason of the relatively low load factor. Since most depositors are happy to leave their money in the bank, being always able, but seldom wanting, to draw it all out, the bank has been able to lend it to others at a profit, which enables it to perform its first and second functions free. If we consider the functions separately, then it would be reasonable to charge for the service. We used to pay poundage on postal orders and for sending money by telegraph, and we pay furniture depositories for storing our furniture. The former is a one-off short-term transaction, where competition is likely to secure a reasonable standard of service. The latter is a long-term business where the essential feature is security. Just as a furniture depository needs to be safeguarded against theft and to be properly insured, a money depository needs to be safeguarded against defalcation and to be insured or regulated against all possible loss. In time past the ethos of banking, with its strong commitment to prudence, was enough to ensure that the bank’s lending was safe, and the three activities could be combined without any need for outside supervision, but now more stringent controls may be required.

In time past there was a sharp distinction between liquid and other assets. If I had a store of gold sovereigns, I could decide on the spot what I wanted to buy, and pay for it immediately:

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10 See above, §8.1. CHECK

11 See further below, §8.5, p. 176, n.28.

12 What exactly is needed now is disputed, though the recommendations of the Vickers Report seem sensible.
whereas if I owned many acres, I might be accounted rich, but could not quickly find money, say for a daughter’s dowry. Land can be sold only when there is someone who wants to buy it, and often nobody wants to buy the particular acres on offer. But now, though land is still illiquid, there are many assets which can be readily turned into cash. We seldom keep much cash as such. We deposit our money in a bank, and shop with credit and debit cards, backed by our bank balance. If we have more money than we need, we move it from our current account to a deposit account, or buy savings certificates, and the like, gaining a little interest in return for money not being quite so immediately available. Longer term we can invest in gilt-edged securities or equities, getting more interest in return for slower availability, and some risk of loss if the market moves against us.

Usually we do not need to have all that money immediately available for spending. The Irish docker may go straight to the pub to spend his earnings, but most of us mostly have a number of later expenditures in mind when our money comes in. There may be rent to pay, certainly food to buy, and utility bills to meet, possibly a holiday planned for, or deposit on a house, or a contribution to a pension. These deferred payments are characteristic of the moneyed economy, and although some of them are deferred for only a few hours or days, in total across the whole population they amount to a great deal of money not being immediately spent. It is thus possible for banks to lend to other customers money deposited with them. The money I effectively lent to the bank when my last salary cheque came in was made available to a businessman manufacturing furniture to enable him to buy materials which later he would sell; and by the time I draw on my account to pay my gas bill, someone else will have paid in his salary; and so on. In normal circumstances when deposits and outgoings are staggered, only little cash is needed to sustain a large amount of lending. Essentially the bank is borrowing short and lending long—it holds itself ready to cash my cheques on demand, while not expecting the furniture manufacturer to pay back his loan until the furniture is made and sold.
The underlying logic\textsuperscript{13} is that the true premise:

\textit{Each depositor will at some time withdraw his money}

does not imply the conclusion that:

\textit{At some time all depositors will withdraw their money.}

But, sadly for bankers, neither does it imply its negation: that is,

\textit{Each depositor will at some time withdraw his money} is compatible with:

\textit{At some time all depositors will withdraw their money.}

None the less, this awkward possibility does not become actual, so long as I and other depositors trust the bank to be able to honour our cheques when at some future date we write them. But once confidence is shaken, I shall want to be sure of being able to pay when payment is due, and will seek to have ready cash in hand. And if others’ confidence is similarly shaken, there will be a run on the bank.

Nevertheless, so long as they are credit-worthy, banks can create money. Although ordinary depositors are entitled to withdraw their money on demand, and may do so if there is a run on the bank, they normally will not—it would be a waste of effort to deposit it in the morning and take it out again in the afternoon. Ordinarily, some money will be left with the bank, which the bank can then lend to someone else. How much may be prudently lent, and to whom, depends on circumstances, and bankers have traditionally been cautious creatures, very choosy about those whom they would allow to have overdrafts. Nevertheless, there is, Keynes thought, an inherent instability in the banking system.\textsuperscript{14} He considers an “ideal” situation, where bankers seek only to maximise their short-term profits without regard to any other considerations. Each time an

\textsuperscript{13} Enthusiasts for formal logic can express this symbolically:

\[(\forall x)(\exists t)(x \text{ withdr}aw \text{ his money}) \not\rightarrow (\exists t)(\forall x)(x \text{ withdr}aw \text{ his money})\]

but also

\[(\forall x)(\exists t)(x \text{ withdr}aw \text{ his money}) \not\land (\forall x)(\exists t)(\exists t')(x \text{ withdr}aw \text{ his money})\not\rightarrow\]

In view of the parallel between the existential quantifier, \((\exists\)

\textit{for each person it is possible to withdraw his money} does not entail that it is possible for all to do so.

overdraft is allowed, the money will be spent, quite possibly in
the same bank, thereby increasing the amount of money deposited,
against which further loans may be made.

