WORKSHOP PAPERS

for

Globalisation, Money & Trade

Workshop Leader - Tom Greco

List of Papers

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On Denationalizing Money by F.A. Hayek

In order to successfully eliminate inflation, monetary policy should be taken out of government hands. There are very definite plans for this that I proposed about five or six years ago, to, as I called it, de-nationalize money.

I then assumed that it would be necessary to allow private people to issue a circulating money. I've now come to the conclusion that this is no longer necessary.

All you need is to offer stable accounts which permit you to redeem in so much of the required currency monies, a certain list of raw materials and foodstuffs.

Now that is practical politics.

My original plan was, I believe, appropriate but was utopian because no government would ever permit a private organization to issue a circulating money. But I do not think governments can stop a private organization from offering stable accounts. I think in that way the thing may come about.

It's politically possible, because it is most unlikely that all countries are willing to prevent it. And if anyone starts it, the others will have to compete.

As an example, let us assume you kept an account where the unit is called the '*Ducat*' and the accruement is so much current money as is required to buy, on the wholesale commodity exchanges, a given list of commodities and foodstuffs.

That means anybody who holds an account there knows he can at any time collect from it an amount, the purchasing power of which is constant. It happens to be the current money, but he would only draw it in order to spend it, of course. So holding an account gives you command over a constant amount of commodities.

That certainly is enough. Once you start it, the problem will be to keep it within dimensions. As to what country would be likely to adopt a plan like this first…probably a small country.

From an interview with F.A. Hayek (1994) - Nobel Laureate in Economics

Dethroning The Economy by Ted Trainer

In a radical conserver society the economy would be a far less important element in our affairs than it is now. In a sane society we would have only as much economic activity as is needed to provide sufficient, comfortable, secure living standards for all so that we could then devote our energies to other and more important pursuits - which is what all ‘primitive’ tribes do!

We would not even pay for goods or keep any accounts or financial records; we would simply take things from the community stores when we needed them, as people take food or clothes from the family community stores (such as the fridge).

This is more or less the way the Israeli kibbutz settlement works. This means the economy would once more have become ‘embedded’ in society, as Polyani explained it had been in other than capitalist societies. Considerations of cash value and gain would not dominate but would be weighed against and often overruled by moral, social, ecological, aesthetic and other factors.

With modem technology, economic activity could become a very minor part of our lives. Surely we could soon carry out all necessary factory production with one day’s work a week per person. By cutting the economy down to sensible size we would give ourselves much more time to spend building better social arrangements, restoring damaged environments, helping less fortunate people, researching interesting scientific problems, exploring our universe, performing plays, practising creative arts and crafts, learning and becoming wiser and better people and simply enjoying life.

Although the transition might take decades to accomplish, there is no obvious reason why we cannot gradually shift from the old to the new economy, by enabling increasing numbers of people to move out of the five day work week, high cash income, high consuming way of life into the more relaxed alternative local economy.

Governments could facilitate the development of alternative economics within the existing growth-and-greed Society so that the increasing numbers dumped into unemployment, and those bored in their current jobs, could start to move over to the more sane and rewarding way.

When some people first hear about these alternatives they see them as a move against ‘progress’ and back to a more primitive way of life. Although we must greatly reduce levels of resource use and therefore of production and consumption, this does not mean that we must go backwards in any sense that threatens the *quality* of life.

In the first place many aspects of our present society need not be changed at all. We might retain the legal system, the arts, cultural activities, and many other things more or less as they are now, if we wished to.

Secondly, we definitely would not have to give up any of the sophisticated technology or scientific research presently devoted to socially important areas such as health. Our new, decentralised neighbourhoods and towns would have many highly qualified technologists and scientists working to develop the most efficient devices and systems for our local conditions.

In fact, we would be able to accelerate research and development on socially useful projects if we stopped wasting talent and resources developing unnecessary products. Just imagine if we transferred the 40 per cent of scientists presently making weapons into developing basic household appliances that would last for decades.

Again it should be emphasised that this vision of a radical conserver economy represents the dissolution of capitalism. No conception of a society in which people live frugally and without economic growth is compatible with capitalism. Therefore the transition under discussion will inevitably be resisted strenuously by those who are desperate to see us adhere to the greed and growth way of life.

If the alternative movement can maintain its current trajectory, rapidly gaining acceptance as the failure of the conventional worldview becomes more and more obvious, then the ‘revolution’ might be won in a remarkably peaceful way, as most corporations simply go bankrupt, unable to sell their merchandise - although we will have to be ready to accommodate the flow of unemployed advertising executives and financial advisers as they come across to a more relaxed and useful life in the neighbourhood economy.

Many would regard all this as attractive but quite unrealistic, because people in general would not be willing to make the changes involved. It might therefore be said that what we need are far less radical proposals which we would have more chance of getting people to accept.

It is important to be clear about the argument here.

Whether we like it or not, we will either make it to a society based on simpler lifestyles, a high level of self-sufficiency, cooperation, and a zero growth economy - or we will not achieve a sustainable society. Whether or not it is unrealistic to ask people in general at this point in time to endorse such a society is not the focal issue.

The crucial point is that we *have no choice about these matters;* either we manage to go down this path or we will not achieve a sustainable society.

It is not being assumed here that we will take this path. There are very good reasons for thinking that we will not have the collective sense to do so. However I *do* insist that if enough of us wanted to, it would be a very easy path to follow.

Extracted from 'Towards a Sustainable Economy' (pages 159-163), published jointly in 1996 by Environbook, 88 Cumberland Street, Sydney, NSW 2000, Australia and Jon Carpenter Publishing, P.O. Box 129, Oxford OXJ 4PT, England. 186 pages. Price £10.99 & US$ 15.95. ISBN 085881141 3 (in Australia) and 1 897766149 (in the UK and North America).

The Ideologies of Economists by William Shepherd

In the world before Adam Smith, economic thinking was closely connected with law and practical politics...the law dealing with property and practical politics concerning itself with real people. So economic thinking could be said to be concerned with money and work.

In the world before Adam Smith, the kings and priests had spoken for their right to collect surplus production, mercantilists had spoken for the merchants, and physiocrats for the landowners.

Then came Adam Smith and classical economics.

Since then the historical school have spoken for the status quo, classical liberals for profits and capitalism and the followers of Marx for wages and socialism.

Studying the ideologies imported into a small linguistically isolated country like Sweden demonstrates the impact of these 'ideological wars' on local societies. Ideas not politics are the engine of change.

In medieval times, influences on Swedish economic thought came mostly from Christian and humanistic thinking in Southern Europe, transformed via the German Hanseatic towns and Denmark to suit a peasant economy with a weak feudal system.

In the 16th century German technology and mercantilist thinking were imported to suit the war economy of Sweden's autocratic Vasa kings.

In the 17th century the Dutch took over from the Germans as chief ideologists when the small Swedish super-power tried to develop its trade.

In the first half of the 18th century English mercantile thinking was imported to suit merchants and factory owners. In the second half of the 18th century a distorted version of the teachings of the French physiocrats reached Sweden.

During the first part of the 19th century, English and French influences (Smith, Say, Bastiat) competed for dominance when economic liberalism penetrated a country that lagged behind their own in its capitalist development by about half a century.

In the 1870s the German language regained a leading position through schools of thought on both wings of the political spectrum, from left to right. But these schools were interpreted in a way that suited relatively more rural, peaceful, democratic and pragmatic traditions.

It is easy to overrate foreign opinions, however. Seen in their historic environment, many of the original contributions of Swedish political economists were every bit as brilliant as any leading modern figures among the authorities of what is now called economics in the English-speaking world. Men like Nordenkrantz, Christiernin, Chydenius, Järta and Arnberg evolved their thinking from practical experience of Swedish society and it was only because of the smallness of their language area that they found little chance to reach an international public. Had they written in another language, their works might have become classics in the international history of ideas.

However linguistic isolation is relative. Churchill once remarked that England and America were two countries separated by a common language. What is true of Sweden will be true of every other country...and true of the towns and provinces within larger states.

So perhaps more important was the manner in which scholars learnt to break free from their linguistic bonds. By the 18th century scholars were doing this in three ways. Firstly all scholars became fluent linguists. Secondly they built extensive friendships and patronage networks throughout Europe and America. Thirdly they published in universal languages such as Latin while seeing it as their duty as a scholar to translate from the universal languages into the vernacular.

So when we are looking at the 18th century and the economic academic environment into which Adam Smith's *'Wealth of Nations'* was launched, we find that everywhere there were scholars rooted in the practical economic traditions of their own town, province or country, but learned in other traditions and in continuous touch with the intellectual currents of their age.

Carl Linnaeus, or Carl von Linné, is in many ways typical of this universality of learning.

He lived his whole life in the 18th century. Today he is seen as a very Swedish figure at home. But abroad he is regarded as one of the few really well known Swedes. 20th century Swedish tennis stars like Björn Borg and Stefan Edberg have much the same 'double aura'.

Linneaus was a scientist of genius and inherited the general mood of optimism and belief in progress which characterised 18th century scholarly thought.

But to Sweden Linnaeus is Swedish to an unusually high degree. Perhaps only Carl-Michael Bellman and Carl Larsson have influenced the psyche of Swedish daily life as profoundly as Carl Linnaeus...these three great men meaning to the Swede what Shakespeare, Constable and William Morris mean to the English...even though few Swedes (and few English-speaking peoples for that matter) may be aware of the fact.

The feeling for nature, the sense of discovery inspired by the Swedish countryside, the clear literary style; these originated in Linnaeus' genius. They were not there before Linnaeus. But two hundred and fifty years on they are spread over the whole Swedish population. The Linnaeus Way has become The Swedish Way.

Linnaeus campaigned vigorously for practical economics to be taken seriously. With a sentiment that would not be out of place in Daniel Defoe's *'Robinson Crusoe'*, Linnaeus wrote in his *'Oeconomica Naturae'* that it was 'the duty of human beings to extract natural resources, otherwise God would not have deposited them in the earth'. What's more...and this would have made even such a patriot as Edmund Burke blush...'the natural resources of Sweden were superior to those of any other country'.

Linnaeus argued for new professorships to be established in 'economics, botany and natural history' as a means of preventing the penetration of the new secular Prussian economics into the Swedish universities. He lost the battle with the highly political appointment of Anders Berch as' *Professor of Economics'* at *'Uppsala University'* in 1741. But Linnaeus fought back on two fronts.

He undertook 'economic journeys' into the Swedish provinces on behalf of the government...this was the principal purpose of his Gotland, Öland and Dalarna journeys. And within ten years of Berch's appointment at Uppsala Linnaeus' counter-attack saw 'his own men' appointed to the newly-established '*Linnaean*' chairs in 'economics, botany and natural history' in Åbo (1747) and Lund (1750).

It is no accident that...in contrast to many other economists, the writings of Swedish economists can be understood by ordinary people. It is no accident that deep ecology is the principal philosophy underlying modern Swedish economic thought. It is no accident that ecology has pushed further into practical politics in Sweden than anywhere else. Linneaus was a first rate political economist and he had his foot in the door two hundred and fifty years ago.

Linnaeus' confrontations with Berch and his Prussian economics at *'Uppsala University'* in the 18th century were the first skirmishes in a war that has raged now through three centuries and has engulfed the whole world. Only now as this war of ideas at the heart of economics enters its fourth century, do we find Linnaeus' ideas once again in the ascendancy.

Our age is finally catching up with Linnaeus. After three hundred years of Anders Berch's school of 'quantity & dead matter' (econometrics), Linnaeus is making a comeback as the founder of the 'quality & living matter' school of economics (ecolomics?).

