THOMAS H. GRECO, JR.

Understanding and Creating Alternatives to Legal Tender

money

With a foreword by VICKI ROBIN, author of *Your Money or Your Life*

MONEY

Understanding and Creating Alternatives to Legal Tender

THOMAS H. GRECO, JR.

Foreword by Vicki Robin

E-book Excerpted Version

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Dedicated to champions of
justice,
equity,
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everywhere

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FOREWORD

Some truths are harder to take than others. The really hard ones are turning points in our maturation, our understanding of this world we live in. Losing Santa but discovering that Mom and Dad are the ones bringing you presents might be a tolerable trade of fiction for reality. But learning that Mom and Dad don't love each other anymore and are getting a divorce is an earthquake that might rock your world for life. To use another analogy, learning that the earth is round was revolutionary 500 years ago but is apparently "ho-hum" now. Yet try looking "up" at the stars and thinking of them as being "down" (just as true) or "out" and see what your insides do. Try thinking about sunrises and sunsets as the earth rolling toward or away from the sun and see if everything changes. When truth perhaps known but suppressed for survival erupts, often rage, relief, sorrow, confusion, and liberation flow out like lava from our core. Tom Greco's revelations about the reality of money have this kind of power to change you forever.

In *Your Money or Your Life* we examined certain truths about money that could liberate people from consumer hypnosis. We asked, "What is the reality of money to you?" Without understanding our economic system, people could use the tools in the book to see whether or not their relationship with money was buying them the life they wanted. Without understanding markets and trade, people could see that money was something for which they traded their most precious good: their life energy. Without any political or scientific sophistication about how the world does or should work, people became naturally good resource managers, natural ecologists, natural builders of stronger communities of sharing. They did so because they had tools to evaluate the flow of money and stuff through their lives in terms of the amount of happiness and meaning that flow produced. It was, and still is for hundreds of thousands around the world, a transformative process. It didn't involve new knowledge, but a clearer way of seeing that more accurately tracked with reality. Stepping into alignment with the way things are gave people the capacity to invent, in their own life circumstances, ways to save money and liberate themselves from mindless consumption. Their behavior, from the old mindset, might have looked like sacrifice or deprivation but they all reported being happier and more able to live the life of their dreams.

These dreams, however, happen in a larger context. Personal transformation merely enables the individual to ultimately encounter "the rules of the bigger game."

Tom Greco brings the force of years of study and practical application to explaining a lynchpin in this bigger game: how money is created and the consequences of that choice. Like Dorothy in the Wizard of Oz, he heals us by whisking back the curtain that reveals a small and very human device behind a grand illusion.

A wise person once said, “It is the sign of true intelligence to look at what everyone else thinks is normal and to find it very strange indeed.” If this is the case, Tom Greco is truly intelligent.

Part 1 is where Greco turns our world upside down. He explains, clearly, that just as presents don’t come from Santa, money isn’t a simple, wholesome, and value-neutral artifact. It is no longer backed by real wealth, and it isn’t created by the government or by people but rather by banks, when they make new loans and the interest on these loans requires the very growth economy that is transgressing the limits of human communities and the natural world. Fully 95 percent of money is based on interest-bearing bank loans. He says: “How money is brought into being has everything to do with the kind of society we bring into being and that society’s impact on the natural systems we rely on.”

How money is created, by whom, and on what terms actually creates an artificial world of winners and losers, a world where abundantly creative humans are pitted against one another for scarce money while all around them and in them is the real wealth to create a rich life. Again and again, Greco tells us: “By issuing money to unproductive or privileged clients of the money monopoly at more favorable terms, and by demanding higher interest rates from the rest, the banking system redistributes wealth from producers to privileged nonproducers.”

From the foundations of money creation, Greco shows us how money, banking, and finance interlock with our institutionalized agreements about property ownership, corporate power, taxation, and the like. This perspective allows us to see how the seeming cacophony of issues being lifted up on the streets at every meeting of the World Bank, the World Trade Organization, the International Monetary Fund, and the World Economic Forum all spring from the same source. This protest isn’t, as the media would have us think, just sour grapes on the part of underdogs with nothing better to do than bite the hand that feeds them miracles like antibiotics and telecommunications and the Green Revolution. It is making visible and audible the parts of the community of life on Earth that are getting the short end of the stick a stick that could be a very different sort of artifact.

The hope *Money* holds out is that there are other ways to create money that support social justice, community self-reliance, economic democracy, and personal freedom. Money, it turns out, is not the root of all evil; nor is the love of it, though institutionalized greed as practiced among some of the privi-

leged is surely a travesty. Money in the form of complementary currency can be a very creative and life-serving medium of exchange. Greco is not advocating a rupture with the past. While this book is revolutionary, he calls for a slow revolution. He suggests that we step out humbly by providing local communities with a way to buy and sell some goods and services using a self-created means of exchange that isn't based on debt, interest, and distant financial decisions made solely for economic gain. Make no mistake, however. The impact of this local trading ability, if developed in an intelligent and sophisticated way, could shift our society away from dependence upon unsustainable and ignoble ways of meeting our needs.

In Part 2 Greco teaches us the fascinating history of complementary currencies. It's a story filled with both surprise and a sense of familiarity. Trading stamps, store coupons, discount matinees, entertainment books, and air miles are all forms of complementary currency. You pay part of the price of an item in something other than dollars. Volunteering and "house work" (washing the dishes, cooking, shopping) are also activities that fulfill human needs with no exchange of money. Indeed, these are all strategies that individuals discover through doing the 9-step program in Your Money or Your Life. To maximize the value of each dollar, people quickly learn that developing do-it-yourself skills, creating sharing networks, being smart shoppers, and keeping possessions for a long time can yield a low-cost yet high-quality life. Greco shows that by making these choices systemic rather than individual, communities and the Earth can prosper.

Parts 3 and 4 are the recipe book for those who would relish giving the creation of a complementary currency a try. Will you be the one? Social innovations require champions to turn good ideas into living realities. Social innovators willingly buck systems, tinker, make adjustments, maintain the faith, solicit feedback, and as a reward have meaningful lives and even, sometimes, great success. While few readers will have the will or time to set up full-scale complementary currency systems, these sections round out the picture. No reader can henceforth blindly accept that there is no alternative to the sorry rules of the conventional money system.

Having new road maps for healthy money in a healthy world is as vital to our souls as food, air, and water are to our bodies. Tom Greco has given us a grounded, well-researched, comprehensive, and fascinating account of how money and commerce could work for our deeper values of justice, caring, community, and the Earth.

—**Vicki Robin**

PREFACE

For more than twenty years, I have been intrigued and engaged by "the money problem." Prior to that I didn't even know there *was* a money problem, despite the fact that my profession as an educator in business administration placed me in the midst of business, finance, money, economics, and the "science" of management. Like the vast majority of my colleagues, I had been schooled in the orthodox theories and views, but, more important, we had taken our monetary system as a given.

Our job was to teach students how to "play the game" within the context of the rules as they were defined for us, and the rules of money, banking, and finance were fundamental in defining that game. Who was I to question them? It was not until after I had experienced a personal crisis and emotional catharsis that my mind was opened and I began to look more deeply into the ways of the world. There was too much that did not make sense; too much that was unjust; too much inequity, violence, repression, hunger, disease, and needless suffering. Why, I asked, must it be like this?

I began an earnest inquiry as I attempted to discover the root causes of such pervasive problems. As I embarked on my self-directed program of reeducation, I realized that I first needed to prepare myself for the journey by working on my own faults, limitations, and inadequacies. I was fortunate to be living in a time when there was a burgeoning of activity related to "personal growth," "self-awareness," and "consciousness raising." I took advantage of many of the available opportunities.

About the same time, I began intensive exploration into a wide variety of subjects. Having had my values, attitudes, and core beliefs shaken, my mind was open to consider anew the foundations of our social, political, and economic institutions. As my quest for root causes progressed, I began to focus much of my attention on the institutions of money, banking, and finance. I soon came to realize that, despite all my education and degrees, my understanding of money was rudimentary at best. I came to understand that the kind of money we use today and the mechanisms by which it is created and controlled are fundamental determinants of the distribution of power and wealth in the world and are, in fact, among the major structural obstacles to peace, freedom, harmony, and a healthy environment.

My first book on the subject, *Money and Debt: A Solution to the Global Crisis,* explained the nature of money, identified fundamental flaws in the current

monetary and financial system, and suggested an approach to resolving the problem of exploding debt and the social and environmental degradation that it causes. That book also laid out the foundation principles necessary for the creation of both a more rational means of value measurement and more humane and equitable forms of money (or other structures enabling the exchange of goods and services).

The second book, *New Money for Healthy Communities,* was written to complement that earlier work. While *Money and Debt* focused on highlighting the nature of the problem and outlining general principles and global prescriptions, *New Money for Healthy Communities* provided more specific details about exchange alternatives: their essential design elements, how they work, and how they are able to empower ordinary people and local communities. It described exchange mechanisms that have worked in the past as well as some of the contemporary local currency and exchange efforts. It was intended to serve as a how-to manual. It identified pitfalls to be avoided, and it proposed specific methods for transforming the exchange process—methods that are rational, equitable, and empowering and that can be easily implemented at the community level by small voluntary groups.

This present work continues those earlier efforts in a more complete and better way, focusing on what can and is being done, not only at the local grassroots level, but also at the levels of business, government, and global trade. While the community currency and private exchange movement has continued to develop and mature, I have, through additional reading and experimentation, both broadened and deepened my understanding of the issues involved in the process of economic exchange. This book includes many new insights and understandings and describes several of the more important developments that have occurred in the intervening years since my other books were written. Chapters 1 and 4 provide a good example. These two chapters together comprise, I think, a clear and complete, yet concise exposition of money. They are a distillation of many volumes and reveal the simple essence of money. Another example is chapter 14. It provides a classification scheme for the basic types of currency that have been developed and tried. This is, to my knowledge, the only complete taxonomy of community currencies developed to date. Other sections of the book cover developments and innovations that have occurred over the past few years. Chapter 11 describes important community currencies that did not exist when my other books were written.

My hope is that the information contained in this book will be widely disseminated and applied. The implementation of private exchange mechanisms such as those described in this book will, I firmly believe, go a long way toward helping humanity create a more harmonious, equitable, and happy world.

INTRODUCTION

This book is about freedom and empowerment, about community and relationships, about fairness and prosperity, but most of all it is about money and exchange. Something extraordinary is happening to money. It is being reinvented. And this process of reinvention is sure to have far-reaching effects on every aspect of life for everyone living in the world today.

But what is money? Where does it come from? What roles does it play? And how does money fit into the greater scheme of things? These are questions this book will address. The social, political, economic, cultural, and ecological aspects of life cannot be isolated from one another. Whatever affects one of these must, in some way and measure, affect all the others. Therefore, whatever actions we humans contemplate taking must be subjected to comprehensive evaluation. Are they generally beneficial, and are the outcomes sustainable over the long term? Will they contribute to maintaining and improving the physical environment? Will they promote healthier relationships between individuals and among different sectors of society? Will they lead to the wider fulfillment of basic human needs? Will they promote responsible citizenship? Will they promote the fuller realization of the creative potential inherent in each person and community?

The much vaunted efforts toward globalization of "free trade," which have been pushed forward in the post–Cold War era, have failed to address these questions. They are mainly the result of an undemocratic process that gives voice only to a privileged few, who make far-reaching decisions based on questionable assumptions and limited perspectives. Those decisions, almost entirely, reflect an emphasis on the economic benefits that would accrue to the political and financial elites in the so-called developed world and their minions in developing countries. What is promoted as "free trade" is more often an attempt to dominate markets and exploit people and resources, as giant corporate players in the game of global economy seek to continue their expansion and avoid defaulting on their debts. The drive toward territorial expansion by national governments, which characterized the global conflicts of the past century, has given way to a drive toward market expansion and profit accumulation headed by corporate and financial elites.

One especially forceful reaction, called the "Battle of Seattle," occurred alongside the World Trade Organization (WTO) conference of November

1999. This was not just an emotional outburst by a few anticapitalist ideologues. It was a cry of pain by, and on behalf of, those who are suffering the adverse effects of globalization on their cultures, communities, and environments—working people and ordinary citizens who perceive its destructive impact on democratic governance and decision making, leadership accountability, consumer safety, and overall quality of life. As Vicki Robin, who was there, reported, "The people in the streets, by and large, were not against trade, but want the 'goods' of globalization to make room for 'goods' like clean water, fresh air, intact ecosystems, respect for non-human life, wholesome foods and sharing the benefits of prosperity more universally."[1]

But, apart from the "elitist agenda," there are positive globalizing phenomena, too. The development of computerized telecommunications technologies and the Internet have put into the hands of ordinary people an information matrix and ability to communicate that was undreamed of just a few years ago. Among other things, such tools have enabled the organization of grassroots communities of interest that transcend barriers of distance, language, and culture, and, as we shall see, they have also enabled the development of new nonmonetary, nonpolitical ways of exchanging goods and services. My prescription for a healthy, peaceful, and prosperous world is based on the belief that it must be built from the ground up. A healthy world requires that the focus of attention must be on fundamental socioeconomic entities: families, households, villages, bioregions,[2] and communities of all kinds. You cannot have a healthy body if your cells and organs are feeble or diseased. This book is both descriptive and prescriptive, and, like all prescriptive treatises, it is biased by my own values, attitudes, and beliefs. I must confess to a distinct bias in favor of social justice, economic equity, personal freedom, participatory government and decision making, local self-reliance, and community self-determination. All these considerations, combined with my understanding of the relationships among smaller socioeconomic units within the global hierarchy, lead me to propose particular approaches to improving the health of those units at each level of society. These approaches are broadly outlined as follows:

- Cultivate functional diversity and versatility.
- Strengthen social bonds and organize for mutual support.
- Set and adhere to standards for quality of life: environmental, social, economic, recreational, and so forth.
- Build on available local resources and capabilities.
- Create buffering structures between global, national, regional, and local economies, not to isolate, but to provide a placid "safe harbor" conducive to the overall realization of shared goals and a better quality of life.

- Maximize the amount of local value added in all economic activity.
- Give priority to fulfilling the needs that are closest to home: spend locally, save locally, invest locally.

Central to the entire approach is the need to transform money and to liberate markets. As civilization has evolved, the work of each individual has become more and more specialized, and, with the increasing specialization of labor, exchange has become the central necessity of economic activity. The response to this need for exchange has been the evolution of money and markets. With the development of low-cost, efficient transport and communications technologies, markets have become increasingly efficient. Money, on the other hand, remains clouded in mystery and the subject of political intrigue.

Money is a subject that very few people really understand. Most believe that it is something they are not even capable of understanding. This is not surprising given the shallowness with which the subject is treated by the mass media and the seemingly intentional mystification of the subject by bankers, economists, and politicians. Even within the academic realm there is a considerable amount of confusion of concepts and misunderstanding of terms, and little attention is paid to critical analysis of the dominant structures of money and banking.

My research into the areas of monetary theory and history has spanned more than two decades. It has encompassed the accumulated literature and contemporary debate as well as hands-on activism and experimentation. I have been involved in the design, development, and operation of several cashless community trading systems and local currencies, assuming a variety of roles including those of organizer, administrator, and consultant. My active, local involvement gave me many chances to observe and experiment with various exchange approaches, currency features, and system enhancements. My active correspondence, meanwhile, has been extensive and global in scope, including academics, activists, and business people. I have continued to monitor developments in mutual credit, in LETS, in HOURS, and in various other existing and emergent exchange and currency models. The following chapters will describe these systems and others.

The rise of the community currency movement in recent years has provided ample learning opportunities for a great many people. But these opportunities are still the exceptions rather than the rule. There remains a massive job of education to be done if the subjects of money, banking, and finance are to be generally understood and people are to have the tools they need to bring about their own economic liberation. Toward that end, it is useful to clarify at the outset some essential terminology and to sketch a general outline of the major themes.

My purpose in writing this book is threefold:

first, to begin to demystify the subjects of money, banking, and finance so that the ordinary person can understand their workings and the profound effects they have on his or her everyday life and well-being;
second, to strengthen the ongoing monetary reform movement by sharing what I have learned about monetary history and theory over more than two decades of research;
and third, to help guide the contemporary wave of development of community currencies and private exchange systems.

WHAT THIS BOOK CONTAINS, AND HOW TO USE IT

This volume focuses particularly on the creation and control of money, money substitutes, and alternative exchange mechanisms. It is actually four books in one, divided into four parts. While all the objectives are addressed in each and every part, the individual parts tend to emphasize the objectives in the order stated above. I advise you to read the book in its entirety, but depending on your main interests, you may want to read the various parts in a different order from that presented.

Part 1 is titled, "Monetary Realities and Official Illusions." It explains what money really is, how it is created and extinguished, how it malfunctions, and how it works against the interests of most individuals and communities. It continues with a description of how money has evolved, taking on different forms over time. It explains how these forms have enabled the further concentration of money's power in fewer hands and the erosion of social cohesion, community power, and democratic governance. This is background that I consider important to gaining a proper understanding of the money problem and how communities might cope with it. While I believe that this part should be read by everyone, it could be skipped temporarily by readers who already have some understanding of the nature of the problem and are anxious to get to "the solutions."

Part 2, "Complementary Currencies, Past and Present," describes both historical and contemporary currency and exchange alternatives. These descriptions highlight the fundamental features, and the strengths and weaknesses, of each example. Parts 1 and 2 together show some of the processes by which individuals and communities have been disempowered, and some local responses that have been effective in restoring community control and economic vitality in the face of centralized power. They set the stage for the more prescriptive community exchange material contained in the remainder of the book. This part, too, might be passed over temporarily by those who already

have some familiarity with these topics and wish to get right to the details of community currency design, improvement, and implementation.

Part 3, "Monetary Transformation and Community Empowerment," is essentially a primer on community exchange, highlighting the basic design elements and describing various forms, features, procedures, and methodologies. It outlines gentle strategies by which communities can establish equitable, sustainable, and ecologically sound local economies using "homegrown" exchange media and participatory methods for the allocation of credit and capital. It also provides in-depth coverage of the why, what, and how-to details. Community activists, organizers, and social entrepreneurs will find in this section the meat of the book.

Part 4, "Currency Design, Improvement, and Innovation," continues to build on the material presented in Part 3. It contains a number of innovative proposals for currencies, coupons, and scrip that address specific community problems while enhancing community power and strengthening the entire local economy. These models can be adapted to suit local conditions and needs. Social entrepreneurs and community organizers will find much here to stimulate their imaginations.

Throughout this book I will use the term *community currency* to mean any mechanism, under popular control that provides a means of payment other than official currency.

In this context, the term *community* is used to describe any association of individuals, groups, or businesses that bind themselves together under an agreement to use an internal payment mechanism. Under this definition, it is clear that a community need not be defined by geographical proximity. It is possible to conceive of a community of traders who are widely dispersed geographically. Indeed, we are seeing the emergence of Internet-based communities in which the transactions take place in cyberspace and participants are scattered all over the world. It is not hard to imagine a payment system that is globalinscopeandbeyondthecontrolofanygovernmentor bank.Therehave already beensome interesting experiments with so-callede-cash orcyber cash.

A community currency need not take the form of paper notes. It can be as simple as a set of account pages in a notebook in which the values of trades are recorded. Such a book is called a *ledger,* and the *currency,* in that case, consists of the numbers that comprise the members' account balances.

In essence, then, a community currency means that members of the group empower themselves to create their own "money," which they agree to use in paying for purchases made among themselves.

My hope is that readers will quickly grasp the enormous power inherent in these cooperative and democratic exchange arrangements and that the information and ideas contained in this book will prove useful to others who share my dream of a world that works for everyone.