We may protest that this idealization is unrealistic. Most bankers
have shown themselves to be responsible trustees of the money
entrusted to them, and if the moral imperative not to cut corners
began to waver, it was reinforced by a strong social incentive: quite
a lot of the money created by overdrafts might end up in other
banks, that could require repayment, and it would be irrational
for a banker to be so short-term that he did not want his bank to
be a going concern in a few years time. These objections to the
single-bank scenario portrayed by Keynes are telling, but he can
obviate them, and produce a more worrying and realistic global
scenario in which all banks are considered together, so that it is
the case any money created by any one of them will be available,
somewhere or other in the worldwide banking system for being lent
again, thereby creating yet more money. It has happened.

Children playing Monopoly sometimes decide to have “bank
generous”. It makes the later stages of the game less painful,
having to sell back houses and even properties to meet one’s
debts. Instead each player can go on accumulating more and more
money, only competing to see who can amass most. But it is only
Monopoly money. It is no good for buying sweets. So, too, with
the money created by the global banking system. A player can
amass a fortune, and be proud that he is outdoing his companions
in the remuneration stakes, but all the share options and pension
rights are of no practical use, unless they provide him with the
wherewithall to buy flowers for his girlfriend, or theatre tickets for
them both. Macro-money is easily made in the macro-world of high
finance, but it is micro-money we need to have, if we are to be able
to buy the necessities and little luxuries of our personal lives.

15 See Snobcity.
\section*{4.5 The Reserve Bank}

The Reserve Bank does not exist. It is only an idea, but an illuminating one, that brings out the different aspects of banking. Its function is to provide banking facilities but with absolute security against any run on the bank leading to a default. When a national bank makes a deposit, the Reserve Bank uses that deposit to acquire marketable assets to cover that deposit. The Reserve Bank makes an estimate of when the national bank will want to withdraw some of its deposit. Considerable sums might be withdrawn the next day, and against that possibility a substantial holding of the depositors currency will be kept at the ready. Thus if India deposits a hundred million rupees, it would be sensible to keep fifteen million rupees able to be repaid on demand. But no government would make a practice of depositing one day and withdrawing it all the next: it would be a lot of hassle for no purpose. Although in the ordinary course of business quite large sums—say 15%—would be withdrawn with no notice, there would normally be some notice of larger withdrawals. There might be a bad harvest, a political crisis, a damaging strike, which would lead to the country’s needing to mobilise its resources. Intelligently guesses can be made in advance of the actual need to withdraw, and the Reserve Bank can prepare to meet the demand in advance of its actually being made. Some demands will take longer to materialise than others, and so will merit a later date of having actually to be met.

It is then illuminating to consider the case of the deposit that will be the last to be withdrawn. Suppose India deposits a hundred million rupees, and it seems that it is likely to be ten years before that final million is withdrawn. The Reserve Bank uses that million to buy on the Indian market a million rupees’ worth of Indian Government stock. This will be discounted. If the going rate of interest in India is 8%, and the interest payable on the stock is 6%, stock maturing next year will change hands this year at 98% of its redemption value. The Reserve Bank’s holding of one million rupees worth of stock was bought, and can be sold, on the Indian market with this discount factored in. Suppose, then, there is a run on the Reserve Bank, and India wants to withdraw its whole deposit. The Reserve Bank can meet the demand from India up to the last rupee, by selling its holding of the stock, which it bought, and can sell, on the open Indian market. Whereas an ordinary bank, having lent to unsecured creditors, or to creditors who cannot repay quickly, may be unable to repay all the money owed to its
depositors, the Reserve Bank can meet every demand, because all its borrowings are covered by marketable assets. An ordinary bank has a liquidity crisis if there is a run on it: the Reserve Bank does not, because the illiquidity of Government stock has already been taken care of by the market. Illiquidity is priced by the market, and thus effectively factored out.