Linnaeus left the political stage in Europe just as Tom Paine was stepping out onto the political stage in America. Shortly after Linnaeus' death, Tom Paine wrote a little-noticed book entitled *'Agrarian Justice'*. In today's context we would have referred to it as alternative economics.

Ten years ago I gathered together some statistics on the *'County of Kent'*, re-read *'Agrarian Justice'*, and then applied myself to the task of doing some real county arithmetic...or 'countinomics'...the count referring, not to the counting house, but to the county.. I think Linnaeus would have approved of my report. *'The Wealth of Counties'* based on applying *'The Tom Paine Method*' to the *'Garden of England'* represents the sort of economics Linnaeus was pursuing in his 'economic journeys'...an economics rooted in the fertile soil of botany and natural history.

Any county with the foresight to introduce ecological sanity by way of *'Agenda 21'* could take the Linnaeus approach to economic sanity...without waiting for a Rio Summit to give them permission. The English counties need a calculus to assess the local monetary needs of their constituent parts. *'The Tom Paine Method'* ...applied to the lathes, bayliwicks and hundreds of Kent...might provide the template for other English counties to use. English regionalism would then have an ideology suitable to its natural history and the bioregional roots of its local cultures.

Preamble to 'The Wealth of Counties' - unpublished manuscript (2001)

Thinking The Unthinkable on Free Trade by David Morris

It is time to re-examine the validity of the doctrine of free trade and its creation, the planetary economy. To do so, we must begin by speaking of values. Human beings may be acquisitive and competitive, but we are also loving and cooperative. Several studies have found that the voluntary unpaid economy may be as large and as productive as the paid economy.

There is no question that we have converted more and more human relationships into commercial transactions, but there is a great deal of uncertainty as to whether this was a necessary or beneficial development.

We should not confuse change with progress. Bertrand Russell once described change as inevitable and progress as problematic. Change is scientific. Progress is ethical. We must decide which values we hold most dear and then design an economic system that reinforces those values.

If price is to guide our buying, selling and investing, then price should tell us something about efficiency. We might measure efficiency in terms of natural resources used in making products and the lack of waste produced in converting raw material into a consumer or industrial product. Traditionally, we have measured efficiency in human terms — that is, by measuring the amount of labour hours spent in making a product.

But price is actually no measure of real efficiency. In fact, price is no reliable measure of anything. In the planetary economy, the prices of raw materials, labour, capital, transportation and waste disposal are all heavily subsidized. For example, wage-rate inequities among comparably skilled work forces can be as disparate as 30 to 1. This disparity overwhelms even the most productive worker. An American worker might produce twice as much per hour as a Mexican worker but is paid ten times as much.

In Taiwan, for example, strikes are strictly regulated. In South Korea, unions cannot be organized without government permission. Many developing nations have no minimum wage, maximum hours or environmental legislation. As economist Howard Wachtel notes, ‘Differences in product cost that are due to totalitarian political institutions or restrictions on economic rights reflect no natural or entrepreneurial advantage. Free trade has nothing to do with incomparable political economic institutions that protect individual rights in one country and deny them in another.’

The price of goods in developed countries is also highly dependent on subsidies. For example, we in the US decided early on that government should build the transportation systems of the country. The public, directly or indirectly, built our railroads, canals, ports, highways and airports.

Heavy trucks do not pay taxes sufficient to cover the damage they do to roads. California farmers buy water at as little as 5 per cent of the going market rate; the other 95 per cent is funded by huge direct subsidies to corporate farmers. In the US, society as a whole picks up the costs of agricultural pollution. Having intervened in the production process in all these ways, we then discover it is cheaper to raise produce near the point of sale.

Prices don’t provide accurate signals within nations; they are not the same as cost. Price is what an individual pays; *cost* is what the community as a whole pays. Most economic programmes in the industrial world result in an enormous disparity between the price of a product or service to an individual and the cost of that same product or service to the society as a whole.

It is often hard to quantify social costs, but this doesn’t mean they are insignificant. Remember urban renewal? In the 1950s and 1960s inner-city neighbourhoods were levelled to assemble sufficient land area to rebuild our downtowns. Skyscrapers and shopping malls arose; the property tax base expanded; and we considered it a job well done. Later, sociologists, economists and planners discovered that the seedy areas we destroyed were not fragmented, violence-prone slums but more often cohesive ethnic communities where generations had grown up and worked and where children went to school and played. If we were to put a dollar figure on the destruction of homes, the pain of broken lives and the expense of relocation and recreation of community life, we might find that the city as a whole actually lost money in the urban renewal process. If we had used a full-cost accounting system, we might never have undertaken urban renewal.

Our refusal to understand and count the social costs of certain kinds development has caused suffering in rural and urban areas alike. In 1944, Walter Goldschmidt, working under contract with the USDA, compared the economic and social characteristics of two rural California communities that were alike in all respects, except one. Dinuba was surrounded by family farms, Arvin by corporate farms. Goldschmidt found that Dinuba was more stable, had a higher standard of living, more small businesses, higher retail sales, better schools and other community facilities, and a higher degree of citizen participation in local affairs.

The USDA invoked a clause in Goldschmidt's contract forbidding him to discuss his finding. The study was not made public for almost 30 years. Meanwhile, the USDA continued to promote research that rapidly transformed the Dinubas of our country into Arvins. The farm crisis we now suffer is a consequence of this process. Economists like to talk about externalities. The costs of job dislocation, rising family violence, community breakdown, environmental damage, and cultural collapse are all considered 'external'. External to what, one might ask?

The theory of comparative advantage itself is fast losing its credibility. Time was when technology spread slowly. Three hundred years ago in northern Italy, stealing or disclosing the secrets of silk-spinning machinery was a crime punishable by death.

At the beginning of the Industrial Revolution, Britain protected its supremacy in textile manufacturing by banning both the export of machines and the emigration of men who knew how to build and run them. A young British apprentice, Samuel Slater, brought the Industrial Revolution to the by memorizing the design of the spinning frame and migrating here in 1789.

Today, technology transfer is simple. According to Dataquest, a market research firm, it takes only three weeks after a new US-made product is introduced before it is copied, manufactured and shipped back to the US from Asia. So much for comparative advantage.

This brings us to the issue of scale. There is no question that when I move production out of my basement and into a factory; the cost per item produced declines dramatically. But when the factory increases its output a hundredfold production costs no longer decline proportionately. The vast majority of cost decreases are captured at fairly modest production levels.

In agriculture, for example, the USDA studied the efficiency of farms and concluded, 'Above about US$40-50,000 in gross sales — the size that is at the bottom of the end of medium-sized sales category— there are no greater efficiencies of scale' (Miller, 1979). Another USDA report agreed: 'Medium-sized family farms are as efficient as the large farms' (USDA, 1973).

Harvard Professor Joseph Bain's pioneering investigations in the 1950s found that plants far smaller than originally believed can be economically competitive. Furthermore, it was found that the factory could be significantly reduced in size without requiring major price increases for its products. In other words, we might be able to produce shoes for a region rather than for a nation at about the same price per shoe. If we withdrew government subsidies to the transportation system, then locally produced and marketed shoes might actually be less expensive than those brought in from abroad.

Modern technology makes smaller production plants possible. For instance, traditional float glass plants produce 550 to 600 tons of glass daily, at an annual cost of US$100 million. With only a US$40 to US$50 million investment, new miniplants can produce about 250 tons per day for a regional market at the same cost per ton as the large plants.

The advent of programmable machine tools may accelerate this tendency; In 1980, industrial engineers developed machine tools that could be programmed to reproduce a variety of shapes so that now a typical Japanese machine tool can make almost 100 different parts from an individual block of material. What does this mean? Erich Bloch, director of the National Science Foundation, believes manufacturing 'will be so flexible that it will be able to make the first copy of a product for little more than the cost of the thousandth' (Brandt, 1986). 'So the ideal location for the factory of the future,' says Patrick A Toole, vice president for manufacturing at IBM, 'is in the market where the products are consumed' (Brandt, 1986). Again, so much for 'comparative advantage'.

When we abandon our ability to produce for ourselves, when we separate authority from responsibility, when those affected by our decisions are not those who make the decisions, when the cost and the benefit of production or development processes are not part of the same equation, when price and cost are no longer in harmony, we jeopardize our security and our future.

You may argue that free trade is not the sole cause of all our ills. Agreed. But free trade as it is preached today nurtures and reinforces many of our worst problems. It is an ideological package that promotes ruinous policies. And, most tragically, as we move further down the road to giantism, globalism and dependence, we make it harder and harder to back up and take another path.

If we lose our skills, our productive base, our culture, our traditions, our natural resources, if we erode the bonds of personal and familial responsibility; it becomes ever more difficult to recreate community. It is very, very hard to put Humpty Dumpty back together again.

Which means we must act now. The unimpeded mobility of capital, labour, goods and raw materials is not the highest social good. We need to challenge the postulates of free trade head on, to propose a different philosophy, to embrace a different strategy. There is another way. To make it the dominant way, we must change the rules; indeed, we must challenge our own behaviour. And to do that requires not only that we challenge the emptiness of free trade but that we promote a new idea: economics as if community matters.

Extracted from an article entitled 'Free Trade: The Great Destroyer' first published in 'The Case Against The Global Economy & For a Turn towards Localization' edited by Edward Goldsmith & Jerry Mander published by Earthscan in 2001 (ISBN 1 85383 742 3, 328 pages, £ 14.95).

Improving Local Currencies by Thomas H. Greco, Jr.

(This article is taken from Chapter 17 of an upcoming book, Money: Understanding and Creating Alternatives to Legal Tender, published by Chelsea Green Publishing Company, USA, 2001.)

The local currency and exchange movement may be the most important development in human liberation since the Magna Carta. It evidences a move toward economic freedom which is every bit as important as political and religious freedom.

The proliferation of mutual credit systems like LETS, and local currencies like Ithaca HOURS, demonstrates the intensifying need which people feel for community, satisfaction of basic human needs, and greater control over their own destinies. It provides a hopeful sign that we are not powerless in the face of increasing concentration of money and power and the rapid globalization of capital and markets.

Those pioneers who have dedicated themselves to developing and implementing these prototypes deserve our deepest gratitude and respect. Nevertheless, there is still much to be done. Just as the early airplanes showed that manned flight was possible, these early exchange systems are demonstrating that the specialization of labor and the equitable exchange of value in the marketplace are not dependent upon centralized banks and national currencies. Indeed, they are providing a means by which communities can thrive economically and maintain high quality-of-life standards in the face of global competition and capital mobility.

As the *Kittyhawk* was not the last word in aircraft, so too our current community exchange prototypes are far from optimal. We should expect, and indeed require, refinement and improvement of our local currencies and systems of exchange. This chapter takes a closer look at the most popular models with an eye toward improvement in their design and implementation.

Gift Exchange vs Reciprocal Exchange

The market has become the dominant institution in economic exchange, but, as we pointed out earlier, market mechanisms are certainly not the only means of exchanging goods and services. There is an enormous amount of work being done for which no money is paid, neither is it counted in the economic statistics, and there are many exchanges which do not involve markets or money.

Indeed, the imposition of money into the exchange process can be destructive to the close interpersonal relationships which are a necessary component of healthy social units like the family. Besides all of the economic activity which goes on within households, there is a huge amount of goods and services which change hands as gifts.

I would contend that, in general, the more exchanges we can manage without the use of money and markets, the better.

Nonetheless, I am a firm believer in the efficacy of markets in particular situations, provided that the markets are free and competitive and not dominated by any particular trader, company, or group. Markets are excellent mechanisms for allocating scarce resources since they provide a means of reaching consensus.