PART I

MONETARY REALITIES AND OFFICIAL ILLUSIONS

Money is a topic that few people understand. Sure, we use it every day and it seems familiar; but like water to the fish, we take it for granted and seldom give its role any notice. Yet the quality of the water that the fish inhabit is crucial in determining the quality of their existence. If the water happens to be polluted, the fish sicken and die. Likewise, money is a primary element of the modern economy that we inhabit. The quality of the money we use determines, to a great extent, the quality of our lives.

This section of the book looks beneath the surface, describing the nature and functions of money and markets, how they have evolved, and how they have become problematic. It examines the relationship between communities and the larger national and global economies and outlines principles and strategies that can enable the emergence of healthier communities and a more equitable and harmonious society. It begins the process of building a foundation of knowledge and understanding needed to design better exchange systems, which are essential to bringing that about.

Chapter 1

What's the Matter with Money?

The process by which banks create money is so simple that the mind is repelled.

—John Kenneth Galbraith

MONEY IS THE VITAL MEDIUM within which we live our economic lives. It is the central element around which many of our interpersonal relationships are organized. It is no exaggeration to say that the quality and essence of our medium of exchange, our money, are crucial to the quality of our lives—our social interactions, our personal priorities, our relationship to the earth, and our very ability to satisfy basic human needs. As water is to the fish, so money is to people. Though we are largely unconscious of it, its *quality* (as opposed to quantity) is crucial. When the water is polluted, the fish sicken and die; when money is "polluted," our economy malfunctions, and people suffer as their material needs go unmet and social dynamics are distorted.

Although the existing systems of money, finance, and exchange are severely flawed, few people understand the structural nature of these flaws, much less how they might be remedied. Money is a human invention that has changed over the years, and if it does not perform the way we want it to, we can reinvent it. Most of us take money for granted. Oh, it occupies plenty of our attention as we try to get enough of it to make ends meet, but we don't normally stop to think about what it really is, where it originates, or how it comes into being. We pay a huge price for our ignorance. Money has become an urgent problem.

As chapter 4 will explain, money is an information system. Therefore, let me describe the fault in terms of the information that it conveys, and explain why that information is inaccurate, incomplete, or false. Indeed, the present official monetary system has become a *misinformation* system. As the tightly controlled news media in totalitarian states are the antithesis of a free and independent press and political democracy, so is our monopolized and political system of money and finance antithetical to free exchange and economic democracy.

Just as the news industry can beperverted into a propaganda machine toserve the interests of a dictatorial government, so has the finance industry been perverted into a machine of privilege to serve the interests of a power elite.

Symptoms of Disease

The symptoms are readily apparent, and the news media are daily filled with reports that highlight them: inflation; unemployment; bankruptcies; farm, home, and business foreclosures; ever increasing indebtedness and impoverishment; homelessness; and widening gaps between theincomes and wealth of the various economic classes—the "haves," the "middle class," and the "have-nots." These economic problems, in turn, are largely responsible for social and environmental decay: violent crime, suicide, drug and alcohol abuse, theft, and embezzlement,along with pollution of the land, water, and air. Such frequently reported events are not accidents; they derive from the inadequacies and errors inherent in structures that humans have themselves created.

Three Ways in Which Conventional Money Malfunctions

Conventional money malfunctions in three basic ways:

1. It is kept artificially scarce; there is never enough of it to serve the purposes for which it is created.
2. It is misallocated at its source, going not to those who are most in need or who will use it most effectively but to political power centers (especially central governments), well-connected "insiders," and those who already control vast pools of wealth (such as large corporations).
3. Itsystematicallypumpswealthfromthepoorand themiddleclasstotherich.

Why this is so, and how it can be remedied, will be explained in turn, but to do so we first need to know how money is created within the current monetary system.

How Money Is Created

When I try to explain to people the way in which conventional money is created these days, I am generally met with a blank stare. I think it is not that they don't understand what I am saying; they just can't believe it. In the words of renowned economist John Kenneth Galbraith, "The process by which banks create money is so simple that the mind is repelled."[1] It is generally believed that money is created by the government, but here is the simple truth. **Today, money takes the form of bank credit that must be borrowed into circulation.**

In other words, conventional money commonly exists as bank deposits, that is, balances in checking or savings accounts that are secured by interest-bearing debt. Money is the product of a private banking cartel.

The familiar Federal Reserve notes, the cash that we use every day, are simply physical tokens of the money that was first created as bank credit. The use of checks and debit cards is simply a way of transferring bank credit (that is, money) from your account to someone else's account; the checks and debit cards are not themselves money. Neither are credit cards money, but they allow you to create money by going into debt to the issuing bank. The main point that needs to be understood is that **in order for money to come into circulation, someone must go into debt to a bank.** If there were no bank debt, there would be virtually no money—it's as simple as that. Since banks charge interest on all this debt, and since the money to pay the interest can come only from further debt, debt grows like a cancer within the global economic "body." This *debt imperative* creates a *growth imperative* that is forcing us to destroy the life-support systems of the planet.

Wealth creation and money creation are two entirely different things. Wealth is created by the application of human skills to natural resources in the myriad ways that produce useful goods and services. Planting crops, assembling computers, building houses, and publishing a newspaper are all examples of the production of wealth. Money, on the other hand, is a human contrivance; it is a symbol created by a deliberate process involving entities called banks.

The Federal Reserve is the entity responsible for the issuance and regulation of money in the United States. Here is the simple truth about money and its creation straight from the horse's mouth. This quote comes directly from an official Federal Reserve publication:

> The actual process of money creation takes place in the banks . . . checkable liabilities of banks are money. . . . These liabilities are customers' accounts. They increase when . . . the proceeds of loans made by the banks are credited to borrowers' accounts.[2]

Let's take that one piece at a time. *The actual process of money creation takes place in the banks.*

Yes, money is a human creation, and it is the banks that create it. People still dig gold and silver out of the ground, but we no longer use those metals as money. What, then, is the substance of money today? It is bank credit, that is, *checkable liabilities,* or *customers' accounts.* So the balance in your checking account and mine is a liability of the bank—something the bank owes you and me—and that is money.

How does that liability get created in the first place? These liabilities *increase*

when the proceeds of loans made by the banks are credited to borrowers' accounts. In other words, the money is created when the bank makes a loan to someone. That person's account is credited (increased) when the loan is approved, and new money is thus created. That person then spends the money, and somehow, perhaps after changing hands many times, it ends up in your account or mine.

"What?" you say, "I thought banks loaned out other people's deposits." That's true enough. In their role as depositories banks do lend other people's deposits, but in their role as *banks of issue,* they actually create new money by making loans. So banks are the wellspring of money. They create it by making "loans," and they extinguish it when loans are repaid. Money has a beginning and an ending. It begins when the bank makes a loan, and it ends when the loan principal is repaid.

Now what makes this kind of money credible and generally acceptable as a payment medium? First, we know that everyone else is willing to accept it, but this begs the question, why? The answer is that anyone can go to their bank and draw out "cash" against their bank account balance. This cash is in the form of *Federal Reserve notes.* If you examine one of these notes carefully, you will see that they have been declared to be *legal tender*—"for all debts, public and private." This means that they must be accepted as payment by anyone to whom money is owed, be it an individual, a corporation, or a government agency. Further, Federal Reserve notes are backed by the *full faith and credit* of the federal government of the United States of America, which is credible because of the government's power to levy and collect taxes.

In the United States, it is mainly the *commercial* banks that create the bulk of the money supply in the form of bank deposits (or bank credit). Most of our money consists of deposits in checking accounts. About 30 percent of the money supply is in the form of coins or circulating paper currency. According to the Federal Reserve Bank of Chicago: "currency is a relatively small part of the money stock. About 69%, or $623 billion, of the $898 billion total money stock in December 1991, was in the form of transaction deposits, of which $290 billion were demand and $333 billion were other checkable deposits."[3]

But even this understates the matter, for Federal Reserve notes, while printed by the United States Treasury, are put into circulation by the banking system, which buys them from the Treasury for the cost of printing. These paper notes represent bank credit. Banks give it out whenever depositors prefer to have paper "cash" in their wallets. Whatever amount of paper money you withdraw from banks is debited against your bank account balance. Thus, even the part of the money supply that appears as paper currency begins as bank credit or "loans" on which the banks collect interest. So about 95 percent of the money supply is based on interest-bearing bank loans. Only about 5 percent of the money supply, which exists as coins spent into circulation by the

Treasury, arises outside the banks. In sum, the bulk of our money gets created as bank credit.

The amount of credit money that the banking system as a whole can create is determined by the policies of the Federal Reserve Board. The Federal Reserve is a private corporation to which Congress has delegated power (some say unconstitutionally) over money in the United States. The "Fed" acts as a central bank that presides over a private banking cartel. The share of the money-creating power allocated to each individual bank is determined by the amount of deposits that a bank is able to attract from customers and use as "reserves."[4]

As pointed out above, banks act both as creators of money and as depositories for money. When you deposit your paycheck in a commercial bank, the bank is acting as a depository. This money is then available for you to use by writing checks against your account or using a debit card. But the money that you deposited had to begin somewhere. You got it from your employer; your employer got it from a customer; the customer got it from another employer or customer; and so on, back to the beginning. The important thing to understand is the nature of that beginning. Banks *create* money by making loans; they don't just reshuffle it. The money that you received in your paycheck was created at the point when a bank, acting as a bank of issue, granted a loan to someone and credited her or his account for the amount of the loan.

As the Federal Reserve itself describes it:

> Debt does more than simply transfer idle funds to where they can be put to use—merely reshuffling existing funds in the form of credit. *It also provides a means of creating entirely new funds.* . . . [emphasis added]
>
> . . . a depositor's balance also rises when the depository institution extends credit—either by granting a loan or buying securities from the depositor. In exchange for the note or security, the lending or investing institution credits the depositor's account or gives a check that can be deposited at yet another depository institution. In this case, no one else loses a deposit. The total of currency and checkable deposits—the money supply—is increased. New money has been brought into existence by expansion of depository institution credit. Such newly created funds are in addition to funds that all financial institutions provide in their operations as intermediaries between savers and users of savings."[5]
>
> [All bank deposits originally] come into existence as banks extend credit to customers by exchanging bank deposits for the various assets that banks acquire—promissory notes of businesses and consumers, mortgages on real estate, and government and other securities.[6]

This last paragraph is just a way of saying that the bank credits your account for the amount of a loan, and you, in return, give the bank your promissory note or a mortgage on your house. Those instruments—promissory notes, mortgages, and securities—are assets to the banks. They are claims that the

banks have against the property of its customers, but to the customers they represent debts owed to the banks.

An Example of Money Creation

1. You go to a commercial bank and ask for money, let's say, to start a business.
2. The bank offers you a "home equity loan" of $100,000, which you accept. You are required to sign a note giving the bank a mortgage on your house. This note carries interest at an annual rate of, say, 8%, and requires you to make regular monthly payments of $836.44 for the next 20 years. (By that time you will have paid the bank a total of $200,745.60.)
3. The bank makes two entries on its books. One increases the amount of its assets, while the other is a corresponding increase to its liabilities. Specifically, it debits (increases) its asset account for $100,000, the asset being your mortgage note; and it credits (increases) deposit liabilities for the same amount, the liability being the $100,000 it credits to your checking account.
4. You are now free to spend $100,000. You typically do this by writing checks drawn on your account or by using your debit card to make purchases. As you do so, the supply of money circulating in the economy is increased.
5. As you make payments on your loan, the principal portion of your payment reduces your loan balance, and the supply of money circulating in the economy is decreased by that amount. The interest portion of your payment is added to the bank's equity and reserves, which allows the bank to make additional loans to others and further expand the money supply.

Why There Is Never Enough Money

Debtors are always required to pay interest on these loans. Thus, the commercial banks lend something that they create out of nothing and then require that the "borrower" pay interest for the privilege. Further, such bank loans are usually secured, that is, the banks usually require that the borrower pledge some "collateral," which they will confiscate if the borrower fails to repay the loan. Interest-bearing debts grow simply with the passage of time, but the supply of money with which to repay those loans, plus interest, can be expanded only by the banks making additional loans. The principal amount is created at the time the loan is made, but the money to pay the interest due in subsequent periods has not yet been created. Thus debtors, as a group, are in an impossible situation of always owing more money than there is in existence. They are forced to compete with one another for scarce money, in a futile attempt to avoid defaulting on their debts. Like the game of musical chairs, the system requires that some must eventually fail. Those borrowers who default

on their loans, of course, end up losing their collateral.[7]

The Federal Reserve unabashedly admits that it purposely tries to maintain the scarcity of money. It clearly states in one of its official publications the misguided notion that **"money . . . derives its value from its scarcity in relation to its usefulness."**[8] This may indeed be true for politicized and improperly issued money, but it is decidedly not true of money that is properly issued and subject to the discipline of the free market. If the central government and the financial sector claim a disproportionate share of the country's wealth by emitting what may be regarded as legalized counterfeit, then, of course, they must limit the amount of money made available to everyone else. The current system is based on the "myth of scarcity," but the world needs systems and structures that affirm the truth of an abundant universe. This does not mean structures that allow inequity and waste, but structures that are efficient, self-regulating, democratic, and unbiased, structures that enhance the prospects that each person will able to satisfy his or her basic, real needs.

How Money Is Misallocated

Money, as it emerges from the banks that create it, is not distributed fairly, because the allocation decisions are not made democratically but rather by elite groups of corporate bankers who are not held properly accountable. They act in their own interests, pursuing goals that are typical of any corporate business—profit and growth. As Ralph Borsodi explained it:

> It is a sad but outrageous fact that banking is conducted today as a business by men who label themselves businessmen—which presumably means an enterprise conducted for profit. In its essential nature, banking is a profession, and like every profession should be conducted to render a service by men whose motivation is service first, last and all the time. They must, of course, be properly compensated for their work, but this, in its essence, should be a professional fee, not a business profit.[9]

The misallocation of credit is a problem that has gained some degree of official recognition, and government attempts to remedy it are evident in such laws as the Community Reinvestment Act, which requires banks to allocate a minimum percentage of their loans to local needs for business finance and housing. Such measures may give the appearance that the problem is being addressed, but their practical effect is minuscule. In recent years, locally owned banks have been increasingly acquired and merged into ever larger holding companies. Credit allocation policies and lending decisions have been increasingly shifted to remote home offices, and many communities are being starved

for capital as the savings of the community have been sent to other regions and other countries in search of higher returns. Recent deregulation of banking, which allows banks to engage in a wider variety of financial activities, is likely to intensify this problem. Banking, always a flawed servant of the community, is today no longer a member of the community but a remotely controlled financial engine less concerned about local needs and more singly obsessed with the bottom line.

The greatest abuses, however, derive from the politicization of money, banking, and finance. Private banking interests and the central government have become intertwined and mutually dependent. In return for its privileged position, the banking cartel must assure that the central government is able to borrow and spend virtually any amount of money it wishes. The banking system, despite its public rhetoric about the importance of fiscal responsibility, will always "float" the necessary budget deficits of the central government, by "monetizing" the debt. What this means is that the banking system will create enough new money to allow the market to absorb the new government bonds that must be issued to finance the deficit. Thus, it allows the government to spend as much as it wishes without raising taxes directly. The most destructive aspect of this almost limitless power to spend is that, as E. C. Riegel has written, "it permits ambitious or designing or fanatical men who are in control of government to light the fires of war."[10] If governments were required first to come to the people to obtain the money to fight, there would be few if any wars.

The effect on the economy of monetizing government debt is that it causes a general increase in prices. This phenomenon is called "inflation," which has been called a "hidden tax." As the well-known economist Milton Friedman argues, "inflation is a monetary phenomenon." This means that the increase in prices is not due to goods and services being worth more but to the money being worth less.

Economists often argue that inflation is caused by *too much money in circulation.* This would seem to refute my contention that money is chronically in short supply. The answer to this is that inflation is *not* caused by the amount of money per se but by the fact that some of the money in circulation is improperly issued and misallocated. Such is the case when the banking system "monetizes" the government debt, as described above. We can think of that money as counterfeit, albeit legal counterfeit. It is spent into the economy without putting more goods and services into the marketplace; thus, as it is commonly put, "there is too much money chasing too few goods." Merchants, sensing this presence of excess (bogus) money, increase their prices to compensate. Other players in the economy (suppliers, workers, and so forth) follow suit to the extent that their market power allows. The phenomenon of inflation, along with that of deflation, will be discussed more thoroughly in chapter 9.

In our economy, the people have been cut out of the most important decision process, that of determining how the aggregate wealth of the nation, the fruits of everyone's labor, will be spent. Some of the abuses that result are massive expenditures for weapons; military interventions; "foreign aid" to support client governments; and bailouts of corporations and third-world governments, which benefit mainly the banks and the wealthy well-connected few while increasing the gap between rich and poor.

How Money Pumps Wealth from the Poor to the Rich

When I say that money pumps wealth from the poor to the rich, I speak not of the very poor, who have little or no wealth-producing capacity, but of the vast majority of people who work for a living but have little or no financial "net worth." The "debt trap" is the bane of that class of people. Debt within the current system is destructive in two ways, first because of the interest (usury) that must be paid for the use of money (bank credit), and second, because of the collateral that must be forfeited when the debtor is unable to make repayment.[11] The chronic insufficiency of money assures that there will inevitably be some forfeitures. It is interesting to note that the word *mortgage* derives from roots that mean "death pledge," a kind of gamble. It is almost impossible anymore for a family to acquire a home without undertaking the "death gamble." My grandfather, along with countless others, lost that gamble and his home during the Great Depression, when because of unemployment he was unable to make his mortgage payments to the bank.

If information is the essential quality of money, then the next logical question is, What kind of information does it, and should it, carry? The answer that immediately presents itself is that money should carry information about "merit." If money allows its possessor to claim wealth from the community, what is the basis for that claim? The possession of money should be evidence that the possessor has delivered value to the community (in the form of goods and services) and is therefore entitled to receive back a like amount of value.

If money is improperly issued, though, the information that it carries is polluted at the very source. By issuing money to unproductive or privileged clients of the money monopoly at more favorable terms, and by demanding higher interest rates from the rest, the banking system redistributes wealth from producers to privileged nonproducers. The consistent pattern of official action over the past several decades has been to concentrate economic power by centralizing control over the medium of exchange, limiting access to it, and charging exorbitant prices (in the form of interest/usury) for its use. Money carries information, but the present monetary system is dysfunctional because it carries flawed information.

For Whom the Debt Tolls

No debtor is an island, paying interest all alone. Everybody pays the cost of interest, even those who do not borrow directly. Interest costs are included in the price of everything we buy, whether the goods or services are provided by the business sector or the government. The production of whatever we buy must be financed in some way, and interest is the cost of using financial capital. Margrit Kennedy gives examples that show the percentage of the costs that go to pay interest on capital. Though her examples are drawn from her native Germany, it is clear that the pattern would be similar for all industrial nations, since their monetary and financial structures are all basically the same.

Kennedy shows that the costs of interest on capital in the 1980s, as a percentage of the fees paid by users, were 12% for garbage collection, 38% for water, 47% for sewers, and a whopping 77% of rents paid for public housing.[1] She also compares the interest paid and the interest gained (as income) for the population of what were then West German households divided into ten different income groups of equal size. This comparison indicates, as expected, that the lower income groups, because they tended to be net debtors, paid much more interest on their debts than they gained in interest on their investments. Indeed, the 80% of households having lower incomes, on average, paid more interest on their debts than they gained in interest on their investments. The highest 10% gained about twice as much interest as they paid, and the richest of those gained progressively more.[2]

Lending money at interest, either directly or through financial intermediaries, is one of the primary mechanisms by which the rich get richer and the poor get poorer.