Although security is the dominating aim of the Reserve Bank, profits may also accrue. The final million rupees were invested in Indian government stock, which could be sold, but while unsold was earning 8%. Altogether the Reserve Bank would be receiving a tidy sum from its holdings of various government stocks. This income would cover the cost of running the Reserve Bank, and more also. The Reserve Bank would be in the same "professional" position as a doctor or solicitor, whose prime duty is to his patient or client, but receives a fee for his trouble. The Reserve Bank could prove a profitable business, but with profit always subordinate to the need to be absolutely secure.

§4.6 Liquidity

One party to a business negotiation may seek future security. The organizer of a group expedition to the seaside or to visit a National Trust property needs to be sure, when he books the coach, that he will have the money to pay for it. To forgo the power of making choices before the actual occasion, though it is of no benefit to him. Clearly then, money must pass between them to even up the benefits they each will derive from the arrangement. The seeker after security pays the other for forgoing his freedom to change his mind: train tickets are often discounted for advance bookings; and commercial transactions often require payment in advance for goods or services that will be provided later. The price to be paid to equalise things between them is interest on borrowed money; (often, of course, additional interest is payable to cover risks of inflation, default, or delay;) but in time past some loans were regarded as being absolutely safe—"Safe as the Bank of England". The interest payable on Government stock represented the premium on liquidity. In settled times, with no inflation and with complete confidence in the credit-worthiness of the Government, it was around 2.5%, the actual rate on "Consols"

The rate of interest on borrowed money is the premium on illiquidity—what has to be paid in return for liquidity. If greater liquidity is being looked for generally, the rate will go up. And
if the demand for liquidity is diminished, the rate of interest is diminished too.

The effect of unsettled times is to increase the demand for liquidity. People need to have funds at the ready in order to be able to cope with unforeseen contingencies as they arise. Whereas in normal circumstances, when things are stable enough for me to foresee the future with some degree of confidence, I can forgo a large measure of immediacy in the decisions I shall need to take. I know, roughly at least, what my mortgage repayments are going to be, and how much the gas bill will come to; in times of crisis I am subject to radical uncertainty. If there may be a war, I need to be able to fork out for tickets to evacuate my family to a safer location. I may be called up, and no longer able to earn a living. If a tsunami hits the West Indies, my job in sugar advertising may be at risk. If there may be a strike, production may be disrupted, but I shall still have to pay rates on the buildings and salaries to the staff. Again, if there is an epidemic of swine flu, there may be medical bills to meet. The rational response to uncertainty is to be ready, and able to take suitable decisions in the circumstances, whatever they turn out to be. So I go liquid, draw in my horns, and keep my options open. Confidence and liquidity are inversely related. If I lack confidence, I need to be liquid in order to be able to take the appropriate decisions as an uncertain future unfolds. Additionally in the opposite direction, if I am already committed, say by a mortgage, I need to be sure of having money to hand, when the payment falls due. Debts and other future obligations are a form of negative liquidity.

In the face of uncertainty, we want to keep our options open. If we do not know what the future has in store for us, we want to be able, when the time comes, to do whatever the situation demands. To mix metaphors outrageously, we go liquid in order to keep our powder dry.

Correspondingly in the other direction, confidence decreases the demand for liquidity. If we are confident about the future, we can plan ahead, and knowing where we shall be standing, we do not need to have funds available to deal with contingencies that are not going to arise. In our own thinking we are consistently inconsistent. Like the Vicar of Bray, we want a secure future, while keeping open the option of changing our mind.
The illustrious House of Hanover,
And Protestant Succession.
To them I do allegiance swear—
While they can keep possession.
And in my faith and loyalty
I never more shall falter;
And George my lawful King shall be—
Until the times do alter.

Once again, money is funny, because we are funny. Our muddled thinking leads us to seek freedom from uncertainty at the same time as freedom to make fresh choices. The result is that liquidity is the key feature in the moneyed society. Besides reflecting our own mixed motives, it affects economic activity, while being itself affected by non-economic factors. For liquidity comes at a price. Deferred choices are not actual choices. If I decide to keep my options open, I opt not to opt now. I do not buy the ice cream now, go without an iPod, make do with the old car for another year. By not spending money, I forgo economic activity. When I spend, I actualise a choice. I no longer have the option of exercising the choice that the money spent represented. That power of choosing now rests with the person or institution I paid. He now has the option of either actualising his power of choice or postponing it to a later date. There is in general a natural tendency to spend without undue delay. If I am flush with money, there are lots of things I want. And if I exercise my choice, it enables the person (or institution) from whom I buy to exercise his. Exercising monetary choices constitutes economic activity. In so far as economic activity is a non-zero-sum game, in which both parties end up better off than they were, I am, if I refrain from spending, less well off than I might have been. So, too, are those who might have done business with me. The money I do not spend is money they will not have earned.