Reciprocal exchange is the ideal to be sought within a market realm. We can think of the economy as a game of “put and take.” Reciprocity demands that each person puts in as much as s/he takes out. In other words, in reciprocal exchange one is expected to give as much as s/he gets. This is an important point to keep in mind when designing community exchange systems.

Although altruism and charitable giving might be built into a local exchange system as an adjunct, the essential characteristic of such systems should be reciprocity. No one should be made, by virtue of a system’s design or defect, an unwitting or unwilling donor to someone else’s benefit.

An exchange system which has both equity and integrity must insist upon strict reciprocity.

Charity and gift giving should be left to individual choice.

Money is an IOU

Although we may not refer to community currencies as money, they perform the same essential function as money and bear the same basic characteristics as money. This goes for credits in a ledger system as well as for circulating paper notes.

We have emphasized repeatedly that "Every piece of money is a credit instrument." That means it is an IOU. The natural question, then, is "Who owes what to whom?" Who or what stands behind the IOU? The answer may not always be obvious.

When a community of traders agrees to accept a particular currency, they are making a commitment to stand behind it, that is, to give real value in exchange for it. When others who are not a party to the agreement accept the currency, they are expressing their confidence that the issuers of the IOU will pay what is owed, although the time frame for payment may or may not be precisely specified.

Basis of Issue

We have also stressed the importance of the basis of issue of a currency. We need to know how it first comes into circulation. It is proper that a currency comes into circulation when someone first spends it, *i.e.*, when s/he gets real goods or services and the seller accepts the currency as payment. Reciprocity demands that the issuer be willing and able, at some point in time, to redeem that currency by accepting it as payment for the goods or services s/he sells.

Mutual Credit and Paper Notes

We have also shown that there are presently two predominant forms of complementary exchange. These are mutual credit systems, like LETS, which uses a ledger of accounts to keep track of exchanges, credits and obligations; and local currency systems, like Ithaca HOURS, which use circulating paper notes to give people a way of tracking their exchanges.

There are many variations on both themes.

Some ledger systems which call themselves LETS, may, in fact, depart significantly from the original and official LETS procedures and protocols. Likewise, there are many HOUR currencies springing up which correspond generally to the Ithaca model but may differ in some of their procedural details.

Further, there is no reason why a mutual credit system cannot use paper notes as well as ledger accounts, and there is no reason why an Ithaca HOUR-type currency system cannot also utilize ledger accounts, checks, and debit cards.

Essential Differences Between LETS and HOURS

The essential difference between LETS and HOURS is <u>not</u> that LETS uses ledger accounts and HOURS uses paper notes. These are accounting details. The essential difference lies in how the currency is issued and what stands behind it, *i.e.* in *the nature of the agreement.*

LETS is a membership association in which each member has an account. All accounts begin with a balance of zero. When a member sells something to another member, his/her account receives a credit (plus); when a member buys something his/her account receives a debit (minus). A credit causes an account balance to increase, while a debit causes an account balance to decrease. Accounts are allowed to have negative as well as positive balances. In fact, there can be no positive balances unless some members have negative balances.

In such a system of mutual credit, the total of all the credit balances must always equal the total of all the debit balances. What this means is that the amount of value owed by those who have debit balances is always equal to the amount which those with credit balances have delivered and expect to receive in return. This is a system of strict reciprocity.

Of course, as in any system, there will always be some who will default on their obligations, *i.e.*, some of those with debit balances will fail to provide the amount of goods and services they committed themselves to when they incurred those debits (by buying).

These defaults should be recognized at some point and "written off." In doing so, that amount of debits and an equal amount of credits must be taken off the ledger. What this suggests is the need for the system to have a capital fund or reserve fund, *i.e.*, a supply of credits which can be used to offset "bad debits." How this fund might be provided will be discussed shortly.

In a mutual credit system, we may think of the "money supply" as being the total amount of debits or credits. Since these are two sides of the same coin, and since debits and credits are always equal, we should only count one side, not both.

One of the elegant aspects of a mutual credit system is that the "money supply," within reasonable bounds, adjusts itself automatically in relation to the amount of trading that members wish, or need, to do.

There need be no central authority which must decide whether the supply of credits should be increased or decreased in order to maintain the market value of the credits.

The only thing to be decided is the maximum amount of debit balance which should be allowed on each particular account to minimize the risk of default and the amount of potential loss. In usual practice, account balances will be well below that maximum amount.

The primary role in a mutual credit system is that of the *registrar* or *accountant*, which is strictly non-political. The duties of the registrar are to record the transactions as reported by the members, and to update the members' account balances.

How HOURS Work

Ithaca HOURS, and the many similar HOUR currency systems which have been modeled after it, are paper currency notes that circulate within a local economy. Unlike LETS, Ithaca HOURS is <u>not</u> a membership organization.

The HOUR notes are put into circulation by the operator of a newspaper called *HOUR Town* (formerly *Ithaca Money*). The HOUR notes are delivered to advertisers when they buy an ad in the newspaper. As I understand it, those who advertise in *HOUR Town* informally agree to accept hours for at least partial payment but have no obligation to do so.

It is important to ask, what is the basis of issue, and who or what stands behind the HOUR currency? There is generally a great deal of confusion about currency issuance and the obligations which are associated with it. It is crucial that we understand how and where the currency originates, how it is placed into circulation, how it will be redeemed, and who will be obliged to redeem it. In the case of *Ithaca HOURS*, the answers to these questions are not entirely clear. I think that ambiguity could easily be resolved once we understand a few basic points.

Fish or Fowl?

A local currency must originate somewhere. Somehow the notes must be printed and distributed and their use in exchanging valuable goods and services must be initiated. Now here's the first point -- the originator may be either a *principal* or an *agent*. What's the difference?

A principal is one who initially receives valuable goods and/or services and uses the notes to pay for them. It is the principal who actually <u>issues</u> the currency into circulation by buying goods and services with it. The currency notes are a generalized IOU which must be redeemed at some point in time. Redemption occurs when the notes are accepted by the principal in payment for the goods and services s/he sells. A currency which makes no adequate provision for redemption is bound for trouble. The collapse of innumerable government and bank-issued currencies throughout history testify to this.

An agent performs a different role. *An agent does not spend the currency notes into circulation. S/he does not issue the notes but merely distributes them to the principals who will issue them (spend them into circulation).*

The agent, therefore, is not responsible for redeeming the notes. That is the obligation of the principals who are the ones who spend them into circulation. The agent also serves as registrar, recording the amount of notes distributed to, and received back, from each principal. As an example, *'Tucson Traders'* acts as agent when it prints and distributes *'Tucson Token'* notes to its members who then spend them into circulation.

What we need to know about the *HOUR Town* newspaper is whether it acts as principal (issuer) or agent. If it acts as principal, *HOUR Town* must be willing and able to redeem its entire issue of HOURS by providing an equivalent amount of goods and/or services to those who hold the notes. In this case the HOUR notes represent its IOUs. Is that how *HOUR Town* regards the HOURS it distributes?

HOUR Town does accept HOURS in payment for advertising, but is it prepared (willing and able) to redeem the entire issue in this way? If *HOUR Town* is not so prepared, then there could, and likely will, develop an eventual problem of currency debasement. In other words, of "too much currency chasing too few goods and services," which will show up as HOUR price inflation. In the worst-case scenario, the currency could collapse, *i.e.*, lose the confidence of the community and cease to be widely accepted.

On the other hand, if *HOUR Town* acts only as agent, then the responsibility for redemption of the notes rests upon the advertisers who first received them from *HOUR Town*. They are the ones who first issue the notes into circulation by using them to pay for goods and services. Do the advertisers who receive the notes realize that they bear this responsibility? Is there a written agreement? Do they know what they must do in order to fulfill their responsibility? Is there adequate assurance that they will do so?

How might such assurance be obtained? I think it is not at all necessary to be legalistic about this, but the nature of the agreement should be clear and explicit. One way to achieve this would be to have each advertiser to whom HOURS are distributed, sign a simple agreement similar to the one used by Tucson Traders, which was described in Chapter 11. This agreement might state that:

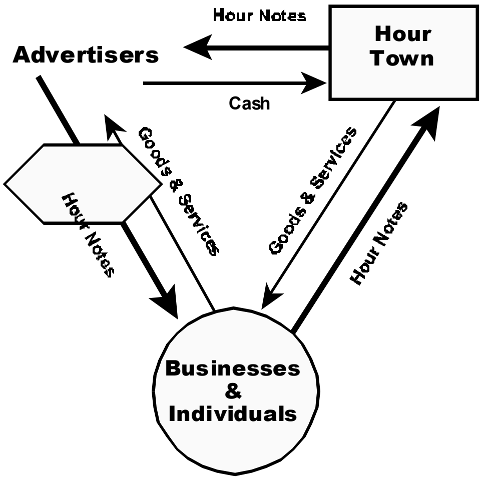
HOUR Town is acting as agent for its advertisers, and <u>anyone who accepts hours from the agent is obligated to return an equal number of hours to the agent if and when they choose to discontinue their participation in the program.</u>

The next problem is to know when an advertiser has chosen to discontinue their participation. The actions or inactions which constitute discontinuation of participation must be defined. Discontinuation could be defined as being no longer willing to accept HOURS in payment for goods and/or services. This might not be enough, however, since there would probably be no formal declaration of that fact to the agent.

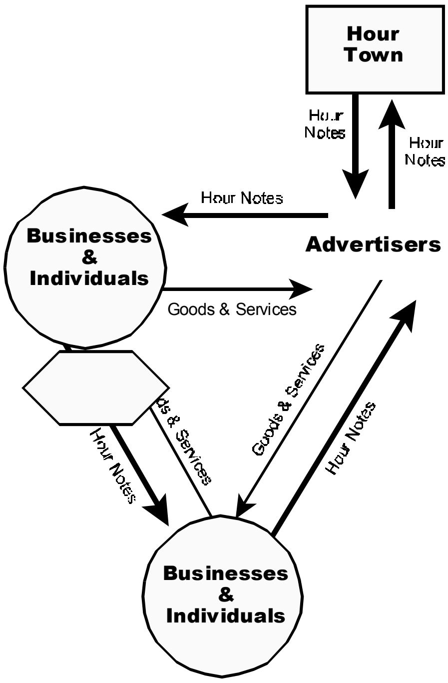
The agreement could be greatly strengthened if discontinuation was defined as non-renewal of their ad in *HOUR Town*. Even without having any intention of legal enforcement, having such an agreement would provide greater assurance that an advertiser will not spend HOURS and then fail to earn them back, *i.e.,* take value from the community without giving back an equal amount (failure to reciprocate).

The requirement of returning HOURS to the agent would provide the proof that the IOUs issued by the advertiser have been honored (redeemed), the loop will have been closed and reciprocity will have been achieved.

Figures 17.1 shows pictorially how currency notes are issued, circulated, and redeemed if *HOUR Town* acts as **issuer or agent, respectively.**



*Hour Town as **Issuer***



*Hour Town as **Agent***

How Are Ithaca HOURS Issued?

From its inception in 1991 until the present the issuance of Ithaca HOURS has been slowly evolving. What was originally an unbacked currency has become a partially backed currency.

In the beginning, *Ithaca Money*, the predecessor of *HOUR Town* newspaper, would give four HOURS to anyone who bought advertising in the newspaper. There was an understanding that advertisers would accept HOURS as at least partial payment for whatever they were selling, but the agreement was informal and implied, and there was no requirement that the HOURS be repaid.

Later on, that amount was reduced from four HOURS to two HOURS. Still later, the administration began to make HOUR loans, in which case there *is* an agreement to repay.

