

Reinventing Money

How complementary Currencies and
Mutual Credit Clearing
Can Create a
Sustainable, Regenerative Economy

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What *Is* Money?

Money is credit

that is allocated by some entity and managed through an accounting or information system.

Its fundamental purpose is to provide a means of payment.

Political Money Regime Dysfunctional and Exploitative

Money created as bank “loans” is kept artificially scarce, is expensive, and misallocated.

- ▶ Centralizes power and concentrates wealth
 - Increasing inequality & class war
- ▶ Undermines popular government
- ▶ Forces artificial growth
 - **The debt imperative >> growth imperative**
- ▶ Erodes the social fabric
- ▶ Destroys the environment

Why and How Is Money Misallocated?

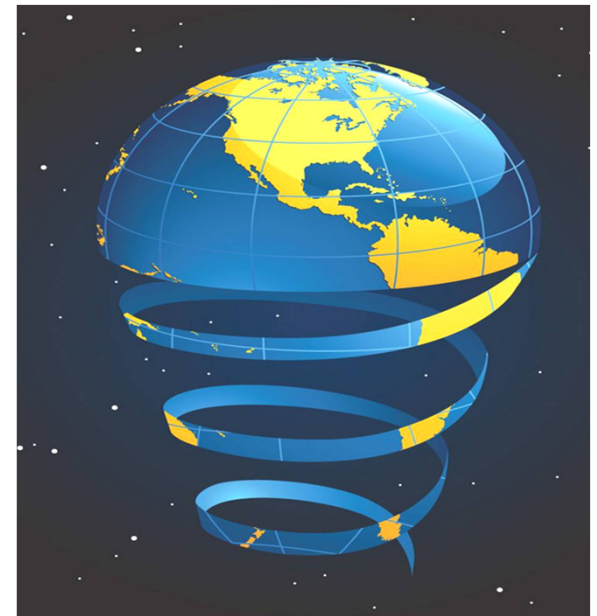
- ▶ The creation and allocation of money is done by banks making “loans.”
- ▶ Some are given access to credit while others are denied.
- ▶ Some receive favorable terms (low interest; minimal collateral), while others are not.

The political money system starves productive enterprise but finances lavishly the destructive activities of war. -- E. C Riegel

Global Mega-Crisis

Economic, social, political, environmental

- ▶ End of Cheap Energy
- ▶ Resource Depletion
 - Minerals, Fresh Water, Soil fertility, Forests, Marine resources, etc.
- ▶ Pollution
 - Chemical, nuclear, noise
- ▶ Climate Change
- ▶ Financial Disruption
 - Bankruptcies & Unemployment
 - Currency debasement/Inflation
 - **Explosive Debt Growth**
- ▶ Concentration of wealth and power
- ▶ Loss of freedom
- ▶ Spreading social unrest and wars
- ▶ General Failure of Institutions & Systems



U.S. Debt Growth All Sectors

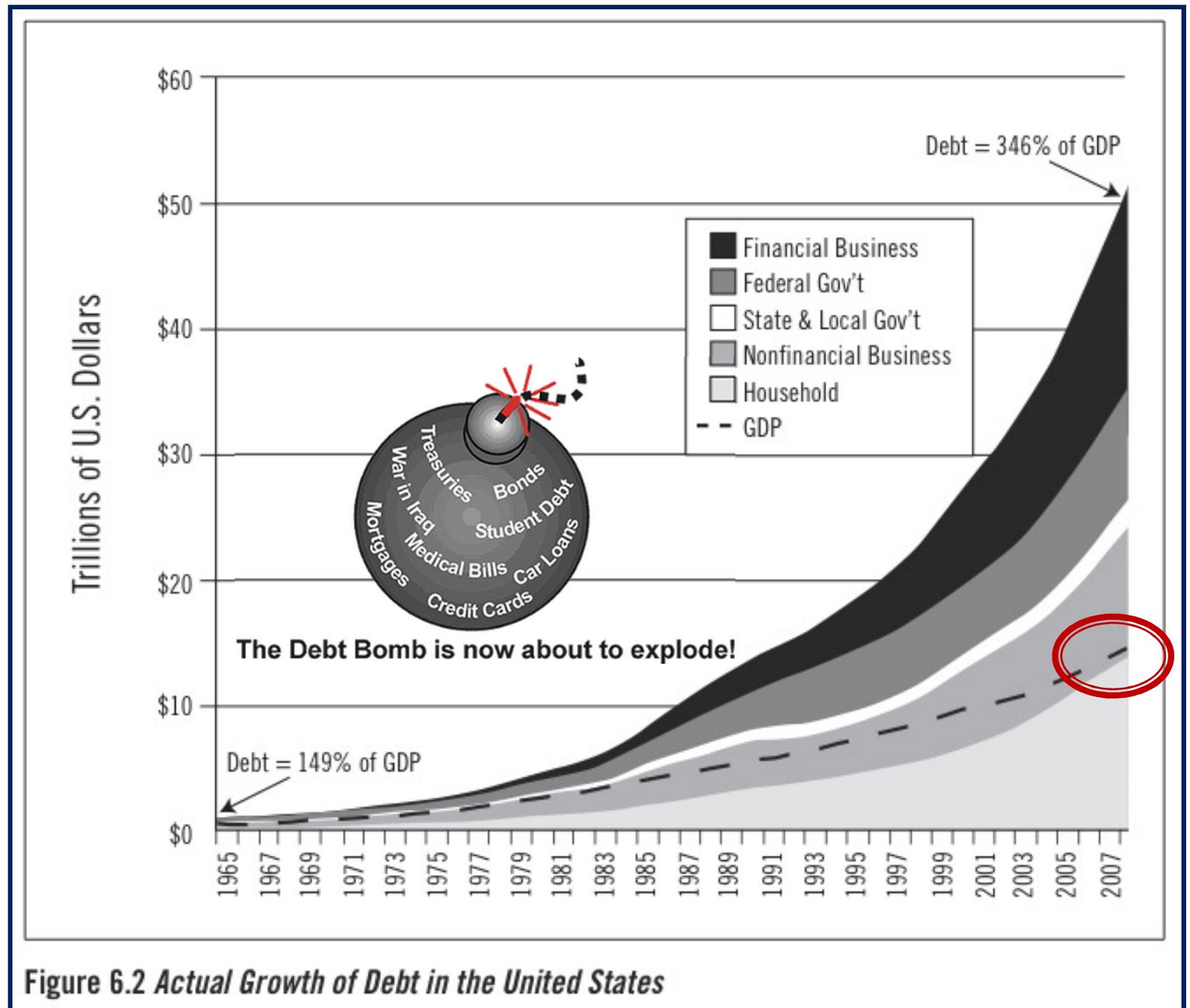
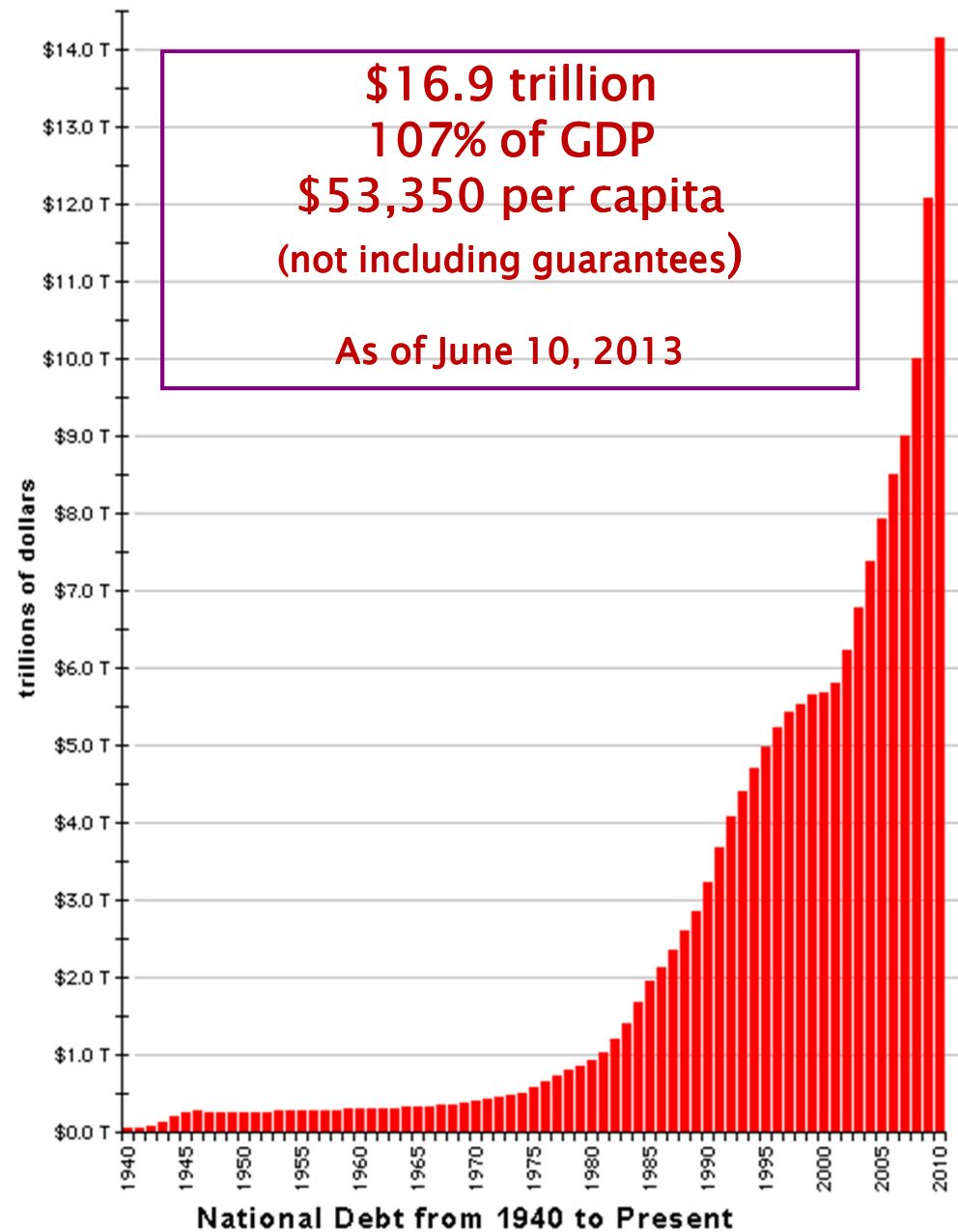