Each economic transaction involves a transfer of liquidity. Previously I had money in my pocket and could choose to buy, or not to buy, a new suit; subsequently I had the new suit, and was committed to having it, and you had the money in the till, and could use it to buy more suits, pay wages, or anything else. If times are uncertain, I shall hesitate to commit myself to the new suit, for fear of my annual bonus being cut. Similarly the business man thinks twice before committing his firm’s funds to a new project, in case there is a downturn in profits, or some supplies become unavailable; or next year there may be another Government Initiative, offering
subsidies to firms undertaking that project. If everyone goes liquid, there is a downturn in economic activity, and people are less well off generally. It is natural to assume that this is a bad thing, and that per se our spending is a good thing.

It is different in Ambridge, because there economic transactions take place largely for non-economic reasons. In the moneyed society, however, the emphasis is exclusively on the choice that money encapsulates, and the choice is entirely in the hands of the purchaser. It is I who can decide to buy, and affirm my identity in the clothes I choose. Retail Therapy makes people feel good, because they are then spending, and thus engaging in the one exercise regarded as significant. General thirst for liquidation not only inhibits economic activity in the moneyed society, but stifles the attempts by individuals to discover and express their own identities.

<table>
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<th><strong>Liquidity</strong></th>
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<tr>
<td>1. arises from our being able to defer pending</td>
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<tr>
<td>2. is a natural response to uncertainty</td>
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<tr>
<td>3. is inversely related to confidence</td>
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<tr>
<td>4. is facilitated by banks, shares and stock exchanges</td>
</tr>
<tr>
<td>5. is a lack of economic activity</td>
</tr>
<tr>
<td>6. Debts are a form of negative liquidity</td>
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</table>

Liquidity is thus linked to credit and trustworthiness on the one hand and prosperity on the other. The link is obvious in the moneyed society, where there are banks, but does not depend on there being banks, as is shown by the example of un-presented bills left owing by the Big House. If banks had not been invented, villagers might have come to use invoices addressed to the Big House as currency. Credit can liquefy assets, and create *soi-disant* currency. Trust in the Big House is due to the whole village being something like an extended family. Trust is engendered by shared values and togetherness, and in turn enhances prosperity. If I have a family I can rely on, I can accomplish much more than if I had to do it all myself. There are more things I can do. My choice of what to do ranges more widely. I am therefore better off.

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16 See above, §4.2, and Xref from there (Families and Firms)

17 See above, ch.3, §§3.1, pp.48-50; and below, ch.8, §§8.5 (all these need checking)
It is **liquidity**, not money, that we need to think about most.

Keynes’ insight, that liquidity is our precaution against uncertainty, is valid generally, and not just in moneyed societies. In all societies where individuals make up their minds for themselves, there is an underlying uncertainty, which is greatly reduced if people are predictably honest and credit-worthy. The law goes some way to guarantee good behaviour, and bolster confidence, and some social customs similarly, but cannot cover every eventuality. The underlying requirement of trustworthiness holds good of all societies. A world in which people are reliable, each one regarding his word as his bond, is likely to enjoy prosperity.

In the moneyed society that ancient truth re-surfaces and makes liquidity the key concept for understanding—and improving—the economy.

### §4.7 For Modal Logicians

The logic of choice is S4, essentially because *possibly possibly* implies *possibly*.

\[ \diamond\diamond p \rightarrow \diamond p \]

but was not S5 (much favoured by Modal Logicians) because S5 would rule out the possibility of choosing not to choose, and leave no room for liquidity. This is because in S5 iterated modalities collapse into the right-most one either *possibly*, *or necessarily*, \( \square \) as the case may be; or rewriting \( \square \) as \( \neg \diamond \neg \), the two alternatives are just *possibly*, or else *possibly not*, excluding the case of both *possibly* and *possibly not*, that is, keeping the options open, which is what constitutes liquidity.

A curious consequence emerges. If in S5 we add a liquidity thesis *possibly necessarily p*, \( \diamond \square p \) (following the normal practice of Modal Logicians, of working primarily with *necessarily* \( \square \)), it becomes just *necessarily p* \( \square p \).