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Chapter 4

What Is Money?

Money is an information system we use to deploy human effort.

—Michael Linton

The question What is money? may at first seem trivial. After all, weinthismoderndaymake constantuse ofit.Butit isourconfusionabout theessenceofmoneythathasallowedittobeabused,misused,andmisallocated. Like water to the fish, money is the primary medium within which we live our economic lives. As such, we take it for granted and rarely look at it objectively.

At the outset, it is necessary to make a clear distinction between *money* and *wealth.* It is quite common for us to use these terms interchangeably, but an understanding of the money problem requires that we beprecise in our meanings and usage of terms. Have you ever heard someone make a statement to the effect that so-and-so "has a lot of money?" What do people mean by that? That so-and-so has stacks of United States currency notes stuffed in a mattress or closet? Or a huge balance in a checking account at the bank? Or owns lots of stocks, bonds, or real estate? Chances are that so-and-so actually has very little currency and only a small amount in the bank. What was probably meant, and what should have been said, is "so-and-so is very *wealthy.*" People hold their wealth in various forms, but most of these forms are not money.

How did we come to be so careless in our usage of these words? It is understandable in light of the fact that we live in a culture in which market mecha-

nisms are highly developed and very efficient. These markets allow for the easy conversion of one form of wealth into another by means of ordinary exchange processes of buying and selling, and borrowing and lending. Stock markets, bond markets, real-estate markets, and others make it relatively easy to convert "illiquid" assets into more liquid form: into money. It is no accident that we apply the term "liquidity" to distinguish various kinds of assets from one another on the basis of their acceptability as payment in the market for goods and services. As blood in the physical body is liquid and provides for the easy exchange and transport of nutrients and wastes throughout the body, money is also "liquid" in that it facilitates the exchange of goods and services and their allocation throughout the economy.

Definitions

So what *is* money?

There are three kinds of definitions we should consider.

A practical definition describes money's distinguishing feature in common practice.
A functional definition tells what money *does*.
An essential definition tells what money actually *is*.

The practical definition of money is this: Money is anything that is *generally accepted* as a means of payment. According to this definition, money is whatever people collectively say it is. Something is established as money by a general consensus among traders that they will accept that something as payment for the goods and services they sell.

The functional definition of money is the one typically found in the textbooks, which lists multiple functions as belonging to money. These include the following:

1. Money is a medium of exchange.
2. Money is a standard of value.
3. Money is a unit of account.
4. Money is a store of value.
5. Money is a standard of deferred payment.

There are many problems with these definitions, but their primary inadequacy is that they tell what money *does,* not what it *is.* We need to understand the basic *essence* of money. Once we have grasped its essence we can begin to design exchange systems that will more equitably serve the needs of people and avoid money's destructive impact on the earth.

The Essential Nature of Money

What, then, is the essential nature of money?

Michael Linton, the originator of an exchange system called "LETS" (Local Employment and Trading System), has provided us with an essential definition of money. Linton defines money as "an information system we use to deploy human effort." This is a profound revelation, and, if we think about his definition, it becomes clear that our **acceptance of money is based on its informational content.**

Think of the market economy as a game of put-and-take. Each player takes goods and services from the market, and each player puts goods and services into the market. Money is really just a way of keeping score. When you take something from the market (by buying), you offer money in payment. When you putsomethinginto themarket (byselling),you receive money in payment. Other thingsbeing equal, those who put more value into the economy (by selling) receive, over time, more money. **Money, then, is an accounting system.**

Another problem with the traditional functional definitions given above is that they are mutually contradictory. Consider that *money as a medium of exchange* is diametrically opposed to *money as a store of value.* If money is to be used as a medium of exchange, it should be spent; if it is to be used as a store of value, it should be held. The ideal money, as I will show later, should be purely a medium of exchange, and that is what we will consider it to be. Storage of value is best accomplished in other ways, for instance by investment in real assets such as land, buildings, tools, equipment, and commodities or in financial assets such as stocks, bonds, or time deposits in a bank, to name a few. Similarly, the use of money (in its modern form) as a standard of value invites confusion and mismanagement. When money was in the form of gold or silver, it could effectively serve as a standard of value, but now, when money is simply an IOU of a government or central bank, its value is determined more by monetary management policies than by market forces. This issue has been more completely addressed elsewhere, and will be revisited in chapter 6.[1]

The Exchange Process and the Purpose of Money

The process of economic exchange always involves two parties. The fundamental exchange process is the barter exchange. When Smith delivers to Jones a sack of flour and Jones gives to Smith a bushel of apples in return, a complete barter transaction has occurred. Both parties are satisfied, and both have profited from the exchange. Smith values Jones's apples more than the flour he has to give for them, while Jones values Smith's flour more than the apples he must give. Thus, both parties are satisfied that they have gained something in the bargain. The problem with simple barter, of course, is that Jones may want

Smith's flour, but he may have nothing that Smith wants. In that case no trade can be made. The fundamental purpose of money, experts have long agreed, is to transcend this limitation of barter. Bilgram and Levy, for instance, assert: "We should . . . define money as *any medium of exchange adapted or designed to meet the inadequacy of the method of exchanging things by simple barter.*"[2]

But what constitutes a medium of exchange, and how can one trading partner use it to get what she wants, even though she has nothing wanted by the other? Bilgram and Levy go on to explain: "The one quality which is peculiar to money alone is its general acceptability in the market and in the discharge of debts. How does money acquire this specific quality? It is manifestly due solely to *a consensus of the members of the community to accept certain valuable things, such as coin and certain forms of credit, as mediums of exchange.*"[3]

We can see then that **the essence of money is an agreement** (a consensus) **to accept something that in itself may have no fundamental utility to us, but that we are assured can be exchanged in the market for something that does.**

Whatever we use as money, then, carries information. The possession of money, in whatever form, gives the holder a claim against the community of traders who use that money. The amount of money informs us about the magnitude of that claim. But the *legitimacy* of that claim also needs to be assured in some way. The possession of money should also be evidence that the holder has delivered value to someone in the community and therefore has a right to receive like value in return, or that the holder has received it, by gift or other transfer, from someone else who has delivered value.

Unfortunately, throughout history, this ideal has been subverted in various ways depending on the kind of money used at the time.

Historical Forms of Money

Many different forms of money have been used. But the forms or kinds of money in common use have, over time, become progressively less substantial and more ethereal. There are three basic kinds of money:

commodity money
symbolic money
credit money

In earlier times, certain useful *commodities* were used as money. These included such things as salt, cattle, and grain. Tobacco was commonly used as money in colonial America. Commodity money carries value within itself, making it easy for traders to evaluate its soundness. The use of commodities as a medium of exchange really amounts to *indirect barter.* Such commodities can serve the exchange function because they are useful in themselves and generally in demand. I may have no use for tobacco myself, but if I know that oth-

ers want it and it can be easily traded, I may accept it in payment when I sell my goods or services.

The use of precious metals as money is no different in nature from the use of any other commodity. Gold and silver came to be widely used as money because they provided the advantages of greater convenience, portability, and durability, especially when stamped into coins of certified weight and fineness. The certifying entity was initially the king or the government of some nation or political subdivision, but private coinage also has historical precedent.

Later, it became more common to use paper notes and base metal coins, which were *symbolic* representations of commodity money, typically gold or silver, deposited with a goldsmith or a bank. The bank would give the depositor paper notes that were, in effect, receipts or "claim checks" for the metal deposited. These notes could then be used as money. They were accepted in the marketplace because everyone knew that they could be presented to the issuer, who would "redeem" them, that is, give the note holder the metal they represented. Modern banking developed on the basis of issuing paper currency against "fractional reserves," meaning that the banks issued more paper "claim checks" than they had gold to redeem them with.

Commodity money and redeemable paper have progressively given way to nonredeemable notes, bank credit, and computerized accounts, that while offering certain advantages, are easier for issuers to abuse and more difficult for traders to evaluate. Today, most of the money in use exists in the form of bank credit, with a small percentage also in the form of circulating paper notes of the central bank, which, in the United States, is the Federal Reserve Bank. These notes, however, are merely a physical representation of money that was first created as bank credit and later exchanged for paper.

Confusion often arises, as well, from the variety and proliferation of *monetary instruments.* These include what we commonly think of as money itself—precious metal coins, base metal coins, tokens, paper notes or bills—but also deposit account balances, smart cards, and now e-cash. In addition, we have checks, wire transfers, and debit cards, which are not money themselves but ways of ordering the transfer of money from one account to another.

The Money Circuit

Money flows in circular fashion. In order to apprehend the meaning of money, one must first recognize the essential fact that **money has a beginning and an ending; it is created and it is extinguished.** This is depicted in figure 4.1, which shows money in its basic and ideal form. Money is first created by a buyer who issues it to a seller as evidence of value received. The money issued may be thought of as an IOU that the buyer uses to pay for the goods and services he

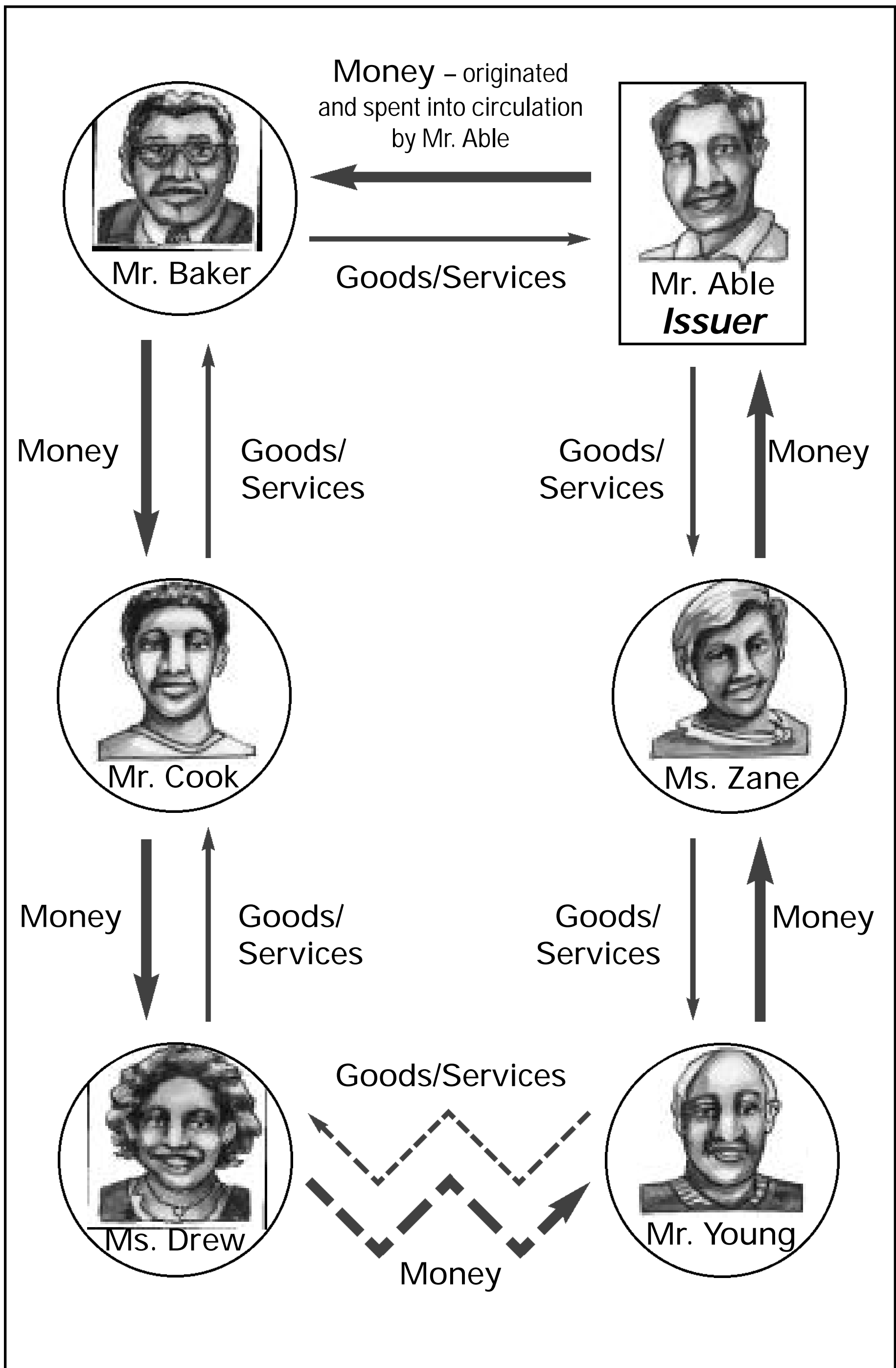

Figure 4.1. The ideal money circuit.

bought. That IOU might be passed along from hand to hand as each recipient, in turn, uses it to pay for his or her own purchase. Eventually, it must come back to the originator of the IOU, who redeems it by selling something of value and accepting the IOU as payment.

As an example, consider the process depicted in figure 4.1. The originator, Mr. Able, buys something of value from Mr. Baker. He gives Mr. Baker his IOU as evidence of value received. Baker then uses the IOU to buy something from Mr. Cook, who in turn uses it to buy something from Ms. Drew. The IOU may continue to change hands any number of times as others use it to buy and sell (as indicated by the dashed lines between Ms. Drew and Mr. Young), but eventually it must return to Mr. Able. At that point, Able has fulfilled his commitment to redeem the money he issued (the IOU). He does this by selling goods or services equal in value to those that he received when he made his original purchase, accepting as payment his own IOU, which is the money that he originally created. At that point, Able extinguishes the money.

Now think of a group of traders who agree to accept each other's IOUs as payment in trade. Suppose they design a standardized form for their IOUs so that theyare indistinguishablefrom oneanother. These standardizedIOUs can take whatever form the community of traders has agreed to use for this purpose. They may be paper certificates, metal tokens or coins, or simply numbers in an account ledger that can be kept in a computer or simply in a notebook. Each member of the group obtains a supply of these standardized IOUs or notes of fixed denomination, which she or he can now spend into circulation.

Now the originator, Mr. Able, instead of using his own personal IOU to pay for his purchase, gives Mr. Baker standardized notes or IOUs. As before, Mr. Baker then uses that money to buy something from Mr. Cook, who in turn uses it to buy something from Ms. Drew, and so on. Mr. Able is still committed to redeem the notes he issued and must eventually sell something, accepting as payment notes equivalent in amount to those he originally issued when he paid Mr. Baker.

This conceptualization of money is further elucidated by quoting E. C. Riegel's excellent exposition:

> Money simply does not exist until it has been accepted in exchange. Hence two factors are necessary for money creation: *a buyer, who issues it, and a seller, who accepts it.* Since the seller expects, in turn, to reissue the money to some seller, it will be seen that money springs from mutual interest and cooperative action among traders, and not from authority. That the Government can issue money for the people . . . is an utter fallacy. Money can be issued only by a buyer for himself, and he must in turn be a competitive seller to recapture it and thus complete the cycle.

> A would-be money issuer must, in exchange for the goods or services he buys from the market, place goods or services on the market. In this simple rule of equity lies the essence of money.[4]

Riegel conceived a "private enterprise money" that closely conforms to this ideal.[5] Most contemporary mutual credit systems, for example LETS, also conform to this ideal.

Bank Credit Money and the Interest Burden

In simple mutual credit systems, money springs easily into existence whenever it is needed for exchange. In the current official system of money and banking, however, an originator of money must first obtain authorization from a commercial bank before putting money into circulation. Typically, this is done by making an application for a "loan." Let us use our previous example as a staring point to explain how it works. Before Mr. Able can spend money into circulation, he must get a "loan" from a bank. After his application is submitted, the bank will evaluate Mr. Able's "credit-worthiness" and the value of his collateral. Let's say that Able offers his farm as collateral against the "loan." He signs an agreement known as a mortgage deed of trust, and, in turn, the bank credits his account for so many dollars representing the principal amount of the "loan." This is depicted in figure 4.2. In effect, Mr. Able gives the bank a legal claim (the mortgage) to his farm in return for standardized IOUs (bank credit or cash notes), which others will accept as payment for his purchases. In terms of the prevailing practice, Able has obtained authorization to write checks against or draw out cash from his bank account, up to the amount of his "loan."

Mr. Able, as before, has obligated himself to the community to *redeem, by selling,* the same amount of money he *issued by spending.* But, in addition, he has also obligated himself to return to the bank the amount of money he "borrowed," *plus interest.* Thus, he must make sales sufficient to recover not only the amount of money he issued ("borrowed") but also to obtain an additional amount in order to pay the interest. If he is successful in doing so, he can reclaim his mortgage note from the bank; if not, he loses his farm. When he repays the bank, the money he issued is extinguished. The redemption phase of the process is depicted in figure 4.3. Note that the diagram shows a dashed line labeled "interest" coming to Mr. Able from outside the circuit and going to the bank.

In this scenario, Mr. Able is still the issuer, not the bank. The bank has not really loaned him anything; it has simply converted the value of Mr. Able's farm into negotiable form. This process is called *monetization.* The bank has used its legal authority to "create" money by adding credit to Mr. Able's checking account or giving him the equivalent amount in the form of Federal Reserve

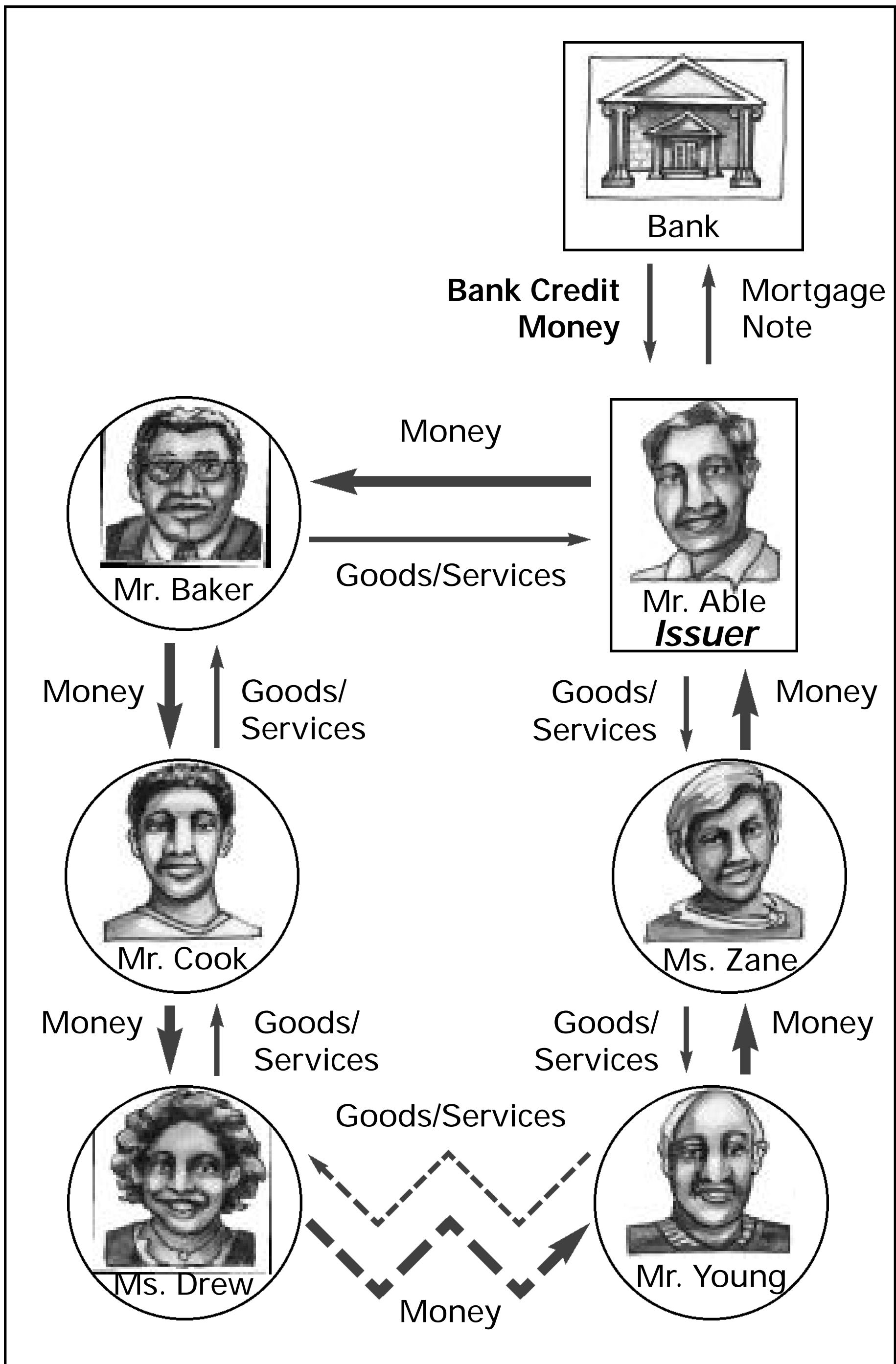

Figure 4.2. The bank credit money circuit — lending phase.