Figure 6.2 Actual Growth of Debt in the United States

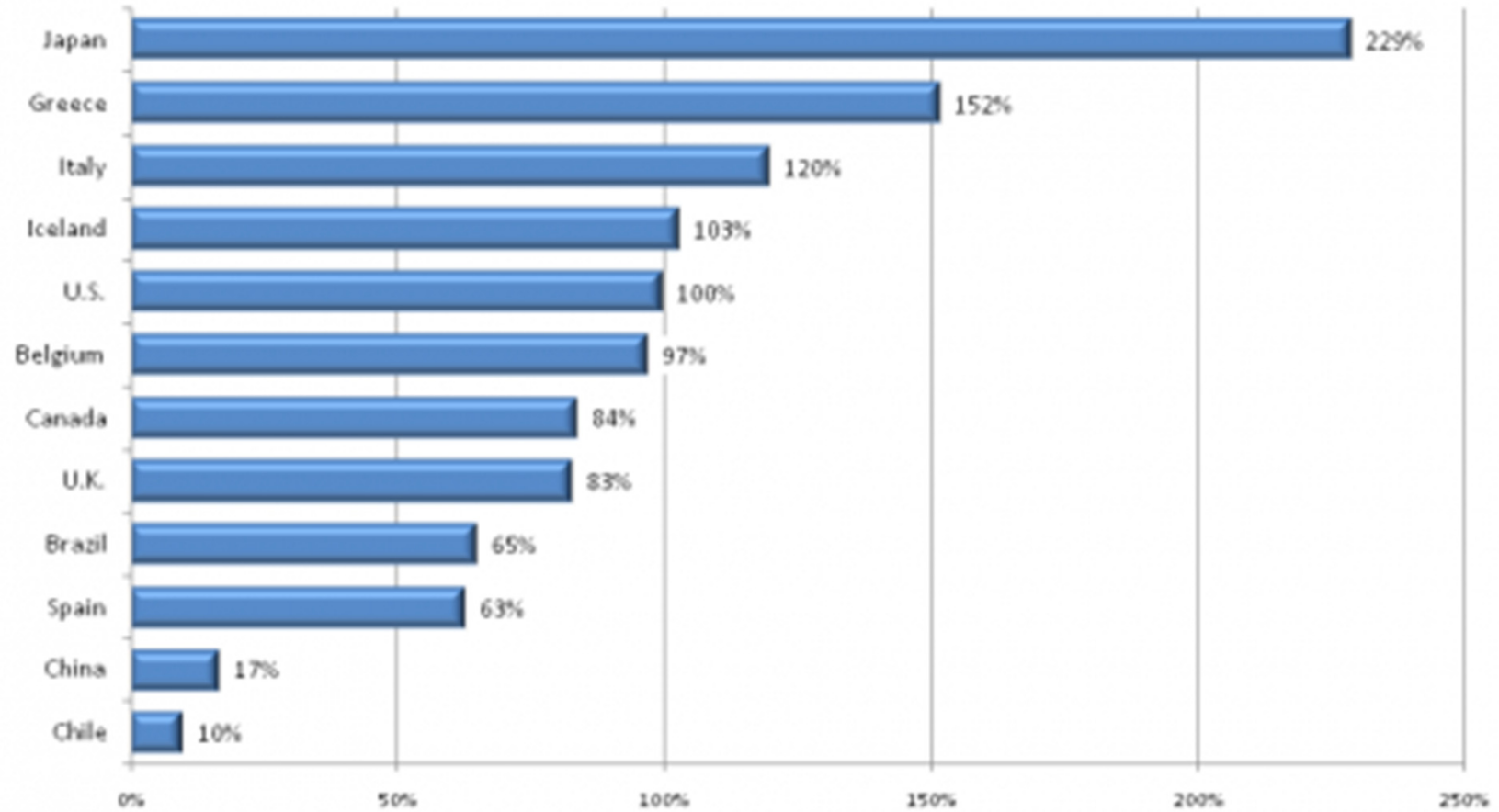
United States National Government Debt



Source: U.S. National Debt Clock
http://www.brillig.com/debt_clock/

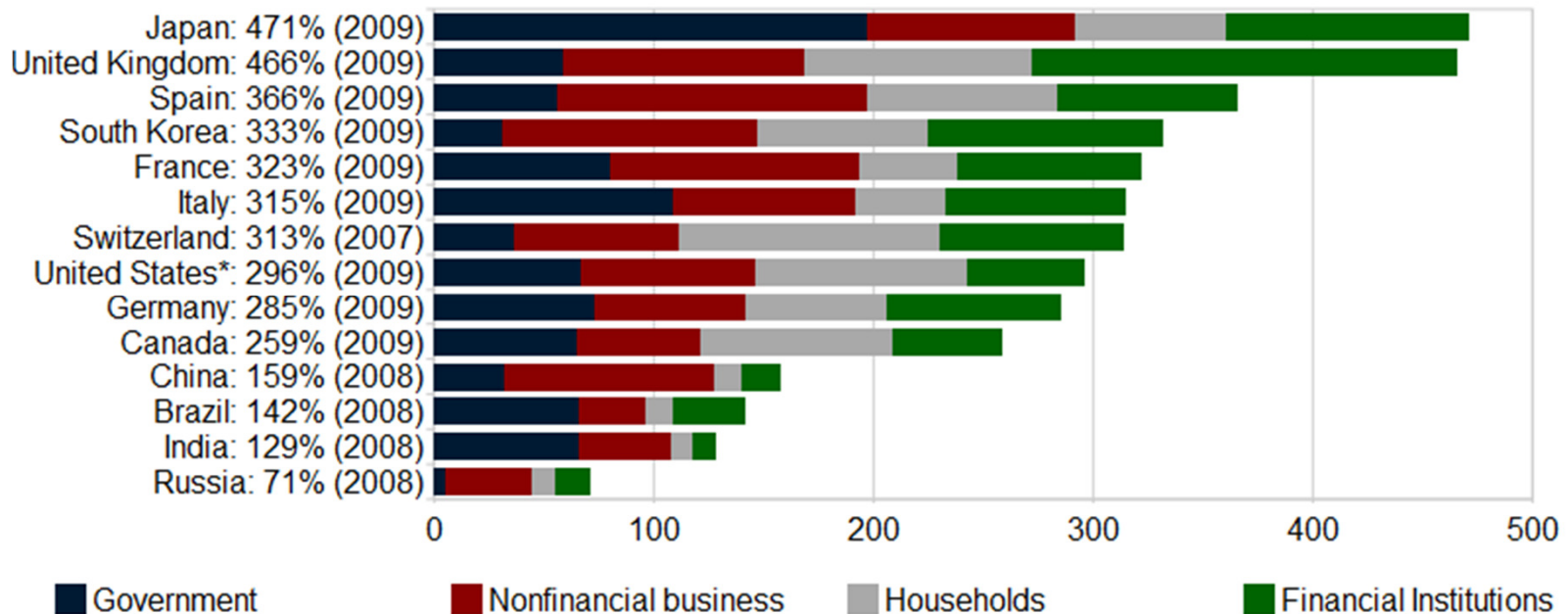
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Government Debt to GDP



Total Debt by Sector % of GDP Selected Countries

Total Debt in Selected Countries around the World, latest data available, as percent of GDP, by sector