In our free society we allow people to be unfree, if they so choose. Monks take vows of obedience, that they will do what their Prior tells them, even if they do not want to, that would constitute no problem for a moneyed society whose logic was S4, which could allow its members to decide not to decide as they thought fit. But a society whose logic was S5 would seem to be obliged to prohibit the monkish vocation, or any other overmastering loyalty to some heteronomous ideal for fear that if some did, all would have to. It seems very unreasonable. Perhaps the solution would be to insist that *Habeas Corpus* should always apply, and even professed monks could be freed from their vows by the courts.

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18 See [snobcity]
4.8 The Value of Money

Monopoly money is not the only money to be valueless. Dollar bills of the Confederate States of America are no use to me, because you do not think they will be accepted by any third person as tokens of value. They would be accepted if it was believed that somewhere someone had a first-personal reason for valuing them. Historically it was because monetary tokens were independently valuable. Gold, silver, brass and even iron, the stuff coins used to be made of, can be used to make jewels and weapons of war. In the Eighteenth Century the Fellows of Magdalen College, Oxford, received part of their stipend in lumps of sugar, and after the Second World War cigarettes served as currency in liberated Europe. But modern currency has minimal intrinsic value—a very rich man might use five-pound notes to light his cigars or to cover walls, but there are better cigar-lighters and wall-papers available.

It used to be thought that monetary tokens were created by the State, and that the ultimate anchor of a currency's value was that taxes had to be paid in it. In the early Nineteenth Century bank notes issued by local banks flooded the United States, until Congress passed a law requiring all taxes to be paid in US currency, which cleared away all other bank notes. The tribute money has value, because it is what has to be rendered unto Caesar, who has sufficient coercive power at his disposal, to enforce the payment of taxes. The reason why I, a Briton, can regard a dollar bill as worth something, is because there are a lot of Americans who have to pay taxes, and need dollars to pay them with. The argument seems cogent, so much so that Keynes wrote: “Today all civilised money is, beyond the possibility of dispute, chartalist”, where chartalism is “the doctrine that money is peculiarly the creation of the State.”

But it is not so. In Somalia there has been no settled government for years, but the Somali shilling is still used; it is used because it is useful for local transactions, and because it is useful, it is still used. Indeed, so great is the utility of money, that it is not merely self-sustaining, but even self-generating. Bitcoins were invented in 2009, when national currencies were losing their lustre, and seem to

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19 I am informed by Dr. R.C.S.Walker, Vice-president of Magdalen, that this is no longer the case.


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be thriving in spite of their having nothing supporting them except their perceived utility. But it makes sense. Doing business is so useful that it is worth taking some risks to accomplish it, and so long as there is a circle of trust, it is mutually reinforcing. If I am a Somali shop-keeper, I could play safe, and refuse Somali shillings as unreliable. But then I should not be doing business. Better to risk taking them, and try to use them to motivate the errand boy to go on doing his rounds. And he for his part will accept them, for the same reason, reckoning that the risk of being sold a pup is a risk worth running, when the alternative is unemployed idleness.

Catallaxy

"Realistically, an organization of the unknown is only achievable by inducing its self-organization. (F.A.von Hayek, The Fatal Conceit., London: (Routledge) 1988

There is an analogy with the general strategy for the Prisoners’ Dilemma—Do as you were done by last time, but start by cooperating. I start by accepting the shilling as worth something, and if it works, I works. What emerges from these examples is that monetary transactions are so useful that they are self-sustaining, and under favourable conditions self generating. The Somali shilling had long been the standard currency in Somalia, and it was natural to go on using it, even though no longer backed by the Civil Power. The possible loss, if everybody else refused to accept it as having any value, was limited. And it could operate on a small local scale even if not widely accepted. In the small local world the trading of favours is easy and natural; and the confidence there established makes trusting the proffered currency only a short further step. It may be only a very local currency—the Somali shilling is not readily exchanged for pounds or dollars—but within its own locality it is the current currency.