In addition to these HOUR gifts and loans, the administration issues some HOURS by making HOUR "grants" to local community improvement groups and non-profit organizations.

While the intention in doing this is laudable, it is not sound currency management practice. Grant recipients have no obligation to reciprocate, thus, HOURS issued in this way tend to debase the value of the HOURS already in circulation.

Such, grants, if they are given, should be specifically underwritten by individuals or businesses.

Let us recall the various means in which Ithaca HOURS are now issued:

1. as payment to those who agree to be listed in *HOUR Town* (one or two HOURS per person/business),
2. as a bonus every eight months to participants "for reaffirming their participation,"
3. as a bonus to those who sign up or renew at a barter potluck,
4. 14% of HOURS are issued as grants to community organizations,
5. 10% of HOURS otherwise issued are issued as loans,
6. 5% of HOURS are issued to the system itself to pay for printing HOUR Town, HOUR notes, bumper stickers, office supplies, etc.

As we have pointed out before, the issuance of currency into circulation should be accompanied by the flow of goods and services into the economy.

Any currency which is issued into circulation in any way other than as a loan (*e.g.,* as a grant or gift) should be underwritten by the prior pledge to donate community currency back to the system.

Someone must be committed to deliver the value which that currency represents. How this can be done is described below in the sections on *Community Service Credits* and *Community Way*.

Adding a Capital Cushion

When a conventional bank is established, the founders must put in some capital of their own. This capital fund (called, “owner's equity”) is necessary not only to cover the start-up costs, but also serves to provide added security for depositors in case some of the bank’s assets, which back the deposits, should lose some or all of their value. The capital fund, then, provides the resources which can be used, if necessary, to cover the cost of bad debts or reduced asset value.

A community exchange system, too, is a sort of business. Although it may not be operated for profit, it still incurs costs of operation. While most contemporary systems have been started with grants and volunteer labor that may not be an adequate basis for operation in the long run.

In order for the system to be independently sustainable, it must eventually generate sufficient revenues to cover its costs. Some of these costs may be unavoidable cash costs, while others might be adequately covered with local currency. A capital fund will provide credits or backed currency against which bad debts can be charged. How might the system acquire a capital fund, and how might it generate sufficient revenues to sustain its operations?

Let’s consider the latter question first. Operating revenues must generally come from fees which the system charges its clients and patrons for services like advertising and/or accounting. But there is also another way, which will be described in a moment. The capital fund could come from grants or loans, but it too might be obtained in another way. What is this other way?

Using Excess Business Capacity to Support Local Currency

Every community has an “economic base” which is comprised of its natural resources, built-up infrastructure, productive capacity, skills of its people, etc. While each community has its own distinct array and assortment of these, there is almost always “excess capacity,” *i.e.*, the businesses in the community are able to make and sell more than they actually do.

Further, the cost of that additional production is usually very low in comparison with the average cost per unit of output. Economists call this cost of the last unit produced, the *marginal cost*. They argue that, since the marginal cost is lower than the average cost, a business can afford to sell additional units of output at a lower price.

Everyone is familiar with discount coupons. They are typically used by restaurants and retailers to attract more cash business and repeat customers, *i.e.,* to utilize some of their excess capacity. Since their marginal cost is low, they can afford to grant the discount and still add to their overall profit.

This phenomenon of excess capacity can be harnessed to accomplish at least three important community objectives. It can provide a funding source for non-profit and community improvement groups, including a local currency system, and at the same time, it can provide a way of introducing and promoting the use of a local currency. Further, some of that excess business capacity can be donated to provide the local currency system with a capital fund which can provide added security against loss of value of the currency.

The essential process for doing this has been variously described by at least three local currency/exchange advocates. In Chapter 15 of the first edition of *New Money for Healthy Communities*, I described a *Community Service Credit* system which uses this basic approach.

Variations on that theme, which I have been trying to promote in recent years in the United States, are *Community Service Coupons* and *Youth Employment Scrip*. These will be described in Chapters 21 and 22, respectively.

Joel Hodroff has been promoting a plan in the Minneapolis/St. Paul area for several years. His efforts have come to fruition in a pilot project called the *Community Hero Card* which was launched there in the Spring of 1997. It involves a number of local businesses which use their excess capacity to underwrite the issuance of local exchange credits.

Michael Linton and Ernie Yacub have been advocating an approach they call *Community Way*. Their article on *Community Way* provided a particularly elegant description of this basic approach. It was published in the summer of 1996 in a Canadian magazine called *Making Waves*.

There has been some movement toward implementation of *Community Way* in Vancouver, BC, Santa Cruz, California, and the San Francisco Bay area. I believe that programs like the *Community Service Credit System*, *Community Way*, and the *Community Hero Card* have the potential to shift tremendous amounts of resources into the "third sector" (non-profits), and at the same time, give the community currency movement a big boost into the mainstream.

Once the first prototype is up and running smoothly, I think other systems based on this concept will proliferate rapidly.

How Does it Work?

Whether a system uses ledger credits, like *Community Way*, transaction cards, like the *Community Hero Card*, or circulating paper notes, like my *Community Service Coupons*, the process is conceptually the same. The bare-bones process for my *Coupon* (note) version is this:

Step 1. A business agrees to accept the local currency as partial payment for whatever it sells (just as it would its own discount coupon). It also agrees to donate back to the system a portion of its local currency revenue. This may be a fixed numerical amount paid over a specified period of time, or a percentage of its periodic local currency income.

Step 2. This commitment provides the system with a capital fund, collectible in local currency, which allows the system to issue (spend) notes or credits knowing that the business will redeem them, which completes the reciprocity circuit.

Step 3. The system then allocates the notes or credits to non-profit organizations or community service groups. These groups can then use them to pay their volunteer workers, to purchase supplies, or pay for services. The system can use some of these donated notes or credits to pay the people who do the work of running the system, and to build its capital fund cushion.

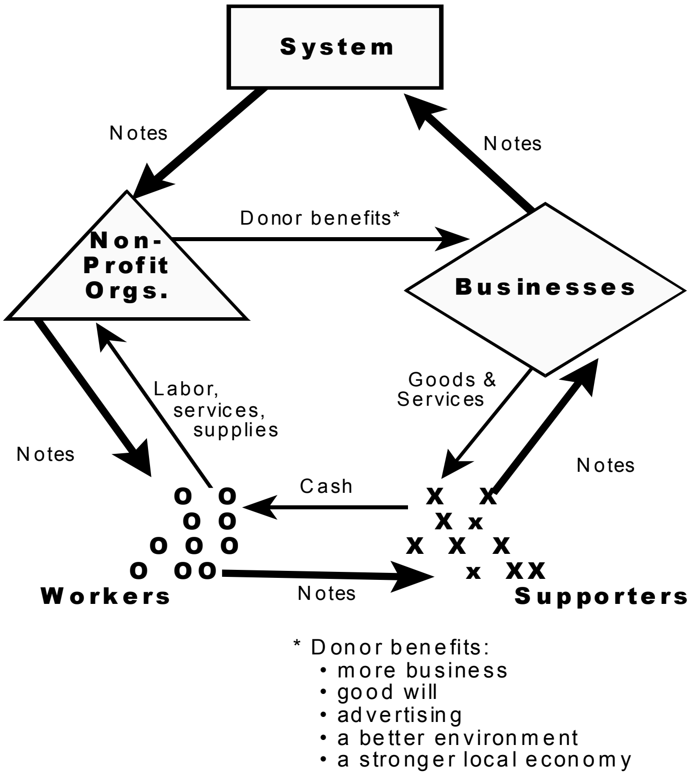
Step 4. The volunteer workers can then spend the notes at the businesses which have agreed to accept them, or they can sell them for cash to cash-rich supporters who then spend them at the businesses which have agreed to accept them. Others in the community may also be willing to accept the notes as a payment medium, knowing they can be redeemed at any donor business.

Step 5. When the business donates back to the system the amount of notes it agreed to, the circuit is complete, the obligation has been discharged and the notes are retired until that business or another business makes a donor commitment, then the notes may be reissued.

Of course, the notes may change hands many times before they reach the donor business, and it is hoped that they will, allowing the notes to serve not only as a fund raiser for charity and community improvement activities, but also as a supplemental medium of exchange which benefits the entire local economy.

What if a business takes in more notes than it agreed to donate back to the system? In this case, the business can spend the excess notes at other participating businesses which are eager to have them in order to fulfill their own donor obligation to the system. There are a number of other details associated with such plans but they need not be discussed here.

The figure below shows how the notes are issued, circulated, and retired so that reciprocity is achieved.



This is what it shows:

1. The system distributes notes to non-profit organizations on behalf of its business donors.
2. The non-profit organizations use these notes to pay workers, buy supplies, and pay for services.
3. The non-profit workers either spend the notes at participating businesses or sell the notes for cash to cash-rich supporters.
4. The supporters spend the notes at participating businesses.
5. The business donates the notes to the system as agreed.

Once the notes return to the System, they are retired. They may be reissued if and when another business commits to donate them back. The diagram shows who gets what when the notes change hands. The non-profits, including the System, get labor, services, and supplies; the workers get cash or discounts at participating merchants; the cash-rich supporters get discounts at participating merchants; the participating merchants get the benefits associated with being a donor, which are (1) more business, (2) good will in the community, (3) advertising, (4) a better community environment in which to conduct business, and (5) a stronger local economy.

Combined Bases of Issue

At first, the system might want to limit its issuance to the amount of local currency the businesses have agreed to donate back. Thus, the currency would be fully backed by the donations which the local business community has agreed to provide. Recall, however, that the standard mutual credit system allows its members to monetize their own credit, *i.e.,* to issue credits or notes on the basis of **their** commitment to provide goods and services equal in value to those they have received.

Adding the capital cushion provided by donated notes improves that system in at least two ways:

1. It provides a fund against which "bad debts" can be written off,
2. It increases the total available supply of notes circulating, making it easier for those choosing to leave the system to repay the notes or credits they owe.

The Development of Moneyless Exchange in Latin America by Tom Greco

(This article is taken from Chapter 11 of an upcoming book, Money: Understanding and Creating Alternatives to Legal Tender, published by Chelsea Green Publishing Company, USA, 2001.)

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 nineties 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 European continent, then in Asia and Latin America. Much of this later activity was undoubtedly inspired by those earlier developments, but the development in South America has been unique and mainly home-grown.

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

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 40 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 socio-economic 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, has, over the past several years, been engaged in an aggressive program of privatization and has pursued policies favorable to the increasing dominance of multi-national companies in Argentine markets. As part of its new economic strategy, the government has now rigidly linked the Argentine peso to the U.S. dollar.[1] 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, officially estimated to be, at times, around 20 percent, overall. The reality is much worse than that. In many of the barrios of Buenos Aires, and in some rural villages, up to fifty percent are without paid work. Even skilled professionals have had a hard time of it. 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, which is leading them toward greater self-reliance and social cohesiveness.

The Beginning

The first "barter club" in Argentina began in 1995 when a group of neighbors began a process of weekly meetings at which there were a few direct barter trades of food and clothing. They then quickly expanded their economic interactions into a kind of mutual credit trading (what they call "multireciprocal barter"[2]) 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 lead 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.

[12] Indeed, there is hardly any need for visitors from the U.S. to exchange currency, as dollars are readily accepted and circulate widely throughout the Argentine economy. In Buenos Aires, one may draw cash from an ATM in either pesos or US dollars.

[23] The term, *multireciprocal barter* is used in South America to distinguish traditional barter trading from what we call *mutual credit* or *community credit*.

