

New Money for Healthy Communities

by Thomas H. Greco, Jr.

The pinnacle of power in today's world is the power to issue money. If that power can be democratized and focused in a direction which gives social and ecological concerns top priority, then there may yet be hope for saving the world.

This book:

- Is the how-to-do-it manual for local trading systems.
- Describes exchange alternatives which reward people fairly and reflect the reality of an abundant earth.
- Shows how voluntary groups can revitalize local economies.
- Outlines the true nature of money and new approaches to transforming money.

New Money for Healthy Communities takes the reader well beyond the rutted road of orthodox thinking, describing in detail the essential features of equitable and dynamic exchange systems, and shows how they can be set up by voluntary local associations. It describes both past and present examples of local currencies and exchange systems, including their strengths, limitations, and errors. It then proposes innovative ways of transforming exchange, using mechanisms which are democratic, humane, ecologically sound, sustainable, and implementable at the grass-roots level.

New Money for Healthy Communities is based on thorough research conducted by the author, a former professor of business, over the past dozen years. It is well-illustrated, footnoted, and indexed, and provides extensive lists of contacts, resources, and references.

"New Money for Healthy Communities lifts the veil on the secret power of money creation and lucidly explains how alternative currencies can give this power back to those who create wealth. It is destined to be a classic handbook for community activists and all conscious people."

--Gordon Davidson, co-author, *Spiritual Politics, Builders of the Dawn*.

Reviewers' and Readers' Comments

"Excellent! A first class account, theoretical and practical, of the need and scope for new transformational structures... All students of money in the new economics should read it."

-- James Robertson, Turning Point 2000, England

"Tom Greco's *New Money for Healthy Communities* -- comprehensive, scholarly, set in a broad Gaian context -- is the basic resource on community-issued money."

-- Stephanie Mills, *The Millennium Whole Earth Catalog*

"We received the review copy of *New Money for Healthy Communities*, and I am very impressed. Congratulations on a fine piece of work. We will be adding your book to our September supplement."

-- Michael Hoy, President, LOOMPANICS Unlimited, Port Townsend, WA

"I can think of nothing I know of to compare it with. It stands alone as by far the best book yet written on the subject."

-- Robert Swann, E.F. Schumacher Society, Great Barrington, MA

"Great book... Greco writes keenly and forcefully.."

-- Paul Glover, Publisher, Ithaca Money, Ithaca, NY

"Fascinating and readable... I greatly enjoyed reading and highly recommend it."

-- Jeffery Smith, President, Institute for Geonomic Transformation, Santa Barbara, CA

"Your book is an excellent survey of small community monetary and exchange options... Congratulations for a job well done."

-- Don Werkheiser, California

"Excellent effort at keeping it at the 'kitchen sink' level for many who have a hard time comprehending how money works."

-- Bob Cervelli, Regional Atlantic Trading Note Association, Nova Scotia

"This book is a wonderfully readable treatment of a complex and difficult subject, money."

-- Gene Marshall, Realistic Living, Texas

"Greco breaks through the illusion and the power of money... This book is about freedom."

-- Tranet, Rangeley, ME

"It is a tremendously important book. Congratulations."

-- Mel Leasure, President, School of Living, Pennsylvania

"I really enjoyed your book and feel it is a very helpful contribution to all of us engaged in grassroots experimentation with community currencies, providing both a larger theoretical context as well as many helpful practical tips."

-- Sat Khalsa, Administrator, LETS in Toronto

"Your book is such a clear statement, it is an inspiration to me, and will be a great catalyst for change."

-- Mark Kinney, Ohio

About the Author

Thomas H. Greco, Jr. is a community economist, networker, writer, editor, and consultant, who, for the past 15 years has been working at the leading edge of transformational restructuring. He is Director of the Community Information Resource Center, a networking hub, which provides information access and administrative support for groups involved in community improvement, social justice, and sustainability. His articles have appeared in *The Whole Earth Review*, *World Business Academy Perspectives*, *At Work*, *Earth Island Journal*, *The Catholic Worker*, *The Permaculture Activist*, and *Green Revolution*. He is the author of the book, *Money and Debt: A Solution to the Global Crisis*, and is presently working on two other books, *The Economics of Sustainable Communities*, and *Beyond the State: Restructuring Economics, Politics, and Society*.

1994. Paper, 216 pp, illustrated, index, \$15.95 + \$3 postage.
ISBN 0-9625208-2-9

Thomas H. Greco, Jr., Publisher
P.O. Box 42663, Tucson, Arizona 85733
(520) 795-8930. E-mail: circ2@mindspring.com

Consulting on community currencies and cashless exchange, local and regional development, and equitable finance. Our new website is at: circ2.home.mindspring.com. It contains an abundance of useful material on economic, social, and political transformation, including creative ideas about money, finance, community empowerment, and sustainable economics, plus the full text of my book, *New Money for Healthy Communities*. My latest book, *Money: Understanding and Creating Alternatives to Legal Tender*, published by Chelsea Green, is now available. For details, see <http://chelseagreen.com/2001/items/money> The excerpted, e-book version (in PDF format) can be found at: <http://www.reinventingmoney.com/documents/MoneyEbook.pdf>.

NOTICE

Copyright © 1994 Thomas H. Greco, Jr.
All rights reserved.

This electronic edition of *New Money for Healthy Communities* may be copied and circulated, in whole or in part, IN ELECTRONIC FORM ONLY, SO LONG AS CREDIT IS GIVEN AND THIS NOTICE IS INCLUDED. The only other restriction on the use and dissemination of the electronic edition is the requirement that users shall not modify the content in any way.

Copies of the printed and bound volume (ISBN 0-9625208-2-9) may be obtained by sending a check or money order for \$15.95, plus \$3 for postage and handling (U.S. funds only, please) to:

Thomas H. Greco, Jr., Publisher
P.O. Box 42663
Tucson, Arizona 85733, USA

Table of Contents

Description of Book
Reviewers' and Readers' Comments
About the Author
Copyright Page

List Of Illustrations and Exhibits
Preface

PART I: MONETARY REALITIES AND OFFICIAL ILLUSIONS

Chapter 1 Toward A New World Order
Gaia Consciousness and Human Unity
Correcting Past Errors

Chapter 2 What is Money?
The Essential Nature of Money
Definitions
Historical Forms of Money
The Money Circuit

Chapter 3 The Power and Place of Money
The Power Inherent in Money
The Place of Money in Human Interaction

Chapter 4 What's the Matter With Money?
Symptoms of Disease
Three Ways in Which Conventional Money Malfunctions
How Money Is Created
Why There is Never Enough Money
How Money is Misallocated
How Money Pumps Wealth From the Poor to the Rich

Chapter 5 The Disintegration of Local Economies
The Historical Progression of Control Over Economic Input Factors
Social Control Through Control of Money and Finance
Social Disintegration

Chapter 6 Money and the Constitution
The Consolidation of Money Power
The End of Empires

Chapter 7 Restoring the Integrity of Personal and Community Economies
Healthy Communities; Healthy World
Two Fundamental Strategies
Small (and Local) Is Beautiful
How to Bring Money Under Local Control
Community Banking and the Liberation of Money
Why Local Currencies?

PART II: LOCAL CURRENCIES PAST AND PRESENT

Chapter 8 A Brief History of Local Currencies

- Scrip of The Great Depression
 - Caslow Recovery Certificates
 - Larkin Merchandise Bonds
 - Silvio Gesell and Stamp Scrip
 - Depression-era Stamp Scrip in Germany and Austria
- Lessons Learned
- Railway Notes
- The "Constant" Currency of Ralph Borsodi
- An Early Proposal for a Credit Clearing System

Chapter 9 Global Finance, Inflation, and Local Currencies

- Why Central Governments and Central Banks Don't Like Local Currencies
- The Real Cause of Inflation

Chapter 10 Current Examples of Local Currency and Cashless Exchange

- Barter, Reciprocal Trade, and Mutual Credit
- Commercial "Barter" Exchanges
 - How Trade Exchanges Operate
 - Tax Implications of Commercial Barter Trade
- LETS -- Local Employment and Trading System
 - How Does LETS Work?
 - LETS In Operation
- The Berkshire Experiments
- Ithaca HOURS
- Boulder HOURS
- Service Credits and Time Dollars

PART III: COMMUNITY EMPOWERMENT AND MONETARY TRANSFORMATION

Chapter 11 Basic Factors in the Creation of Democratic Exchange Media

- Basis of Issue
- Regulation of the Amount of Exchange Media Supplied
- Power to Issue
- Some Theoretical Considerations for Contemporary Systems
 - Authority
 - The Unit of Account
 - What About Backing and Redeemability?
- Implementation

Chapter 12 Community Empowerment Through Mutual Credit Systems

- What is Mutual Credit (MC)?
- How a Mutual Credit System Works
- Basic Steps in Organizing a Mutual Credit System
- Continuing Issues in Mutual Credit Systems
- Preventing Stagnation in Mutual Credit Systems
- Saving and Investment
 - What About Interest?
 - Current Account vs. Capital Account

Chapter 13 Currency Alternatives For Impersonal markets

A Commodity-based Currency

Funded vs. Non-funded Currencies and Exchange Systems

Using Inventories as Reserves

An Example

Chapter 14 Community Trading Coupons

Bootstrapping The Local Economy

Chapter 15 Good Money for Good Work

Earth Rescue Receipts (ERR's)

Questions and Answers

Funded Temporary Receipts (FTR's)

Questions and Answers

Cooperative Community Service Credits

How it Might Work

Chapter 16 A Model Composite Local Exchange System

The Governing Board

Credit Limits for Members

Employee Participation

Ledger Accounts or Paper Notes?