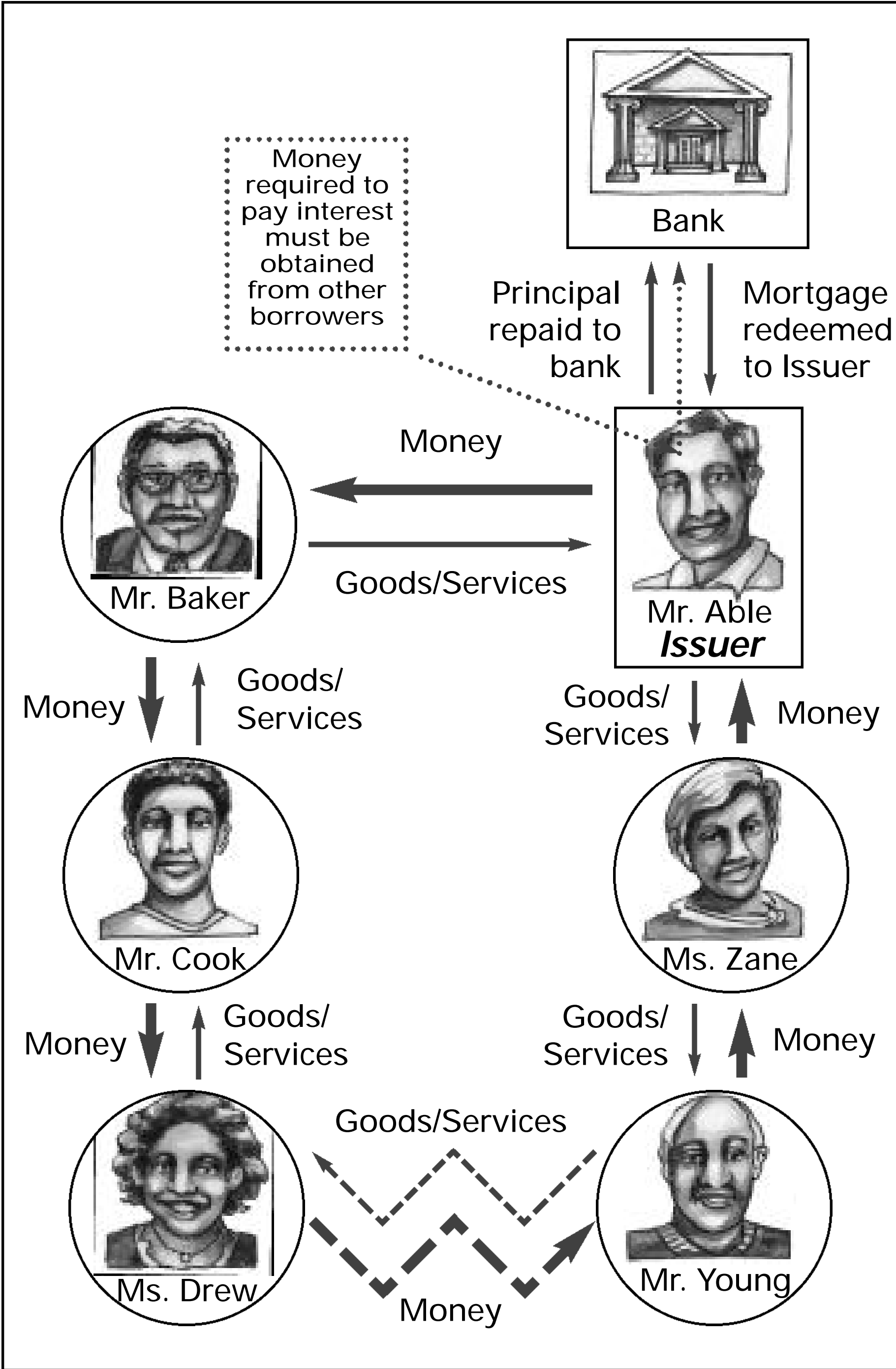

Figure 4.3. The bank credit money circuit — redemption phase.

notes in return for his mortgage or IOU. In other words, the bank has monetized part of the value of Able's farm. The problem here is that the extra amount of money required of Mr. Able to pay interest on the loan is not available within the circuit; it can come only from some other similar circuit, which is to say, money "loaned" to some other trader ("borrower") who has also gone in debt to the bank. Now, if Able succeeds in earning some of *that* money, the second borrower will not be able to earn back enough money to redeem *his* mortgage. Thus, the charging of interest on the bank "loans" on which new money is based causes a deficiency of money in circulation, eventually preventing some debtors from earning back enough to redeem their collateral. **Thus, the prevailing system guarantees that there will be a steady parade of losers. This is the fundamental flaw in the present monetary system.**

The example above is simplified to illustrate the point. In the real world there are thousands of banks and millions of borrowers. The banks are continually making new loans and retiring old ones as they are repaid. In the aggregate, the debts owed to banks are increasing with the mere passage of time, because interest accrues over time. The money available to repay those debts, however, can be created only by the banks as they make additional loans. **The net requirement, then, is that banks must make new loans faster than they retire old loans, that is, there must be a continual expansion of bank credit money.** If there is not, the result is depression—increasing numbers of defaulted loans, greater numbers of bankruptcies, expanding unemployment—and all the human misery that comes with it.

The problem is not that we use bank credit as money but that there is an interest burden attached to it. In systems theory this is known as a "positive-feedback" mechanism, one that causes each subsequent state to be, in some way, bigger than the preceding state—in simplistic terms, an explosion, but in this case an explosion of debt.

Am I saying, then, that all interest is dysfunctional and must be avoided? Not necessarily. It is one thing for those who have *earned* money to expect a return for its use when they lend or otherwise invest it; it is quite another for banks to charge interest on newly created money that they authorize based on debt.

In the former case, we are talking about businesses and individuals who have earned money in the course of their business and exchange activities. They have produced and sold real goods or services, received money in return, and seek to make productive use of their current surplus through saving and investment. They are entitled to share in the gains resulting from the allocation of these surplus funds to others.[6]

In the latter case, however, the imposition of interest creates an unstable condition in which the money supply always lags behind the growing amount of debt owed to banks. Inevitably, a point is reached at which the private sector

is unable or unwilling to assume any additional debt burden. Then, a way must be found to keep the money supply from lagging behind the growth of debt. Such was the case during the Great Depression of the 1930s (more about this later). From that time onward, the federal government has assumed the role of "borrower of last resort." Thus, when the monetization of private debt cannot be further pursued, the Federal Reserve will monetize part of the government budget deficits to prevent a shrinkage of the supply of money.

The prevailing monetary policies of the Fed determine whether money is "easy" or "tight," that is, whether the monetization of government debt will be sufficient to provide private "borrowers" with the amounts of money needed to pay what they owe to the banks, or whether it will fall short. These actions by the Fed are largely responsible for the "business cycle" and periodic rounds of inflation and recession. Through the various mechanisms under its control—interest rates on loans it makes to banks, purchase or sale of government securities, and setting bank reserve requirements—the Fed has the power to decide whose interests will be favored and whose will be harmed.

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PART II

COMPLEMENTARY CURRENCIES, PAST AND PRESENT

This section provides a historical overview of some of the more significant private and community exchange systems and currencies. You may have heard of *scrip* from your grandparents who lived through the Great Depression, or you may have seen one of the many news stories that have appeared in recent years describing *LETS, Ithaca HOURS, Time Dollars,* or one of their many related offshoots, or you may be one of the pioneers who have actually participated. These and other local money systems are described here, but the material is not solely descriptive. As we try to learn from the experience of both the distant and recent past, we also begin in part 2 an evaluation and critique that will be continued and elaborated in part 4.

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Chapter 11

Recent Models and Developments

Money That Builds Community

—Motto of Toronto Dollars

The community currency movement continues to develop, with new systems being launched almost every week. Each presents a new opportunity to experiment and innovate. While most of these systems follow closely one of the two most popular models—LETS and Ithaca HOURS—some have unique features. This chapter describes a few of the more interesting cases, which, as they continue to develop, may be worth emulating.

Tucson Traders

After a series of meetings in 1997 that included the author and several other interested people, Tucson Traders was launched in early 1998. The core group wanted to establish a community exchange system that would be fiscally sound and easy and inexpensive both to set up and to operate. It was agreed that a mutual credit system using a set of ledger accounts best satisfied these criteria. It was thought that by keeping the financial and labor overhead low, the system could be allowed to grow at its own pace and without much risk of failure or core group burnout. While the group recognized some of the advantages of circulating paper notes, it was thought that they could be phased in later after the system had become well established.

The group even decided to pass up the usual computerized ledger systems commonly used by LETS and other mutual credit systems and, for the time being at least, to opt for a simple pen and paper accounting system. This took the form of a loose-leaf notebook that contained a page for each member. All

members' trades were recorded on these pages. Periodic account statements could easily be provided to each member by simply mailing a photocopy of his or her page. A sample page of this type is shown below in figure 11.1.

The name "Tucson Token" was chosen for the value measure and unit of account, which would have a value equivalent to that of the United States dollar. It was decided that each member should have an initial line of credit of TT200 (200 Tucson Tokens), meaning that their account could not exceed a debit balance of two hundred tokens. A voice-mail telephone line was obtained for members to use in reporting their trades, for communication of news and events, and for prospective members to request information packets. Out of the core group of organizers, a decision-making body called the steering committee emerged. The steering committee is a nonhierarchical body that makes decisions using a consensus process, and participation is open to the entire membership.

Community Mutual Credit Exchange

Member Name: ____________________

Membership Number: ______________

Date	Provider	Recipient	Description	Debit for Purchase	Credit for Sale	Balance

Figure 11.1. A pencil and paper accounting system.

As the word spread, the size of the membership grew rapidly, and, after less than a year, the steering committee decided that it was time to computerize the accounts. However, rather than adopting one of the available LETS accounting programs, the accounts were set up on a standard database program. It was early recognized that, given the geographic size of Tucson and the wide distances that separated many of the members from one another, some way would need to be found to make trading more convenient. Various approaches were tried as a way of bringing members together periodically. What seemed to work best was the Saturday trading "bazaars," which were held once every other month at a neighborhood center operated by the city. The bazaars gave members a chance to socialize, to sell their products, and to sell items they no longer needed.

As time went on, however, attendance at these events dropped off. Some members objected to selling their quality handcrafted items in a "flea market" atmosphere. Also, there seemed to be a number of problems with the venue. First was the "sterile" atmosphere at the center, which had fluorescent lights, white walls, and unaesthetic decor. Another was the location, which some people thought was inconvenient. Unloading and loading things that members brought to sell was also less than convenient. Besides that, the rules imposed by the neighborhood center would not permit any exchange of official cash to be part of the transactions. Venues that do not impose such limitations are being sought. A more ideal place would be one where vehicles can get close to the activity space and where traders have a choice of setting up their display tables either indoors or outdoors. There has also been some discussion about possibly shifting from trading bazaars, which have been limited to members only, to "community flea markets," which would be open to all. Some people believe that a more open event will increase the quantity and assortment of goods and services offered for sale, which will attract a greater number of people and provide an opportunity to recruit new members.

Toward the end of 1999, the steering committee began a serious review of the system structures and procedures. This arose from the fact that some problems were making administration of the system burdensome, and also from a desire to broaden the base of the membership. First of all, it was agreed that it was important to recruit more businesses to participate in the community exchange process, but most of the businesses that were approached were not interested in joining a ledger system because of the extra labor overhead that would entail. Second, it was felt that some members were misperceiving the role of the steering committee and making inappropriate demands on it. Specifically, some members who were less than satisfied with some of their trades thought it appropriate to bring their complaints to the system accountant or others in the volunteer core. The system administrators felt that their job was to record trades and update members' accounts and that mediating disputes between traders was a burden they could not bear.

Figure 11.2. TT Twenty Token note—front side.

Figure 11.3. TT Twenty Token note—reverse side.

Another problem was that two or three members had exceeded their allowable debit limit of two hundred tokens. In one case, in fact, the limit had been exceeded by about five hundred tokens. This situation was thought to be detrimental to the health of the system. Various ways of dealing with the problem were considered, but none was entirely satisfactory. As the computerized accounting system was improved and it became easier to check account balances, the system accountant started refusing to post transactions that would cause the debit limit to be exceeded. This, of course, caused some ill feeling on the part of those who had made such sales in good faith and expected their account to be credited.

It soon became clear that it was time to implement the use of paper currency. This would, at one stroke, solve a number of problems and offer a number of advantages for trading and system expansion. It would reduce the workload considerably by eliminating the need to record every trade and reducing the frequency of sending out account statements. Further, although it would not remedy the existing cases of excessive debit balances, it would prevent overspending in the future. By going to a "currency only" exchange system, Tucson Traders could easily enforce the debit limit. No more than two hundred tokens would be issued to any member, so that would be the maximum they could spend into circulation. Shortly after making the shift to paper currency, the system accountant reported that "the greater advantage so far seems to be a change in people's attitude about TT's administrative role—many folks came to us with their personal disputes about trades. Now that

there's nobody to report their trades to, there's less temptation to report their complaints as well."

In March of the year 2000, at its second anniversary celebration, Tucson Traders made the shift to circulating paper currency notes. One-token, five-token, and twenty-token notes, each designed by a different artist, were printed by a local printer who also happened to be a member of the steering committee. Figures 11.2 and 11.3 show the two sides of the twenty-token note. The celebration was held at a popular café/restaurant that had just become a member and agreed toaccept 25 percent payment in tokens. For this special event, the café offered selected menu items for either 50 percent or 100 percent tokens.

Any Tucson Token notes issued to a member would be debited to his or her account. Since almost every member already had an account balance, a way had to be found to make the transition to paper currency work smoothly and equitably. It was decided to retain the existing debit limit of TT200 and allow members to draw token notes up to that amount. For those who already had a debit balance, the amount of token notes that could be drawn was reduced by the amount of their current debit balance. Thus, a member who had an existing debit balance of 60 tokens would be allowed to draw notes amounting to only 140 tokens. Likewise, those members with a credit balance would be allowed to draw more than 200 tokens in notes. Thus, a member who had an existing credit balance of 100 tokens would be allowed to draw up to 300 tokens in notes. It was recommended, however, that members draw out only 50 tokens to start. It was decided that new members would automatically receive TT50 upon joining and be informed that they could request more, up to the 200 token limit.

Each member was asked to sign a new agreement acknowledging that any debit balance, which included Tucson Token notes issued to them, represented an effective "loan" extended to them by the members in general, and

Tucson Traders Membership Agreement

By signing this agreement, I state that I will, upon (or prior to) termination or expiration of my membership with Tucson Traders (TT), reimburse TT for the total amount of tokens that have been issued to me throughout the course of my membership, according to TT's recourds. If I am unable to obtain that amount in Tucson Tokens, I will present the equivalent amounti n federal money.

Printed Name:________________________________

Signature: _________________________ Date: ______

Figure 11.4. Tucson Traders membership agreement.

that this “loan” must be paid back if and when their membership was terminated. The exact agreement is shown in figure 11.4.

At the same time, the steering committee agreed that it would allow members to submit requests for loans of more than two hundred tokens. These loan requests must be submitted in writing and will be reviewed by the steering committee. While the formal criteria for approval are still being developed, consideration is being given to the applicant’s past account history and the purpose for which the loan proceeds will be used.

Prior to making these changes, the membership was asked for its consent. Almost everyone seemed to agree that the changes would be beneficial and they were eagerly endorsed. Time will tell how successful these strategies will prove to be, but Tucson Traders will be an interesting case to watch.

The d MAK “Barter” Circle

In the eastern German town of Halle, a group has come up with an utterly simple approach to the recordkeeping problem. They have formed a trading system that they call “The Barter Circle.” Its accounting unit is equivalent in value to one German mark.

Like most other mutual credit systems, the döMAK system provides for interest-free reciprocal exchange among its members, but unlike the typical mutual credit systems or LETS, there is no central recordkeeping of exchange information. Instead, each member of the döMAK system is issued a logbook in which only his or her transactions are recorded. When a trade is negotiated between two members, it is recorded in each of their logbooks. There is a space for each important item of information: a description of the goods or services traded, the amount of döMAKs debited or credited, the updated account balance, and the validation signature of the other party in the exchange. Recording transactions in this way provides the two parties to the trade with instant, up-to-date information about the status of each other’s account—whether they have a debit balance or a credit balance, and whether its amount is within the agreed limits.

This solves one of the common concerns of mutual credit systems, which is to prevent members from overdrawing their accounts. If, instead, there is a central ledger, the only way a seller can check a prospective buyer’s account balance is to contact the registrar. This is usually not possible except perhaps in a few very large systems that have regular paid staff, and even then only within limited business hours. Moreover, the central account information may be much out of date, depending on the timely reporting of trades by the members and the frequency and diligence of the registrar in posting transaction information to the ledger of accounts. This leaves overdrafts to be dealt with after the fact, which causes a great deal of trouble and ill will.

Another advantage of the döMAK system is that only those who need to know, the traders themselves, have access to their personal trading information. A possible downside, of course, is the chance that someone will falsify entries in a log book, causing it to show more credits than were actually earned. The system has a partial safeguard against this in that members must exchange their logbooks for new ones at the end of each year, at which time entries are checked by the management group. Still, this leaves plenty of room for fraud in the interim. For this reason, the döMAK approach will probably work best within a relatively small community of people who know and trust one another. Larger, more impersonal systems would seem to call for tighter, more secure procedures.

Toronto Dollars, "Money That Builds Community"

The St. Lawrence Market is a matrix of historic streets and buildings in the heart of old Toronto, and the focal point of the St. Lawrence neighborhood. The Toronto Dollar local currency was instigated by renowned Canadian author and neighborhood resident Joy Kogawa. Working together with her partner, John Flanders, and a small core group of supporters, including businessman David Walsh, the community currency project gradually took shape. A not-for-profit community group called Toronto Dollar Community Projects Inc. was formed specifically for the purpose of issuing the currency, which was launched in December 1998 when, according to Flanders, "amidst much hoopla and media coverage, Toronto's Mayor, Mel Lastman, kicked it off at the historic St. Lawrence Market by exchanging his Canadian federal dollars for Toronto Dollars and spending them with participating local businesses."