Sometime later, a system of cheques was set up – similar to the French SEL system.[3] 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 (checks) 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" [Each credito or credit is equivalent in value to one Argentine peso, which is equivalent to one US dollar] because of their association with the trust that existed between participants. 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, there were "nodos" or trading clubs in 14 Argentinean provinces and 8 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"[4] 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 there are, within Argentina alone, between 500 and 1,000 trading clubs with a total combined membership of more than 300,000. But many of these are family memberships involving several people. Further, creditos notes are circulated among non-members, as well, so that the number of active participants in this parallel economy is much greater, perhaps as high as half a million. According to Primavera, the circulation of creditos notes "provides, on average, between one and four minimum wages (about 300 US dollars) 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 which 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, there are probably around twenty trading fairs going on in various clubs around the country.

[34] SEL is a loose federation of more than 300 LETS-style mutual credit circles in France. The evolution of SEL was inspired by the British LETS experience. SEL clubs typically use credit checks as a way of transferring credits from one person to another.

[45] Literally, "small papers."

In April of 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 400 people buying and selling.

There was an atmosphere of excitement and vitality that 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 11A.1 shows a few of these notes. Within the trading fairs, there is no exchange of official money. 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 there is no official money 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, one of which is no longer involved, and is presently administered by a team of three people who have complete responsibility and control. There is no significant member participation. This nodo does not issue its own notes but utilizes the notes issued by other nodos.

The organizers have recently taken a 5-year lease on the factory property for a monthly rental fee of 2,500 pesos (equivalent to US$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. When we visited one of their daily trading fairs, they had only been operating in that facility for about a week. During our two-hour visit we estimated there must have been about 300 people buying and selling. We were told that on the previous day more than 2,000 people had passed through.

The costs of operation of the center are covered by admission fees, which are 20 centavos (20 cents) plus one half a credito. One can estimate from this what the total revenues might be. Assuming a modest figure of 500 paid admissions per day and 25 days of operation monthly, total monthly revenues would amount to 2,500 pesos (dollars) and 6,250 creditos. This is enough to pay the rent, which must be paid in pesos, and to pay the organizers and their helpers in creditos to do all the work that needs to be done to administer and maintain the operation. One would presume that there are also utilities that must be paid in pesos and this amount of activity would not provide sufficient peso income for that. The administrators told us, however, that their early fairs had been almost overwhelmed by the throngs of people who appeared, which they numbered in the thousands. Based on that experience, they estimate that their membership will soon reach 10,000 and they expect to have no problems raising the peso income they 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, which a direct currency exchange would have.

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 has responsibility for its own organization, administration, budget, and finances. There is no centralized administration for the Network, only regular monthly meetings within each zone and a monthly inter-zonal meeting. At present, there are several models of organization that the various clubs follow and there is no uniformity in the issuance of the currency notes. Administrative costs are covered in different ways by the different clubs. Some impose a monthly membership fee while others, like the one described above, require buyers and sellers to pay a small admission fee to participate in the many trading fairs that the clubs organize.

Some nodos are organized with an emphasis on building social solidarity amongst their members, while others are organized mainly as an economic expedient to provide a way in which cash-poor people can meet their material needs. The former are more participatory, while the latter tend to be more paternalistically administered by their 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 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. There are bakers, dentists, bricklayers, and people of other trades and professions who can't find a place in the labor market. Reliable statistics do not exist but estimates of the total amount of *creditos* (credits) that have been issued by all the clubs in Argentina range from around 6 million on up. Currently, the volume of trading taking place within this barter network amounts to a minimum of 800 million pesos (equal to 800 million US 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 “multi-reciprocal exchange of goods and services” throughout the country. In December of 2000, an agreement was signed between the Government of Argentina and Red Global de Trueque in the City of Buenos Aires.[5] Among the specific items of support contained in the agreement is a commitment by the government to assist the network in developing 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 Enrique Martinez, Secretary of Small and Middle-sized Enterprises. Martinez thinks, "barter has been built as a 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 goal of the Government is, on the one hand, to establish and expand the barter of goods and services as a substitute of 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.

There are a number of factors that close observers point to as 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 which define a loose federation of *nodos* at both the regional and the national levels
- A decision process which seeks consensus.

Among the more active participants of several Nodos, there is the belief that the success of the RGT could possibly lead to the creation of more far-reaching networks of socio-economic solidarity.

[56] The text of the agreement can be found at http://concentric.itgo.com/latin.html, Argentina section.

For this reason the *Latin American Socio-economic Solidarity Network (Recluses)* was created in 1999, and the *Global Socio-Economic 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 the rebuilding of the social fabric and the creation of 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,* with a simultaneous involvement with 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 12 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 of 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, there has been within the Latin American Socio-Economic Solidarity Network, considerable debate about adopting a 13th principle. It has to do with the question of whether, and how, the club organizers should be compensated. Discussions on this point 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…" Because of this, Recluses is now advocating adoption of the following principle in addition to the previous 12:

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 something that has grown so large and so fast should manifest some difficulties. The autonomous functioning 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 there is a strong desire among the various clubs in the network to accept each other's notes, the 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 hard 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 appears to be 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. It is this faction, led by the founders of the first Barter Club, which has signed the agreement with the Argentine government.

Another faction is seriously concerned about preserving the autonomy of the local clubs and wants to follow a process which they hope will lead to some 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 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.

Local Money & The Public Purpose by William Shepherd

'Europe' and *'The Euro'* are stalking horses for something else. Ordinary people know this and sense quite rightly that it matters not a whit whether their money comes from *'Threadneedle Street'* or *'Napoleonstrasse'*. If asked they might prefer *'Wall Street'*…it's closer to '*Disneyland*'. They believe in the old adage that whoever you vote for, the government always gets in. The *'UK Conservative Party'*, like Sir James Goldsmith and his *'Referendum Party*' four years before, have badly underestimated the intelligence of the British electorate. *'New Labour'* as the only other show in town are reaping the electoral rewards. But are the rewards worth winning?

Global money is a money club for big governments and big corporations. Ordinary people feed from the crumbs falling from this rich men's table. Over the next few years the job for the radical economist is to explain to ordinary people what is going on.

Joint stock companies are 'legal entities' enjoying similar rights in the courts to 'karlmen' and 'wyfmen'. Two hundred years ago Thomas Jefferson was arguing against enshrining this idea in the *'American Constitution'* and R.H. Tawney re-opened the case immediately after the Kaiser War within the '*British Labour Movement'*. More recently the American courts have begun quietly shifting the balance away from the soul-less to the soul-full with massive compensation payments to real people. But corporations are retaliating by setting up their own body of law through the *'World Trade Organisation'* and its associated collection of transnational organisations operating beyond the pale of ordinary people and their non-governmental organisations.

In reality the real choice is not between saving the pound and embracing the euro but between global money and local money. Global money only trickles down to the little people as wages and salaries from firms and businesses in exchange for jobwork. Increasingly this global money buys a deficient diet for half a family plus a few baubles shipped to us (this year) from China. Exchange rates are the damndest things. Pensions and insurances are part of this global money merry-go-round. Hustlers and free traders operate along its fringes.

Most people in the world never see global money from one year to the next. But local money is everywhere...and is everywhere threatened. At present it takes a hundred and one different forms. But whatever the form, its purpose is to provide for the exchange of local values. So great is the threat to local economic autonomy everywhere that there has now arisen the mighty intellectual task of moving towards monetary independence, not by swapping pounds for euros but by weaning ourselves off our forced dependency on global money. There is a risk that this may be counter-productive but there is a far greater risk if nothing is attempted.

The one great advantage of money…and there are two sides to this coin…is that it acts impersonally as a third party in transactions between consenting adults. At its best, money is 'good for anything money can buy' and leads to the peaceful exchange of goods and services. Where the parties have comparable power and similar values these transactions may also be fair and meet each party's needs of the moment.

In '*Guide for the Perplexed*', Fritz Schumacher introduced a chapter on problems. He argued that there were two types of problem. You could solve the convergent problem but you had to grapple with the divergent problem. He gave education as one of his examples. One group argues for discipline and the other for freedom. The good teacher reconciles these two opposites with a higher force. In this case by loving the little devils. And in this context Schumacher went on to praise the *'French Revolution'* with its slogan of *'liberté'*, '*égalité*'…and the higher force '*fraternité*'. There were two sub-texts. The first found its way into alternative thinking as 'both-and' instead of 'either-or'. The other is the implicit denial that there is a third class of problem, the '*uncircumvergent*' problem that we can neither solve nor grapple with because it is too big. Purpose, and in particular a public purpose, can often provide the '*fraternité*' glue for an 'either-or' situation.

One radical response to our addiction to global money might to break the shackles that bind us and move overnight from dependence to monetary independence. Some have tried dropping out. The costs are great. Interdependence is a more radical response. Both global money and local money harnessed by a public purpose presents a low-cost low-impact option. It might even work. Let thousands of local dual currency regimes flourish to the benefit of the people living in a place.

A century ago Halford Mackinder insisted that the real struggle of his time would be between 'locality' and 'interests'. Give locality a fighting chance and the mindless pursuit of profits by far-flung nebulous interests cloaked behind the invisible nominee companies controlling the planet's anonymous corporations and their client governments might slink back into the footnotes of history. Schumacher labelled the two camps the people of the *'forward stampede'* and the *'homecomers*'.

Global money would be for global goods and local money for local goods. An old medieval-style '*Exchange Bank'* could provide exchange facilities between the different local currencies and between a particular local currency and the global money. The trading of global money national debts on '*Wall Street*' at different discounts by merchant bankers works on similar principles.

The debt-interest associated with global money means that against 'zero interest rate' or 'biodegradable' local money, the local money would be a store of stable value. It could be backed by a basket of commodities or a global electricity grid's kilowatt-hour money to avoid the boom and bust of the current fractional banking system that releases £1000 of business overdraft money for £80 savings of a widow's pension.

This energy currency scheme proposed decades ago by Buckminster Fuller could provide an excellent way of transferring electricity and money around our *'One World Island'* from the sun-rich equatorial areas to meet the space-heating needs of the colder regions of the planet. It could be the final nail in the coffin of such 50-year old technologies as atomic heat generation.

Such would be the inflation of global money that the local pound or real pound exchanging today for an equivalent global europound would receive half a dozen europounds in exchange a decade or so hence. But local biodegradable real pounds would reflect shifts in supply and demand in the same way as an energy currency or a commodity-backed scrip issue. It could also reflect the shifting terms of trade between work and capital or between work and land. Whether it did or not would depend on its purpose. Money is a human construct not a law of nature.

Ordinary people are beginning to rediscover what their grandparents understood that the quality of life matters. Advertising still mesmerizes the young, but then it is targeted at them. Eventually they too will come to see that for ordinary people life quality means life-style and diet which means organic, locally produced, animal-friendly food from local low-input farms and fulfilment in work and play.

In monetary terms this will require a 'just price and wage regime' for the many real pounds circulating in their own local economies. These real pounds will need to be robust enough to work with the grain of supply and demand for mind and muscle power and incorporate the reality of the economic costs and benefits flowing from the energy and technology slaves that modern industrial civilization has placed at everybody's elbows.

Rural life provides our most basic need: food. So any 'just monetary regime' should be rooted in a new little world order for the countryside that embraces the needs of sound horticulture and animal husbandry, traditional woodlands management and the provision of family shelter from local materials. Energy and water are delivered free at the point of delivery. These can be distributed locally using simple devices like roof catchment tanks for water and coiled water pipes on south-facing black roofs and wind vane generators for energy. The price of the goods, services and values exchanged between port towns and market towns and their hinterlands need to be rooted in a similar regime determined by countryside prices and eternal values.