It works because it works. We do not ourselves ask why a £5 note, or a dollar bill, is worth anything, because it is enough for our purposes that other people think it is, and will accept it in return for doing something for us. So long as the question is

not being asked, it does not need to be asked. But if there is a widespread breakdown of trust, due to a general perception that the issuer is untrustworthy, we cease to be confident that others will remain confident of the acceptability of the currency by yet others. The travail of the Euro, with the prospect of sovereign default, the inability of the American political system to get its budget balanced, and widespread quantitative easing, are making people wonder whether any currency is really a secure store of value. And so now the fundamental question, “Why is a £5 note, or a US dollar bill, worth having?” is beginning to be asked. A £5 note promises on behalf of the Bank of England to pay the bearer Five Pounds; what does that mean? What in the last resort makes that or a US dollar bill worth having, but not a dollar bill of the Confederate States of America, once Confederate dollars were no longer needed to pay Confederate taxes? Although money verges on being a self-sustaining confidence trick, the fate of Confederate dollars shows that there are further questions that cannot always be left unanswered.

As national governments forfeit financial trust,23 so confidence in the currency ebbs. The dependence of currencies on national governments is unhealthy. It was a merit of the gold standard that the value of sterling did not depend on the fiscal rectitude of Mr Gladstone and other Chancellors of the Exchequer, but on the judgements of innumerable traders in all parts of the world. Bad judgement, or arbitrary misbehaviour, on the part of any single person, would have negligible impact, and would do little harm. Paper currencies are more precarious. They depend on responsible government, and responsible government is in short supply.24

We may hope that the pressure of rationality will nudge governments into fiscal responsibility, although we have long been warned not to put our trust in princes, but other ground for hope are beginning to show themselves. All that is required for money to be valuable is that is should be valued by a sufficiently large body of people; that is that there should be enough people who wanted to buy the currency in question, to make it worth acquiring by anyone else. Suppose the Pope magnified the practice of Peter’s

23 See below, §5.5, p.117.

24 See below, §7.9, p.158.
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Peace, and required all loyal Roman Catholics to use only specially minted Peter's pennies for collections in church: Peter's pennies would be much in demand, and would therefore be tradeable currency. (Since there were money-changers in the Temple, some such practice must have obtained in Jerusalem in New Testament times.) We should not need to be compelled to render unto Caesar the money that is Caesar's, if we were ready anyhow to contribute our due to God—or to some other worthy cause.25

§4.9 Purchasing Power

Governments, unwilling to balance their budgets are tempted to depreciate their currency. Henry VIII clipped the coinage, and in the Twenty First Century "Quantitative Easing" has been much resorted to. A £20 note buys less than it used to. It makes sense to ask what its purchasing power was at various dates. But it is a question much easier to ask than to answer. Different purchasers purchase different things. We can guess what a typical working-class family might buy each week, and then work out how much it would have cost at different dates to buy those items. That gives reliable information about how inflation hits a family, but only a family spending its money on that particular selection of goods and services. Up to a point we can average things out, assuming, say, that half working-class families are in public housing and paying rent to the Local Council, while a third are tenants of private landlords at a higher rent, and the remaining sixth own their houses and are paying off mortgages. It is a bit of a fudge, but gives an approximate answer, which will not be too badly out for many working-class families. But the very rich have a quite different pattern of expenditure: smoked salmon rather than fish-and-chips, tickets to the ballet, not to the local cinema, the cost of Ascot, Glyndebourne, and school fees, instead of Trade Union dues and subscriptions to a burial club.

The Retail Price Index and the Consumer Price Index, have their merits, but have only a tenuous connection with the real world. The danger is, that since they can be calculated with great precision, they are taken as accurate indicators of what is actually going on. We need to be particularly cautious when comparing

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purchasing power over long stretches of time, in spite of the argument put forward by Bishop Fleetwood:26 "Since money is of no other use than as it is the thing with which we purchase the necessities and conveniences of life, 'tis evident, that if £5 in H.VI's days would purchase 5 Quarters of Wheat, 4 Hogsheads of Beer, and 6 Yards of Cloth, he who then had £5 in his pocket was full as rich a man as he who now has £20 if with that £20 he can purchase no more Wheat, Beer, or Cloth, than the other." But though the quantities are the same, their desirability has changed. In Henry VI's time cloth was almost the only material from which clothes could be made. By 1706, and very much more so later in the Eighteenth Century, cotton clothes were coming in, and woollen cloth no longer dominated the market. In the modern world 5 Quarters of Wheat, 4 Hogsheads of Beer, and 6 Yards of Cloth, though no doubt still desirable, would be regarded as less desirable than comparable quantities of rice, Coca-cola, and nylon. Washing machines, computers and mobile phones, have created an entirely new pattern of life, making many of the necessities and conveniences of yesteryear of no practical use. A doctor no longer needs to own a horse and carriage, and to have the services of a coachman, in order to do his rounds. A housewife with a fridge and a freezer no longer has to spend hours bottling fruit. Silver inkstands, blotters and pen-holders were appreciated adornments to Victorian life, but an embarrassment to our contemporaries.