Debt Crisis -- Discontinuity

"This crisis ...has brought the entire [financial] system to the brink of a breakdown, and it is being contained only with the greatest difficulty. This will have far reaching consequences. **It is not business as usual but the end of an era.**"

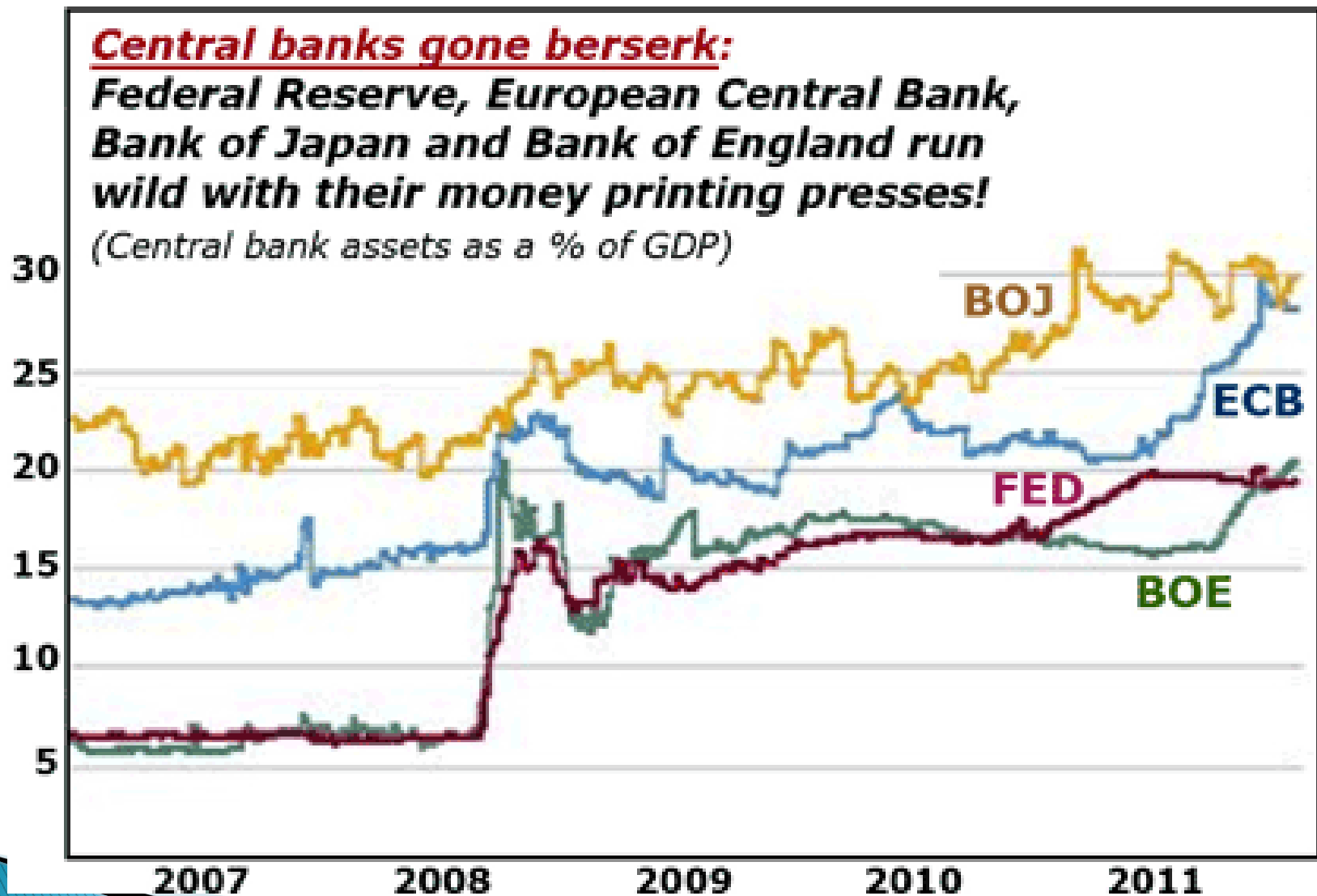
—George Soros, *The New Paradigm for Financial Markets: The Credit Crisis of 2008 and What It Means*, p. 81.