Convertibility of Local Currency to Official Currency

Two Meanings of "Dollar"

Over-accumulation -- Is It a Problem?

Limited or Perpetual Life?

Should Interest be Charged on Balances?

Appendix A:

Note on Banking as a Profession and Its Reform

Appendix B:

Note on the Proper Basis of Issue for Currency and

the Means of Financing Capital Investments and Consumer Durables

Sources and Resources

Contacts -- US and Canada

Some Known LETS systems in the United States and Canada

Contacts -- Australia and New Zealand

Contacts -- United Kingdom

References

Footnotes

Index

Order Form

List Of Illustrations and Exhibits

- Figure 2.1: The Ideal Money Circuit
- Figure 2.2: The Bank Credit Money Circuit
- Figure 2.3: The Bank Credit Money Circuit -- Redemption Phase
- Figure 8.1: Caslow Scrip -- Face Side
- Figure 8.2: Caslow Scrip -- Reverse Side
- Figure 8.3: Larkin Merchandise Bonds -- Face Side
- Figure 8.4: Larkin Merchandise Bonds -- Reverse Side
- Figure 8.5: A Woergl Note -- Face Side
- Figure 8.6: A Woergl Note -- Reverse Side
- Figure 8.7: A *Constant* Note -- Face Side
- Figure 8.8: A *Constant* Note -- Reverse Side
- Figure 9.1: News Clip About Argentina Provincial Bonds
- Figure 9.2: A Circulating Bond of Salta Province
- Figure 10.1: The LETS Credit Trading Cycle
- Figure 10.2: A Deli Dollar \$10 Note
- Figure 10.3: A Massachusetts Farmer's Market Coupon
- Figure 10.4: An *Ithaca HOUR* 1 Hour Note -- Face Side
- Figure 10.5: An *Ithaca HOUR* 1 Hour Note -- Reverse Side
- Figure 10.6: A *Boulder HOUR* 1 Hour Note -- Face Side
- Figure 10.7: A *Boulder HOUR* 1 Hour Note -- Reverse Side
- Figure 12.1: The Mutual Credit Trading Cycle
- Figure 13.1: A Commodity-based Currency Circuit
- Figure 14.1: Conceptual Rendering of a Community Trading Coupon
- Figure 14.2: The Community Trading Coupon Circuit
- Figure 15.1: Conceptual Rendering of an Earth Rescue Receipt
- Figure 15.2: The Earth Rescue Receipt Circuit
- Figure 15.3: The Funded Temporary Receipt (FTR) Circuit
- Figure 15.4: The Cooperative Community Service Credit (SERV) Circuit
- Figure 16.2: A LETSonora Receipt -- Face Side
- Figure 16.1: A LETSonora Receipt -- Reverse Side

Preface

This book is part of a continuing work which began in 1982. It was in that year that I first came to realize the fundamental importance of money and exchange mechanisms in determining how the world works (and doesn't work) and how these mechanisms define the very nature of human relations on every level.

My earlier book, *Money and Debt: A Solution to the Global Crisis*, explained the nature of money, identified the fundamental flaws in the current monetary and financial system, and suggested an approach to resolving the problem of exploding debt. It also laid out the foundation principles for the creation of both a more rational means of value measurement and more humane and equitable structures for mediating the exchange of goods and services.

New Money for Healthy Communities complements that earlier work. While *Money and Debt* deals more with general principles and global prescriptions, this present work is more specific and detailed, and has as its focus the local community and empowering action at the grass-roots level. *New Money for Healthy Communities* is a how-to-do-it manual. It describes exchange mechanisms which have worked in the past, as well as some of the more successful contemporary local exchange efforts. It identifies the pitfalls to be avoided, and it proposes specific methods for transforming the exchange process, methods which are rational, equitable, and empowering, and which can be easily implemented at the local level by small voluntary groups.

It is the author's hope that this information will be widely disseminated, and his belief that its wide application will assist humanity's struggle toward a more harmonious and happy world.

PART I

MONETARY REALITIES AND OFFICIAL ILLUSIONS

Chapter 1

Toward A New World Order

"Money will decide the fate of mankind." -- Jacques Rueff [1]

Gaia Consciousness and Human Unity

The past 25 years or so seem to have brought a new period of enlightenment in which humans in increasing numbers have become aware of their oneness as a species, and their place, not as dominator or controller of nature, but as an integral part of the whole web of life. Many cultures have held the view that Earth is a living being in which each living species plays a vital role. It is a view which is now becoming current in our own culture and which sees humans as the "global brain," the Earth's center of self-awareness. [2] This changing identity is beginning to have profound effects upon the way we live our lives and, if we allow it, can change the whole course of history. Imagine a world in which war and abuse are only dimly remembered, in which there is no starvation, in which harmony among the species prevails and the rape of the earth has ceased.

In order for such a condition to come about, we must believe that it is possible; then we will find the way to make it happen, for "faith is the substance of things hoped for." [3] Our actions emerge out of our visions and ideals. We humans, in our role as co-creators with the "Higher Power," have plenty of work to do. There is work to be done at the personal level, confronting our own fears and doubts and taking responsibility for resolving our dilemmas; at the community level, using inevitable conflicts as opportunities to transcend our petty selves and limited perceptions; and at the societal level, building new structures which support and nurture rather than coerce and brutalize.

Economics drives politics, and money is the central mechanism through which economic power is exerted in the modern world. The history of the United States shows how power has progressively migrated from the people, local communities, counties, and states toward the Federal government in general, and the executive branch in particular. It is only through a study of monetary history, however, that a clear picture can be gained of how this has happened.

It is my firm belief that among the primary obstacles to the improvement of the human condition are the general reliance upon the current structure of global finance and the nature of its primary element, money. The dominating nature of these institutions is akin to that of the monarchies and ecclesiastical hierarchies of past eras. Their time is quickly passing.

New, transformational structures based on different values and assumptions are being developed. These structures need to be more equitable, democratic, and "ethereal." [4] They

must be established in ways that promote the expression of values such as service, fairness, fellowship, and cooperation, rather than greed, privilege, and self-seeking. Thus, they will not compete with existing institutions, but develop in parallel with them, providing operational alternatives which can better serve the needs of people and the Earth, as the old order continues to decline.

Correcting Past Errors

Many of our fundamental social contracts and conventions are based on notions which are erroneous and self-defeating. Among the most insidious of these are:

1. The belief that the universe was created for humans and that mankind should dominate creation and manipulate it for his own ends; that nature is an enemy to be subdued and controlled.
2. The division of people into classes or castes -- "us" and "them"; "nobles" and "peasants"; "aristocrats" and "commoners"; elites who are suited to govern and the masses who must be governed; clients who are defective and need to be "fixed" and professional fixers who are certified as competent to do the fixing.
3. The belief that it is just for a majority, in the name of government, to coerce the conscription of either person or property for the use of the state.
4. The belief that land and natural resources, which are the common heritage of all humans (and indeed, all life on Earth), can be treated in the same way as other property, to be bought and sold, to be used or abused, and to be held as an object for speculative gain.
5. Belief in the efficacy of the practice of granting to a few the privilege to create money based on debt and to charge interest for its use.

It is the last of these which is our main concern here. As I see it, the foundation of state power and centralized control in today's world is the power to create and manipulate the medium of exchange. Because money has the power to command resources, and because most of us take it for granted, those few who control the creation of money are able to appropriate for their own purposes vast amounts of resources without being seen. The entire machinery of money and finance has now been appropriated to serve the interests of centralized power.

The key element in any strategy to transform society must therefore be the liberation of money and the exchange process. If money is liberated, commerce will be liberated; if commerce is liberated, the people will be empowered to the full extent of their abilities to serve one another; the liberation of capital and land and the popular control of politics will follow as a matter of course. Once equitable exchange mechanisms have been established it will no longer be possible for the privileged few to appropriate the major portion of the land, productive resources, and political power. This volume, therefore, focuses specifically on the creation and control of money, money substitutes, and alternative exchange mechanisms.

Subsequent chapters will describe the nature of money, its uses and misuses, the processes by which individuals and communities have been disempowered, and some local responses which have been effective in restoring community control in the face of centralized power. They will outline gentle strategies by which communities can establish sustainable, ecologically sound, local economies using "home-grown" exchange media and participatory methods for the allocation of capital.

Chapter 2

What Is Money?

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

-- Michael Linton

The Essential Nature of Money

Definitions

The question, "What is money?" may seem trivial to us, who in this modern day make constant use of it, but it is confusion about the essence of money which has allowed it to be abused and misallocated. Money in classical economics is defined as (1) a medium of exchange, (2) a standard of value, (3) a unit of account, (4) a store of value, and (5) a standard of deferred payment. There are many problems with these definitions, but their primary inadequacy is that they are *functional* definitions; they tell what money **does**, not what it is. We need to understand the basic *essence* of money. Once we have grasped its essence we can begin to design exchange systems which will equitably serve the needs of people and the Earth.