City regions like London, Birmingham or Manchester will probably work best when they have their own city currencies. Jane Jacobs has argued the case well in her book '*The Wealth of Cities'*. It would be fascinating to return to this sceptered isle in a hundred years time and read the histories of the '*London Mint'*, '*The Bank of Mercia'* and the Manchester currency unions between the '*blue city pound*' and the '*red united pound*'.

One of the principal tasks of local money will be to realign the price of work with the family wage by effecting dramatic shifts in the terms of trade between work and land on the one hand and work and capital on the other. Mortality represents the only scarce commodity for ordinary people. Our genes may go on forever but our heart is on borrowed time. We can count the beats it has made and estimate the number left to go. The purpose of local money should be to optimise the quality of individual and collective living within the constraints inherent in the length of an individual's life. For this '*A Good Day's Pay for A Good Day's Work'* provides the best basic unit of account.

Local money would also represent a revolving fund allowing local mints to close down after getting enough local money into circulation…to be kept always in pristine condition for rapid deployment when some public purpose presented itself.

This is in sharp contrast to global money which provides power and control to the issuing authority through a process of withdrawing money either as taxes and/or price-disguised taxes…Margrit Kennedy argues that often as much as half of the cost of many goods and services would be eliminated in a zero-interest rate regime…or by other mechanisms including generalized price inflation and corporate debt relief through the existing bankruptcy laws.

Presently the 'pound in your pocket' is entirely global money…with perhaps half of it circulating locally or not circulating at all as the many different forms of barter take up the economic slack. Over the next generation…or within a few days after *'The Crash'*…counties, towns, city regions and villages should aim to move the ratio of global to local to non-monetary in the pockets of their local people from the official statistical current situation of 'global' to 'local' to 'non-monetarised' of 80 : 0 : 20…with the 20 declining as global money forces its way into the nooks and crannies of day to day life…to the real-life contractual transaction situation of 40 : 40 : 20.

At present everybody breaks the tax laws several times a day by not declaring dinner at mum's and a hundred and one other non-monetarised benefits as taxable income in kind. This illustrates the extent to which laws must change if Thoreau-style civil disobedience on a Gandhian scale are to be avoided. Gaining an acceptance for local money and learning how to marry it with an honest revenue raising system for public purposes will ease the pain of transition.

Reclaiming local monetary sovereignty can start gathering pace once these ratios are measurable and our own statistics made explicit as league tables comparing different regions, counties, tribes, towns, parishes and households. This is the first step if the general public is to become aware of the relationship between their local monetary ratios ('*LMRs*') and the quality of family life ('*QFLs*') in their neighbourhood.

Such is the current mood in much of rural '*post-Foot-and-Mouth'* England that many regions will be looking for a steady shift of these ratios over the next few years from 80 : 0 : 20 to 40 : 40 : 20 as the statisticians get to work and from there to 30 : 40 : 30 as real work gets started on the ground.

Utopia may be in sight at around 20 : 40 : 40…ironically still the situation in many of the more affluent areas of the undeveloped world. Development and affluence are very different things. The purveyors of globalisation will have to argue their case on our numbers instead of their own. Ricardo will not be up to the job.

The Real Pound Project by Peter Etherden *NB The arithmetic in this draft needs checking!*

The *'Real Bank of Wessex'* and the '*Real Pound Project'* were originally set up by the *'Cliffs Edge Signalling Company (CESC)*' to provide a working model of a *'local money'* management system for participants in the '*Radical Consultation'* in Swindon in September 2001. However the Conference Steering Group decided not to go ahead with the project.

The suitability of the *'local money'* management system devised for *'The Real Bank of Wessex'* will be the subject of an independent assessment by a group of academics brought together later this year by *'CESC'* at which time *s*teps will be taken to formalise the structure and recruit a *'Board of Governors'* for *'The Real Bank of Wessex'*. Until then, Peter Etherden will be *'Acting Governor'* of *'The Real Bank of Wessex'* and Toni Pinschof will take on the role of *'Acting Chief Cashier'*.

Colin Bex, Leader of the '*Wessex Regionalists Party'* has agreed to sit on the Board of Governors of the *'Real Bank of Wessex'* and Tom Greco has agreed to take on the role of '*Technical Advisor to the Board of Governors'* during the initial project and monetary system design phase of the *'Real Pound Project'*.

The idea was to use farthing and three penny bit 'tokens' as surrogates for 'coins' and to avoid the use of computers or paper money. The bank's first 'token issue' of *'Real Farthings'* and *'Real Three Penny Bits'*...was to have been issued to the '*Radical Consultation'* in June 2001 for use over a four-month period until a month after the end of the *'Radical Consultation'* with a review of this first issue being part of the work of the *' Globalisation, Money & Trade Forum'* under its forum leader Tom Greco during the course of its two-day of deliberations on 13/14 September 2001.

Broader issues involved in the management of a *'local money* system' are explored in an essay by William Shepherd entitled *'Local Money and The Public Purpose'* included as a workshop paper in the *'Globalisation, Money and Trade Forum'*.

After the Autumn Equinox the *'Radical Consultation's' 'Real Farthings'* and *'Real Three Penny Bits'* would start to degrade in accordance with Gesellian principles...although nobody was quite sure how to do this!

The *'Bank Holiday Memorandum'* of Monday 28th May 2001 provides the initial terms of reference for *'The Real Pound Project'* and a first *'protocol'* for the day-to-day operations of the bank. An amended '*memorandum'* will be presented to the *'Board of Governors'* of the *'Real Bank of Wessex'* for formal ratification at their *'Winter Solstice 2001'* meeting.

Election of officers and the appointment of members to the bank's *'Board of Governors'* will take place at this meeting.

Once the *'Real Bank of Wessex'* is up and running, other real banks are likely to spring up around the country. If this coincides with a flawed launch of the *'Euro'* and deterioration in the global economy there might arise a pressing need for the conversion and exchange of *'global money'* into *'local money'*…but that will be another project.

The Bank Holiday Memorandum *NB The arithmetic in this draft needs checking!*

1. Issuing Authority

Our local money will be called *'Real Pounds'* and will be issued by *'The Real Bank of Wessex'*.

2. Names

We will adopt all the names of the old imperial currency such as the pound (£), the shilling (s) and the penny (d...not p...as it is based on the medieval cathedral builders' *'dinari')*. Our money will always be preceded by the word 'real'…real pound, real shilling, real penny etc.

3. Coinage

We will mint two coins: the *'Real Farthing'* and the *'Real Three Penny Bit'*. Both coins will be the same weight, consistency and shape as the old coins.

4. Real Farthing

Our smallest unit of coinage, the farthing, will have the wren on its reverse side. Wrens huddle and shiver together to maintain body heat in cold weather. The wren will become associated with the notion of a '*Good Days Pay for A Good Days Wor*k' with the *'Real Farthing Coin'* representing payment for the minimum unit of paid work, an hour. This official hourly rate for the *'Real Farthing*' will allow comparison with the ever-inflating minimum wage...our *'Real Farthing'* delivering the same amount of work per hour as four europounds†. Thus the value of our *'Real Farthing'* is 4 000 times the current exchange price for work of the *'eurofarthing*'...were there to be a unit of our global currency equal to one tenth of the post-decimalisation *'new europenny'*.

† 'Europound' will be our name for the global money of the Bank of England

5. Real Three Penny Bit

Our *'Real Three Penny Bit'* will be equal to 12 *'Real Farthings'* and will be our coin for *'A Good Day's Pay for A Good Days' Work'*...this being the average number of hours from dawn to dusk everywhere in the world averaged out over the seasons. The design is unique making it readily distinguishable as 'local money' wherever in the world it is used.

6. Forward Living Capability

A *'Good Years Work'* is a useful notion but will not be adopted for coinage purposes. It is the product of multiplying 365 *'Real Three Penny Bits'* by a *'Work-Play Factor'* (WPF). The *'WPF'* will vary enormously depending on local attitudes to 'what earned income can buy'. Should it be a working wage for an individual, a family or a household? Should it constitute all the family's income or only a part...with share ownership or rental income constituting another part? Should its purpose be to purchase a decent subsistence or is it for luxuries? Whatever it is, it should be thought of as the amount of local money that provides for *'One Year Forward Living Capability'*.

7. Money & Morality

Ethical judgements will need to be made in the definition of work and play and the ratio between them. Where do feasting, clubbing and festivals feature? Poetic spirits, for instance, might seek to live a good life by dividing their year into four months-worth of global money making, four months-worth of local-money related good work for future returns and four months-worth of no-money related poeting, imagining, sailing, loving, caring etc. In terms of the thinking in *'Local Money & The Public Purpose'* such an approach might break down into a 1 : 1 : 1 ratio between *'global-money'*, *'local-money'* and *'no-money'*.

8. Market Forces

Having a large discrepancy in exchange price between *'work-based local money'* and *'unearned global money*' will encourage political discourse on money, morality and market forces. The idea that 'a pound is a pound is a pound' is quite wrong. One person's *'europound*' is quite unlike that of the next person. Some of this difference is gender-based, some generation-based, some dependent on lifestyle choices and so on. The value of the *'europound'* in your pocket depends on many things including which money club you might choose to belong to…a DSS club with housing benefit, a pensioner club before your husband dies, the same club after he dies, a bankers fat cat club passing salaries around between boards of directors etc. *'One pound one vote'*…the way of the market… has moral and democratic implications that extend far beyond any issues of efficiency, supply, demand, pricing and exchange.

9. Inflation

By reintroducing *'Real Farthings*' as a circulating coinage, the inflation of the global *'europound'* since the abolition of the old farthings in the 1950s will be brought to the fore. Up to now the inflation of the '*europounds'* of banks, industry and government *(BIG)* has been visible in the case of house prices…and perhaps wages…but less so in the case of '*the pound in your pocket'*.

10. Work & Price

By reconnecting work, money and price, the nature of a 'unit of work' will become a subject of political discourse. What is a Just Price? What effect should the number of energy and technology 'slaves' a person has at his or her elbow have? What is the qualitative difference between 'craftwork' and 'mass-work'? What is the difference in their 'side effects'…or externalities…to a real community? Can the work used to produce industrial goods be compared to the work used to harness or harvest the power of nature? How should such comparisons be made?

11. Bank Notes

An important advantage of choosing a high rate of exchange (4 000) is that issuing bank notes is avoided. *'Real Bank of Wessex'* local money will consist only of *'Wessex Tokens'*. Tokens are used throughout the world for many different purposes. They are not looked upon by tax authorities and centralised monopoly currency providers as circulating money.

12. Wessex Boxes

Large accumulated balances of local money should be looked upon as 'bits of information'. The larger they become the less 'real' they are. Ordinary people might choose to denote them in terms of '*shillings', 'florins', 'half crowns', 'guineas'* etc…and should be encouraged to do so…but only the *'Eighty Three Penny Bit Coins in a Box'* will have monetary meaning. We will say it weighs a *'Real Pound'* and call it *'The Wessex Box'*. This measure represents as large a sum of money as ordinary people can acquire and hoard without it raising questions about the private and public purpose being served by their hoarding. It represents a forward living capability of 80 days. You can go around the world in that time. Conceptually our ledgers will be no different to the vaults beneath the streets of Zurich…with the gold ingots of the global money power replaced by lots and lots of *'Wessex'* and *'Sussex'* and *'Mercia'* and '*Suffolk'* and *'North Riding'*...and many other...*'Boxes'* in everybody's homes.