How are governments coping?

Keeping a flawed system alive...

- ▶ Bank Bailouts
- ▶ Social program cuts
- ▶ Wage cuts and layoffs
- ▶ Regressive taxation
- ▶ Confiscation of citizen's wealth
- ▶ Inflation of their currencies

Mega-Bubble Now Forming



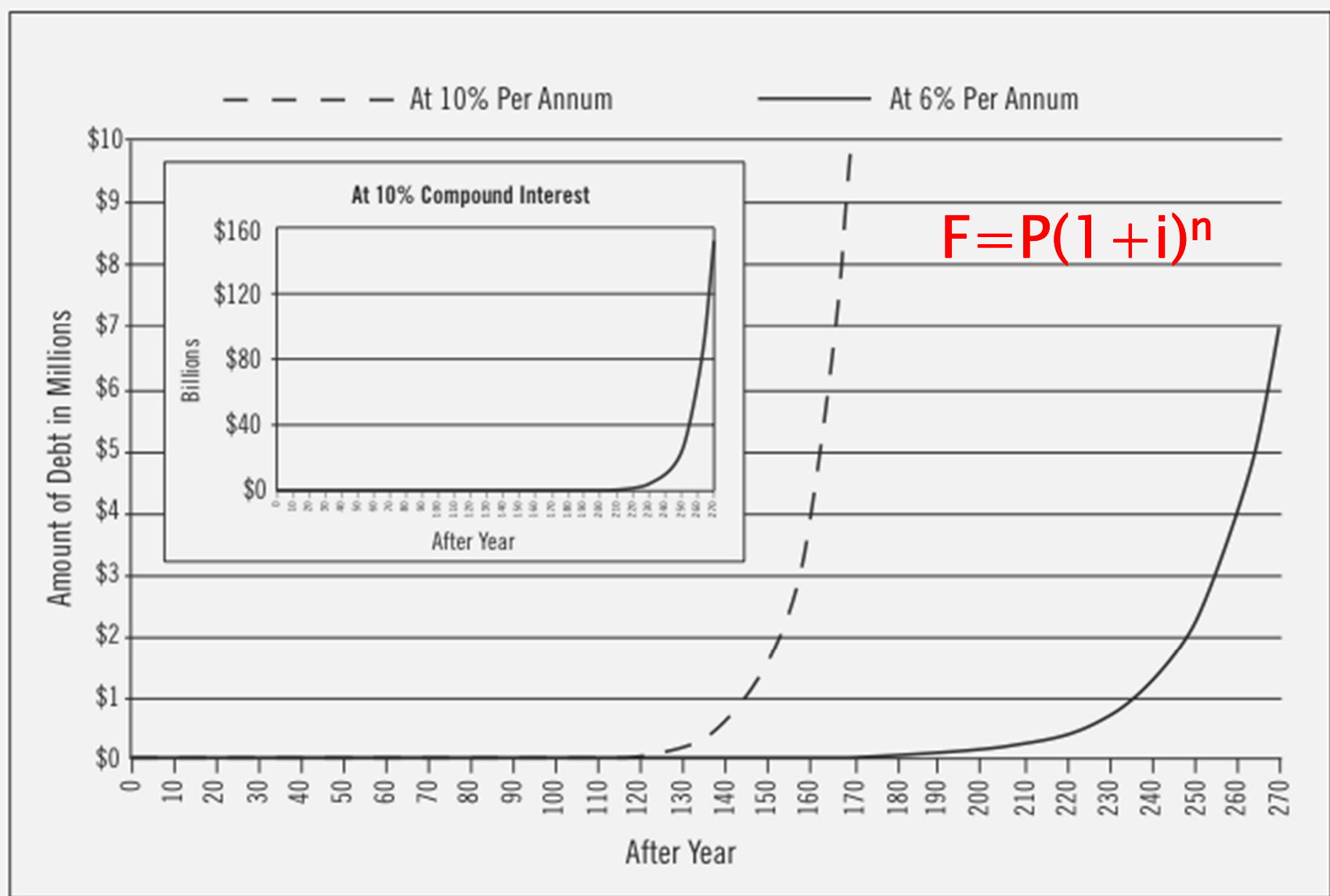


Figure 6.1 *Growth of One Dollar of Debt at Compound Interest*

Growth of One Dollar at Compound Interest

	6%	10%
50 years	\$18.42	\$117.39
100 years	\$339.30	\$13,780.65
200 years	\$115,124.	\$189,906,200.

Essential Elements of the Political Debt–Money System

- ▶ **Credit Monopoly** by the banking cartel headed by
- ▶ **The central bank**, whose currency is granted the privileged status of
- ▶ **Legal tender** –forced acceptance
- ▶ **Credit money** lent into circulation at **interest/usury**, which requires the
 - **Endless expansion of debt**
 - By lending to either the **private sector** or the **public sector**.