The process of economic exchange always involves two parties. The fundamental exchange process is the barter exchange. When Smith delivers to Jones a sack of flour and Jones gives to Smith a bushel of apples in return, a complete barter transaction has occurred. Both parties are satisfied, and both have profited from the exchange. The problem with simple barter, of course, is that Jones may want Smith's flour, but he may have nothing that Smith wants. In that case no trade can be made. The fundamental purpose of money is to transcend this limitation of barter. Bilgram and Levy assert that:

"We should ... define money as any medium of exchange adapted or designed to meet the inadequacy of the method of exchanging things by simple barter. Anything that accomplishes this object is 'Money.'"[5]

So money is a "medium of exchange" which transcends the limitations of barter exchange.

But what constitutes a medium of exchange, and how can one trading partner get what he wants, even though he has nothing wanted by the other? Bilgram and Levy go on to explain:

"The one quality which is peculiar to money alone is its general acceptability in the market and in the discharge of debts. How does money acquire this specific quality? It is manifestly due solely to a consensus of the members of the community to accept certain valuable things, such as coin and certain forms of credit, as mediums of exchange." [6]

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

Michael Linton, the originator of an exchange system called "LETS" (Local Employment and Trading System), has provided us with an essential definition of money. Linton defines money as "an information system we use to deploy human effort." [7] This is a profound revelation and if we think about it, it becomes clear that our acceptance of money is based upon its informational content.

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

Historical Forms of Money

Historically, many different forms of money have been used. But the forms of money in common use have, over time, become progressively less substantial and more ethereal. In earlier times, certain useful commodities were used as money. These included such things as salt, cattle, grain, and tobacco. Tobacco was a common form of money in colonial America. Commodity money carries value within itself making it easy for traders to evaluate its soundness. The use of commodities as a medium of exchange really amounts to *indirect barter*. Such commodities can serve the exchange function because they are useful in themselves and generally in demand. I may have no use for tobacco myself, but if I know that it can be easily traded, I may accept it in payment when I sell my goods or services.

The use of precious metals as money is no different in nature from the use of any other commodities. Gold and silver came to be widely used as money because they provided the advantages of greater convenience and durability, especially when stamped into coins of certified weight and fineness.

Later, it became more common to use paper notes and base metal coins which were symbolic representations of commodity money, typically gold or silver, and could be delivered to the issuer who would exchange them for the metal they represented. Modern banking developed on the basis of issuing paper currency against "fractional reserves," *i.e.*, the banks issued more paper "claim checks" than they had gold to redeem.

Commodity money and redeemable paper have progressively given way to non-redeemable notes, bank credit, and computerized accounts, which while offering certain advantages, are easier for issuers to abuse and more difficult for traders to evaluate.

Today, most of the money is in the form of bank credit, with a small percentage also in the form of circulating paper notes of the central bank, which in the United States is the Federal Reserve Bank. These notes, however, are merely a physical representation of money which first emerged as bank credit and later was exchanged for paper.

The Money Circuit

Money flows in circular fashion. In order to apprehend the meaning of money one must first recognize this essential fact, that money has a beginning and an ending; it is created and it is extinguished. This is depicted in Figure 2.1, which shows money in the ideal. Money is first created by a buyer who issues it to a seller as evidence of value received. The money issued may be thought of as an I.O.U. which the buyer uses to pay for the goods and services he bought. That I.O.U. might be passed along from hand-to-hand as each recipient in turn uses it to pay for his/her own purchase. Eventually, it must come back to the originator of the I.O.U. who redeems it by selling something of value.

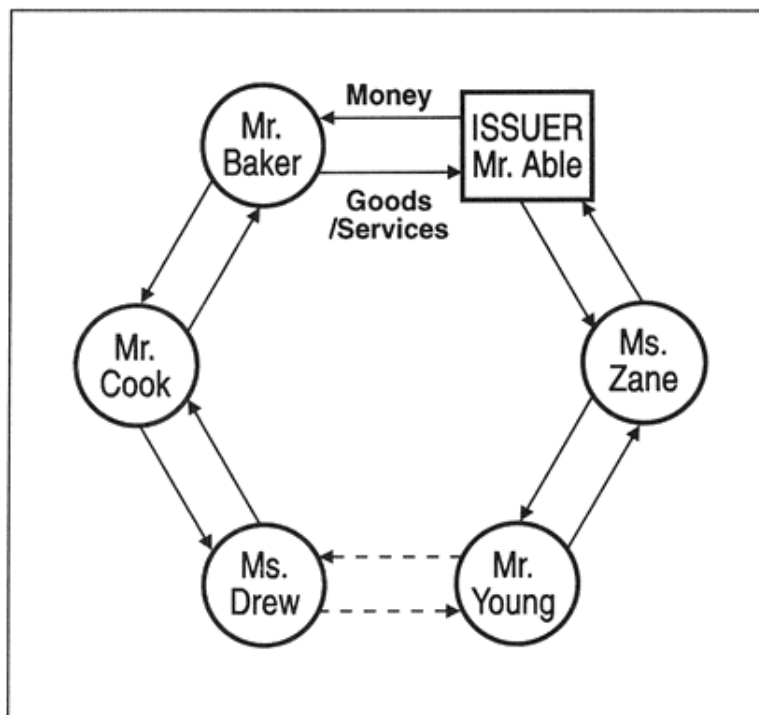


Figure 2.1: The Ideal Money Circuit

As an example, consider the process depicted in Figure 2.1. The originator, Mr. Able, buys something of value from Mr. Baker. He gives Mr. Baker his I.O.U. as evidence of value

received. Baker then uses the I.O.U. to buy something from Mr. Cook, who, in turn uses it to buy something from Ms. Drew. The I.O.U. may continue to change hands any number of times as others use it to buy and sell (as indicated by the dashed lines between Ms. Drew and Mr. Young), but eventually, it must return to Mr. Able. At that point, Able has fulfilled his commitment to redeem the money he issued (the I.O.U.). He does this by selling goods or services equal in value to those which he received when he made his original purchase, accepting as payment his own I.O.U., *i.e.* the money which he originally created.

Now think of a group of traders who agree to accept each other's I.O.U.'s as payment in trade. Suppose they design a standardized form for their I.O.U.'s so that they are indistinguishable from one another. These standardized I.O.U.'s can take whatever form the community of traders has agreed to use for this purpose. They may be in the form of paper certificates, metal tokens or coins, or simply numbers in an account ledger. Each member of the group obtains a supply of these standardized I.O.U.'s or notes of fixed denomination, which s/he can now spend into circulation.

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

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

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

"A would-be money issuer must, in exchange for the goods or services he buys from the market, place goods or services on the market. In this simple rule of equity lies the essence of money." [8]

Riegel conceived a "private enterprise money" which closely conforms to this ideal.[9]

In the current system of banking, however, an originator of money must first obtain authorization from a commercial bank before he can put money into circulation. Typically, this is done by making an application for a "loan." The bank will evaluate Mr. Able's "credit-worthiness" and the value of his collateral. Let's say that Able offers his farm as collateral against the "loan." He signs an agreement known as a mortgage, and, in turn, the bank then credits his account for so many dollars representing the principal amount of the loan. This is depicted in Figure 2.2. In effect, Mr. Able gives the bank a legal claim (the mortgage) to his farm in return for standardized I.O.U.'s (bank credit or cash notes) which others will accept as payment for purchases. In terms of the prevailing practice, he has obtained authorization to write checks or draw cash up to the amount of his "loan."

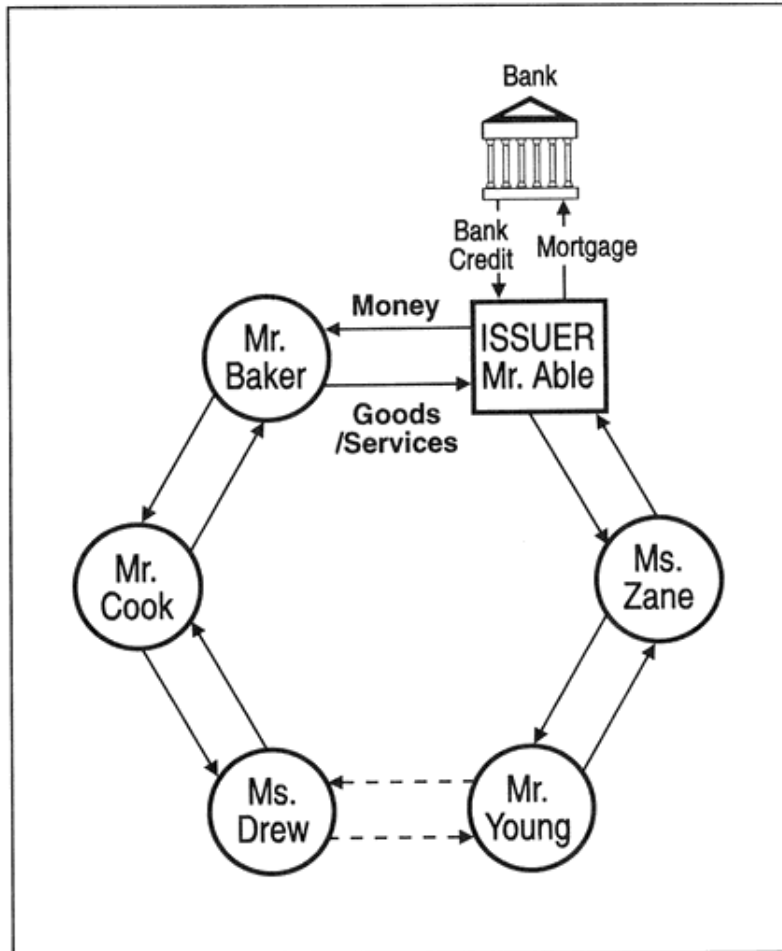


Figure 2.2: The Bank Credit Money Circuit -- Lending Phase

Mr. Able, as before, has obligated himself to the community to redeem, by selling, the same amount of money he issued by spending. But, in addition, he has also obligated himself to return to the bank the amount of money he "borrowed," *plus interest*. Thus, he must make sales sufficient to recover not only the amount of money he issued ("borrowed"), but he must also obtain an additional amount in order to pay the interest. If he is successful in doing so, he can reclaim his mortgage from the bank; if not, he loses his farm. When he repays the bank, the money he issued is extinguished. The redemption phase of the process is depicted in Figure 2.3. Note that the diagram shows a dashed line labelled "interest" coming to Mr. Able from outside the circuit and going to the bank.