13. Work & Life

Making money tangible and giving it meaning as *'real work'* and *'real forward living capability' will* ensure that *'Real Pound'* are looked upon reverently...rather like an urn containing the ashes of a loved one sitting on the family mantelpiece. It will be revered because it has meaning. It will symbolise 80 days of good honest work...a measurable part of a good life earned by doing good work that produced real value for the community of which one is a part.

14. Authorities

Avoiding bank notes has the added advantage that any public or private authority tempted to frame a legal case against the '*Real Bank of Wessex'* in order to close it down would find itself trying to catch whirlpools in a stream. To further confuse any attempt to invoke legal sanctions, our *'Wessex Tokens'* will be exchanged for *'Real Pounds'* with only the spoken word bearing witness…an oath sworn beneath a sacred yew tree as a sacred act at a sacred place at a sacred time of the year.

15. Savings

The idea of money requires that it circulate rather than accumulate. Any accumulation needs to be justified on a case-by-case basis. It should be for a reason. Receiving pounds into the bank before a gathering of twelve good men and true might be sufficient to induce those with miserly tendencies to spend their money rather than hoarding it.

16. Oaths

There will be jottings on the back of envelopes but we will have no ledgers. Those who would destroy our coinage must do so physically by minting counterfeit coins or by some other ruse…not by legally-piggily means. Our aim is to run a paperless bank. The written word is the enemy…to be replaced by 'talk'. Our word will be our bond...the word of a gentlemen banker.

Prices & Wages Schedule *NB The arithmetic in this draft needs checking!*

Item	***Description***	***Unit***	***15th Century***	***Bank of Wessex***	***Remarks***
Land					
1.	Good Meadow	acre	4 d.	*n/a*	
2.	Arable Land	acre	3 d.	*n/a*	
Produce					
3.	Beef	lb	½d.	¼d.	
4.	Bread	2 lb. loaf	½d.	¼d.	
5.	Ale	quart	¾d.	½d.	
6.	Wine	quart	1½d.	¾d.	
Grain					
7.	Wheat	bushel	8 d.	4 d.	
8.	Oats	bushel	4 d.	2 d.	
Livestock					
9.	(Porker) Pig		1s. 9 d.	10½d.	
10.	Fat Sheep		1s. 0 d.	6 d.	
11.	Bullock		5s. 0 d.	2s. 6 d.	
12.	Cockerel+13 Hens		1s. 7 d.	9½d.	
13.	Fat Goose		2 d.	1 d.	
Wages					
14.	Mason	day	6 d.	3 d.	
15.	Bricklayer	day	6 d.	3 d.	
16.	Carpenter	day	6 d.	3 d.	
17.	Women Worker	day	4½d.	3 d.	
18.	Plumber	day	4 d. †	3 d.	
19.	Women Worker	day	2½d. †	3 d.	
20.	Carter	day	1 d. ‡	3 d.	
21.	Shepherd	day	1 d. ‡	3 d.	
22.	Farmworker	day	1 d. ‡	3 d.	
23.	Bailiff	day	1¼d.	3 d.	*26s.8d. per year plus 4/- for clothes*
24.	Female Servant	day	½d.	*n/a*	*10s.0d. per year plus 4/- for clothes*

† including food *‡ £1 per year plus 5/- per year for clothes*

Notes

1. A *'Real Farthing'* buys 1 hour of work. A *'Real Three-Penny Bit'* is *'A Good Days Pay for A Good Days Work'*
2. 4 *'Real Farthings'*=1 *'Real Pence'*; 12 *'Real Pence'* = 1 *'Real Shilling'*; 20 *'Real Shillings'* =1 *'Real Pound'*
3. Global money exchange rates: 1 '*Europound*'= 100 '*Europennies'* =250 *'Old Pence'*=1000 *'Old Farthings'*
4. Four '*Europounds*' per hour of 'minimum wage' buys 1 hour of work which is valued at 1 *'Real Farthing'* .
5.* 4 gills=1 pint; 2 pints=1 quart; 4 quarts=1gallon; 2 gallons=1 peck; 8 gallons=1 bushel; 8 bushels=1 quarter;
6.* 100 links=1 chain; 10 chains=1 furlong; 8 furlongs=1 mile; also 22 yards=1chain=1 cricket pitch
7.* 10 square chains=1 acre; 640 acres=1 square mile; * *'The Empire Standard Dictionary' (1927)*
8. Fifteen Century Prices are taken from a plaque in *'The Old Weavers House'* in Canterbury, Kent

Peter Etherden
15th June 2001

The Real County Bank of Wiltshire **Draft Proposal**

1. Coinage *NB The arithmetic in this draft needs checking!*

'The Real County Bank of Wiltshire' will use the work-based currency of the *'Real Bank of Wessex'* designated in '*Real Pounds'*, '*Real Shillings'* and *'Real Pence'*. There are 12 *'Real Pence'* in a '*Real Shilling'* and 20 '*Real Shillings'* in a *'Real Pound'*.

2. Issuing Authority

The '*Real Bank of Wessex'* will issue the sum of £ _______ to '*The Real County Bank of Wiltshire'* in the form of *'Real Farthings'* and *'Real Three-Penny Bits'*. The coins will be used to pay for ____ hours of work at the rate of *'One Real Farthing An Hour'* and/or ___ days of work at the rate of '*One Three Penny Bit'* as *'A Good Day's Pay For A Good Day's Work'*.

3. Banking Policy

The policy of the *'Real Bank of Wessex'* is to run the equivalent of a non-fractional banking system with 100% coverage of deposits. This compares with the 8-12% fractional banking system used when *'global money'* is issued by most other banks. The *'Margrit Kennedy Effect'* means that prices of goods and services in a usury-free banking system are typically half those in a fractional banking system where debt is issued at interest. *'Real Pounds'*, *'Real Shillings'* and *'Real Pence'* will therefore be issued whenever requested by *The Real County Bank of Wiltshire'* up to the equivalent of 200% of receipts received in *'global money'* from sponsors or consultation participants.

4. Coinage Limit

The rate of exchange used to calculate the quantity of coin to be made available to *'The Real County Bank of Wiltshire'* is a wage rate of £ 4 per hour. One '*Real Pound'* pays for 160 days or 1920 hours of '*Good Work'* and hence further '*Real Farthings'* and '*Real Three-Penny Bits'* will be issued at the rate of a '*Real Shilling'* for every £ 200 of new receipts received by '*The Real County Bank of Wiltshire'*. Each '*Real Shilling'* issued will purchase up to 96 hours or 8 days of work.

5. Just Desserts

Only work that adds value to *County of Wiltshire* is eligible for payment in *'Real Pounds'*. *'Unjust Exchanges'* in *'Real Farthings'* and *'Real Three Penny Bits'* will take place between many consenting adults holding *'local mon*ey' but *'The Real County Bank of Wiltshire'* will not be a party to such trading. Spending by '*The Real County Bank of Wiltshire'* will only be made where there is an expectation of value being created. Value is a moral concept and ethical judgements will be needed.

6. Just Prices – *an example of the terms under which real money is issued to a local enterprise*

Food and accommodation will be eligible for full- or part- pricing in *'local money'* as will the '_____' events. The cost of a pass for entry to all events will be __. This will be issued directly to all those adjudged to have put in the equivalent of a ____ work on behalf of the '_____'.

Camping will be charged at a *'Real Farthing'* per day and *'homestays under roof'* at 1½d. for the 2-3 days of the gathering.

The price of all other items will be set by the seller.

Where all or some part of that price is set in 'local money', the full price should be based on comparison of the work content of the item with a schedule of food prices from 'Purton Organic Farm' and the estimated work content contained in the production and delivery of food from the farm. The proportion of the price of any item offered in 'Europounds' and 'Real Pounds' should reflect the relative amounts of any out-of-pocket costs paid in 'Europounds' and the cost of 'value-adding work' priced at the 'food rate' or at the rate of 'A Good Days Pay for A Good Days Work'. Where such a method is not feasible prices can be determined instead from the comparative schedule of 'Wessex 2001' prices and those prevailing in the 15th century – see schedule.

7. Biodegradability

The exchange rate between *'Europounds'* and *'Real Pounds'* will be announced on ___________ based on the spending ratios between '*global money'*, *'local money'* and *'no-money'* and the allocation of any surplus funds between *'Real Pound'*-holders and other legitimate claimants.

A key feature the 'Bank of Wessex' would like to include in its 'Real Coins' is biodegradability to put it on a par with perishables such as food. So in principle, after 15th October 'Real Farthings' and 'Real Three Penny Bits' will start to lose their value at the rate of 'Two Real Shillings in the Real Pound every Thirty Days'. Does anyone have any ideas how this might be achieved?

Debt & The Global Crisis by Dr. Edward Hamlyn

We are concerned with the cause of the global crisis. On this there is still no unity and consequently no activity. We need to define the factor which is preventing human societies from flourishing and prospering without destroying the planet. This has to be the factor which is causing an environmental crisis so monumental as to wipe civilisation and life itself off the pages of history.

Why are we dominated by values which are destructive and suicidal?

An oxymoron is a figure of speech in which apparently contradictory terms appear in conjunction. Democracy today is an oxymoron because absolute power lies in the hands of a financial dictatorship which seeks to survive by destruction of the environment upon which survival depends.

A multiplicity of factors combine to cause the global crisis, but if the many different factions meeting for a radical consultation at Swindon in September are to create a single rope on which all can pull together, the truth must be seen with crystal clarity and attention focused upon that basic, basic cause. The truth may set you free. Free of the global crisis.

Concern for our survival arouses strong passions. The truth is never seen through the red mist of passion. The threat to our survival on this planet is so overwhelming and the power of the financial dictatorship now ruling the world so absolute, that it appears impossible for any individual to make an effective impact.

But there is no other source of power than the individual and that power can be magnified ad infinitum by many individuals homing in on the same basic truth. The enemy we are up against has no truth and his absolute power is built upon quick sand. What we have to do is easier done than said; once seen with crystal clarity.

We may not realise it, but we are looking at commercial warfare wrecking the planet. We need to see why we are at war, a war far more deadly than military warfare. First see that there is war and then see its cause and the rope we must pull on leaps into view.

The cause of commercial warfare is the use of debt as a global currency. Hard to see because it is both unbelievable and incomprehensible. The fact is that currencies are now created and issued as credit. For money to exist in the modern world it must be borrowed into existence. Investment is the buzz word of economics.

America is the richest and most successful nation in the world because she has the biggest debts. Not in spite of her colossal debts, but because of them. America has been more generous with her borrowing than any other nation. There is another oxymoron for you, richly in debt.

If perchance you have been able to hold onto the rope thus far you will be ready to take your next leap into the dark, and see the light. Another oxymoron!

When credit is accepted as a loan of money, sleight of hand has occurred. To offer credit with intent to deceive the borrower into believing he is borrowing money which already exists, is to counterfeit money by dictionary definition. But it is no ordinary counterfeit money for three astonishing reasons.

First it is a method of counterfeiting money which the financial institutions have contrived to make legal.

Secondly it is counterfeit money on loan and interest must be paid for its use.

Thirdly the instant that this counterfeit money is accepted as a loan the borrower is deemed by law to be a debtor. The loan must be redeemed with legal tender. The taxman will not accept credit as legal tender.

Why this cause of global warming is so easily handled is the fact that everyone believes a nation's currency is issued by its government. All we have to do is demand that governments do create and issue their own currency instead of allowing private financial institutions to do it for them. Q.E.D.

Now you have a firm hold on the correct rope you can see how honest trading cannot occur in an insolvent global economy. You can then see how trade turns to commercial warfare in a frantic and vain attempt to survive. And there goes the planet.