Toronto Dollars are a prime example of what I call a *fully funded* currency, in that it comes into circulation when someone buys it, dollar for dollar, with official currency. (This type of currency will be described more fully in chapter 14.) The Canadian dollars received from the sale of Toronto Dollars go into a Toronto Dollar Reserve Fund that provides the means for later redemption of Toronto Dollars back into Canadian dollars. Participating businesses agree to accept Toronto Dollars at par with the Canadian dollar.

Essential Features of Toronto Dollars

- Toronto Dollars are issued by Toronto Dollar Community Projects Inc., a not-for-profit organization.
- People exchange their Canadian dollars for Toronto Dollars at par, one Toronto Dollar for one Canadian dollar.
- They then use Toronto Dollars (as they would Canadian dollars) to pay for goods and services offered by participating businesses and organizations.
- For each Canadian dollar exchanged, ninety cents is put into a Toronto

Dollar Reserve Fund administered by Toronto's First Post Office to back the Toronto Dollar. The other ten cents goes into a Community Trust Fund, to be used for community improvement projects, or is retained by nonprofit groups that sell Toronto Dollars to the public.

- Businesses that accept Toronto Dollars can choose to use them at par by making purchases at other participating merchants, or they can redeem them, receiving 90 percent of the face value in Canadian dollars from the reserve fund. Only businesses are allowed to redeem Toronto Dollars.
- The ten cents on each dollar that is held back is given to community organizations chosen by the Toronto Dollar organizing group.
- The interest income earned on the reserve fund deposits is used to offset administrative expenses.
- Toronto Dollars are printed in denominations of one, five, ten, and twenty dollars using standard anticounterfeiting techniques.
- Toronto Dollar notes carry an expiration date. They have a two-year (or less) life.

Figures 11.5 and 11.6show thetwo sides of the TorontoDollar tendollarnote.

The Evolution of Toronto Dollars

Toronto Dollars is a volunteer community project of St. Lawrence Works, "a coalition of business and cultural groups interested in putting its collective

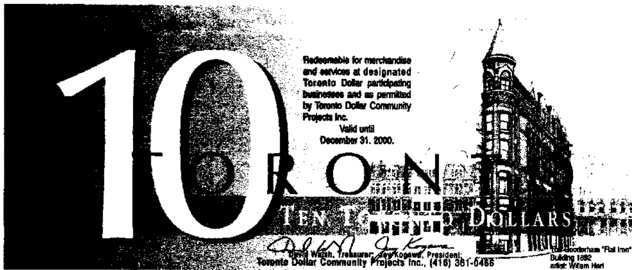

Figure 11.5. Toronto Dollar ten dollar note—front side.

Figure 11.6. Toronto Dollar
ten dollar note—
reverse side.

shoulder to the wheel to help community initiatives."[1] According to John Flanders, one of the founders, the Toronto Dollar project evolved in the following way. Toward the end of 1997, several people from LETS Toronto met with community leaders and business people in the St. Lawrence area of Toronto with the intention of setting up a local LETS as part of the dream of a multi-LETS project. They found it difficult, however, to interest the business community. There were various reasons for this, including the internal difficulties that LETS Toronto was then experiencing. In addition, the telephone reporting system used by LETS Toronto was seen by some as being too cumbersome for small retail stores.

The group saw that business participation was vital to the realization of a community currency system that would have broad-based support and wide distribution. LETS typically suffer from a lack of business involvement, which severely limits the usefulness of LETS credits. A primary goal of the Toronto group was to transcend this limitation.

The group then looked to the Ithaca HOUR as a possible model. Ithaca, New York, has managed for several years to sustain a paper currency that appeals to both businesspeople and individuals within the Ithaca area. It was estimated that, at the time, there were more than 3,500 participants in that system, including 350 businesses that offered a range of useful products and services.

For a while, the Toronto organizers considered blending the Ithaca HOUR model with the LETS model but decided, for the time being, to drop LETS altogether and develop a paper currency. But because of merchant concerns "about getting stuck with large amounts of Toronto Dollars," a substantial departure from the Ithaca model was made. Another of the founders, businessman David Walsh, insisted that Toronto Dollars should be issued based on the payment of Canadian dollars, and that they should expire at some point. It was recognized that tying the Toronto Dollar so closely to the Canadian dollar would limit its empowerment potential, but it would provide the level of safety needed to satisfy the business community and achieve the primary goal of broad-based acceptance of the local currency.

The existence of the Toronto Dollar Reserve Fund and the option of redeeming community currency for federal currency were seen as powerful selling points in gaining the participation of the business community. Indeed, the participating merchants generally view Toronto Dollars as safe, credible, and risk-free.

Current Status

By the end of 1999, slightly more than 100,000 Toronto Dollars had been sold. The organizers estimate that the average amount in circulation at any one time has been between $30,000 and $35,000. There were about 105 participating businesses, including about 40 food vendors in the St. Lawrence

Market and 17 restaurants, all of which accept 100 percent payment in Toronto Dollars.[2] Partnerships with two community newspapers had been formed to carry advertisements from program participants. In mid-1999, the project got a big boost when CIBC (Canadian Imperial Bank of Commerce), one of North America's leading financial institutions, agreed to sell Toronto Dollars at twoof its central Toronto branches.[3] During 1999, the Toronto Dollar project gave $10,200 in donations to eighteen community groups. A "Toronto Dollar Party" sponsored by the St. Lawrence Market, in which thirty community groups participated with display tables and a silent auction, was attended by more than three thousand people. This is planned to be an annual event.

The organizers' current ambitions include expanding the number of participants to include businesses in adjoining neighborhoods and communities and "closing the loop" of production and distribution to make the currency more useful to all players in the local economy: basic producers, manufacturers, wholesale distributors, retailers, workers, and consumers.

How Does it Work?

Since Toronto Dollars are presently accepted only by businesses within the St. Lawrence neighborhood, their circulation tends to be geographically limited to that area. Anyone, however, is free to accept them, and many people who live outside the area do accept them, knowing that they can always spend them when they visit the St. Lawrence neighborhood. Residents, local businesses, community organizations, and visitors exchange their Toronto Dollars with each other, as well.

Toronto Dollars are fully backed by official money but only participating merchants are allowed to redeem them, and then only at ninety cents on the dollar. These provisions are designed to encourage circulation and to discourage redemption. Using Toronto Dollars costs the consumers nothing since they receive the same amount of goods and services as if they were spending Canadian dollars. The 10 percent redemption fee is borne by the merchant who redeems the Toronto Dollars. The more times a Toronto Dollar changes hands before being redeemed, the more the local economy is stimulated and strengthened. The greater the amount of Toronto Dollars bought into circulation, the greater the boost to the local economy and the greater the amount of money that goes to support local charities.

Ten percent of the federal dollars exchanged go directly into the Community Trust Fund, while the remaining 90 percent is deposited in a Toronto Dollar Reserve Fund, which is held in liquid asset form for redemption of Toronto Dollars back into Canadian dollars. The main purpose of the Community Trust Fund is to finance community initiatives and groups that support those who are on low incomes, unemployed, or homeless. These funds

can be immediately distributed. The first beneficiary of the fund was an important volunteer project to help the homeless, called "Out of the Cold." The earnings from the reserve fund could eventually offset all of the Toronto Dollar administrative expenses and provide additional funding for community projects.

Toronto's First Post Office, a contract agency of the Canadian postal service, has been engaged to serve as a central distribution center. It sells Toronto Dollars and also has been given responsibility for the management of the Toronto Dollar Reserve Trust Fund. There are plans to have additional exchange agents located conveniently throughout the St. Lawrence neighborhood and elsewhere as the trading area expands to other neighborhoods. Distinctive Toronto Dollar decals are displayed by businesses accepting Toronto Dollars.

The Toronto Dollar currency is printed by the Canadian Bank Note Company, which also prints Canadian federal currency. It utilizes standard security features to protect against counterfeiting, including special paper and ink that cannot be copied. Each note issued has a serial number that is recorded.

An Example

Future Bakery in the St. Lawrence Market is one business that will take Toronto Dollars. Let's say it has received sixty Toronto Dollars from Joan and forty from Lee for baked goods. The bakery now has a choice: it can spend the Toronto Dollars at Frida Crafts on Front Street or at other participating businesses within the community, or it can cash them in, receiving ninety Canadian dollars. The remaining ten dollars become, in effect, a donation for job creation and other community projects.

And how did Joan and Lee get Toronto Dollars in the first place? Joan and Lee each exchanged Canadian dollars and received Toronto Dollars at the Toronto Dollar booth in the St. Lawrence Market. Neither lost any money. They received the same amount of merchandise as if they had paid with Canadian dollars. Their actions *got* the ball rolling. They supported local businesses and generated ten dollars in donations to support community improvement projects. The Future Bakery took the hundred Toronto Dollars from Joan and Lee and used them to buy flour and other supplies from other participating merchants in the Market. It *kept* the ball rolling.

Business Benefits and Considerations

Among the benefits that business participants realize from acceptance of Toronto Dollars are the following:

Businesses gain additional advertising exposure and the goodwill of the community. They attract new customers and additional cash business, improve their image as a concerned member of the community, increase their contact

with other local businesses, build a loyal customer base, enrich their home community, and attract tourist dollars.

Merchants are not required to accept 100 percent payment for merchandise in Toronto Dollars. They can choose to accept whatever percentage they want. Businesses that have a high cost of goods sold (low profit margin) can choose to accept a small percentage of payment in Toronto Dollars and the rest in Canadian dollars, thus assuring that their cash costs are covered. Merchants with a high *value added* or excess capacity can afford to accept a higher percentage in local currency. A beauty parlor, for example, has very little in the way of cash costs, so it can afford to accept a high percentage of payment in local currency, while a boutique selling imported merchandise needs a considerable amount of cash to pay for its stock. A movie house may be able to sell seats that otherwise would remain empty. If it can fill some of those seats with customers who pay in local currency, it is better off.

The merchants' costs and their administrative burden are minimal. A merchant pays a small initial fee of only twenty-five dollars. There are no monthly fees, no transaction fees, and no surcharges. The only additional cash cost is the 10 percent redemption fee for early cash-out, which can be avoided if the merchant spends any Toronto Dollars received from customers instead of redeeming them. Redemption must be in hundred-dollar multiples.

Toronto Dollar notes have an expiration date that is two years after the date they are printed. This feature provides control over the inventory of Toronto Dollars in circulation and eliminates the uncertainty of supply usually associated with circulating currencies. When notes get lost or are otherwise taken out of circulation, the redemption fund can be reduced accordingly. It is estimated that about 10 percent of the notes sold will never be redeemed; therefore, when they expire, the corresponding amount of Canadian dollars from the reserve fund can be spent on charitable or community improvement projects. No one need lose out on account of the expiration feature, however, since Toronto Dollar notes that are nearing expiration may be exchanged at par for other Toronto Dollar notes that have a later expiration date.

Start-up costs of operating the Toronto Dollar project have been covered mainly by donations from supporters. In the first eighteen months, the project had received donations amounting to about $25,000, plus a grant of $10,000 from the City of Toronto. For the time being, the interest income received on the Toronto Dollar Reserve Fund is retained by Toronto's First Post Office as compensation for its administrative services.

Friendly Favors

Friendly Favors is the creation of a team of experts associated with Sergio Lub, a successful California artist, craftsman, and entrepreneur, who for sev-

eral years has had a keen interest in community economics in general and community exchange in particular.

Friendly Favors is a voluntary World Wide Web–based association of people who acknowledge one another by awarding *THANKYOUS.* It resembles a mutual credit system in its essential features. Membership is free and open to all, but a new member must be sponsored by an existing sponsoring member, thus building a chain oftrust. Each member services his or her own data page, which includes a photograph and a description of the member's skills, interests, products, and services. The idea is to offer members access to the resources made available by all other members at the maximum discount that can be sustained by the members offering them. Discounts vary from 10 percent to 100 percent (free).Prices and discounts are visible onthe Web and can be modified by the member offering them. This service doubles for members as free Internet advertising for their products or services. Discounts among members are given freely as favors. Members are expected, but not obliged, to acknowledge the generous act they receive with THANKYOUS. The accounting of those THANKYOUS ishassle-free, is kept openly onthe Webfor each member to see, and represents the favors that members have acknowledged for each other. The idea is that recognition promotes further desirable behavior.

The Friendly Favors network uses THANKYOUS as a way of measuring generosity. Members give THANKYOUS to each other for the favors they receive. One THANKYOU is equivalent to one United States dollar saved because of the discount received. THANKYOUS can also be assigned to someone simply to express gratitude for the various contributions that person has made to the community. They are not redeemable, and according to professional accounting advice, they are not taxable. THANKYOUS do not measure wealth but goodwill. They can be transferred electronically or given as a written *Thankyou Note* to be entered later on the Web by a trained host member. Members issuing THANKYOUS are morally committed to reciprocate, in turn, with someone else who needs their gifts. This reciprocity allows for favors to spread as "ripples in a pond."

Account statements are maintained on the web. A 10 percent "tithing" of the total THANKYOUS received each month goes to the nonprofit *cause member* and to the volunteer *host member* of each member's choice. A 1 percent demurrage fee on monthly balances above 100 or below –100 goes to acknowledge Friendly Favors's services. Friendly Favors was launched on the Web in August 1999, having Victor Grey as its webmaster, a veteran Internet strategist and author of "Web without a Weaver." Friendly Favors has been praised for its ease of use and the willingness of its developers to consider suggestions for improvement submitted by the members who use it. The commercial development of a complex interactive software of this magnitude by a corporate

developer was priced by *Wired* magazine to be in the neighborhood of $3 million. Most remarkably, all the development, service, equipment, office, and server spaces have been contributed by members as favors and have been acknowledged with THANKYOUS. Because of its unique structure, Friendly Favors has no bank account and therefore cannot accept monetary contributions. Friendly Favors freeware should be completed sometime in 2001 and will be made available for other developers to improve.

As of January 2001, two years since its inception, the Friendly Favors network had more than seven thousand participants, living in 120 different countries, offering a diverse array of professional services, including business, career, and health counseling, writing, editing, media production, a variety of practical and building skills, and hospitality. According to the founders, about one thousand members have already acknowledged almost 5,000 favors online totaling about 280,000 THANKYOUS.[4] But, aside from the gifts and discounts that members provide to one another, THANKYOUS are also given in recognition of good work that a person does that may not directly benefit the person giving the THANKYOUS.

The self-maintained personal profiles that members keep on the Friendly Favors Web site, with the support of a sophisticated search engine, help members to keep connected and allow people with similar interests to find one another. Anyone wishing to be included in this pioneer program can apply on line at www.Favors.org. See the Sources and Resources section for contact information. The motto of Friendly Favors is: “A friendly way to account for the favors we do for each other.”

Equal Dollars (=$s)

Equal Dollars are the currency units used in a community exchange project of Resources for Human Development (RHD), a large Philadelphia-based nonprofit social service organization. Equal Dollars exist mainly as credits on the books in a mutual credit system, although members are also allowed to draw paper Equal Dollar notes against their lines of credit in the system. Launched in 1996, the Equal Dollar system had reached, by mid-1999, a membership of about eight hundred. The amount of credit outstanding was about sixty thousand Equal Dollars, including about six hundred in the form of circulating paper notes.

The Equal Dollar program is unique in its mission of supporting the economic improvement of its disadvantaged inner-city constituency. Here’s what the RHD brochure says about it: “Although it is open to all, we are particularly interested in promoting the productive capacity of those individuals who are significantly underemployed or left out of the mainstream of the U.S. $ economic system. This is a nonprofit banking system without interest which

provides credit to all members. It has stimulated over $300,000 in economic activity since its inception."[5]

As a supporting adjunct to the Equal Dollar program, RHD has established a small-scale micro-lending program. While assisting inner-city entrepreneurs by providing no-interest short-term micro-loans, RHD has given the Equal Dollar program a boost by requiring that each loan recipient have some link to the Equal Dollar program, either by accepting Equal Dollars as partial payment from customers or by employing workers and paying them partly in Equal Dollars. The maximum loan that can be obtained is five hundred dollars, and each loan must be repaid within a period of three to six months. This is a new program, and by the end of 1999, only six loans had been made, but all have performed satisfactorily. RHD is planning to gradually expand the program.

The Developing World Takes the Lead

During the 1980s, the first decade of the new wave, activity within the grassroots exchange movement was confined mainly to the English-speaking world, with a few systems eventually popping up elsewhere. From the early 1990s onward, however, activity in the rest of the world has burgeoned, with new organizations and networks showing up in a variety of cultural contexts, first on the European continent, then in Asia and Latin America. Much of this later activity was undoubtedly inspired by those earlier pioneers, but the development in South America has been unique and mainly homegrown.

The Global Trading Network (Red Global de Trueque, or RGT)[6]

The megalopolis of Buenos Aires stretches out along the Rio Plata; 120 miles long and 30 miles wide, it is home to about half of Argentina's forty million people. It is also the birthplace of a phenomenal modern manifestation of complementary exchange which has come to be known as Red Global de Trueque, or Global Trading Network. Beginning with the organization of a single "barter club" in an outlying sector of Buenos Aires in 1995, the *social money* movement, as it is called in Latin America, has exploded into a socioeconomic phenomenon involving hundreds of thousands of people in at least nine South American countries.

The emergence of social money in Latin America has occurred within the broader context of a movement toward community building and "social solidarity" that has arisen largely as a response to economic globalization. The Argentine government, like others in the region, over the past several years has been engaged in an aggressive program of privatization and has pursued policies favorable to the increasing dominance of multinational

companies in Argentine markets. As part of its new economic strategy, the government has now rigidly linked the Argentine peso to the United States dollar.[7] Although these policies may have brought benefits to some, they have wreaked tremendous hardships on the poor and middle classes. Unemployment has reached high levels, at times officially estimated to be around 20 percent. The reality is much worse than that. In many of the barrios of Buenos Aires, and in some rural villages, up to 50 percent are without paid work. Even skilled professionals have had a hard time. The social "safety net" in Argentina is both flimsy and full of holes, making subsistence very difficult for people without employment. The people have responded to this challenge with tremendous energy, initiative, creativity, and courage, building networks of mutual assistance that are leading them toward greater self-reliance and social cohesiveness.

The Beginning The first barter club in Argentina arose in 1995 when a group of neighbors initiated weekly meetings to enact direct barter trades of food and clothing. They quickly expanded their economic interactions into a kind of mutual credit trading (what they call "multireciprocal barter"[8]) involving a wider variety of goods and services. Since then, the organization of local clubs or "nodos" has proliferated among groups of poor and marginalized people throughout Latin America. The following is a slightly edited version of Heloisa Primavera's description of the birth and development of the RGT system.