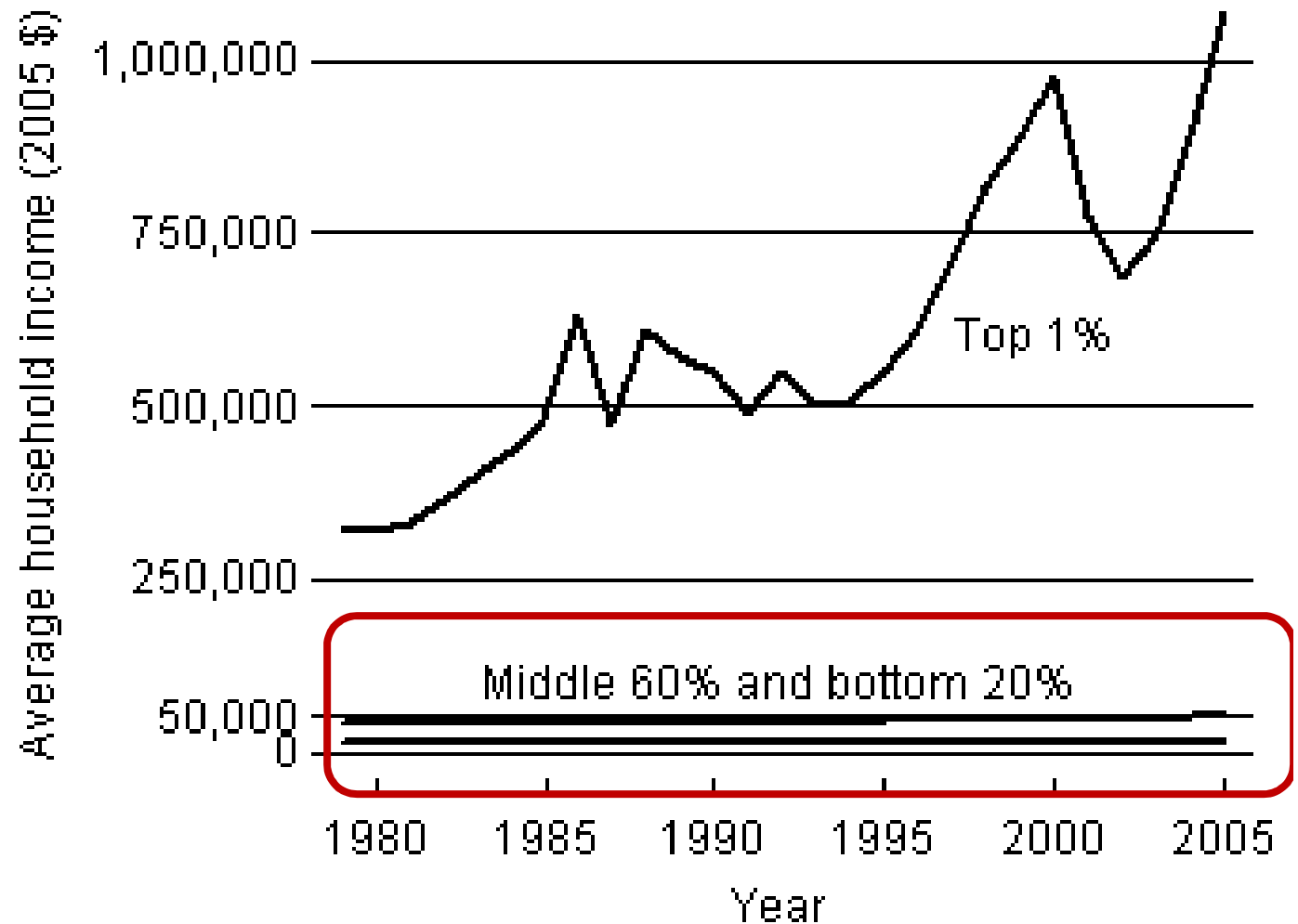
Disturbing Realities

The Disappearing Middle-class

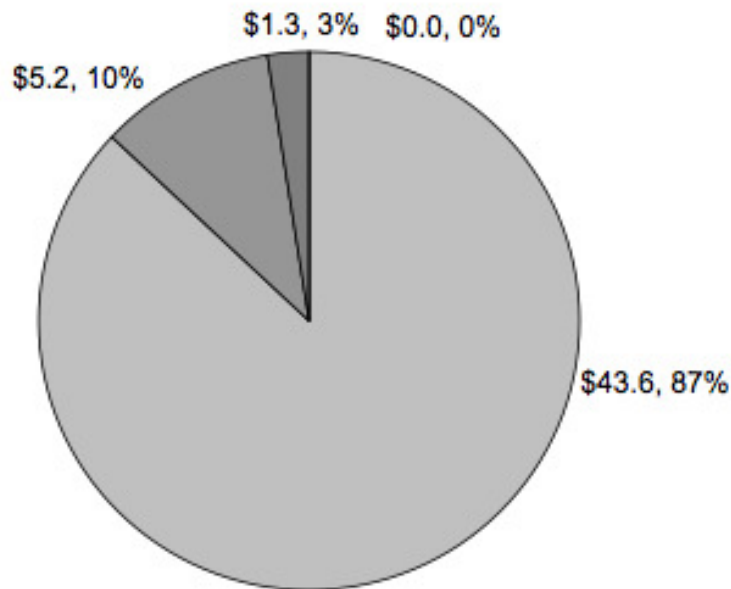
- ▶ The bottom 50% of income earners in the U.S. own less than 1% of the nation's wealth.
- ▶ 66 percent of the income growth between 2001 and 2007 went to the top 1% of all Americans.
- ▶ The ratio of executive's pay to worker's pay
~30 to 1 in 1950; now ~ 300 to 500 to one.
- ▶ Squeeze on labor. A garment worker in China earns 86 cents/hour, in Cambodia 22 cents/hour.
- ▶ Fewer jobs for more people.

Rising Income Inequality

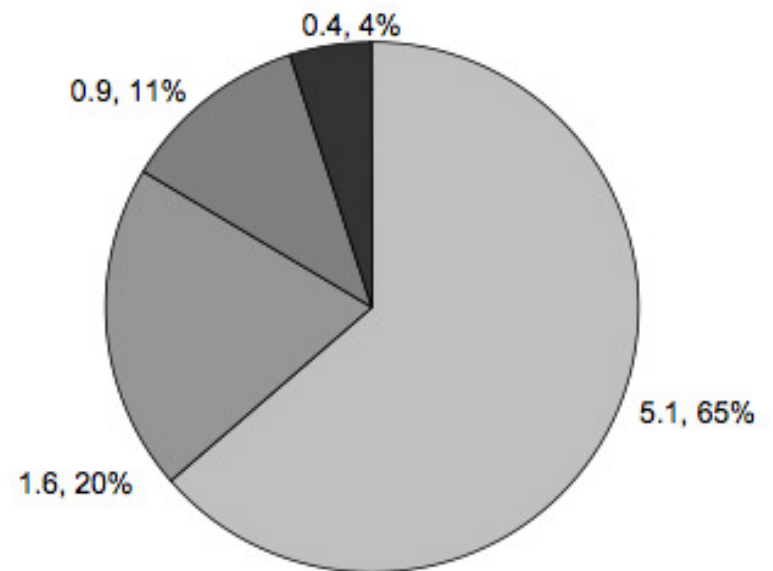
Inequality rising: inflation-adjusted household incomes, 1979-2005



Wealth Distribution more unbalanced than Income Distribution (2004)

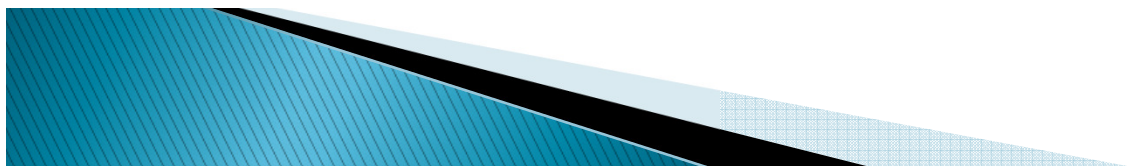


Wealth



Income

Legend: Top Quartile (lightest gray), Upper Middle Quartile (medium-light gray), Lower Middle Quartile (medium-dark gray), Bottom Quartile (darkest gray)



Class War waged by the *Superclass*

“There’s class warfare, all right, but it’s my class, the rich class, that’s making war, and we’re winning.”

—Warren Buffet , NYT, 2006

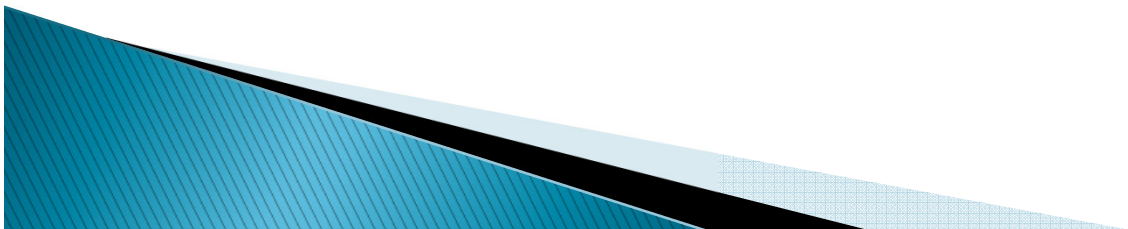
“Whether you like it or not, there is no way to deny the enormous, disproportionate, concentration of power and wealth in the hands of a relatively small number of people in the world today. ”

—Richard Holbrooke, Former U.S. Ambassador to the U.N.