In this scenario, Mr. Able is still the issuer, not the bank. The bank has not really loaned anything; it has simply converted the value of Mr. Able's farm into negotiable form. It has used its legal authority to "create" money by adding so much credit to Mr. Able's checking account or giving him the equivalent amount in the form of Federal Reserve Notes in return for his mortgage or I.O.U. The extra amount of money required of Mr. Able to pay the interest is not available within the circuit; it can only come from some other similar circuit, *i.e.* money issued by some other trader ("borrower") who has also gone in debt to the bank. If that happens, the second borrower will not be able to earn back enough money to redeem his

mortgage. Thus, the charging of interest on the bank "loans" upon which new money is based causes a deficiency of money in circulation, preventing some debtors from earning back enough to redeem their collateral. Thus, the prevailing system guarantees that there will be a steady parade of losers.[10]

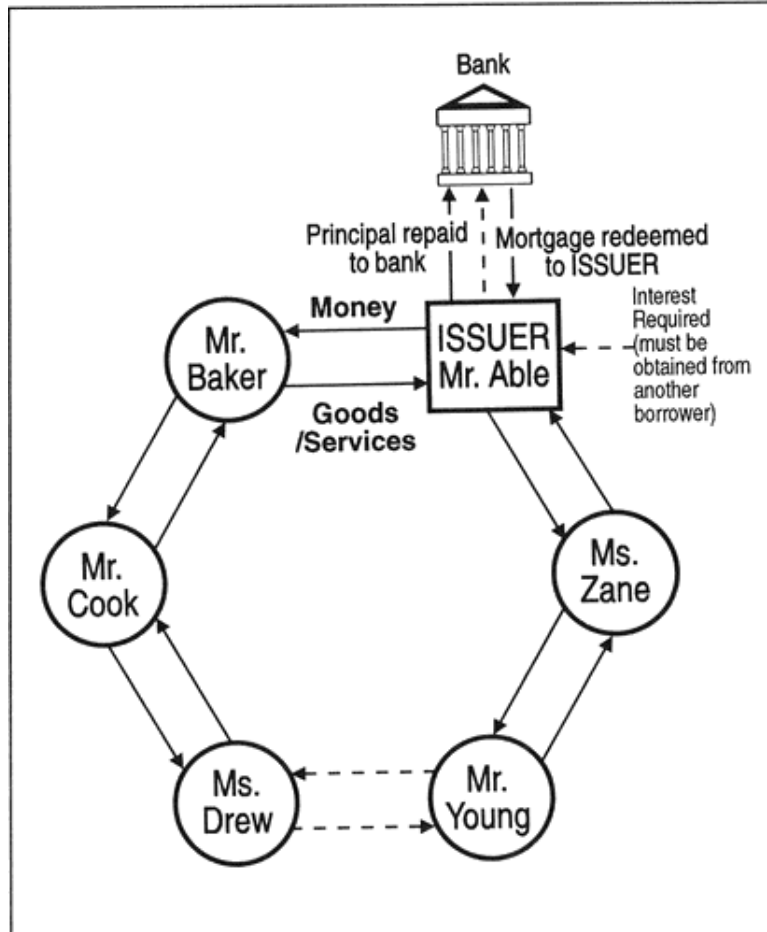


Figure 2.3: The Bank Credit Money Circuit -- Redemption Phase

It is one thing for those who have earned money to charge interest for its use; it is quite another for banks to charge interest on newly created money based on debt. In the latter case the money supply must be continually expanded in order to prevent economic stagnation. In the prevailing monetary milieu, the federal government has assumed the role of perpetual borrower. By monetizing part of the government budget deficits, the Federal Reserve (commonly called the FED) prevents the supply of money from lagging too far behind the growth of "debt" incurred by private "borrowers." The prevailing monetary policies of the FED will determine whether money is "easy" or "tight," *i.e.*, whether monetization of government debt will be sufficient to provide private "borrowers" with the amounts of money needed to pay their "debts," or whether it will fall short. These actions by the FED are largely responsible for the "business cycle" and periodic inflation and depression.

Chapter 3

The Power and Place of Money

"Money has become a ring we wear through the nose."

-- Mark Kinney

The Power Inherent in Money

The power of money lies in the fact that in any modern industrial society it is readily accepted in exchange for whatever one may want. This is potentially liberating as it promotes specialization of work, which in turn provides greater personal satisfaction and economic efficiency. When a person is able to do that work which s/he most enjoys and is most skillful at, both the individual and the community benefit. In the ideal, anything which facilitates exchange enhances the ability of everyone to meet their needs; in practice, it may not work out that way.

The use of money is a collective phenomenon to which each individual becomes habituated very early in life. Even children of 4 or 5 know that their material desires can be satisfied by taking money to the shops. It is a social convention deriving from our collective mentality -- our values, attitudes, and beliefs. A major aspect of our social conditioning in modern western culture is our preoccupation with the physical aspect of our existence and our alienation from nature and from our species identity (the human "oversoul"). The creation and use of money have been perverted as money has become an instrument of power. This has come about through the monopolization of its creation and the political manipulation of its distribution which makes it available to the favored few and scarce for everyone else.

To possess money is to possess power, for with money one may induce others to conform to his will. So money has become, as Mark Kinney describes it, "a ring we wear through the nose," which allows us to be led around by whoever controls it. There will always be a few "tethered bulls" who will find the strength and the will to break free, but our **collective** liberation will result from understanding how we are controlled by money and from acting to change the structures of money.

The Place of Money in Human Interaction

That is not to say that money or the use of money is inherently evil; on the contrary, the proper kind of money used in the right circumstances is a liberating tool which can allow the fuller expression of human creativity and the fuller realization of a dignified life for everyone. Those who like to quote the Bible on this subject usually quote it incorrectly. It does **not** say that money is the root of all evil. It says, "**the love of money** is the root of all

evil." [11] But the word "money" in this context actually is more accurately rendered as "riches" or "wealth," not money as we understand it as a medium of exchange. So the meaning of this verse is to caution us against the extreme pursuit of material riches.

Money, as the medium of exchange, has not lived up to its potential as a liberator. This is largely because it has been politicized and centrally controlled, but also because the use of money and markets has been extended into realms which are better served by other exchange mechanisms. For example, within the family and clan, where the relationships are close and personal, and nurturing is a central concern, needs are easily assessed, responsibilities are readily assigned, and altruism is generally expressed. In these contexts, free gift exchange and sharing, rather than buying and selling, are clearly seen to work best.

The use of money within the household, family, or clan unit would be destructive to the human processes which are normal and necessary to their health. Money is better suited to facilitating the more impersonal exchanges which need to take place **between** social units, *i.e.* as a mechanism for mediating imports and exports.

The human body is an apt analogy through which economic processes can be understood. Just as each cell has its own internal processes which exclude the blood, and blood facilitates the flow of nutrients between cells, so do the essential socio-economic units have internal processes which exclude money but use it effectively for transfers between them. A primary economic unit may consist of a single household or a cluster of households. It is an economic entity within which all of the processes of production, exchange, and consumption take place. There is, of course, always a certain amount of importation and exportation of goods and services, the nature and amount of which vary according to the needs and resources of the household or cluster.

A healthy society depends upon the health of each of the units of which it is comprised. A primary aspect of that health is a high level of complexity of internal function, which implies, in this case, a high level of personal, household, and community self-reliance. In our social ordering (and money is, of course, a social device), there should be no impediment to the free operation of the primary social unit as an economic entity. This means that restrictions of economic flows within or between units should be minimized. The taxation of exchange constitutes a major impediment and is a drag on the economy. Taxes on wages and retail sales should therefore be avoided.

Chapter 4

What's the Matter With Money?

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

-- John Kenneth Galbraith

Money is the vital medium within which we live our economic lives, and it is the central element around which many of our interpersonal relationships are organized. It is no exaggeration to say that the quality and essence of our medium of exchange, our money, are crucial to the quality of our lives -- our social interactions, our personal priorities, our relationship to the earth, and our very ability to satisfy basic human needs. As water is to the fish, so money is to people. We are largely unconscious of it. But when the water is polluted, the fish sicken and die; when money is "polluted," our economy sickens and people suffer as their material needs go unmet.

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

Since money is an information system, let us describe the fault in terms of the information which it conveys and explain why that information is inaccurate, incomplete, or false. Indeed, the present official monetary system has become a **mis-information** system. As the tightly controlled news media in totalitarian states are to a free and independent press, so is our monopolized and political system of money and finance to a system of free money and free exchange. Just as the news industry can be perverted into a propaganda machine to serve the interests of a dictatorial government, so has the finance industry been perverted into a machine of privilege to serve the interests of centralized power.

