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**Free money for social progress: Theory and practice of Gesell's accelerated money.**

**Annotation:** In 1916 German economist Silvio Gesell (1862-1930) proposed a system of «free» money in order to accelerate monetary circulation and to free money from interest. This model was intended to free economy from its wrongs such as inflation, unemployment etc. In the context of Great Depression of 1930's Gesell's monetary proposals became especially relevant, so many of prominent economists rendered homage to his ideas. Nowadays, almost every developed and developing country practicing the model of Gesell's monetary politics from another angle to find a new solutions of economic recession problem.

**Keywords:** free money theory, Silvio Gesell, economic growth, monetary politics, interest-free economy.

In 1873 one of the largest economic crises broke out affecting the countries of Europe and the USA and finished only in 1896. Before it ended in 1891 the German economist Johan Silvio Gesell began work on the study of money circulation and finding a way to work out the crisis.

In the period from 1891 to 1916 a number of works were published in German (“Exercise of the right to a full-time job” (1906, Switzerland), “New doctrine of interest” (1911, Berlin)), And in 1929 their translation into English under the single name "The Natural Economic Order".

The backbone of the innovations proposed by Gesell was the so-called theory of “free money” (Freigeld). In accordance with this theory the money circulation model in the national economy undergoes important changes: loan interest is replaced by money with a negative interest, so asset owners regularly transfer a certain amount of money to the state for a bank deposit. According to Gesell's opinion, money in their function do not differ much from other goods, therefore, like any other product they should lose their value over time. In this case the owners will tend to get rid of money as quickly as possible. Such an interpretation of the nature of money and the role of financial capital allowed Gesell to conclude that in order to maintain sustainable economic growth, it is necessary to ensure a constant increase in the propensity to consume, which can be achieved by reducing the interest rate to zero and lower to negative value, which will restrain propensity to save. In addition, it is assumed that the owner of the money will pay for their storage, and not receive a percentage when they are used as a bank deposit, which has become the usually in the modern market economy. With such a continuous circulation of money, they become the “materialization of net demand” since their cash volume corresponds to the value of real demand. In the event of need for the accumulation of monetary resources, business agents can use either the acquisition of interest-free bonds of the state, or invest in stocks. The result of such a monetary reform will be the elimination of usury and loan interest.

A number of modern authors express the opinion that Gesell justified the need to decline the interest loan, referring to the fact that “money was not created to save it,” which, of course, is not a completely correct interpretation of his words since this would not correspond to that pragmatic system that Gesell established. Such an explanation is due to the narrow interpretation, because he only pointed to the cause of the defect of the capitalist economy management, but was not an opponent of the positive interest loan as a whole. The main goal and the super-task that the German economist formulated and tried to solve is the problem of ensuring the sustainability of economic growth, and therefore minimizing the consequences of crises, unemployment and inflation from the practice of market economy.

By the way, it is interesting that John Maynard Keynes considered the use of a “zero interest loan” quite possible (under the conditions of a “liquidity trap”), but in some situations an ineffective way of changing investment expectations. Macroeconomists Larry Summers and Paul Krugman note that current economic problems will only be resolved when real interest rates become negative, otherwise "the United States and Europe, after Japan, may be trapped in a lost decade". The model of interest-free economy has passed quite successful practical testing during the period of the Great Depression. In particular, in 1932, in the Austrian city of Wörgl with a population of 3,000 people, an experiment was conducted with an interest-free economy and a lowering nominal value of currency. The result of the experiment was an improvement in the condition of roads, an increase in investment in public services; in addition, the unemployment rate dropped significantly (by 25%), when in the same time, in other European countries vice versa. However, the National Bank of Austria filed the lawsuit and reached the termination of this experiment, considering it dangerous for its monopoly on the issue of money emission. There are other cases of practice of the theory of “free money”, for example, in Russia (Ufa) in 2011, as well as in Switzerland at present.

**The current economic situation in the context of an interest-free economy.**

Gesell's theory of interest-free money is of particular interest in the context of changes in the modern economy. For more than a decade, the interest rate of many developed countries has fallen to record low levels; Having not completely eliminated the problem of limiting economic growth, some states even switched interest loan rate to negative. Tables 1 and 2 compare the interest rates of some developed and developing countries of the world. Based on the tables, one can trace the general tendency towards a decrease of the interest loan in developed countries. As for developing economies, their situation is trickier. Some countries have reduced the value of the interest rate: Brazil, Russia, India, although a number of others have increased (Mexico, Turkey). Assessing the effectiveness of the interest rate management policy, we can state its relative success. Although in the process of its implementation it was possible to block a potential scenario of the recession escalating into depression, it was not possible to bring the economy of the developed capitalist countries into a phase of sustainable and balanced growth. In addition, great successes in stimulating economic growth are not observed precisely in those countries that reduced the anti-crisis policy only to a change in the interest rate. Countries such as China and India that have pursued economic policies, not limited to monetary instruments, have been more successful in this regard. A similar result can be explained again referring to Keynes, who noted that there is no direct correlation between the discount rate and economic growth if the restrictions in the sphere of consumer demand are not overcome. Also an increase in the percentage, as a mean of correcting the state of affairs, in the event of an over-accumulation of investments, "belongs to those drugs that cure the disease by killing the patient." The solution may be to use various tools to stimulate consumer demand.

Thus, despite the fact that the discount rate is a very effective and significant tool for stimulating economic growth, helping to overcome the period of economic depression and providing an opportunity to mitigate the effects of the economic recession, it is not able to become the only remedy of influencing the economy.

**Table 1. Interest rate of central banks of the world (2016).**

|  |  |
| --- | --- |
| Central bank | Interest (%) |
| USA (FED) | 0,50% |
| Switzerland (SNB) | -0,75% |
| Japan (BOJ) | 0,10% |
| England (BOE) | 0,5% |
| Europe (ECB) | 0,5% |
| China (PBOC) | 4,35% |
| Brazil (BCB) | 14,75% |
| Russia (CBR) | 10,0% |
| India (RBI) | 6,25% |
| Ukraine (NBU) | 22% (начало 2016г.) |

**Table 2. Interest rate of central banks of the world (2019).**

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| --- | --- |
| Central bank | Interest (%) |
| USA (FED) | 2,25% |
| Switzerland (SNB) | -0,75% |
| Japan (BOJ) | -0,10% |
| England (BOE) | 0,75% |
| Europe (ECB) | 0,00% |
| China (PBOC) | 4,35% |
| Brazil (BCB) | 6,00% |
| Russia (CBR) | 7,25% |
| India (RBI) | 5,40% |
| Ukraine (NBU) | 17,00% |

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