The Money Machine

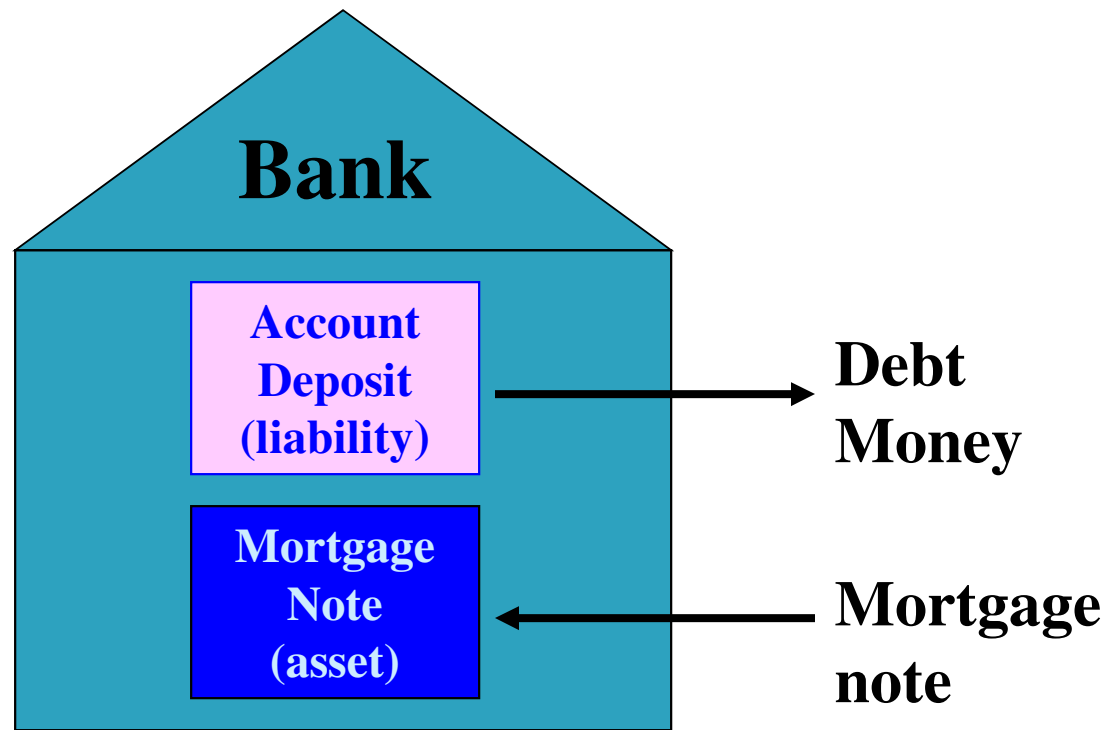
- *“The actual process of money creation takes place primarily in banks.*
- *...checkable liabilities of banks are money.*
- *These liabilities are customers’ accounts.*
- *They increase.. when the proceeds of loans made by banks are credited to borrowers’ accounts.”*

-- Federal Reserve Bank of Chicago



The Creation of Debt–Money as Bank Deposits

Banks create money in the form of “deposits” or account balances when a “loan” is granted.



As interest accrues, the supply of money available for repayment becomes deficient.

Basis of Issue of Money

Proper Basis

- ▶ Money should be created in the process of exchange of goods and services or on the basis of goods and services in the market or on the way to market.

Improper Basis

- ▶ Long-term government bonds
- ▶ Long-term capital projects

Common Problems of Community Economies

- ▶ Local producers are forced to compete with outside producers that are subsidized, enjoy political privilege, or are not required to play by the same rules.
- ▶ Terms of trade are dictated by outside buyers or sellers who dominate the markets.
- ▶ Resources and wealth are siphoned off by mega-banks and absentee owners.
- ▶ Money that comes in, goes quickly out again.
- ▶ **Lack of local liquidity.**

Do banks provide local liquidity?

Sometimes...

Maybe...

at a high price...

Bank credit is unreliable;
not there when you need it.

Banks prefer to finance government
debt and BIG corporations, **not SMEs.**

Sources of Liquidity

Conventional sources

- ▶ Export earnings and transfer payments from outside --- \$, £, €, ¥....
- ▶ Bank borrowing.

HOME-GROWN SOURCES

If the political money system cannot provide a reliable, affordable, and fair medium of exchange, we can create our own.

Monetize the local value-added.

- ▶ Private currencies emitted by “trusted issuers.”
- ▶ Credit clearing exchanges.

Types of Complementary Currencies

- Currency **SOLD** for cash
 - *Toronto Dollars, Salt Spring Dollars, Berkshares, Brixton Pounds, Bristol Pounds*
- Currency **DISTRIBUTED** with no formal obligation to reciprocate
 - *Ithaca HOURS* and many other hour-based currencies
- Currency **SPENT** into circulation as a credit obligation
 - *WIR, LETS, mutual credit clearing systems, Tucson Traders, commercial trade exchanges*

Complementary Currencies Should be Spent Into Circulation

To create local liquidity based on local production

- ▶ A currency is spent into circulation by using it to pay suppliers and employees,
- ▶ Who voluntarily accept it, and
- ▶ Circulate it throughout the community.
- ▶ Issuers accept it back as payment at face value, completing the reciprocity circuit.