Symptoms of Disease

The symptoms are easily evident and our news media are daily filled with reports of them -- inflation; unemployment; bankruptcies; farm, home and business foreclosures; ever-increasing indebtedness and impoverishment; homelessness; and a widening gap between the "haves" and the "have-nots." These in turn probably account, in large measure, for a secondary level of social and environmental decay -- violent crime, suicide, drug and alcohol abuse, theft, embezzlement, along with land, water and air pollution. These are not accidents; they derive from the inadequacies and errors inherent in structures which humans have themselves created.

Three Ways in Which Conventional Money Malfunctions

Conventional money malfunctions in three basic ways: (1) there is never enough of it to serve the purposes for which it is created, (2) it is misallocated at its source, going, not to those who are most in need or who will use it most effectively, but to political power centers and those who already control large pools of wealth (like large corporations), (3) it systematically pumps wealth from the poor to the rich. Each of these will be explained in turn, but to do so we first we need to explain how money is created in the current monetary system.

How Money Is Created

Wealth creation and money creation are two entirely different things. Wealth is created by the application of human skills to natural resources in the myriad ways which produce useful goods and services. Planting crops, assembling computers, building houses, and publishing a newspaper, are all examples of the production of wealth. Money, on the other hand, is a human contrivance; it is a symbol created by a deliberate process involving entities called "banks of issue." In the United States, it is mainly the *commercial* banks which create the bulk of the money supply in the form of bank deposits (or bank credit).

That's right, most of our money consists of deposits in checking accounts. Only about 30% of the money supply is in the form of coins or circulating paper currency, the familiar Federal Reserve Notes which we use every day. According to the Federal Reserve Bank of Chicago:

"...currency is a relatively small part of the money stock. About 69%, or \$623 billion, of the \$898 billion total money stock in December 1991, was in the form of transaction deposits, of which \$290 billion were demand and \$333 billion were other checkable deposits." [12]

Even Federal Reserve notes, however, while printed by the United States Treasury, are put into circulation by the banking system which buys them from the Treasury for the cost of printing. Money gets created as bank credit. Paper notes may then be exchanged for bank credit whenever depositors prefer to have paper. Whatever amount of paper money is withdrawn from banks is debited against someone's bank account balance. Thus, even that part of the money supply which appears as paper currency, begins as bank credit.

The amount of credit money which the banking system as a whole can create, is determined by the policies of the Federal Reserve, the private banking cartel which has been given power over money in the United States. The share which is allocated to each individual bank is determined by the amount of deposits which a bank is able to attract from customers and use as "reserves." [13]

Banks act both as creators of money and as depositories of money. When you deposit your paycheck in a commercial bank the bank is acting as a depository. This money is then available for you to write checks against. But, the money which you deposited had to begin somewhere. You got it from your employer; your employer got it from a customer; the

customer got it from his/her employer or customer; and so on back to the beginning. The important thing to understand is the nature of that beginning. Banks create money by making loans. The money which you received in your paycheck was created at the point when the bank, acting as a creator of money (or bank of issue), granted a loan to someone and credited her/his account for the amount of the loan.

Here's the way it works. Company XYZ goes to a commercial bank and receives a loan to expand its business. The bank simply credits the account of Company XYZ for the amount of the loan. Where did the bank get the money to lend to Company XYZ? It didn't get it anywhere; it created it. Unlike savings banks, savings and loan associations, and other "thrift" or depository institutions, which primarily can only lend out money that has been deposited with them, commercial banks actually create money out of nothing and put it into circulation by making loans.

As the Federal Reserve itself describes it:

"Debt does more than simply transfer idle funds to where they can be put to use -- merely reshuffling existing funds in the form of credit. It also provides a means of creating entirely new funds...

"...a depositor's balance also rises when the depository institution extends credit -- either by granting a loan or buying securities from the depositor. In exchange for the note or security, the lending or investing institution credits the depositor's account or gives a check that can be deposited at yet another depository institution. In this case, no one else loses a deposit. The total of currency and checkable deposits -- the money supply -- is increased. New money has been brought into existence by expansion of depository institution credit. Such newly created funds are in addition to funds that all financial institutions provide in their operations as intermediaries between savers and users of savings." [14]

"(All bank deposits, originally) come into existence as banks extend credit to customers by exchanging bank deposits for the various assets that banks acquire -- promissory notes of businesses and consumers, mortgages on real estate, and government and other securities." [15]

This is just an obscure way of saying that the bank credits your account for the amount of the loan, and you, in return, give the bank your promissory note or a mortgage on your house. Those instruments, promissory notes, mortgages, and securities, are assets to the banks. They are claims which the banks have against the property of its customers, but to the customers, they represent debts owed to the banks.

Why There is Never Enough Money.

Debtors are always required to pay interest on these debts. Thus, the commercial banks lend something which they create out of nothing, and then require that the "borrower" pay interest for the privilege. Not only that, but banks usually require that the borrower pledge some "collateral," which they will confiscate if the borrower fails to repay the loan. The principal amount is created at the time the loan is made, but the money to pay the interest due in subsequent periods has not yet been created. Thus, debtors, in the aggregate, are in an impossible situation of always owing more money than there is in existence. They must vie with one another for the available money in order to avoid defaulting on their loans and losing their collateral. [16]

The Federal Reserve unabashedly admits that it purposely tries to maintain the scarcity of money. It clearly states in one of its official publications the mistaken notion that "**Money...derives its value from its scarcity in relation to its usefulness.**"[17] This may indeed be true for politicized and improperly issued money, but it is decidedly not true of money which is properly issued and subject to the discipline of the free market. If the central government and the financial sector claim a disproportionate share of the country's wealth, then, of course, they must limit the amount of money made available to everyone else. The current system is based upon the "myth of scarcity," but the world needs systems and structures which affirm the truth of an abundant universe. That does not mean structures which allow inequity and waste, but structures which are efficient and which allow enough latitude for all to satisfy their own real needs.

How Money is Misallocated.

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

"It is a sad but outrageous fact that banking is conducted today as a business by men who label themselves businessmen -- which presumably means an enterprise conducted for profit. In its essential nature, banking is a profession, and like every profession should be conducted to render a service by men who's motivation is service first, last and all the time. They must, of course, be properly compensated for their work, but this, in its essence, should be a professional fee, not a business profit."[18]

The greatest abuses, however, derive from the politicization of money, banking, and finance. Banking and government have become intertwined and mutually dependent. In return for its privileged position, the banking cartel must assure that the central government is able to borrow and spend virtually any amount of money it wishes. Despite their public protestations, the banking system will always "float" the necessary budget deficits of the central government, by "monetizing" the debt. What this means is that the banking system will create enough new money to allow the market to absorb the new government bonds which must be issued to finance the deficit. Thus, it allows the government to spend as much as it wishes without raising taxes directly. The result is inflation, which has been called a "hidden tax."

Economists often argue that inflation is caused by too much money in circulation. This would seem to refute the contention that money is chronically in short supply. The answer to this is that inflation is not caused by the amount of money per se, but by the fact that some of the money in circulation is improperly issued and misallocated. Such is the case when the banking system "monetizes" the government debt, as described above. This phenomenon will be discussed more thoroughly in Chapter 9.

The people have been cut out of the most important decision process, that of determining how the aggregate wealth of the nation, the fruits of everyone's labor, will be spent. Massive expenditures for weapons, military interventions, and legalized "bribes" to client

governments, along with S&L and corporate bail-outs which benefit the wealthy, well-connected few and increase the gap between rich and poor, are but a few of the abuses.

How Money Pumps Wealth From the Poor to the Rich.

In this regard, I speak not of the very poor, who have little or no wealth-producing capacity, but of the vast majority of people who work for a living but have little or no financial net worth. The "debt trap" is the bane of that class of people. Debt within the current system is destructive in two ways, first because of the interest (usury) that must be paid for the use of money (bank credit), and secondly, because of the collateral which must be forfeited when the debtor is unable to make repayment.[19] The chronic insufficiency of money assures that there will inevitably be some forfeitures. It is interesting to note that the word "mortgage" derives from roots which mean "death gamble."

Everybody pays the cost of interest, even those who do not borrow directly. Interest costs are included in the price of everything we buy, whether it is provided by the business sector or the government. The production of whatever we buy must be financed in some way, and interest is the cost of using financial capital. Margrit Kennedy gives some examples which show the percentage of the cost which goes to pay interest on capital. Though her examples are drawn from her native Germany, it is clear that the pattern would be similar for all industrial nations, since their monetary and financial structures are all basically the same.

Kennedy shows that the cost of interest on capital, as a percentage of the fees paid by users were 12% for garbage collection, 38% for water, 47% for sewers, and a whopping 77% of rentals paid for public housing.[20] She also shows a comparison of the interest paid and the interest gained for the population of then West German households divided into 10 different income groups of equal size. This comparison indicates, as expected, that the lower income groups, because they tend to be net debtors, pay much more interest on their debts than they gain in interest on their investments. Indeed, the 80% of households having lower incomes, on average, pay more interest on their debts than they gain in interest on their investments. The highest 10% gain about twice as much interest as they pay, and the richest of these gain progressively more. [21] Lending money at interest, either directly or through financial intermediaries is one of the primary mechanisms by which the rich get richer and the poor get poorer.

Money carries information, but the present monetary system is dysfunctional because it carries flawed information. If information is the essential quality of money, then the next logical question is, what kind of information does it, and should it carry? The answer which immediately presents itself is that money should carry information about "merit." If money allows its possessor to claim wealth from the community, what is the basis for that claim? The possession of money should be evidence that the possessor has delivered value to the community, and is therefore entitled to receive back a like amount.