> It was on the 1st of May 1995 that a group of ecologists, worried about the impact unemployment was having on the quality of life, created the first Barter Club comprised of twenty people, in Bernal, thirty kilometers from Buenos Aires in Argentina. Every Saturday, group members met to exchange their products (at the beginning, bread, various foodstuffs, fruit and vegetables, tarts, handcrafts, and afterwards, services—dental care, hairdressing, massage, therapy, etc.). Some months later the first club opened in Buenos Aires. . . . One year later, a television program gave a great impulse to further growth, which up to then had been rather slow and led by the early pioneers. The accounts, which from the outset had been recorded in a centralized notebook, were soon computerized because of the increase in the number of transactions. Sometime later, a system of cheques was set up—similar to the French SEL system.[9] However, people quickly began using these cheques as currency for other transactions, endorsing them and using them to pay for purchases. This was possible because the people knew each other and could trust the vouchers (cheques) coming from a friend or trusted acquaintance. This was how the first ticket trueque (an exchange voucher) came into being, which was transferable to anyone that was part of the system. Right from the start the units were called creditos because of their association with the trust that existed between participants

[each credito or credit is equivalent in value to one Argentine peso, which is equivalent to one U.S. dollar]. On becoming a member of the club, each participant would receive the same number of credits, thus encouraging and greatly multiplying the speed of transactions. Since everyone receives the same number of credits, the initial "equality" surprises new members, and at the same time stimulates the creation of new clubs. Since each member must produce and consume to be in the system, they are called "prosumers," a term suggested by Alvin Toffler's *Third Wave.*

Thus it was that two years later it was possible to find groups organized in different regions of Greater Buenos Aires as well as in the interior of the country. A form of administration linking the groups soon turned out to be necessary in view of the complexity of the exchanges that took place between members of different clubs, which is the richest aspect of the network. So the Barter Network came into being, with the clubs starting to call themselves nodos (knots). This central government enabled equality to be maintained between the groups and the members of those groups.

The founding group defined some ethical principles, but without doubt each autonomous group has freely interpreted them. Today there exist a great number of interconnected groups, but also many others that are completely independent of the founding group. Although the media was responsible for the initial spread of this initiative, it was the city government of Buenos Aires that provided the first government support, firstly, from the Department of Social Affairs, and afterwards from the Department of Industry, Trade and Commerce. This attitude encouraged other towns to do the same and five years later there are more than forty that have given their backing to similar initiatives, in one way or another.

Within three years of its creation, the Red Global de Trueque had grown to more than 100,000 members. Representatives were invited to Helsinki to show this experiment to other community activists who were working to ameliorate the negative effects of economic globalization. The members of the Network therefore started to see their success (speed of growth, numbers of active members, for example) in an entirely new light. Various training systems were set up and diffusion throughout other Latin American countries began on a systematic basis, all within the context of creating a critical mass, political visibility, variety in the experiments, and to join together with other forms of the Economy of Solidarity.

The Present By the early part of 2001, "nodos" or trading clubs had been set up in fourteen Argentine provinces and eight other countries of South and Central American, including Bolivia, Brazil, Chile, Colombia, Ecuador, El Salvador, Peru, and Uruguay. Creditos now take the form of a great assortment of "papelitos"[10] or paper notes, which are printed by the larger clubs and issued to the new members of new or existing clubs. While firm statistics are not available, it is estimated that within Argentina alone there are between 500 and

1,000 trading clubs with a total combined membership of more than 300,000. Many of these are family memberships involving several people. Further, creditos notes are circulated among nonmembers as well, so that the number of active participants in this parallel economy is much greater, perhaps as high as half a million people. According to Primavera, the circulation of creditos notes "provides, on average, between one and four minimum wages (about 300 U.S. dollars per month) per family; public tax returns have multiplied as a result of private agreements held by governments with individual prosumers from which products or services are accepted, and a judge has even authorized the payment of a living allowance in social money!"

A large proportion of the trading using these community currencies takes place at local trading fairs that are held at regularly scheduled times, some once or twice a week, others much more frequently. I was told by one of the movement leaders that on any given day, approximately twenty trading fairs are going on in various clubs around the country. In April 2001 I went to Argentina, where I visited several trading clubs around greater Buenos Aires and had an opportunity to observe a few of their trading fairs. One of them, held in the "west zone," was particularly impressive. It was held on a Wednesday afternoon in a large community center and involved upwards of four hundred people buying and selling. The atmosphere of excitement and vitality was truly astonishing, and not a single peso or dollar was involved in any of the thousands of transactions that were made. Instead, one could see a variety of paper notes passing from hand to hand. These were the creditos notes issued by the clubs in this zone, as well as those issued in several other zones. Figure 11.7 shows a few of these notes. Within the trading fairs, no official money is exchanged. Pesos and dollars are not permitted because of the tax implications. Argentina has a value added tax (VAT), which is a kind of sales tax. As long as no official money is involved, trades are not taxed. What people do outside the fairs is, of course, a personal matter between the buyer and the seller.

Another club, located in a poor neighborhood, operates out of a former factory building. It is open for trading seven hours a day, six days a week. It was organized in the year 2000 by two men from the community and is presently administered by a team of three people who have complete responsibility and control. Member participation is insignificant. This nodo does not issue its own notes but utilizes the notes issued by other nodos.

The organizers have recently taken a five-year lease on the factory property for a monthly rental fee of 2,500 pesos (equivalent to U.S.$2,500). It is a large property that includes a huge main building, a more modest sized outbuilding, a parking lot, and a very large adjacent field. During our two-hour visit to one of their trading fairs we estimated there must have been about three hundred people buying and selling. We were told that on the previous day more than two thousand people had passed through.

Figure 11-7. Various currency notes used within Argentina's Red Global de Trueque network.

The costs of operation ofthe center are covered by admission fees, which are 20 centavos (20 cents) plus one half a credito. Assuming a modest figure of 500 paid admissions per day and 25 days of operation monthly, estimated total monthlyrevenueswouldamountto2,500pesos(dollars)and6,250creditos.This is enough to pay the rent, which must be paid in pesos, and to pay the organizers and their helpers in creditos to administer andmaintain the operation.One would presume that utilities must also be paid in pesos and that this amount of activity would not provide sufficient peso income to meet that expense. The administrators told us, however, that their early fairs had been almost overwhelmed by throngs of people, which they numbered in the thousands. Based on that experience, they estimate that their membership will soon reach 10,000 and they expect tohave no problems raisingthe peso incomethey need.

We were also told that when they do have surplus peso income they use it to buy goods in the formal market to be sold for creditos in the trading fairs. These goods consist mainly of basic foods and ingredients, such as meat, vegetables, fruit, oil, wheat, eggs, and sugar. This practice effectively links the resources available in the formal (peso) market with the income-earning possibilities of the trueque (creditos) market without suffering the negative effects that would result from a direct currency exchange.

The organizers told us of their plans for the various resources at their disposal on the site. They intend to continue using the main building for the daily trading fairs. They plan to convert half of the outbuilding into production spaces, such as woodworking shops, and to utilize the other half as classroom space for training people in basic skills. The adjacent field, which is covered with grass and has several large trees, will be made into a campground.

Organization and Operation Each nodo or club is autonomous and is responsible for its own organization, administration, budget, and finances. The Network has no centralized administration, only regular monthly meetings within each zone and a monthly interzonal meeting. At present, clubs follow several models of organization and the issuance of the currency notes is not uniform. Administrative costs are covered in different ways by the different clubs. Some impose a monthly membership fee while others, such as the one described above, require buyers and sellers to pay a small admission fee to participate in the many trading fairs. Some nodos are organized with an emphasis on building social solidarity among their members, while others are organized mainly as an economic expedient to provide a way for cash-poor people to meet their material needs. The former are more participatory, while the latter tend to be more paternalistically administered by a core group of organizers.

The network provides marginalized people with opportunities they cannot find in the formal market economy. It is not seen as a substitute for the formal economy, but as a parallel and complementary economy. While helping

people to satisfy their immediate needs, it also gives them an opportunity to develop confidence, skills, products, and services that can also enable them to function in the formal economy.

All kinds of goods and services are to be found within the barter clubs, including bakers, dentists, bricklayers, and other tradespeople and professionals who can't find a place in the labor market. Reliable statistics do not exist, but estimates of the total amount of creditos that have been issued by all the clubs in Argentina range from around 6 million on up. Currently, the volume of trading within this barter network amounts to a minimum of 800 million pesos (equal to 800 million U.S. dollars) annually.

The National Government Offers Support The national government of Argentina has officially recognized the value and usefulness of "barter" exchange as a weapon against unemployment and has lent its support to the promotion of "multireciprocal exchange of goods and services" throughout the country. In December 2000, the government of Argentina signed an agreement with Red Global de Trueque.[11] Among the specific items of support is a commitment by the government to assist the network to develop its organizational infrastructure to help it reach larger numbers of people across a wider area of the country. The government will help to promote interregional exchange by means of an Internet-based communications system that will link the various clubs in the network. They hope that this "partnership" can promote the formation of efficient enterprises that contribute to the creation of jobs and enable marginalized workers to develop skills and tools that may permit their entry into the "productive tissue" of the economy. The government has stated its clear intention to help, but not force, participants into the mainstream economy. It has committed to provide training and support that will assist "the gradual and orderly transition of the prosumers circuit ruled by social money (vouchers), toward the formal economy's area, building genuine ventures," but it will allow prosumers to continue their participation in the barter circuit, as they wish.

"We believe this network has had a great development but very low profile. Now we want to give it a better organization on the national level and use it as a good tool for development," said Secretary of Small and Middle-sized Enterprises Enrique Martinez. Martinez thinks that "barter has been built as an element that jobless people recognize as a transition step toward the formal economy, or a substitute. From barter, people feel encouraged again. We cannot be absent from such a rich project." The dual goal of the government is, on the one hand, to establish and expand the barter of goods and services as a substitute for the formal economic system, while, on the other hand, to make it easy for such people to go back into the labor market. Whether or not this government involvement will prove helpful remains to be seen.

Close observers point to a number of factors contributing to the success of RGT. Among these are:

- The regular membership meetings convened by each nodo
- The use of only social money in most transactions
- More reliance upon ethical behavior and peer pressure and less reliance upon formal rules
- A great deal of local group autonomy and the avoidance of centralized leadership and control
- Only a few shared rules that define a loose federation of nodos at both the regional and the national levels
- A decision-making process that seeks consensus.

Some of the more active participants in several nodos, believe that the success of the RGT could lead to the creation of more far-reaching networks of socioeconomic solidarity. For this reason the Latin American Socioeconomic Solidarity Network (Redlases) was created in 1999, and the Global Socioeconomic Solidarity Network (Red Global de Socioeconomía Solidaria—RGSES) in 2001. The latter came out of the first World Social Forum that took place in January 2001 in Porto Alegre, Brazil. The focus of these initiatives is to rebuild the social fabric and create an *Economy of Solidarity* based on social money systems and other complementary economic, cultural, and social strategies that address the whole economic process: *production, trading, and consumption*, and simultaneous financial strategies such as micro-loans using a combination of both formal and social money.

Principles As the trading network has evolved, the participants have adopted a set of twelve principles that define the values, objectives, and operating characteristics of the associated clubs. These were proposed by the founders and include (among others) the following:

- We are not trying to promote articles or services, but to mutually help ourselves to obtain a higher meaning of life through the intermediary of work, mutual understanding, and equitable exchange.
- We maintain that it is possible to replace sterile competition, selfish gain, and speculation with mutual exchange between people.
- We believe that our actions, products, and services can respond to ethical and ecological norms, rather than the dictates of the market, consumerism, and the quest for short-term benefits.
- The only conditions to which members of the Red Global de Trueque are bound are: to take part in periodic group meetings, to be involved in training programs, to produce and consume goods, services, and knowledge

available within the Network, in the spirit of the recommendations of the various Circles of Quality and Mutual Aid.

- We believe that it is possible to combine group autonomy in the administration of its internal affairs with the fundamental ethical principles of the Network.

Over the past few years, the Latin American Socioeconomic Solidarity Network has debated adopting a thirteenth principle regarding whether, and how, the club organizers should be compensated. Discussions have led to consideration of the role of volunteer help overall. There seems to be a widespread belief that reliance upon uncompensated work "has encouraged 'corrupt' practices very similar to those in political life." Thus, the network is now advocating adoption of the following additional principle:

- In the Economy of Solidarity nothing is wasted, nothing is volunteered, everything is recycled, everything must be paid for, and everything is divided in equal conditions!

Problems and Prospects It should come as no surprise that a complex organization that has grown so large and so fast should manifest some difficulties. The autonomy of the various clubs has resulted in a plethora of local currencies issued in a variety of ways, some of which may be questionable from the standpoint of strict reciprocity. Some of the larger issuers are unable to give a proper accounting of all the notes they have issued. While a strong desire exists among the various clubs in the network to accept each other's notes, concerns and uncertainties have led some nodos to refuse to accept the notes of others, causing some confusion and dismay among the people.

Adding to the confusion is the actuality of counterfeiting. This is the first real counterfeiting of a community currency that has come to my attention. Counterfeit versions of at least one of the larger note issues have been injected into the network. This does not seem to have done significant harm, since their number has been small and the counterfeit notes are not very difficult to distinguish from the genuine ones. What happens when someone discovers that they have accepted a counterfeit note? Practice varies. Sometimes the person will simply pass it along, but quite often the local club or the issuing club will destroy the note and absorb the loss rather than force the holder to take the loss.

Another developing problem is the emergence of political factionalism and a struggle for leadership within the movement. One faction is attempting to become the spokesman for the entire network and wants to replace the various local currencies with its own currency to be used throughout the country. This faction, led by the founders of the first Barter Club, is the one that signed

the agreement with the Argentine government. Another faction is seriously concerned about preserving the autonomy of the local clubs and wants to negotiate a consensus about the critical issues facing the movement, but the first faction is not willing to participate.

It will be interesting to see how this conflict plays out over the coming year or two. If the network is to avoid disintegration, the various clubs will need to come to some clear agreement on standards of practice for the proper issuance and management of their currencies.

PART III

MONETARY TRANSFORMATION AND COMMUNITY EMPOWERMENT

In this part of the book we get into the particulars of money and the design elements of cooperative exchange systems and community currencies—the essential features, the forms and devices, the procedures and methodologies. Part 3 includes, in chapter 13, a primer on mutual credit, which is the foundation on which any private exchange system should be built. It addresses the major issues in currency design—such as basis of issue, backing, credit and debit limits, system revenues and costs, savings and investment—and tackles the thorny question of usury and interest.

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Chapter 13

Mutual Credit: The Foundation for Community Currencies

The composite credit of private competitive traders, based as it is, upon actual exchange of goods and services, forms the only substance of money.

—E. C. Riegel

The purpose of every community currency or exchange system is to provide a payment medium that is separate from, and supplemental to, official money, and that originates not in banks or government but in the community of members. What do the members have to offer one another in exchange for their goods and services? Only their own goods and services. Ultimately, we each have only one currency with which to pay, and that is our own production. What is needed is some device, a "placeholder," if you will, that allows both time and opportunity for accounts to be balanced. All that this requires is a willingness to wait and a willingness to trust. In a word, the members of the trading community must be willing to give each other "credit."

What Is Mutual Credit?

Mutual credit is the essential agreement that underlies any complementary exchange system or community currency. Any community currency that is not based on a clear agreement among those who are empowered to issue it will be difficult to manage and prone to failure. Just as your dollars can be held in the form of either Federal Reserve notes or account balances in a bank or

credit union, so too can community currencies take the form of either paper notes or account balances. A community exchange system may utilize any of the various financial instruments and protocols with which we are already familiar. It may utilize physical objects that circulate from hand to hand, such as paper notes, coins, or tokens; it may be comprised of accounts and ledgers on which debits and credits are recorded; or it may involve some combination of these. Whatever form the exchange media may take, whether paper notes or account balances, the same basic principles apply. Therefore, when we speak of "currency," it should be understood that the term also includes credits in a ledger (bookkeeping) system. Further, it should be pointed out that while accounts may be kept on a computer, a ledger system can be as simple as a pen and a notebook.

Mutual credit is the generic term that we use to describe an association of traders who have agreed to create and utilize their own exchange medium. Anyone familiar with LETS, described in chapter 10, already has a basic understanding of what mutual credit looks like. LETS is a particular type or "brand" of mutual credit. It has its own particular procedures and protocols. A mutual credit system might, like LETS, use a ledger or system of accounts for recording the trades and tracking the account balances of its members, but it might also utilize circulating notes. These notes can be issued to members against their credit lines, in effect providing a physical representation of that credit. Just as a cash withdrawal is debited against (subtracted from) a bank account, the amount of any notes thus issued would be debited against the members' mutual credit account. Indeed, the use of circulating notes may be employed to eliminate completely the need to record members' transactions. The passing of notes from hand to hand is just an alternative way of keeping score in the economic game of give and take. This is the path that Tucson Traders has elected to take, as described in chapter 11.

A mutual credit system is designed to surmount the limitations of barter. Like money, it provides an intermediary device that allows two parties to trade even though one of them may have nothing the other wants. For example, suppose Martha knits sweaters and John wants to buy one but has nothing that Martha presently needs. Using mutual credit, John can still get the sweater by giving Martha "credits" for the agreed price. Where does John get the credits to give to Martha? He creates them. Just as banks create dollars to give to someone who requests a loan, John creates the credits to pay Martha for the sweater. Martha can then spend those credits when she buys something from anyone else in the system. When John creates credits to pay Martha, he obligates himself to accept credits from someone in the system at some future time in payment for his own goods or services. In this way, by making a sale, he "redeems" the credits that he originally issued. This is shown pictorially in figure 13.1. It can be seen that the process is essentially identical to that of the

ideal money circuit described in chapter 4 and to the LETS trading circuit described in chapter 10.

In a mutual credit system, the members empower themselves to do the same thing that banks have done for years, essentially creating their own money in the form of credit but saving the cost of interest, while distributing the money themselves according to their own needs. In such a system, holding credits is evidence that so much value has been delivered to the community, while a debit balance indicates that a member has received that much more from the community than she or he has delivered. A debit balance thus represents a person's commitment to deliver that much value to the community sometime in the near future.

How a Mutual Credit System Works

Mutual credit can be viewed as an extension of the long-established practice of the trade credit that businesses offer to one another in the normal course of business. Businesses often sell to their customers on what is called "open account," which means that they deliver the merchandise and bill their customers for the amount due. A certain amount of time is allowed for payment to be made. It may be fifteen, thirty, sixty days or more, depending on the customs and needs of that particular line of business. Often, a discount may be given for prompt payment. In the terminology of business, an example of typical trade terms might be "2%/10; net 30 days," which means that payment is due within thirty days of the billing date, but a 2 percent discount may be taken if payment is made within ten days.

The basic idea of a mutual credit system is to extend the practice of trade credit to a wider group of participants, each of whom has the power to buy without cash and, at the same time, to lengthen the duration within which balances may be outstanding. The ideal, at least with respect to empowerment of the participants and local control of the local economy, is to eliminate completely the requirement of payment in official currency. In actual practice, the exchange of goods and services within a mutual credit system involves the payment of some combination of community credits and official cash. Since a seller must usually incur some cash costs in providing goods or services to the buyer, she or he must be able to earn enough cash to cover those costs.