Providers and Forms of Local Liquidity

Qualified Currency Issuers and Basis of Issue

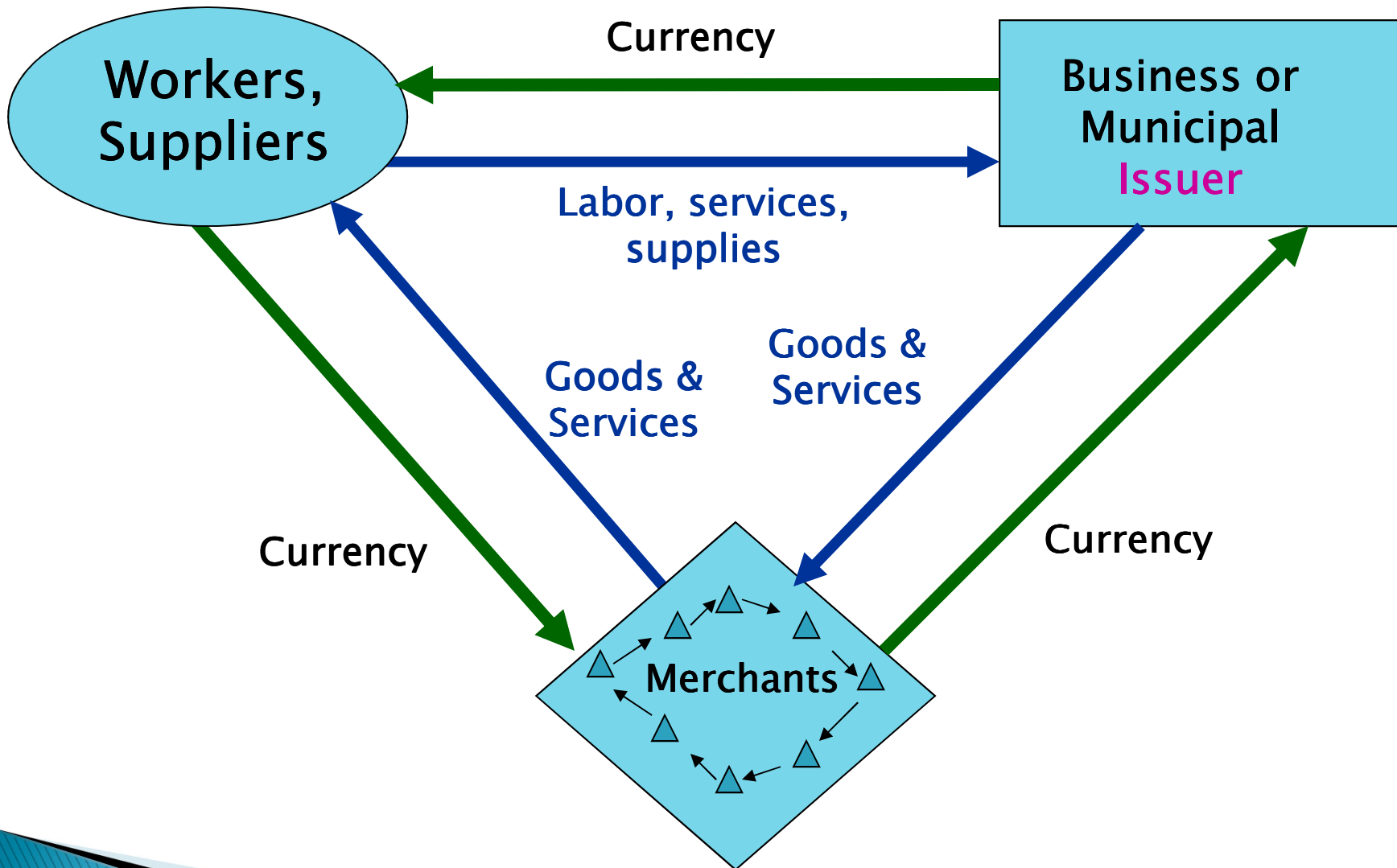
- Local Companies—Utilities & Transit providers
 - Based on their capacity to provide desired goods and/or services
- Municipalities and agencies
 - Based on anticipated tax revenues and fees
- Non-profit organizations--Schools, universities, hospitals, etc.
 - Based on their capacity to provide services, or donor commitments

They spend it into circulation and accept it back in payment for their goods and services, taxes, and fees.

Vouchers, Coupons, Account credits

Currency issuance and circulation

The Reciprocity Circuit



Providers and Forms of Local Liquidity (2)

Credit Clearing Exchanges

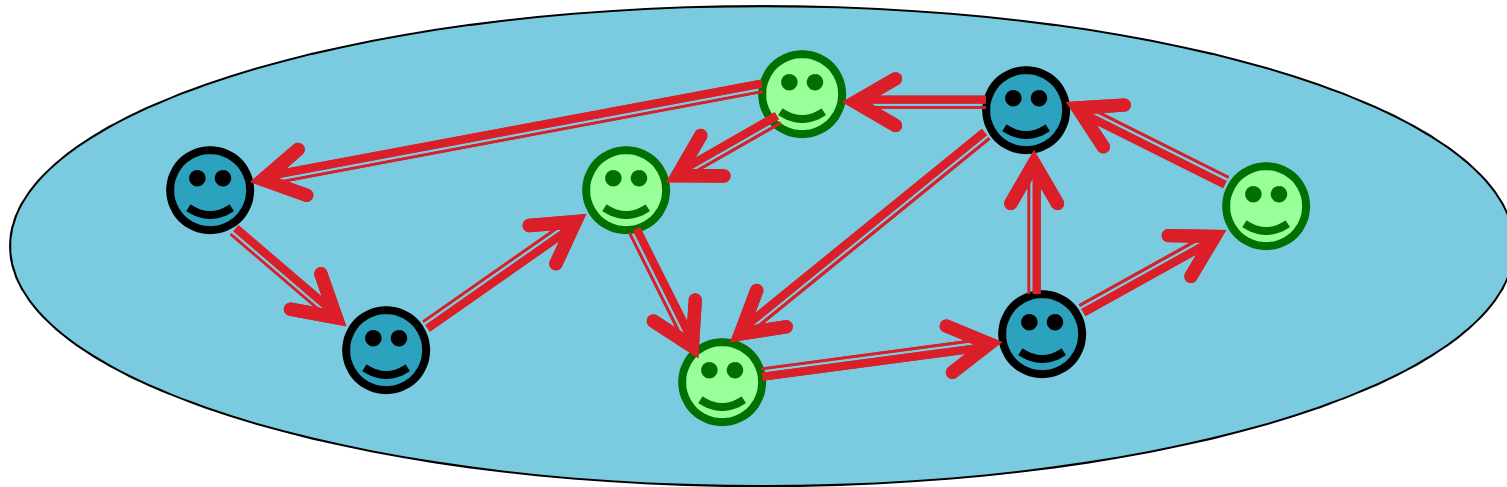
- Enable moneyless, interest-free exchange,
- Independent of banks,
- By organizing economic entities into an association
- In which their accounts receivable offset their accounts payable.

Mutual Credit Issuance and Circulation

Member - Issuers



Member - Non-Issuers



Give each other credit

Participants utilize their own credit directly within a network of trust.

They allow one another to draw upon the common credit pool.

Cashless Trading: Decades of Success

- ▶ The WIR business circle cooperative (Wirtschaftsring)
- ▶ Proliferation of commercial Trade (“Barter”) Exchanges and Countertrade



*The
Business Exchange*



The WIR Model

The WIR Business Circle Cooperative has demonstrated

- ▶ The power of direct credit clearing both in times of financial crisis and in normal times, and
- ▶ Its competitive superiority to conventional money and banking in facilitating the exchange of goods and services among businesses.
- ▶ Long-term viability. Founded in 1934, WIR currently has 65,000 members who transact more than \$2 billion worth of trades annually.

Benefits of Trade Exchanges and Private Complementary Currencies

- ▶ Provide producers with a reliable and friendly source of credit that is sufficient, interest-free, and community controlled.
- ▶ Reduce dependence on bank borrowing and scarce political currencies (\$, €, ¥, etc.).
- ▶ Enable fuller utilization of local business capacity.
- ▶ Assures greater satisfaction of unmet needs.
- ▶ Reduce unemployment.
- ▶ Immunity from boom and bust cycles.
- ▶ Self-adjusting, stable, and sustainable exchange mechanisms.

The Future of Money is No Money

- ▶ The highest evolutionary step of **reciprocal exchange** is the process of mutual credit clearing.
- ▶ The future of exchange lies in decentralized autonomous mutual credit clearing networks.
- ▶ These networks will be linked together without the center destroying their autonomy.

Realizing Full Potential

1. Optimize exchange system architecture
2. Adopt uniform standard operating procedures
3. Trade credit value equalization
4. Adopt convenient point-of-sale payment mechanisms
5. Greatly expand membership
6. Organize local trade exchanges into wide area trading networks

A Glimpse into the Future

- Mutual Credit Clearing Exchanges will proliferate around the world.
- Standards of design and practice will emerge and be widely adopted,
- Enabling local exchanges to be networked into a worldwide web of exchange that will,
- Maintain control at the community level,
- While providing a globally useful means of payment.

What Should National Government Do?