If money is improperly issued though, the information which it carries is polluted at the very source. By issuing money to unproductive or privileged clients of the money monopoly, and by demanding interest (usury), the banking system redistributes wealth from producers to privileged non-producers. The consistent pattern of official action over the past several

decades has been to concentrate economic power by centralizing control over the medium of exchange, limiting access to it, and charging exorbitant prices for its use (in the form of interest/usury).

The Usury Trap

In his story, *The Financial Expert*, R. K. Narayan's main character is a man named Maragaya, a small-time money lender who conducted his business under a banyan tree outside the banking office. Maragaya was fascinated with the idea of compound interest. It was an idea which had served him well, not only in directly multiplying the money that he lent, but also in allowing him to acquire properties upon which he had made loans, for inevitably some of his clients were unable to repay him. This is the picture of the usury trap which Narayan vividly and movingly portrays.

They (the peasant borrowers) went by the evening bus, but leaving their mortgage deed (with Maragaya), and carrying in their pouches three hundred rupees, the first installment on which was already held at the source. The first installment was the real wealth -- whose possibilities of multiplication seemed to stretch to infinity. This was like the germinating point of a seed -- capable of producing hundreds of such germinating points. Lend this margin again to the next man, as a petty loan, withholding a further first installment; and take that again and lend it with a further installment held up and so on.... it was like the reflection in two opposite mirrors.

You could really not see the end of it -- it was part of the mystic feeling that money engendered in Maragaya, its concrete form lay about him in his iron safe in the shape of bonds, and gold bars, and currency notes, and distant arable lands, of which he had become the owner because the original loans could not be repaid, and also in the shape of houses and blocks of various sizes and shapes, which his way of buying interest had secured for him in the course of his business -- through the machinery of 'distrain'.

Many were those who had become crazed and unhappy when the courts made their orders, but Maragaya never bothered about them, never saw them again. "It's all in the business," he said, "It's up to them to pay the dues and take back their houses. They forget that they asked for my help." People borrowed from him only under stress and when they could get no accommodation elsewhere. Maragaya was the one man who easily lent. He made the least fuss about the formalities, but he charged interest in so many subtle ways and compounded it so deftly that the moment a man signed his bonds, he was more or less finished. He could never hope to regain his possessions -- especially if he allowed a year or two to elapse.

There were debt relief laws and such things. But Maragaya nullified their provisions because the men for whom the laws were made were enthusiastic collaborators in his scheme, and everything he did looked correct on paper.

-- R. K. Narayan, *The Financial Expert*[22]

Chapter 5

The Disintegration of Local Economies

"The way that a national economy preys on its internal colonies is by the destruction of community."

-- Wendell Berry[23]

The Historical Progression of Control Over Economic Input Factors

Control of human affairs is achieved primarily through the control of economic factors -- *economics drives politics*, and economic and political realities shape the structure of society. The long view of history shows a progression of control strategies which ruling elites have employed, applying their power in turn to each of the primary factors of economic production -- labor, land, and capital. Conquest, plunder, and enslavement remain to this day the dominant mode in international affairs. Blatantly brutal and gross political subjugation has declined in popularity, at least among the nations of the "civilized" West. The favored methods have become increasingly subtle, shifting from political domination of nation over nation to economic and financial domination of peoples by supra-national institutions. The "debt-trap" is neater than direct force but no less tyrannical.

Slavery is the direct control of labor through physical coercion and threat of harm. It has been commonly practiced throughout history, even in so-called "civilized" countries, and was a prominent feature of our own "free" country until just over a hundred years ago. As "civilization" has progressed, overt slavery has become both less palatable and less practical. Typical of the transition from direct control of labor to control over land was the passage of the "enclosure acts" in England. The elimination of the commons, upon which the vast majority of people depended for their livelihood, and the deeding of the land to the lords, deprived people of their means of living free and forced them to pay rent, usually in the form of crop shares. With land access restricted, and forced to pay onerous rents, people were increasingly driven from the land and into urban centers.

With the advent of industrialization, the bulk of production shifted from the cottage and village, to factories and cities. Then, the control of capital -- the tools or means of production -- increasingly became the method of social control. Separated from their land and their tools, individuals were forced to work for money as a means of livelihood. For most, this meant migrating to the cities and selling their labor to the factory owners. These factors caused the evolution of what is commonly known as "wage slavery."

While wage slavery yet remains, the mechanisms of privilege and control have become even more subtle still, so subtle that few people have even the slightest idea of what is happening. Besides the economic factors of labor, land and capital, there is also a supra-factor which mediates and controls the process of exchange and the interchangeability among the other three economic factors -- *that factor is money*.

As pointed out previously, money has over time become increasingly ethereal, i.e., less substantial. For thousands of years, even up to the writing of the U.S. Constitution, the common substance of money was precious metals, mostly gold and silver. These commodities, typically in the form of coins, carried value within themselves. The only questions needing to be ascertained by traders in the marketplace were those relating to the weight and fineness of the metal tendered. The stamping of metal into coins provided a means of certifying these factors, thus further facilitating the process of exchange.

For reasons of convenience and safety, paper notes began to be used to represent ownership of metal. The exchange of paper notes in the marketplace then provided an easy way of exchanging the value inherent in the metal which was stored elsewhere. The paper had value because it could be exchanged for metal at the place where it was stored. As paper money became more common and acceptable, and as the need for exchange media began to exceed the amount of metal available, there was the temptation to issue more paper than there was metal to redeem it. This gave rise to what is known as "fractional reserve banking."

Fractional reserve banking is the practice of issuing paper notes in amounts which exceed the value of the stores of metal which they represent. Generally, these amounts were several times the value of the gold or silver held.

The abuses of paper money and fractional reserve banking soon created problems such as bank runs and bank failures. Governments, naturally enough, began to intervene to regulate and centralize banking, eventually themselves becoming the greatest abusers. They either began to issue paper money themselves or, as in the case of the United States, allowed the formation of a banking cartel (the Federal Reserve System), through which their profligate spending could be financed.

When the monetary abuses became apparent, people increasingly exercised their option to redeem their paper notes for metal, causing "bank runs" and "panics." Occasional runs on isolated banks, while disastrous for their depositors and investors, were not of great consequence to the general economy. The centralization of money and banking, however, did not end the abuses, but rather has institutionalized them to the point where the entire economy is adversely affected.

As their reserves of metal began to run low, governments and central banks had no other choices but to either stop their abusive issuance of paper money, or to rescind the redeemability feature. They have invariably chosen the latter.[24]

Through the development of a medium of exchange which can be created virtually out of nothing and allocated according to the values and objectives of those who have the money power, it is now possible for a small elite group, both in and out of government, to quietly and imperceptibly control the entire realm of human affairs. As Nobel prize winner, Frederick Soddy has put it, "Money now is the NOTHING you get for SOMETHING before you can get ANYTHING." [25]

Social Control Through Control of Money and Finance

At the same time that money was becoming more etherealized, centralized, and politicized, market mechanisms were becoming a more dominant feature of economies at all levels. From the individual level, to the community level, to the regional level, and on up, economies have become increasingly specialized and therefore dependent upon market exchange. This predominant condition is in sharp contrast with many historical (and a few current) examples of local and regional economies characterized by versatility and self-reliance. Versatility derives from a diversity of skills and resources; self-reliance is based largely upon production for use as opposed to production for market, and the use of less formal internal exchange mechanisms.

Specialization of function is beneficial up to a point, and so is the market. The well-known economic concept of "comparative advantage," which provides the fundamental argument in favor of free trade, cannot be denied. Yet, the advantages of self-reliance and versatility at every level must also be acknowledged for both individuals and communities. If they are to avoid complete loss of control over their quality of life, they must also avoid becoming overly dependent upon existing markets in which the exchange media are monopolized and abused, and the mechanisms of finance are political and undemocratic.

For people living in industrialized countries, everything has become increasingly commodified. Even babies, human blood, and body parts have become objects of commerce. We have become increasingly dependent upon external and remote sources of supply for the most basic necessities of life. Most of us, when separated from our highly developed technology and intricate mechanisms of finance and transportation, lack even the most basic skills required to keep ourselves warm, dry, and well fed. Our alienation from the land, the basic tools of production, and each other, manifests in increasing environmental and social degradation.

Social Disintegration

Along with our increasing dependence upon remote and impersonal political and economic entities has come the disintegration of traditional social structures -- the family, the clan, the tribe, the village, and the bioregional community. All these have paled into economic insignificance, and, lacking economic power, they have become politically and socially impotent as well. Now, in this atomistic society, the wage earner's allegiance must be to his/her employer -- the corporation or the government bureaucracy. The majority of those who are not wage earners depend upon some form of government-granted privilege or transfer payment, such as mining rights, grazing and timber leases, farm price supports, and Social Security payments.

The social disintegration which we see seems somehow related to both the loss of freedom and the inability to participate effectively in the process of making the decisions which affect our lives. All the rhetoric about democracy and "government by the people" notwithstanding, freedom is today constrained in many subtle ways, both politically and economically. A prime example of this in the political realm is the obvious "gerrymandering" of congressional and legislative districts. The drawing of the lines of these districts seems to be

aimed, not so much at gaining advantage for one or the other of the two major parties, but at limiting the ability of various ethnic, economic and social classes to gain effective representation in government. This political homogenization limits the ability of legitimate interests to organize effective political power or even to have their issues and concerns debated in the political arena. The consequence is that only the corporate and monied interests are able to get their voices heard and influence the process of government.