Dr. Edward C. Hamlyn, MB, ChB, is President of the International Association for Monetary Reform.

A Shared Equity (Halal) Mortgage: How Does It Compare With A Conventional Mortgage?
By Thomas H. Greco, Jr. *Revised August 15, 2001*

Suppose you wish to buy a house for yourself and your family to live in. The normal procedure today is to go to a bank and apply for a mortgage to finance the purchase. Suppose the purchase price is $100,000. The bank may require that you make a down payment equal to 10% of the appraised value. Let's suppose that the appraised value and the purchase price are the same, in which case the bank will require $10,000 down and will lend you the remaining $90,000. You will sign a mortgage contract which will require you to make monthly payments over a period of years. Typically, home mortgages run for a period of 20, 30, or sometimes as much as 40 years. The bank, of course, charges interest, normally based on the amount of the unpaid principal. The rate of interest you are asked to pay depends on the prevailing market conditions and the term (time period) of the loan. Recent rates have been in the area of 8% per year.

The Costs and Risks of a Conventional Mortgage

Let's assume the bank agrees to give you a 30 year mortgage for $90,000, at an interest rate of 8% per annum. In this case, the monthly payments would be $660.39. Each payment will consist partly of interest due and partly the repayment of principal. Since the interest is figured on the basis of the remaining unpaid principal balance, the interest portion of your monthly payment will decline over time while the principal portion increases. Over the 30 year period, you will make 360 such payments, which add up to a total of $237,740.40 paid to the bank. This is more than two and a half times the $90,000 you borrowed. The banks will have collected interest totaling $147,740.40. Table 1 shows an abridged amortization schedule for this loan.

Table 1 Amortization schedule for a 30 year conventional mortgage at 8% interest; $90,000 principal

Payment Number	*Monthly Payment*	*Interest*	*Principal*	*Balance after Payment*
1	$ 660.39	$ 600.00	$ 60.39	$89,939.61
2	$ 660.39	$ 599.60	$ 60.79	$89,878.82
3	$ 660.39	$ 599.19	$ 61.20	$89,817.62
12	$ 660.39	$ 595.42	$ 64.97	$89,248.13
120	$ 660.39	$ 527.23	$133.16	$78,951.84
240	$ 660.39	$ 364.83	$295.56	$54,428.98
359	$ 660.39	$ 8.70	$651.69	$653.09
360	$ 660.39	$ 7.30	$653.09	$0.00
Totals>>	$237,740.40	$147,740.40	$90,000.00	

Now what happens if you miss a few payments? If you fail to make the payments as scheduled, the bank can foreclose on the loan, seizing the house and selling it to recover the amount of principle and interest you still owe. You may or may not recover any of your own investment. Since the bank's claim has priority over yours, it will probably not try very hard to get the best price in the market. The bank is mainly concerned about recovering its own investment, not yours, so it may set the selling price low in order to liquidate the property quickly, leaving little or nothing for you to recover.

The hazards and disadvantages to the borrower of this form of finance are obvious. The risks borne by the “borrower” under such a contract are very great compared to the risks taken by the bank. The borrower's ability to deliver the required monetary payments at the appointed times is highly speculative, subject to all kinds of unforeseeable circumstances which might develop in his/her personal life or in the economic environment in which s/he must make her livelihood. The bank, on the other hand, is protected to the extent that the property pledged as collateral has a value in excess of the amount owed, which is almost always the case.

The lopsidedness of the bargain becomes even more evident when one considers that the money “loaned” by the bank is created by the bank at very little cost. In effect, what the bank does is to create credit which you can use to pay the current owner of the house. In banking terms, the value of the house has been “monetized,” i.e., converted into liquid form by the bank.

The Equity Option

But we can envision another way to finance large purchases like houses or cars, or to finance business enterprises. It is called equity sharing, or in Islamic terms, a Halal mortgage. This is nothing new. It was common practice among the Dutch banks of the 13th century, a time when laws against usury were strictly enforced. It avoids usury by avoiding debt. Let's imagine a different kind of bank, a cooperative bank, perhaps. Instead of making a loan and asking you to sign a mortgage contract, the cooperative bank takes an equity share, or partial ownership interest, in your house. How would this work?

Just as in the conventional arrangement, the coop bank will require some down payment. That will be your initial equity share. Let's assume you make the same down payment as before, 10%, or $10,000. The coop bank puts up the remaining $90,000. Now you and the bank are co-owners. You own 10% of the house and the coop bank owns 90% of the house. There is no interest to be paid on the coop bank's capital but if you occupy the house, you will be required to pay rent to the owners. Of course, since you are a part owner, part of that rent comes back to you. At the outset, the bank will get 90% of the rental payments and you will get 10%. But you are also allowed to increase your ownership share at any time by making additional payments to the coop bank, in effect, buying out the bank's interest in the house. As you do so, your proportionate share increases while the coop bank's share decreases and the distribution of the rent payments will change accordingly.

Let's compare this arrangement with the conventional mortgage in the example given above. The big question, of course, is, what is a fair amount for the monthly rent? It might be reasonable to assume that it is equal to the monthly payments you would have made under the conventional mortgage arrangement, in this case, $660.39. At the outset, you will receive ten percent of that rent as your ownership share and the co-op bank will receive 90%. Let us also assume that you apply your share of the rental payments to increasing you share of the ownership. Table 2 is an abridged amortization schedule which shows the respective returns to you and the coop bank under this arrangement.

You can see that, under this arrangement, you will own 100% of the house after making the 350th payment, or in 29 years and 2 months. You will have paid total rent of $231,018.30. The bank's total share will have been $141,018.30. This is a saving of more than six thousand dollars over the amount of interest paid on the conventional mortgage. In percentage terms, this is a saving of a little over four and one half percent. This may not seem like much, but, as we shall see when we compare this approach with conventional mortgages carrying higher interest rates, the savings can be enormous.

Table 2 Shared Equity (Halal Mortgage) With Rent Equal to Conventional 8%, 30 Year Monthly Mortgage Payment. Owner's share applied to repurchase; No additional principal payments

Payment Number	*Payment Amount*	*Your Share*	*Coop Bank's Share*	*Your Equity*	*Your Equity %*	*Coop Bank's Equity*	*Coop Bank's Equity %*
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
				$10,000.00	10.00%	$90,000.00	90.00%
1	$660.39	$66.04	$594.35	$10,066.04	10.07%	$89,933.96	89.93%
2	$660.39	$66.48	$593.91	$10,132.52	10.13%	$89,867.48	89.87%
3	$660.39	$66.91	$593.48	$10,199.43	10.20%	$89,800.57	89.80%
...							
24	$660.39	$76.83	$583.56	$11,711.34	11.71%	$88,288.66	88.29%
...							
120	$660.39	$144.54	$515.85	$22,030.94	22.03%	$77,969.06	77.97%
...							
240	$660.39	$318.43	$341.96	$48,536.24	48.54%	$51,463.76	51.46%
...							
349	$660.39	$652.52	$7.87	$99,461.37	99.46%	$538.63	0.54%
350	$542.19	$538.63	$3.56	$100,000.00	100.00%	$0.00	0.00%
Totals	**$231,018.30**	**$90,000.00**	**$141,018.30**				

But a more important advantage derives from the risk sharing inherent in the shared equity approach. Under this arrangement, if you are unable to make the additional principal payments, you will not be foreclosed, you simply do not add to your ownership share. If you are unable to pay the rent, however, you could be required to vacate the house, just as if you were renting from anybody else, but you would not lose your ownership equity. When the house is rented to someone else, you would still receive your share of the rent, or if the house were to be sold, you would get your share of the proceeds based on the percentage of the equity which you own. Of, course, since **the coop bank's claim does not take priority over yours**, it is in the best interests of both you and the bank to try to get the highest price possible for the house.

Compared to the conventional mortgage debt, the relationship between you and the coop bank is an amicable partnership rather than an antagonistic exploitation -- your interests are congruent rather than opposed. The exploitative nature of the conventional mortgage tends to create conflict, stress, and insecurity, while also contributing to greater disparities of income and wealth -- the rich get richer and the poor get poorer. The shared equity financing, or halal mortgage, however, reduces conflict, stress, and insecurity, and makes for a more harmonious and equitable society.

To fully appreciate the advantages of the shared equity approach, we need to examine the numbers pertaining to higher conventional mortgage interest rates. Tables 3.1, 3.2 and 3.3 provides a summary which shows the figures for conventional mortgages at interest rates of 8%, 10%, and 12%, along with figures for comparable halal mortgages. It can be seen how seemingly small changes in the interest rate cause enormous increases in the amount of money you must pay back. At 12% interest, for example, you will repay $333,270.00 on your $90,000 loan over 30 years, giving the bank interest income of $243,270.00. However, a shared equity or halal mortgage with the same monthly payment of $925.75 would give you full ownership in 20 5/6 years. The total rent shares to the coop bank would be only $141,323.14, saving you over $100,000.

Table 3.1 Conventional Mortgage - *Comparative figures for different interest rates30 year conventional mortgage: $90,000 principal; $10,000 down*

Interest Rate	*Monthly Payment*	*Total Payback*	*Total Interest*	*Total Principal*
6%	$539.60	$194,256.00	$104,256.00	$90,000.00
8%	$660.39	$237,740.40	$147,740.40	$90,000.00
10%	$789.81	$284,331.60	$194,331.60	$90,000.00
12%	$925.75	$333,270.00	$243,270.00	$90,000.00

Table 3.2 Shared Equity (Halal mortgage) - *$90,000 initial bank equity (90%); $10,000 initial buyer's equity (10%). Buyer's share of monthly rent applied to repurchase of bank's share.*

Interest Rate	*Monthly Rent*	*Total Payout*	*Bank's Share of Rent*	*Principal*	*Payments required to complete buyout*	*Years required to complete buyout*
6%	$539.60	$230,879.35	$140,879.35	$90,000.00	428	36
8%	$660.39	$231,018.30	$141,018.30	$90,000.00	350	29
10%	$789.81	$231,167.29	$141,167.29	$90,000.00	293	24
12%	$925.75	$231,323.14	$141,323.14	$90,000.00	250	21

Table 3.3 - Shared Equity (Halal mortgage) -- *Rent Equal to Payment on 8% Conventional Mortgage; Payments at Levels of 10% and 12% Mortgages, Respectively. $90,000 initial bank equity (90%); $10,000 initial buyer's equity (10%). Buyer's share of monthly rent applied to repurchase of bank's share. Payment in excess of monthly rent applied to repurchase of bank's share.*

Total Payment	*Monthly Rent*	*Total*	*Bank's Share of Rent*	*Principal*	*Payments required to complete buy-out*	*Years required to complete buy-out*
$789.81 (10%)	$660.39	$167,562.16	$77,562.16	$90,000.00	213	18
$925.75 (12%)	$660.39	$144,481.83	$54,481.83	$90,000.00	157	13

The figures in this table assume that the fair rent in each case is equal to the mortgage payment. That assumption, however, may be too far fetched.

Let's assume that, in every case, the fair rent is equal to the mortgage payment at 8%, or $660.39. Under these circumstances, any amount paid over and above that figure would be directly applied to increasing your equity share rather than being split between you and the coop bank. The lower part of the Summary table shows the figures for monthly payments equivalent to those at the 10% and 12% mortgage rates. With payments of $789.81, you will achieve complete ownership in 17 3/4 years. The bank's share of total rents will be only $77,562.16. With payments of $925.75, you will achieve complete ownership in only 13 1/12 years, having paid the bank rent shares of only $54,481.83, saving you almost $189,000 or 77.6 percent over the conventional mortgage with the same monthly payment.