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§4.10 Income and Expenditure

Other things being equal, families would like to be able to buy more goods and services, and firms would like to increase profits. A family can increase its income by the bread-winner(s) working longer hours, or moving to more lucrative employment. A firm can increase its takings by producing more goods or services that people will want to buy. A firm can produce more goods or services by being more efficient, employing more people, using more materials, installing more, or better, machinery. A perfectly efficient firm, if such exists, can increase productivity by only the last three means, each of which involves expense. Increased productivity will not result in increased profit unless the expenses incurred are less than the additional takings. In estimating these, we must remember that the increased supply may result in a lower price for each item sold; but usually the difference will not be very great, and the additional takings due to the increased production will be considerable. As a general rule, it is reasonable to suppose that families and firms would like to have more money; but often the obstacles cannot be easily overcome.

Money coming in is income. Money spent is expenditure. Money comes in from many sources: from earnings, from royalties and rents, from investments, etc. And then we spend it, on food, on rent, on a lottery ticket, on taking a friend to the theatre, or on some other transaction in which the cooperators’ surplus, were it not for the transfer of money, is very much to our advantage.

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<tr>
<th>Income</th>
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<tr>
<td>1. Earnings</td>
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<tr>
<td>2. Investments</td>
</tr>
<tr>
<td>3. Royalties and Rents</td>
</tr>
<tr>
<td>4. Inheritance</td>
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<tr>
<td>5. Gifts and Grants</td>
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<tr>
<td>6. Winnings</td>
</tr>
<tr>
<td>7. Theft and Blackmail etc.</td>
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</table>

In most cases nothing tangible persists: the food is eaten, next month’s rent falls due, the lottery ticket fails to win a prize, the evening’s entertainment is only a memory. In some cases, however, there continues to be something to show for the expenditure. I have a mobile phone or a degree in the history of art; we have a washing
machine or a house. Consumer durables last, and while they last they confer benefits: I can ring up my pals, knowledgeably show my friends round art galleries; the washing gets done quicker and better, we have a house of our own to live in. In other cases, still, the continuing benefit is entirely financial. The taxi firm buys radio telephones and satnav systems so that its drivers can be more quickly deployed and spend more time actually carrying fares. Although the immediate benefit of the purchase is the possession of a desired facility, the long-term benefit, and chief reason for making the purchase, is financial. The firm buys the facility in order to increase production or reduce costs.

It is natural to regard the first sort of expenditure as for consumption, and the last as investment, but to equivocate about the second. Consumer durables tend to endure, and to go on giving satisfaction for a season, but are not inherently money-generating, though some may be money saving—by buying a scooter, I save money on fares, and the housewife with a washing machine may have time for a part-time job she could not manage otherwise. Because of this possibility, and because of the general future-oriented tendency of economic thinking, we feel encouraged to class all such expenditures as investment, and therefore virtuous. This encourages sloppy thinking. Politicians like to describe their expenditures as investments, and now even ordinary people talk of investing in a foreign holiday or a new dress. Such usages darken counsel. I may possibly work better if I “invest” in a holiday or slap-up dinner, but I deceive myself if I pass it off as the acquisition of a money-generating asset, rather than consumption. We need to keep the distinction between the general run of expenditure and the special case where we spend in order to obtain a good return at some later date. Only in the latter case can the expenditure be properly called an investment. And in such cases the prime criterion is the actual return obtained.

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<th>Expenditure</th>
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<tr>
<td>1. Consumer Perishables; <em>e.g.</em> food, theatre tickets</td>
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<tr>
<td>2. Assets:</td>
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<tr>
<td>(i) Consumer Durables with no financial benefit; <em>e.g.</em> pictures, family silver</td>
</tr>
<tr>
<td>(ii) Consumer Durables with some financial benefit; <em>e.g.</em> moped, washing machine</td>
</tr>
<tr>
<td>(iii) maintenance; <em>e.g.</em> house repairs</td>
</tr>
<tr>
<td>(iv) Investments; <em>e.g.</em> land, stocks and shares</td>
</tr>
</tbody>
</table>
Families spend money on consumer perishables and consumer durables, and the acquisition of other intrinsically desirable assets, which together constitute consumption. Their expenditure over the long run cannot be greater than their income, but may be less. If it is less, they are saving, and may do so for many different reasons.