Many countries in Europe and elsewhere have Parliamentary governments involving "proportional representation." They have numerous political parties representing particular interests. A party is able to gain representation in Parliament in proportion to the percentage of the votes it receives in an election. Thus, even a small minority party can gain representation with as little as 5% of the votes. Far from being divisive, this assures that various points of view will be heard.[26]

A basic factor which seems to underlie the limits both to freedom and effective participation is that of scale. As Chilean economist Manfred Max-Neef explains it:

"It is absolutely impossible to have participation in a gigantic system; it can only occur at the human scale -- in other words where people have a face and a name, where they mean something to each other and are not simply statistical abstractions."

He goes on to say that the critical size of a participatory group will depend upon its function but, "in any case, .. will never be very large." [27]

If we are to reverse the trend of ever increasing alienation, we must begin to organize ourselves into small functional social groupings which empower their members and provide a meaningful level of mutual support.

Chapter 6

Money and the Constitution

"No State shall ... make any thing but gold and silver coin a tender in payment of debts; ..."

-- Article I, Section 10, U.S. Constitution

The original Articles of Confederation of the United States of America provided for a loose federation of thirteen sovereign states. This was seen by some to be inadequate for the destiny of the new nation as they envisioned it. The adoption of the Constitution was an attempt to strengthen the position of the federated states relative to foreign nations by delegating certain powers to the federal government, in particular, the power to declare war and the power to enter into treaties. The Constitution carefully spelled out the limits of

federal authority, and sought to preserve the power of the states and of the people. Despite the care with which the powers of the federal government were enumerated, various interpretations by the courts over the years have allowed power to be increasingly concentrated at the federal level, and have given it permission to engage in activities which seem contrary to the intent of the Constitution.

Of special note are the agreements of the States with respect to money, which were written into the Constitution. Article I, Section 8, enumerates the various powers of the Congress. Among these is the power to "coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures."

In order to understand the meaning of this section, one must understand the prevailing situation and the parlance of that time. The form of money which we use now was not the form used back then. At the time of the writing of the Constitution, the substance of money was gold and silver coin, but now, almost all the money is in the form of bank credit, with the remainder in paper bills and base metal coins. Congress was given the power to stamp precious metals into coins of measured weight and fineness, and to decide how much metal was to be contained in the monetary unit, *i.e.* to "regulate the value of," the dollar. It was not given the power to print paper money or to create some other form of "legal tender."

The intent of the Founding Fathers is further clarified when we consider another part of the Constitution which listed certain limitations on the powers of the States. Article I, Section 10, provides that "No State shall enter into any treaty, alliance, or confederation; grant letters of marque and reprisal; *coin money; emit bills of credit; make any thing but gold and silver coin a tender in payment of debts; ...*"

The clear intention was to standardize coinage by placing that power in the hands of Congress. The required form of payment for debts was to be limited to gold and silver coins. Other forms of payment might be accepted by the payee but could not legally be required of the debtor, *i.e.* be made legal tender.

Bills of credit were promissory notes such as those which were issued by the Colonies (States), and which commonly circulated as money prior to the Constitution. The Colonies spent these notes into circulation, in quantities that were typically excessive in relation to the tax revenues available for their redemption. The eventual consequence of such abuse was that colonial currencies in the hands of the people lost much of their value, causing economic distress. During the Revolutionary period, the Continental Congress issued paper money, called "Continental," which were similarly abused, thus derived the saying "Not worth a Continental."

By writing these provisions into the Constitution, the Founding Fathers sought to prevent a recurrence of these earlier monetary disasters. Although the federal government was not specifically prohibited from issuing bills of credit, this power was not specifically given to it either. In fact, an earlier draft of Article I, Section 8 included the power "to emit bills of credit" (paper notes), but it was deleted in the final version.

The Consolidation of Money Power

It is probably unconstitutional for Congress to do directly what is done through the Federal Reserve, *i.e.* issue money based on the government's promise to pay. The issuance of "Greenbacks" by the U.S. Treasury under Abraham Lincoln during the Civil War was just such a case in point. Lincoln, instead of borrowing from the banks at exorbitant rates of interest to finance the war, had the Treasury issue (spend) paper currency directly into circulation. These "greenbacks" were controversial throughout their entire life. While Lincoln managed to save the taxpayers the cost of interest by printing money instead of borrowing it, he usurped a power that the Founding Fathers had intended to withhold.

Subsequent to the end of the Civil War, the banking interests saw to it that such a costly (for them) move would not be repeated. They found a way for the Federal government to get what it wanted, namely the power to spend without limit, while enhancing their own wealth and power. Thus, the constitutional limitation upon the federal government with respect to monetization of its debt has been circumvented by its collusion with international banking interests to redefine and manipulate the exchange media (money) and its allocation within the economy.

This began with the National Bank Act of 1863 which required each bank to purchase a dollar amount of government bonds equal to one-third of its capital and surplus.[28] This collusion between bankers and politicians became more formalized with the establishment of the Federal Reserve System in 1913, and was legitimized by the subsequent entry of the United States into World War II. The Federal Reserve at that point announced a policy of providing the Treasury with the money needed to finance the war. It agreed to buy **any** amount of Treasury bills at the posted rate and to resell them at the same rate.[29] In the post-war era, the use of monetary mechanisms to handle fiscal (budgetary) indiscretions has come to be taken for granted. This, more than anything else, has undermined the democratic process in America, and allowed the emergence of the American Empire under elite control.

Over the years, the monetary authorities have managed to quietly redefine the dollar, from a specified weight of gold, to a unit of bank credit with no defined value. While the Federal government ostensibly controls the central bank (the Federal Reserve System) and regulates the banking industry, the reality is probably more the other way around. Those who "pay the piper, call the tune." It is naive to think that political campaign contributions made by wealthy individuals and corporations do not buy influence. Not only has the power migrated from the local and state levels to the federal level, it has been privatized and appropriated by a monetary and financial ruling class.

Western civilization has reached a crisis point. The imperial stage of civilization is approaching its zenith. To permit its continued development to its ultimate maturity would be to permit a global tyranny far beyond Orwell's imagining, and to sell the soul of humanity into a new feudalism of material excess for some, comfort for a few, and subsistence and drudgery for most.

The single most important element needed to assure a future of freedom, dignity, health, and realization of the human potential, is the creation of non-political, equitable exchange media and the dispersal of financial power. The only feasible way to achieve this, I believe, is

through the establishment, by private initiative, of community-based complementary exchange mechanisms which are democratically and locally controlled.

The End of Empires

Even though the dominant trend of civilization over the past several millennia has been toward increasing centralization of power in the hands of fewer and fewer people, there are signs that civilization may now be starting to move toward decentralization and local control. Even as the shadow of "Big Brother" looms ever larger and the prospect of global tyranny appears increasingly probable, we can see a major turn approaching.

Diverse networks of communication and mutual support are beginning to emerge. The village, neighborhood, household, farm and community are now becoming more significant as centers of education and economic activity. Manufacturing operations, while they are largely being shifted to lesser developed countries (LDC's), are at the same time, being decentralized. Many large companies are forming work teams which are given broad decision making power over their own work methods. Information handling is increasingly becoming the substance of work, both inside and outside of the formal economy. Work styles are changing. More and more people are moving toward diversification of skills and self-employment. As cities grow larger and transportation channels become clogged, people are finding ways of working which are less stressful and more efficient. "Telecommuting" and home-based employment are becoming ever more common, especially among highly skilled workers and professionals.

Centralized institutions of power, even while appearing to further consolidate their power, are disintegrating from within. The world has been startled with the suddenness of the collapse of the Eastern Bloc and the Soviet Union, which once seemed monolithic and indestructible. Old ethnic identities are reemerging as the seeds around which a new order is beginning to crystallize. But even this degree of centralization around ethnic identities, with all their historic rivalries and animosities, will probably be transitory. With the emerging global consciousness and person-to-person communications, it seems likely that the nation state as the dominant political institution is in its last days.

It is important to recognize that economic, political and social structures are interdependent and mutually determining. They comprise the fabric of "culture." In our highly mobile and atomistic society we have grown dependent upon structures which are inimical to humane and liberative values. Any attempt to address the "mega-crisis," or to transform socio-economic realities, must come from a holistic perspective. The interconnections among land tenure, money, banking, finance and taxation must be thoroughly understood. Transformation requires not only a deeper understanding of the mechanisms of land speculation, money creation, and coercive wealth redistribution, but also a change in our basic assumptions and attitudes.

Chapter 7

Restoring the Integrity of Personal and Community Economies

"Wage slavery will exist so long as there is a man or an institution that is the master of men; it will be ended when the workers learn to set freedom before comfort."

-- G. D. H. Cole[30]

Solutions to global problems require a global perspective and trans-global interaction, but it does not necessarily follow that we need to have a centralized global authority with coercive power to carry them out. Indeed, we have ample evidence to demonstrate that such centralized authorities lack sensitivity to local needs. The more remote the government, the less responsive it is. Competition among nation states has generally compounded human misery through war. What seems more appropriate to the current era is a pyramid of communication and cooperation with power vested in the small societal units which comprise its base.

Manfred Max-Neef in discussing a new paradigm for economics, enumerates nine fundamental human needs which fall into two categories -- "*having*" needs and "*being*" needs. They are the needs "for permanence or subsistence; for protection; for affection or love; for understanding; for participation; the need for leisure; for creation; for identity; and for freedom."