- ▶ Spend its currency directly into circulation. There should be no monetization of government bonds.
- ▶ Rescind general legal tender. Only the issuer of legal tender should be required to accept it at face value.
The legal tender quality is only valuable for the purposes of dishonesty. –Salmon P. Chase
- ▶ Limit the amount of currency issued to one half of its average annual revenues.
- ▶ Adopt an objective standard of value and unit of account.

What Should National Governments Do? (2)

- ▶ Encourage and support the organization of credit clearing associations and private community currencies that provide interest-free exchange media.
- ▶ Support the development of software and other infrastructure elements that enable these local associations to be networked into a functional whole.
- ▶ Pass legislation that will provide for open access at little or no cost to existing payments infrastructure and point of sale devices.

Resources

Websites:

<http://BeyondMoney.net>

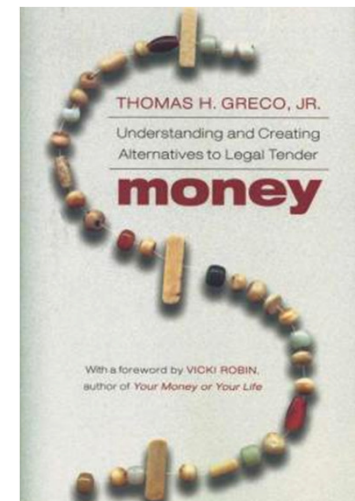
<http://ReinventingMoney.com>

<http://www.complementarycurrency.org>

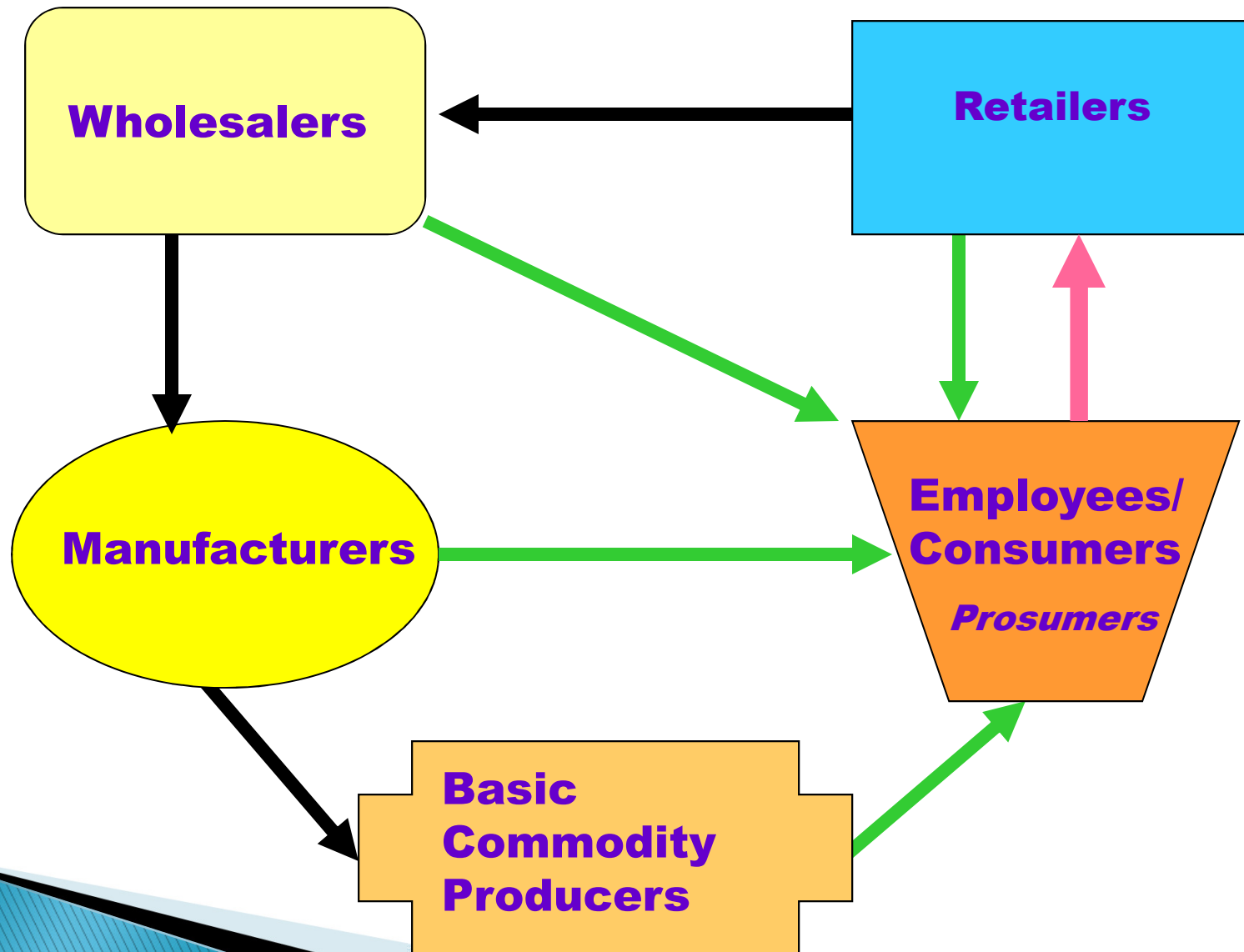
<http://ijccr.net/>

Books & Articles

- *The End of Money and the Future of Civilization*
- *Money: Understanding and Creating Alternatives to Legal Tender*
- *Taking Moneyless Exchange to Scale*—Thomas Greco
- *Currencies of transition*—Bendell and Greco
- *Flight From Inflation*
- *Private Enterprise Money*—E. C. Riegel



Include all Levels of the Supply Chain



Why Community Currencies Often Stagnate and Fail to Thrive

Failure of reciprocity (non-redemption)

- **System design deficiencies**
 - Improper basis of issue
 - Over-issuance
 - Lack of clear agreement between issuers and users
- **Management issues**
 - Lack of accountability and transparency
 - Inadequate management procedures and controls
 - Overreliance upon volunteer administrators
 - Failure to respond to internal or external threats

Why Community Currencies Often Stagnate and Fail to Thrive (Continued)

▶ Scale and scope

- Failure to achieve critical size of the participant base
- Too narrow an assortment of goods and services being offered
- Failure to attract participants from all levels of the supply chain (production/distribution circuit)
- Failure to gain wide acceptance within the mainstream of business

Credit makes the world go 'round...

Two Distinct Kinds of Credit	
Exchange Credit	Finance Credit
<ul style="list-style-type: none">▪ Purpose: to facilitate exchange▪ SHORT-TERM▪ Basis for newly created money	<ul style="list-style-type: none">▪ Purpose: to fund capital development▪ LONG-TERM▪ Reallocation of existing money from savers to entrepreneurs

The Future of Finance

- ▶ Shift in personal investment objectives
 - Capital preservation is foremost
 - Values driven – Focus on the common good
- ▶ SRI (Socially Responsible Investing) becomes proactive
- ▶ Localization and focus on community resilience
- ▶ Shift from mega-banks to credit unions and mutual institutions
- ▶ Disintermediation
 - Direct investment
 - *Crowd funding and crowd sourcing*
- ▶ The rise of Islamic finance
- ▶ Shift from debt to equity and shared revenue
- ▶ The end of interest