Over the long run, individual mutual credit account balances will move up and down, some months ending with a credit balance and some months ending with a debit balance, but averaging out around a balance of zero. As long as debit balances do not become chronic or extreme, the system can handle these situations readily. Indeed, since the total of credits in the system must be balanced by an equal amount of total debits, outstanding debit balances are a necessary feature of the system and will have no adverse effect on its opera-

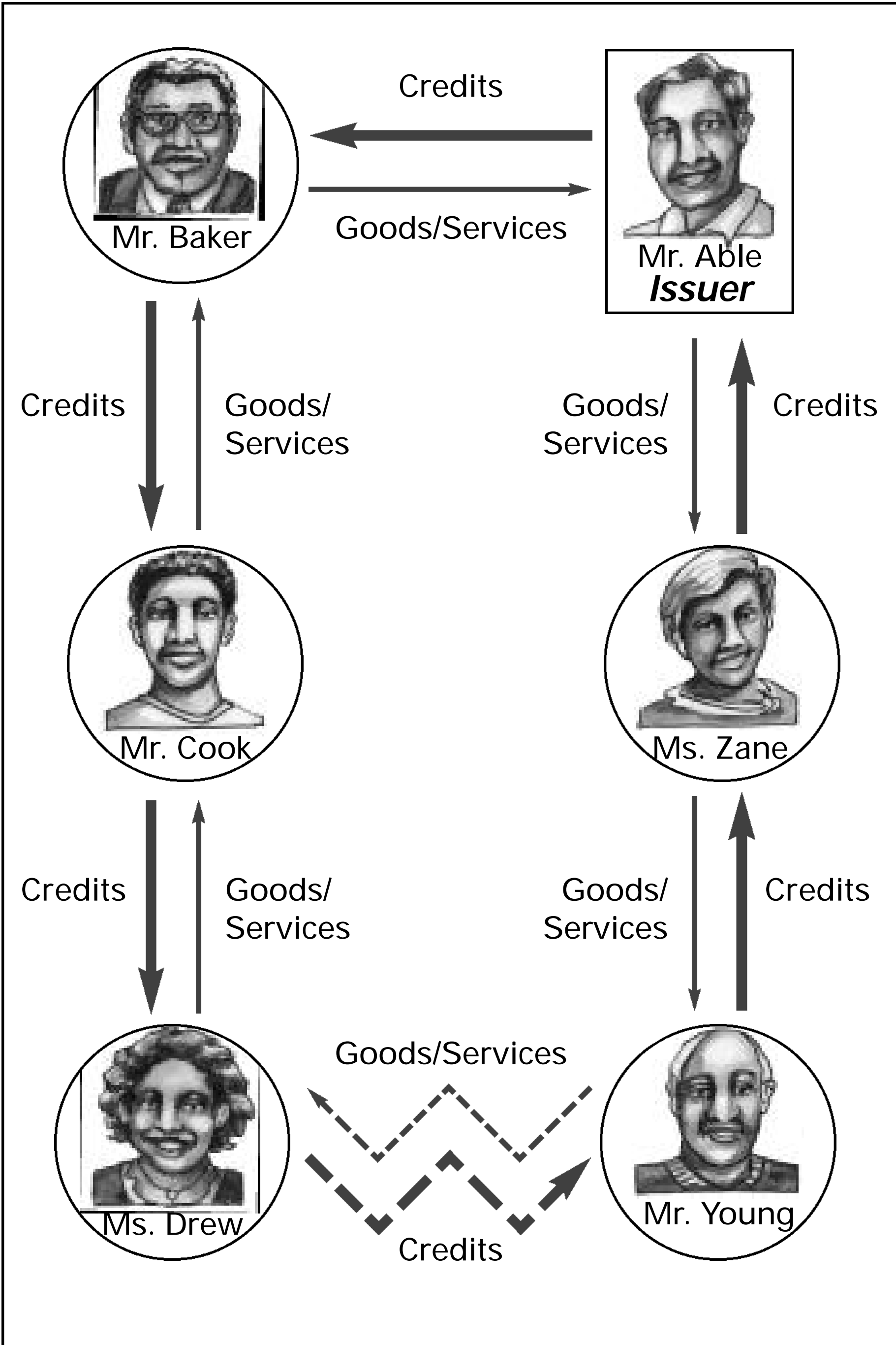

Figure 13.1. The mutual credit trading circuit.

tion. If a particular participant develops a chronic debit balance, steps can be taken by the group to help him or her to increase sales and/or reduce purchases. This may involve retraining or the kind of friendly assistance that is typical within mutual support networks.

Basic Steps in Organizing a Mutual Credit System

Here, in brief, are the essential steps involved in starting a mutual credit trading system (these will be elaborated upon in chapter 18):

1. Organize a core group of people and organizations to begin trading among themselves using trade credit units as the exchange medium. It is best if the founding group is composed of people who already know and trust one another or who have some affinity or common interest. The group can be expanded, as appropriate, by inviting other friends, family, acquaintances, and business associates to join. New members might be provisional for some specified period of time, after which they would have the same status as founding members. Provisional members might have a debit limit that is lower than the limit for full members. Over time the membership can be made more inclusive, but there needs to be a balance between system integrity and inclusivity.
2. Choose some unique name for the system credits to distinguish them from official currency. They might be called "sand dollars," "green dollars," "acorns," "credits," "tokens," "hours," and so forth. However, to avoid confusion, I suggest that the use of the word *dollar* be avoided in naming the local unit.
3. Place a limit on debit balances in members' accounts. Initially, every full member account should have the same maximum debit (negative) balance. The amount is arguable, but an equivalent of about two hundred or three hundred dollars might be reasonable. As trading develops, debit limits might be raised for those who demonstrate the capacity to carry a higher amount by selling more within the system. A good rule of thumb for setting debit limits is that a person's debit limit should be no more than two or three times his or her average monthly community credit sales.
4. Designate someone to assume the role of "registrar" for the system, to maintain the account ledger and membership list. The accounts can be kept as pages in a notebook, on file cards, or on a computer. The registrar will record transactions (debits and credits), update members' account balances, and periodically issue account statements. Members can report their transactions using a standard form similar to a check, or transactions can be reported to a telephone answering machine. The simplest accounting system is a loose-leaf notebook that contains a page for each member. The

Thomas A. Trader	Member Number 1066
P.O. Box 42663, Tucson, AZ 85733	
Date: ___________	
Credit the Account of: _________________________	TT ____________
____	Tucson Tokens
For ___________________ Signed	________________________
Tucson Traders • P.O. Box 1842 • Tucson, Arizona, 85722	

Figure 13.2. A mutual credit system check.

page should contain spaces for transactions to be recorded, columns for debits and credits, and a column for the running balance. Periodic account statements could consist simply of a photocopy of each member's page. Such an account page as used by Tucson Traders was shown in chapter 11 (figure 11.1). Figure 13.2 shows a typical mutual credit system check.

5. Produce and distribute at regular intervals a system status report showing each member's balance and trading volume. This will help to establish a completely open information system and allow every member to know the health of the system and be aware of any developing problems with chronic or excessive balances. It might also highlight the identity of the most active and productive participants.
6. Designate someone to produce a newsletter containing classified ads listing both offers of, and requests for, goods and services. This could be part of the registrar's duties, or it could be done by someone else.
7. Since the mutual credit system has operating expenses, it must generate some revenue. This can be accomplished by charging fees for some or all of the services provided. Fixed fees may be applied for such services as recording transactions, advertising offers and requests, and generating and mailing account statements and reports. Some of these fees can be in system credits, but some are needed in official currency to cover costs such as postage, printing, or supplies that cannot be obtained within the system. These cash expenses might also be covered by an annual membership fee.
8. Schedule regular gatherings of the membership. These are useful not only to take care of system business but to get to know one another, to trade, and to have some fun. Try potluck suppers, fairs, trading bazaars, celebrations, picnics, auctions, and rummage sales.

9. Consider the possibility of charging a small percentage, in system credits, at the end of each quarter or year on all balances, both credit and debit. The percentage charged should be the same for both types of balance. This will have several positive effects. It is intended mainly to stimulate the circulation of credits and avoid stagnation of balances. In addition, it will provide a supplementary source of system credits with which to pay for system operation and development. This will assure more adequate compensation for the registrar, newsletter editor, and others who provide services to the system. Any surpluses that develop might be used to fund community projects or for other purposes that the members determine by consensus. (This item is among the more controversial issues in mutual credit and will be discussed further in chapters 15 and 18.)

As the mutual credit system develops, members will likely find that they are supporting one another in a variety of ways—as friends, confidants, counselors, and more. Some direct barter and informal trading will occur. This should be encouraged rather than discouraged. Even though private and informal transactions bypass the system and avoid paying fees into it, they also reduce the workload. The primary objective, after all, is to foster the development of mutually supportive relationships. If the system works for people, they will help to maintain it through donations and volunteer labor. **Sometimes it's better not to keep score.**

Continuing Issues in Mutual Credit Systems

This chapter is intended to provide a quick overview of mutual credit. The steps and suggestions outlined above are by no means the final word on the matter and will be looked at in later chapters. Each group will have to work out for itself many of the answers to the recurrent problems of exchange, but full advantage should be taken of the experience of others. The questions and issues that need to be addressed in establishing and operating a mutual credit system are essentially the same as those which exist in any system of money and banking, and if not properly handled can lead to disastrous consequences. Various groups have dealt with them in different ways, but some approaches are superior to others. Here are some of the major issues that need to be highlighted:

Debit Limits

How are limits on individual accounts to be set? What amounts are reasonable in allowing members maximum purchasing power without becoming a drag on the system? What provisions should be made for monitoring accounts, preventing overdrafts, and correcting imbalances?

Account settlement agreements

How long should account balances be allowed to remain stagnant? What should be done when a member drops out? What provisions, if any, should be made for periodic clearing or settlement of accounts?

Savings and Investment Provisions

What if people want to save some of their credits over extended periods of time? Can that be accommodated without diminishing the effectiveness of mutual credit as a medium of exchange? If not, what mechanisms should be used to limit the use of mutual credit as a savings and investment medium?

Interest/Demurrage on Account Balances

Should interest and/or demurrage charges be levied on debit and/or credit balances?

Coresponsibility Groups

Should membership be completely open or should it be required that new members be sponsored by existing members? Should participation be based on individual membership or should everyone be part of an affinity group in which the group members take some responsibility for each others' balances?

Group/Organizational/Family Memberships

Should the system provide fee discounts to people who join as part of an organization, group, or family, and if so how much? How is "family" defined? What limitations should be placed on family or group memberships, if any?

Taxability/Reportability

There is a considerable amount of confusion and controversy about whether cashless trading is taxable, either constitutionally or under IRS regulations, and whether or not members need to report their trading on their tax returns. If trades are reported, should the seller report the credits she or he received, or should the buyer report the value of the goods and services received? Which party has received income? Is the system administrator responsible for reporting members' business transactions to the IRS or other tax authorities?

Advertising and Transaction Fees

How much should be charged for publishing notices/ads and recording transactions? What portion of the charges should be charged in official currency and what portion in system credits? How can meeting the general cash needs for operating the system be assured?

Strategies for Enhancing Mutual Credit Systems and Gaining Acceptance

Many community exchange systems begin with a flurry of enthusiasm and then gradually grind to a halt. Here are some suggestions for improving the likelihood of sustained success.

1. Utilize familiar financial devices such as notes or tokens, checks, and credit/debit cards to facilitate exchange transactions and provide more reliable accounting. Most mutual credit systems, like LETS, rely mainly on telephone reporting as the basis for updating member accounts. While that may be perfectly adequate for small systems, larger systems may require a more foolproof recording process and a paper trail for verification.
2. Involve as many established businesses as possible, especially locally owned retail establishments that potential members are accustomed to patronizing. The participation of established businesses provides a mutual credit system with instant credibility and makes the system more useful to potential members. Effort should be made to help retail businesses find ways to spend their community currency income.
3. Hold frequent trading fairs or bazaars to bring members together for the purpose of trading, socializing, and celebrating. Schools, community centers, church halls, and parks can often be obtained at no cost or low cost for such activities. These events must be well organized and well publicized to be effective. Low attendance can be demoralizing and inhibit attendance at subsequent events.
4. Establish some form of community store that enables members to buy and sell their goods and services for local currency. The store should operate in a familiar organized retail setting with more or less regular business hours. Such a “cooperative” gives members with low sales volume an outlet for their goods without having to incur prohibitive overhead expenses. It also encourages more habitual trading.
5. Make a special effort to involve marginalized and underutilized groups, for instance retirees and youth, who have lots of time and/or less than adequate money income. These groups have a greater need for exchange alternatives and are able to devote more time and effort to making trades and helping to run the system.
6. Enlist the support and encouragement of government officials, especially at the local level, and of the private nonprofit sector, especially social service providers, but be sure to maintain control in the hands of a volunteer core. Be careful when dealing with bureaucracies: they can take up a lot of your time and energy in futile activity.

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PART IV

CURRENCY DESIGN, IMPROVEMENT, AND INNOVATION

In addressing the megacrisis that confronts the world today, it should be clear that decisive changes will need to made in the methods we humans use to distribute political/economic power and allocate material resources. As pointed out earlier, the present dominant structures of money and finance, by their very nature, promote the concentration of power into fewer and fewer hands, increase disparities in the distribution of wealth, channel a huge portion of the earth's resources into wasteful production, and force both social and ecological degradation. The pinnacle of power today is the power to issue money. If that power can be democratized and focused in a direction that gives social and ecological concerns top priority, there may yet be hope for saving the world.

This section is a how-to-do-it guide. It contains a number of innovative proposals for achieving nothing less than world-saving reforms. All these proposals involve the use of community currencies to facilitate trade within local communities, and many of them also contain features for the empowerment of community improvement groups working to serve the common good. These proposals are described mainly in terms of circulating notes or certificates, but, as already stressed, exchange media could also take the form of accounting credits on a ledger. In fact any of the various devices such as notes, checks, smart cards, and debit cards may be used to transfer credits. The proposals described here could also be applied to empowering groups whose members are widely dispersed geographically, using the Internet and our highly developed information and communications infrastructure.

The basis of issuing money has, in times past, been more neutral than at present. Now, with the issuance of money controlled by the central bank/central government nexus, it has become a mechanism by which these centralized powers control the application of human and capital resources, allocating them to projects that are usually self-serving, wasteful of resources, and often downright destructive. Our objective should be to create exchange media issued on the basis of human service and Earth service rather than acquisitiveness and domination.

The exchange media described in this section put control of the exchange process into the hands of the people, giving them more choice

over how they apply their energies and resources. The willingness of others in the community to accept the new exchange media in payment for goods and services, especially the necessities of life, does two things: it encourages the application of people's energies and resources to life-sustaining activities, and it provides the community with a medium of exchange that by its very nature is abundant, democratic, and locally controlled.

Any community, at any time, could implement the following model currency systems, with beneficial effects. The descriptions given here are "bare-bones" outlines. The precise details can be tailored to the needs and circumstances of the particular community.

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Chapter 22

Youth Employment Scrip (YES)

. . . one sixth of all 16- to 24-year olds in America—mostly males—are currently "disaffected and disconnected." They are not associated with any formal role in society, nor are they in any formal relationship with another person.

—David Pearce Snyder

YES IS AN ACRONYM that stands for both Youth Employment Service and Youth Employment Scrip. I have been promoting the YES project for the past several years. It is an application of the community currency concept that provides a way of mobilizing idle resources, in this case the labor and talents of young people, to serve community needs. Youth can be employed in either the private sector, or the public sector; in for-profit business or nonprofit organizations. YES acknowledges the value of the services they render, without the payment of scarce federal money. Instead, the Youth Employment Service issues Youth Employment Scrip as a way of paying young people for the work that they do.[1]

YES provides a supplemental supply of local currency, which businesses and individuals in the community agree to accept in partial or full payment for the goods and services they sell. The Youth Employment Service, which issues the scrip, then accepts it from others in payment for the services it provides. This approach does not depend on either tax revenues or charity. Rather, it simply provides the missing element required to bring people who need income together with work that needs to be done. That missing element is money. Complementary exchange mechanisms such as scrip have shown themselves to be viable and acceptable substitutes for official money. The YES program empowers youth, supports the local economy, finances important work, and helps to unify the community.

The Youth Problem

Young people are increasingly seen by the general community as a problem. A large percentage of crimes are committed by young people, and about one-quarter of our prison population is under age twenty-five. But crime is just the most extreme aspect of the problem. There are even greater numbers who do not become criminal but who are alienated and hopeless. Lacking self-esteem and basic social and employment skills, they ultimately become non-contributing citizens, immature adults, and ineffective parents. It is both callous and naive to think that police and prisons can contain the effects of the increasing alienation of youth and other marginalized groups. The young are our future. It is in everyone's interest to invest in their preparation and development and to help integrate them into society and the economy—to help them become capable, responsible, and successful, with an adequate degree of self-esteem, and thus able to direct their own lives. The question is how to do that most effectively. The experience of recent years has demonstrated that spending more money on schools and prisons is probably not the answer.

The "system" has rendered young people nonessential to the community, diminishing the well-being of both. Increasingly, adults perceive youths as troublesome, inadequate "others," which reflects back on how the youths perceive themselves. What young people need most is a sense of belonging. The attraction of gang membership is that it provides young people with an identity at a time in their lives when a primary issue is figuring out who they are and how they fit into the wider world. They especially need to have meaningful work and their own sources of income so that they can become independent and self-responsible as they grow into adulthood.

Peter Schwartz, president of the Global Business Network, wrote a book in 1991 titled *The Art of the Long View* (Doubleday). In that book he predicted that, by the year 2000, the earth's population would include more than two billion people between the ages of ten and twenty-one, about one-third of the total population. That prediction has proven to be correct. Schwartz devoted an entire chapter to the phenomenon of "the global teenager," a force that he says will dwarf other demographic factors over the next fifty years. The pressure of their numbers, energy, and idealism, he wrote, "will be so immense that it will reshape the world."

Schwartz pointed out that "in the past, societies with large numbers of adolescent males started wars." According to Gerald Smith, professor of religion and ecology at the University of the South in Sewanee, Tennessee, the youth population of Iran and Iraq rose to 50 percent before the Iran-Iraq war. That war killed millions of young males. Whether or not it was intentional, the war

managed to relieve much of the political and economic pressure deriving from the explosion of the youth population in those countries.

Without the experience of being needed and responsible for their communities, and without adequate incomes, the young, as a group, can be expected to express their insecurity and alienation in criminal, antisocial, and self-destructive behavior. Suicide among young people is their leading cause of death.[2] Being largely left out of the mainstream economy, youths find power where they can—in gang membership and commerce in illicit substances. The misguided "war on drugs" is mainly a war against youth and minorities. Older people seem to have little understanding of youth culture and motivations and are all too ready to support "get tough" policies, which lead mainly to further alienation and a mushrooming rate of incarceration for nonviolent "crimes." This situation can only become worse if current economic trends and government policies continue. It will take extensive restructuring of our economic institutions and methods of allocating wealth in order to defuse this time bomb.

Clearly there is no end of work needing to be done. It is equally evident that the vast majority of young people are eager to work. What often is missing is the money to bring work and worker together.

We must find ways to integrate the young more effectively into society. We must provide them with meaningful work that is both edifying for them and valuable to the community. Clearly there is no end of work needing to be done. It is equally evident that the vast majority of young people are eager to work. What often is missing is the money to bring work and worker together. In the private sector, businesses need to keep costs down in order to compete in today's global economy. Their incentives are to minimize the number of people they employ and the amount they pay in wages, salaries, and benefits. As the pace of automation continues to accelerate, there will be an increasing gap between the number of jobs and the number of people seeking employment. In the public sector, there is pressure on all levels of government to keep costs and taxes down. With increasing government indebtedness and interest payments eating up an ever increasing portion of their budgets, and with more money being spent on a direct but futile attack on crime, governmental bodies are cutting back on social programs and releasing employees.

The socialistic approaches, which have been dominant since the Great Depression and Franklin Delano Roosevelt, have proven to be woefully

inadequate. Bureaucratic programs, funded and administered by distant government agencies, cannot begin to solve problems that are inherently spiritual, interpersonal, and local. Indeed, such programs often perpetuate or exacerbate the problems they are intended to solve.

One principle seems clear. Those closest to a problem are best equipped to solve it. Effective solutions to community problems can be found only at the community level. The first thing to do is to change our attitudes and shift our focus—away from Washington, away from the state capital, and back to ourselves, our neighborhoods, and our communities.