He points out that industrialized countries are better at providing for the "having" needs than they are at satisfying the "being" needs, while the lesser developed countries (LDC's) often do the opposite. He argues that it is possible to organize economic systems which can adequately satisfy the entire range of human needs.[31]

Healthy Communities; Healthy World

The direction which needs to be taken to achieve this goal is toward structures and mechanisms which provide greater personal freedom and wider, more effective, participation. Since adequate participation is possible only within small groups, the emphasis must be upon the strengthening of local communities and voluntary associations. These will, in my opinion, form the foundation of a new world order which will be both sustainable and humane.

Healthy local economies, like healthy individuals, are characterized by a diversity of skills and resources and a large measure of self-reliance and self-determination. Economic empowerment will require some degree of de-coupling from the present global exchange system and the implementation of exchange media which are locally and democratically controlled.

The vogue in economic development strategies for many years has been to go out and find a major corporation to move into the area with some large facility that would bring new money into the community and create jobs. On the surface, this seems perfectly reasonable, but in many cases, there has been insufficient attention paid to the cost side of the equation. This is true especially when the costs come in social and ecological, rather than direct, financial terms. But even in financial terms, the experience of many communities has been less favorable than expected. With communities competing against one another, tax abatements and other concessions needed to lure companies often negate most, if not all of the benefits. Recognition of these costs, coupled with the costs of providing additional public services needed to support the new businesses, is causing many communities to take another look at the efficacy of the "recruitment strategy."

Two Fundamental Strategies

If not recruitment, then what? I believe that the emerging trend in economic development activity will be for communities to become more reliant upon their own resources, to place greater emphasis on quality of life, and to begin restructuring in areas which presently make them vulnerable to external factors such as the supply of money and bank credit, prevailing interest rates, and levels of State and Federal government spending in their area.

What practical steps can be taken to protect local economies from the distorting effects of external monetary and financial machinations, and restore some measure of local autonomy? There are two general ways to go:

1. Reduce reliance upon money and markets, and/or
2. Bring money and markets under local, democratic control.

An effective strategy will probably require some combination of the two. Reducing reliance upon money and markets implies a number of adjustments. On the personal level, it means becoming free of the consumerist mentality, distinguishing real needs from conditioned wants, eliminating expenditures which are induced by fear, becoming more diversified in one's skills and abilities, learning to do-it-yourself, make do or do without, and, above all, developing mutual support relationships with others of like mind. Communities must likewise take stock of their own resources and take steps to reduce the amount of value imported into the community, substituting local production for imports and thus reducing their need to earn cash by selling exports.

Small (and Local) Is Beautiful.

Even the poorest among us is able to exert some power through the purchase decisions which we make every day. Every dollar spent is a vote cast. It is important to recognize that, however much or little money one might have, the choices one makes in spending that money, carry a great deal of weight in determining not only the products and services which the market offers, but also the very quality of community life. Although price is one of the primary criteria to be considered, it is not the only one.

Some consideration should also be given to the question of where one should do business. The familiar aphorism that "charity begins at home" contains much wisdom. An appropriate corollary might be that "prosperity begins at home." The first might be interpreted as "deal with the problems closest at hand," and the second as "support the business efforts of your friends and neighbors."

Local businesses spend most of their revenues in the local area, while chain stores and absentee owners withdraw most of their revenues to other places, building up ever greater pools of capital which can distort economic relationships everywhere. While they may be able to offer lower prices, it is often a false economy. We must ask, at what price do they offer lower prices? It is often at the expense of the environment, poorer working conditions for employees, and depersonalization of human interactions.

Because they control so many jobs and so much revenue, large corporations and chain stores can make a community dependent upon them. They can dominate a community by their lopsided economic power which allows them to wield political power as well. They can buy political influence, negotiate tax breaks, and extort concessions on zoning, safety, and environmental regulations.

It is also becoming more apparent that continual growth and construction, while it may benefit some privileged elements in the community, such as land owners, builders, and real estate brokers, can often be detrimental to the community as a whole. There are several negative effects which need to be considered. First, there are the added costs for services and infrastructure -- fire, police, water, sewer, road construction and maintenance -- which may exceed any additional tax revenues. Second is the cost of living which may increase because of "gentrification" and the increased demand for housing and other limited local resources. Third is the quality of life costs -- increased traffic congestion and noise; air, land and water pollution; loss of farm, forest, meadow, and marsh land, and increasing anonymity and depersonalization.

Locally-owned businesses are more likely to use local suppliers, saving on transportation costs, reducing the environmental costs of transport, and stimulating local production. They are more likely to employ local people, and they contribute to the culture and uniqueness of a community.[32]

How to Bring Money Under Local Control

Later chapters offer several concrete proposals for bringing money and markets under local, democratic control. These proposals, which can be implemented at the local level by voluntary groups, attempt to incorporate the principles and ideals outlined previously. Some of these ideas have already been tried in some form and to some degree, while others, to my knowledge, are original.

The kinds of exchange systems implied by the above considerations are ones which are both self-regulating and independent of outside control by government or any other central power. To use an organic metaphor, they function autonomically. This implies a decentralized approach in which the creation and extinction of money (the symbol) is directly linked to the

creation and transfer of value (the reality which money represents). In such systems the quantity of money (symbols) should adjust automatically to increases and decreases in the value and quantity of goods and services being traded. The process of money creation should be open and accessible, or, to use Ivan Illich's term, "convivial." It must also be debt-free and interest-free. If money were to become a symbol of merit from the very point of its creation, the producer of economic value would be properly rewarded for his/her effort and skill, and production would be encouraged. At the same time, production would be ecologically sound, since money, in a convivial system, is more readily available and has less power to induce people to act in self-destructive ways. Money would be the product of cooperation among individuals within integral communities.

Community Banking and the Liberation of Money

One can perhaps envision two distinct types of exchange systems emerging concurrently. These will be complementary systems. One type will be limited, local, "soft" and "personal" system, along the lines of Michael Linton's LETS system (Local Employment and Trading System) which, in effect, monetize community credit. These will be referred to as "Mutual Credit" (MC) systems. Mutual Credit systems are intended to facilitate exchanges which are intermediate between the informal exchange processes of the family, clan or affinity group, on the one hand, and the formal, impersonal marketplace on the other. Mutual Credit systems are by nature "personal" systems, in that they operate among a relatively small group of people who have ready access to information about one another, and can therefore relate to one another on a personal basis.

The other type of system will be an extended, "hard" and "impersonal" system, necessary for exchanges between individuals in different social units and in trades between relative strangers. While these latter characteristics are also those of the present global monopolistic system, the transformed system which I envision will differ from it in significant ways.

At some point, however, it should be possible to "network" local currency and/or MC systems together into a web extending over a wide geographic area and including a very large total population. It could conceivably be a global network. This would then obviate the need for impersonal systems entirely.

It has been the stated goal of centrally controlled monetary systems to match the money supply to the needs of the economy, but the "needs" have never been well defined in monetary terms, and, as pointed out above, the mechanisms of control have never worked to benefit more than a relatively small privileged class. The supply of money or credit available at any given time should accurately reflect the wealth of material wares and services available for purchase in the near term. This is a principle which has been disregarded in modern money and banking, but must be heeded in establishing a healthy local exchange system.

Why Local Currencies?

The fundamental advantages of local currencies or credits are:

1. They can be spent only within the limited area of the community,
2. They can be created locally in accordance with the needs of the local economy, and,
3. They encourage local people to patronize one another rather than buying from outside the community.

When needs remain unfulfilled, the first question that needs to be asked is, is it for lack of skills, resources, or motivation, or is it because of lack of money? Much "good work" is left undone because those who have the will to do it lack the money, and much "bad work" is done because it is in the narrow self-interest of those with money to do it, and others, because they need the money to live, can be persuaded to do it, too. The intentional scarcity of official money has a destructive effect which can be overcome by supplemental local currencies.

The supply of official currency is limited. It is created by entities external to the community which have little sensitivity to or concern for the needs of the local population. Official currency can and does circulate far and wide. It can easily be spent to buy goods and services from remote regions. Money spent outside the local community is no longer available to facilitate trading within the local community. It must be replaced by attracting money from outside, either by exporting products, receiving government transfer payments, or attracting tourists and businesses to come and spend.

The universality of national currency, its greatest advantage from the standpoint of flexibility and spendability, is also its greatest disadvantage from the standpoint of local self-reliance and economic integrity. Rather than the lack of skills or physical resources, local unemployment and business stagnation are more often the result of the fact that the money necessary to connect needs with supplies has gone elsewhere.

A local currency is, by its nature, limited in scope. It is recognized only within a limited area, and therefore can be created, earned, and spent only within that area. This fact tends to favor local producers who have agreed to accept it, and its narrow range of circulation makes it more likely that the spender will be able to earn it back. Local currencies, thus, stimulate local production and employment.

Just as a break-water protects a harbor from the extreme effects of the open sea, so does a local currency protect the local economy from the extreme effects of the global market, and the manipulations of centralized banking and finance. Complete reliance upon national currencies and the competitive conditions of the global market tend to force all communities to the lowest common denominator of environmental quality and working conditions. Local currencies, however, provide a buffer which allows local communities to set their own standards and maintain a high quality of life.

There need never be any scarcity of local currency since it is created by members of the community themselves in the course of trade. Any time two parties wish to make a trade they can do so even if they have no money. Local currency or credits can easily be created to enable the exchange to take place.