§4.11 Why Save?

After some collaborative effort, I come away with money in my pocket. I may spend it at once, calling at the pub on my way home. But I need not. I may put it in the house-keeping drawer, to buy food later in the week. I might put it by simply out of indolence—I just don’t want to be bothered now with having to make up my mind what to spend it on. Or I may save it for a purpose.

I may save it for a variety of reasons: towards a holiday in the summer, towards a deposit for getting a house of our own, as a reserve against a rainy day, or in order to accumulate a fortune, which I may want to do for a further variety of reasons. I may want to be rich so as not to have to earn money any more, and be able to go into politics, or to do good works, or to go to art galleries and study art, or to be a scholar and read and possibly write books. Or I may want to make money in a competitive spirit; to out-do all my contemporaries, who are bread-winners, and spend their working days earning their income. Or I may be simply fixated on money, a worshipper of Mammon, Scrooge, a miser suffering from an anal-sadistic dysfunction.\textsuperscript{27}

Keynes lists eight reasons in all. Besides Precaution, he itemises Foresight, Calculation, Improvement, Independence, Enterprise, Pride and Avarice.\textsuperscript{28} He characterizes them thus:

(i) To build up a reserve against unforeseen contingencies;
(ii) To provide for an anticipated future relation between the income and the needs of the individual or his family different from that which exists in the present, as, for example, in relation to old age, family education, or the maintenance of dependants;
(iii) To enjoy interest and appreciation, \textit{i.e.} because a larger real consumption at a later date is preferred to a smaller immediate consumption;

\textsuperscript{27} See above, §3.5, pp.66f.

\textsuperscript{28} J.M.Keynes, \textit{The General Theory of Employment, Interest and Money} (London, 1936), Bk III, ch.9, pp.107-108.
(iv) To enjoy a gradually increasing expenditure, since it gratifies a common instinct to look forward to a gradually improving standard of life rather than to the contrary, even though the capacity for enjoyment may be diminishing;

(v) To enjoy a sense of independence and the power to do things, though without a clear idea or definite intention of specific action;

(vi) To secure a _masse de manœuvre_ to carry out speculative or business projects;

(vii) To bequeath a fortune;

(viii) To satisfy pure miserliness _i.e._ unreasonable but insistent inhibitions against acts of expenditure as such.

It was this last that Keynes, in 1936, in the aftermath of the great slump, targeted as the mysterious impediment to recovery. The urge simply to save is not confined to money. Many housewives feel an irresistible urge to feed the freezer during the soft-fruit season. After the gooseberries, loganberries and raspberries they find it increasingly difficult to find room for the red and black currants, and begin to eye the other occupants with a view to eating them in order to make room for the newcomers—only to find that they are last year’s still unconsumed crop. Keynes argued that economies similarly have a tendency to over-invest and under-consume, and that we should do better to save less and consume more. In time past there was a simple, powerful argument for this.\(^{29}\) If I kept my savings as cash in a sock under my bed, then I was withdrawing currency from use, and if too many people did likewise, there would not be enough money in circulation to facilitate all the cooperative activities we would like to engage in. But once we have banks, that problem disappears. Savings deposited in a bank are not withdrawn from circulation, but can be lent to other users, until in the fullness of time being withdrawn from the bank by the depositor.

It may be that thrift is too much praised, and that the young should be encouraged to gather their rose-buds while they may; but thrift is a virtue and some concern for the future is implicit in the concept of an action.

The many different reasons for saving show that it is a mistake to pick on only one, and take that as the paradigm, but it is illuminating to follow the dialectic between the dominant themes.

\(^{29}\) see above, §3.1, p.49.
Against Scrooge, Ricardo and the classical economists assumed that if I do not spend the money in my pocket immediately, it is in order to spend it later. Saving is simply a deferred purchase. But against this Keynes, as we have seen, argued that saving is a response to the uncertainty of the future. There may be a rainy day, and rather than exercise choices now, I should keep my options open, so as to be able to cope with whatever eventualities there might be.

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<th>Reasons for Saving</th>
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<tr>
<td>Scrooge: to amass a pile,</td>
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<tr>
<td>Ricardo: deferred consumption,</td>
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<tr>
<td>Keynes: deferred choice.</td>
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Keynes' insight that we save, largely in order to be able then to make choices at a time of our own choosing, is profound. It underlies the conclusion reached in §4.6 that in a society where banks are available, and much economic activity is based on credit, the key concept is not money but liquidity.