

Cooperation

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This is the fifth in a series of essays on the [politics of care](#) and [economics of hope](#). The others are listed at the end of this essay.

As with the other essays, I acknowledge the input of my wife, Jacqueline, into this essay.

Imagine you are organising a village.

People grow food, build houses, teach children, care for older people, repair tools and make clothes. The village has enormous potential because its people have skills, knowledge and energy.

The problem is coordination.

How do you persuade the builder to build today if the baker will not bake until next week? How do you organise thousands or millions of people doing different things at different times?

Money is the answer.

Money is not wealth.

The houses are wealth.

The food is wealth.

The education is wealth.

The healthcare is wealth.

The clean environment is wealth.

Money is simply the information system that lets us organise the creation and distribution of those things.

Think of it as society's scorekeeping system.

When someone does work for society, money records that contribution.

When they later claim goods or services, money records that claim.

Nothing magical has happened. Society has simply kept track of who has contributed and who has made use of what has been produced.

Where does money come from?

Many people imagine there is a huge pile of money somewhere.

There is not.

In a modern economy, almost all money is created by making entries in computer systems.

Commercial banks create bank deposits when they make loans.

The government creates state money whenever it spends.

Neither starts by looking for a stockpile of money.

Both create it through accounting.

Money is therefore not a thing.

It is a relationship recorded in accounts.

Why can governments create money?

Because the government creates the unit in which taxes must be paid.

The pound exists because the UK government defines what a pound is and accepts it in payment of tax.

When government spends, it instructs the central bank to credit commercial banks' reserve accounts, allowing banks to credit the accounts of households, businesses or organisations receiving payment.

No taxpayer's money has to be collected first.

Government spending creates new money.

Taxation does something different.

It reduces the amount of money people have available to spend.

That helps prevent inflation, influences behaviour, reduces inequality and creates demand for the government's currency because everyone needs pounds to settle tax liabilities.

Taxes do not finance government spending in the way households finance their spending.

So what limits government spending?

Not money.

Real resources.

Does the country have enough people?

Enough engineers?

Enough nurses?

Enough steel?

Enough electricity?

Enough land?

Enough productive capacity?

If the answer is yes, government can often mobilise those resources by creating the money needed to employ them.

If the answer is no, creating more money simply bids up prices.

Inflation is therefore not caused by "printing money".

It is caused when spending exceeds the economy's ability to produce what people want to buy.

So what is the purpose of money?

Money exists to help us organise our collective potential.

It allows millions of people who will never meet one another to cooperate.

It helps society decide who does what, when and for whom.

It is a tool for coordinating human activity.

That means money is not the purpose of the economy.

The economy exists to transform energy, resources, knowledge and care into improved well-being.

Money merely helps organise that process.

It is the map.

It is not the territory.

The simple summary

If you remember only five things, remember these:

- * Money is not wealth; it is the accounting system that helps organise wealth.
- * Modern money is created through accounting, not by digging up scarce objects.
- * Governments that issue their own currency create money when they spend and remove it when they tax.
- * The real limit on spending is the availability of people, skills, materials and energy, not the quantity of money.
- * The purpose of money is to help society realise its potential by coordinating human effort to meet need.

In other words, money is not the economy. It is the language the economy uses to organise itself. The real economy consists of people transforming the world through their creativity, labour and care to improve collective well-being. Money simply makes that cooperation possible.

Other essays in this series

- * [**Potential**](#)
- * [**Becoming**](#)
- * [**Exergy**](#)
- * [**Money**](#)