The Money Problem

Lack of money is the usual reason given for problems not being addressed. Yet, as described earlier, official money is kept purposely scarce in the mistaken belief that scarcity is what gives money its value. As a result, the official monetary system does not provide an adequate supply of money to allow for a fair distribution of the products of the economy, or even to provide everyone with a subsistence level of income. Monetary scarcity also makes it possible for money to be "lent" at high rates of interest and enables those who control its creation to determine the course of the economy and the financial fate of the people. The tragic result is that important work remains undone and human needs often go unmet because of the lack of money. This scarcity is felt most acutely at the margins of society, by those who are less well connected and whose skills are least valued by the market economy. Their numbers include an ever growing proportion of young people.

This situation can, and must, be remedied. As shown throughout this book, money is a human creation. It is just a medium of exchange. Why should money ever be too scarce to match idle workers with work that needs to be done? We can restore the integrity of our local economies, which will, in turn, go a long way toward solving our social and environmental problems. As argued throughout this book, one way to do this is to create our own local medium of exchange to supplement scarce national currency. This has been done many times before, and it is being done now in many places around the world. A local currency can provide the means of connecting buyers and sellers who would otherwise be kept apart by lack of money.

Young people can thus be reconnected to the community and brought into the economy as productive members, learning important skills, building self-esteem, and earning the income that they need to begin to become self-supporting. This can be accomplished by voluntary local action without the need for new legislation or government financing, by using local currency scrip as the bridge.

How Does the YES Program Work?

The project hub is a central coordinating body that we call the Youth Employment Service or yesXchange. It could be a nonprofit organization or government agency or even a private, for-profit business. This coordinating body plays several roles:

- It acts as an employment agency, placing young people in jobs.
- It plays the role of a "bank," issuing and redeeming scrip.
- It acts as a trade exchange, helping to broker trades between participating businesses.
- It collaborates with other agencies in arranging for training, counseling, and other forms of worker support.

The coordinating body can function much like a temporary employment agency, except that, in this case, all the employees are young people within a certain age range and are paid in scrip instead of (or in addition to) official money. The client businesses and agencies needing temporary employees pay their fees to the yesXchange partly in YEScrip and partly in cash. The cash part allows the yesXchange to meet that portion of its overhead expenses that can only be paid in cash and to provide a partial cash wage to the youths it employs. In order to assure the value and continued acceptability of the scrip, the yesXchange must be willing to accept its own scrip in payment of its fees, at par with official currency.

A YEScrip unit is equivalent to one dollar's worth of service. Businesses can earn YEScrip by accepting it in trade, either from individuals who have earned it by working for the Youth Employment Service or from other businesses that have accepted it in trade. The businesses can then use the YEScrip to pay for work done by young workers. Businesses, by accepting YEScrip in partial payment for their goods and services, stimulate their own business just as their use of a discount coupon does. But unlike a discount coupon, YES notes can be passed along (spent) for value or donated to promote activities of benefit to the community.

The following example demonstrates the process by which scrip is issued, circulated, and redeemed. It is shown pictorially in figure 22.1. The YEScrip has to begin somewhere, and in this case it is issued by the Youth Employment Service. Suppose the Berry Farm needs help harvesting its strawberry crop. The owner calls the yesXchange, which agrees to send Carolyn out to pick berries. At the end of the week, Carolyn submits her signed time sheet to the yesXchange, and it gives Carolyn newly issued YEScrip as pay for her work.

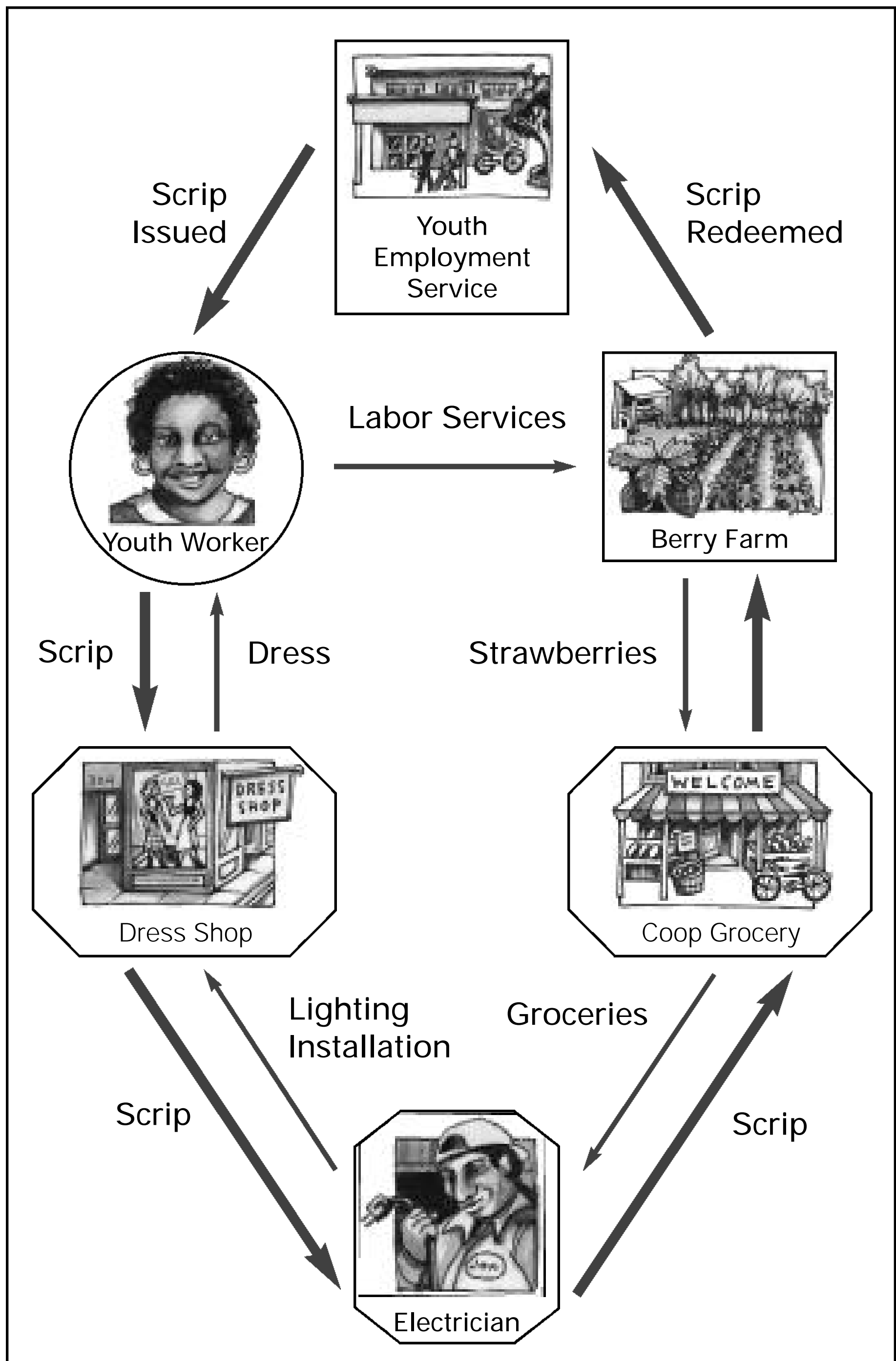

Figure 22.1. Youth Employment Scrip circuit.

What good is the YEScrip to Carolyn? The yesXchange has persuaded several local businesses to accept YEScrip in payment for the goods and services they sell. The Dress Shop is one of them. So Carolyn spends her scrip to buy a new dress. The Dress Shop, in turn, hires an electrician to install new lighting fixtures. The electrician then spends the YEScrip on groceries at the Coop Grocery Store, which uses it to buy strawberries from the Berry Farm. The Berry Farm uses the YEScrip to pay what it owes to the Youth Employment Service for Carolyn's labor. The Youth Employment Service retires the scrip until more work is done. Now the scrip has come full circle. It was issued by the YEService when it paid Carolyn on behalf of the Berry Farm, and it was redeemed by the YEService when it was accepted from the Berry Farm in payment of its debt to the service. Note that the scrip could have changed hands any number of times before making its way back to the Berry Farm and the yesXchange. For the sake of clarity and simplicity, this example has shown just a few transactions.

In practice, each transaction might involve some combination of scrip and official money. The Dress Shop, for example might be willing to accept 50 percent of the price of any merchandise in YEScrip and require the other 50 percent in official money. Thus, Carolyn could buy a $40 dress by paying Y20 (Y is the symbol for YEScrip) and $20. The Dress Shop now has $20, which it can use to cover its cash costs; it also has Y20, which it can use to hire the electrician, who might also require some cash to cover cash costs. But since the electrician's cash expenses are lower, he or she might be willing to accept 80 percent of fees in YEScrip and 20 percent in official money.

Benefits of the YES Project

The implementation of such a project results in several positive effects:

1. It helps to empower a marginalized group of citizens (youths) and make them stakeholders in the community by integrating them into the local economy.
2. It supports the local economy by providing a supplemental local currency to facilitate trade—trade which in many instances could not otherwise take place. Since scrip is recognized only within the local community, this supplemental currency favors local goods and services over imports.
3. It provides a means of financing work that serves the common good, improves the quality of life, and enhances the health of the community.
4. It unifies the community in an effort in which everybody wins.

YEScrip provides an exchange medium issued on the basis of effort put forth by youthful workers, effort that can be applied to commercial enterprises, human service, and/or community improvement. It is completely sound

because it is firmly based on the exchange of real value. Although Youth Employment Scrip is described in terms of circulating certificates or notes, it could also take the form of credits in an electronic system using "smart cards" or debit cards or some combination of accounting credits and circulating notes.

Involving Local Businesses

Merchants should be willing to accept YEScrip, not only because of its benefits to the community, but also because it will help them to attract a greater total amount of business and utilize some of their excess capacity. As pointed out earlier, accepting a community currency can stimulate a merchant's business just as discount coupons do, while avoiding most of the costs associated with a coupon campaign.

Sometimes the use of a coupon is restricted to assure that it will be used in a way that takes advantage of a business's excess capacity and will not draw away existing cash business. A movie theater, for example, may accept coupons only for matinee performances when the house is typically only partly filled, or a restaurant may honor coupons only at particular (slack) hours and on slow days, and airlines may honor coupons on a "space available" basis only.

Like a discount coupon, YEScrip gives a participating business a competitive advantage, but, unlike a coupon, accepting YEScrip costs the business little or nothing because the merchant can, in turn, spend it for something that he or she needs. The key difference between YEScrip and a discount coupon is that businesses agree to accept YEScrip not only from the public but also from each other, and while a coupon is accepted only once and then canceled and discarded, scrip can change hands, just like cash, any number of times.

Each business agrees to accept payment partly in cash and partly in YEScrip, with each business itself deciding what percentage of the selling price to accept in YEScrip. This percentage should be based on the cash costs and value added of the particular business. The cash portion allows cash costs to be met, while all or part of the value added by a business can be received in scrip. The percentage of the price that each business is willing to accept in scrip can be advertised and posted on the premises. As an example, the Pizza Parlor might advertise, "We accept YEScrip for up to 50 percent of the purchase price on any pizza."

The issuance of currency at the local level and the willingness of traders in the community to accept this supplemental exchange medium in payment for goods and services, especially the necessities of life, does two things: (1) it gives people more choice over the work they choose to do, encouraging the application of their energies and resources to activities consistent with their values, and (2) it provides the community with a sound medium of exchange that by its very nature is abundant, democratic, and locally controlled.

As the social and economic benefits of such a program become more evident, more and more people will want to participate. Growing acceptance of the local exchange medium will allow for the issuance of additional amounts, which will further encourage work in the public interest. The resultant prosperity should also stimulate an increase in donations to the local nonprofit sector in general. Besides providing a local medium of exchange, YEScrip provides a more participatory process for allocating the resources of the local community, reducing the need for many government expenditures and transfer payments.

Eventually, most of the local merchants will jump onto the bandwagon and accept YEScrip to attract their share of the available business, which will have expanded because of the increased purchasing power that YEScrip brings to the local economy. And, of course, those accepting a higher percentage of payment in YEScrip will probably attract more of the available business than those accepting a lower percentage.

Program Participants and Agreements

Besides the Youth Employment Service, which serves as the hub and central coordinating body, three distinct groups participate in the YES program. First there are the youth workers, whom we refer to as *work partners.* Second there are the businesses that hire the young workers. These are called *employment partners.* The third group is comprised of businesses that have agreed to accept scrip in full or partial payment for the goods and services they sell. These are called *trade partners.* Employment partners will normally also be trade partners, since they are allowed to use scrip to pay their bills to the YEService and thus have a particular reason (in addition to all the community benefits) to earn some scrip income.

Each of these "players" in the program has a particular agreement that defines the terms and conditions of their participation. These agreements must be carefully formulated, clearly stated, and scrupulously adhered to. Participating businesses (employment partners and trade partners) should have maximum freedom to set the terms and limits of scrip acceptance and to be able to opt out of the program at any time. Employment partners, however, must pay whatever they owe to the yesXchange for the value they received (in the form of youth labor). If the program is properly run, businesses will cherish the opportunity for continued participation.

The greatest burden falls upon the yesXchange. The most fundamental feature of any currency issue is the commitment of the issuer to accept it at full face value in payment for whatever the issuer sells. In this case, the yesXchange must be willing at all times to accept the scrip it issues in payment from its employment partners for the youth labor provided. Thus, the basis of issue

Announcement

Say Yes to Youth

promote a healthy and prosperous community
and a clean environment

announcing the Youth Employment Service (YES) and
Youth Employment Scrip (YES)

The Youth Employment Service is a nonprofit service agency devoted to the development and empowerment of our young people. All of our workers are paid for their work using a form of "service credits" issued as Youth Employment Scrip (YES). You can support our youth and at the same time promote the local economy by accepting our scrip as you would your own discount coupons, for, say, 20%, 30%, 50%, or more off your regular prices. But unlike discount coupons, YES notes can be used by you to buy things you need. You yourself can spend YES for goods and services offered by other participating businesses, or you can use them to hire youth workers to help you in your own business. Or you might prefer to donate YES to any community improvement organization that you might wish to support.

Call today and let us add you to our list of participating businesses. We will periodically publish this list, indicating for each business the percentage of payment that it accepts in YES. The higher the percentage, the more business you'll attract. And remember, it costs you nothing, because you, in turn, can spend the YES you accept. By accepting Youth Employment Scrip, you'll be helping our youth, our community, our local economy, and yourself.

With YES, Everybody Wins!

Figure 22.2. Youth Employment Scrip announcement.

Agreement

<u>(Name of business)</u> agrees to accept Youth Employment Scrip in partial payment for all products and services that it offers, to the extent of ____% of the purchase price. Th Youth Employment Service agrees to accept YES at full face value in payment for all services that it customarily offers, to the extent of ____% of its standard fees.

This agreement may be canceled by either party at any time upon written notice and payment of any outstanding balance.

Signed____Date ______________
for (name of business)

Signed____Date ______________
for Youth Employment Service

Figure 22.3. Youth Employment Scrip agreement.

for Youth Employment Scrip is labor, and the "backing" for it is the commitment of those who receive that labor to provide an equal amount of value to the community in the form of goods and services, using YEScrip as a vehicle.

As pointed out above, YEScrip first enters circulation when the YEService uses it to pay a worker. The service might validate the scrip by signing and/or stamping it, and dating it (or dates could be preprinted on the notes). The recipient of the scrip can then, in turn, spend it on purchases from any participating merchant or anyone else willing to accept it in payment. Thus, a YEScrip note can circulate as a supplemental medium of exchange up to its expiration date, the holder being assured that it will be accepted by, at the least, any employment partner or trade partner.

The benefits to the participating businesses are significant. Instead of only competing with each other for whatever scarce official money might be

circulating within the community, they would also be cooperating to supplement that money with a local exchange medium, making it possible to transact a greater amount of trade while also empowering the youths of the community. Since the YEScrip has value only for purchases made locally, it remains in the community instead of being used to buy from outside the community, tending to make the community more self-reliant and less dependent on export earnings.

A YES system might be started by publishing and distributing an announcement like the one in figure 22.2. Each business would sign an agreement form such as the one in figure 22.3.

YES Questions and Answers

Q. Why would anyone accept Youth Employment Scrip instead of official currency?

A. YEScrip will be acceptable for several reasons. (1) It will be an acceptable form of payment to young people who need work and are unable to find employment that pays official money, because they know that they can spend it at a variety of businesses in the community. (2) YEScrip will be acceptable to businesses that wish to employ youths because they know that they can use YEScrip to pay their wages. (3) YEScrip will appeal also to others who support the activities that give rise to their issuance, namely the employment of young people in meaningful work useful to the community and private sector. (4) YEScrip will appeal to local merchants who can see that accepting it will help to boost their cash business and strengthen the entire local economy. (5) It will be acceptable to anyone in the general public who can see that YEScrip represents a sound medium of exchange that can easily be spent in the community.

Q. What will make YEScrip a sound medium of exchange?

A. YEScrip is not issued arbitrarily. It is issued on the basis of valuable work done by the young workers. Each YES note, therefore, represents a receipt for actual value delivered. The amount of YEScrip issued can never exceed the amount of labor value delivered. A YES note will circulate only until some holder decides to pay it to the Youth Employment Service for services rendered, or donates it to the service. At that point the YES note will be retired from circulation until more work is done to allow it to be reissued.

Q. Won't the issuance of YEScrip cause inflation?

A. As pointed out in the previous chapter, the issuance of YEScrip, or any other currency that people are free to discount or refuse, can never cause inflation. Since YEScrip need not be accepted at face value by anyone except the issuing agency, an excess of YEScrip in circulation will cause it to be discounted or refused by sellers in the market. As people see this happening, they will tend to ease off on their acceptance of it, because the YEScrip they would receive could not be spent for full value. At the other end of the line, busi-

nesses that buy labor from the Youth Employment Service will tend to accept more YEScrip since they can thereby get workers more cheaply. For example, if a one-dollar YES note is being accepted in the market at only eighty cents, a business thatuses YESservices canget five dollarsworth oflabor for YESthat costs it only four dollars. Whenever traders are free to discount the value of a note, that is, accept it at less than face value, the market will automatically force the issuing authority to avoid overissuance; this makes the currency system self-adjusting.

Q. Should YES be issued in the form of accounting credits or paper notes?

A. Conceptually, it doesn't matter whether the YEScrip takes the form of paper notes, tokens, or ledger balances (bookkeeping entries). These are all symbolic representations of the same thing—the values being exchanged—and each is "backed" by the same commitment of the issuer to redeem the scrip by providing value. So checks, notes, cards, and electronic transfers can all be used interchangeably, as they are in the official monetary system. Each form has its particular advantages, but paper notes are the simplest form to implement and handle.

Q. What if a business accumulates too much YEScrip?

A. A local currency, in its sole role of exchange medium, should be spent as fast as it is taken in. If a participating business finds insufficient opportunity to spend YEScrip on things that it needs, the surplus would indicate that it overestimated either (1) the value-added portion of its selling price or (2) the willingness and/or ability of others in the community to accept YEScrip. In either case, a business can remedy the situation by reducing the percentage of YEScrip that it is willing to accept in payment, giving it time to spend down its accumulated surplus of YEScrip.

Q. Should YEScrip have limited or perpetual life?

A. Having a periodic recall feature or expiration date is one way of addressing the problem of keeping the YES notes an exchange medium and limiting their use as a savings or "value storage" medium. As we have discussed previously, it is important to keep these two functions separate. One way to do it is to have the local currency notes expire after a certain length of time, say, one year. Member businesses might be allowed to exchange expiring notes for new notes with a later expiration date.

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AUTHOR TOM GRECO, director of the Community Information Resource Center, is a former engineer, entrepreneur, and professor of business. He has spent more than twenty years studying money, banking, and community currency systems around the world and throughout history. He helped establish the Tucson Traders currency in his home town in southern Arizona, and has consulted on many others.

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